

State of Florida



Public Service Commission

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DATE: February 2, 2012

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Fletcher, M. Brown, Bulecza-Banks, Cicchetti, Daniel, Golden, Jones-Alexis, Kummer, Lingo, Maurey, McRoy, Rieger, Smith, Springer, Thompson, Walden)
Office of the General Counsel (Jaeger, Bennett, Harris)

Handwritten initials: BF, MB, CRBB, ML, ALM, AS, (m)

RE: Docket No. 100330-WS – Application for increase in water/wastewater rates in Alachua, Brevard, DeSoto, Hardee, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida, Inc.

AGENDA: 02/14/12 – Regular Agenda – Post-Hearing Decision – Participation is Limited to Commissioners and Staff

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Brisé

CRITICAL DATES: Pursuant to Section 120.569(2)(1), F.S., the Final Order in this case must be rendered by March 16, 2012.

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\100330.RCM.DOC

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Case Background

Current Rate Case

Aqua Utilities Florida, Inc. (AUF or Utility) is a wholly-owned subsidiary of Aqua America, Inc. (AAI). For purposes of this proceeding, AUF provides water and wastewater service to 58 water and 27 wastewater systems in 17 counties under the Commission's jurisdiction.¹ Water and wastewater rates were last established for this Utility in a rate case initiated in 2008.²

On September 1, 2010, the Utility filed an application for approval of an increase in rates for both its water and wastewater operations. The Utility requested that this rate application be processed using the Proposed Agency Action (PAA) procedures. By letter dated September 22, 2010, staff advised AUF that its Minimum Filing Requirements (MFRs) had deficiencies. The Utility corrected these deficiencies on October 14, 2010, and this date was set as the official date of filing.

In its MFR filing, AUF requested final rates that would result in additional operating revenue of \$2,478,491 for water and \$1,273,557 for wastewater, based on the historical 13-month average test year ended April 30, 2010, with requested adjustments for pro forma plant and operating expenses. At the end of the test year, the Utility recorded total regulated operating revenue of \$8,255,766 and \$4,824,531 for water and wastewater, respectively. AUF reported regulated net operating income for the test year of \$605,852 for water and \$526,976 for wastewater.

Pending the Commission's decision on final rates, AUF requested interim rates. By Order No. PSC-10-0707-FOF-WS (Interim Rate Order), issued November 29, 2010, in this docket, the Commission approved an interim revenue requirement designed to generate annual water revenue of \$9,062,892, an increase of \$1,125,588³ or 13.19 percent, and wastewater revenue of \$5,391,338, an increase of \$600,215⁴ or 11.81 percent.

During the processing of AUF's requested rate increase, the Office of the Public Counsel (OPC), the Office of the Attorney General (AG), YES Companies, LLC d/b/a Arredondo Farms (YES), Mr. David L. Bussey (Mr. Bussey), Ms. Lucy Wambsgan (Ms. Wambsgan), and Pasco County intervened in this docket. However, Mr. Bussey and Ms. Wambsgan subsequently withdrew their intervention.

¹ During the test year, 17,154 water and 6,595 wastewater customers received service from the Utility's regulated systems that are a part of this proceeding.

² See Order No. PSC-09-0385-FOF-WS, issued May 29, 2009, in Docket No. 080121-WS, In re: Application for increase in water and wastewater rates in Alachua, Brevard, DeSoto, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida, Inc.

³ Of the total approved interim water revenue increase of \$1,125,588, the Commission allowed \$529,922 to be collected through interim rates and deferred the remainder as a regulatory asset.

⁴ Of the total approved interim wastewater revenue increase of \$600,215, the Commission allowed \$310,041 to be collected through interim rates and deferred the remainder as a regulatory asset.

As a part of the PAA process, staff conducted nine customer meetings throughout the state. Also, staff served the Utility with numerous data requests, and OPC, along with YES and Pasco County, served the Utility with numerous interrogatories and requests for production of documents (PODs).

The original five-month statutory deadline for the Commission to vote on its PAA action was March 14, 2011. However, by letter dated November 18, 2010, AUF waived the time to vote through May 24, 2011, and the Commission voted on the Utility's requested rate increase on that date. The Commission issued Order No. PSC-11-0256-PAA-WS (PAA Order)⁵ on June 13, 2011. However, Ms. Wambsgan⁶ and OPC timely filed protests of portions of the PAA Order. Also, AUF and YES timely filed cross-petitions concerning portions of the PAA Order. Pursuant to Section 120.80(13)(b), Florida Statutes (F.S.), any issue not disputed is deemed stipulated.

Pending the resolution of these protests, AUF provided notice of implementation of PAA rates subject to refund with interest on July 1, 2011. On July 21, 2011, AUF provided AAI's guarantee of AUF's corporate undertaking in the amount of \$2,763,278. By Order No. PSC-11-0336-PCO-WS, issued August 10, 2011, the Commission acknowledged the implementation of the PAA rates.

Pursuant to Order No. PSC-11-0309-PCO-WS (Order Establishing Procedure), issued July 25, 2011, the protests and cross-petitions of the PAA Order were scheduled for formal hearing.⁷ Ten service hearings were held throughout the state,⁸ and the technical hearing was held on November 29 and 30, and December 1 and 7, 2011.

On November 29, 2011, the first day of the technical hearing, the Commission noted that 23 issues from the PAA Order were deemed stipulated pursuant to Section 120.80(13)(b), F.S., and approved those stipulations. Also, the Commission approved a Type B Stipulation⁹ whereby staff and AUF agreed that the appropriate leverage formula to be used in setting final rates was the leverage formula in effect at the time of the Commission's final action on the Utility's requested increase.

⁵ Although Order No. PSC-11-0256-PAA-WS, was primarily a PAA Order, as final agency action, the Commission closed Docket No. 080121-WS. Also, although AUF's Chuluota system was not a part of the rate proceeding in Docket No. 100330-WS, the Commission determined that any quality of service problems related to the Chuluota water and wastewater systems would be considered in Docket No. 100330-WS.

⁶ Ms. Wambsgan subsequently withdrew as a party.

⁷ Order No. PSC-11-0544-PHO-WS (Prehearing Order), issued November 23, 2011, set forth the agreements reached by the parties and the decisions of the Prehearing Officer for purposes of the formal hearing. The Prehearing Order also set out the issues in dispute and the issues deemed stipulated pursuant to Section 120.80(13)(b), F.S.

⁸ Service Hearings were held in Greenacres (August 29, 2011); North Ft. Myers (August 30, 2011); Sebring (August 31, 2011); Oviedo (September 1, 2011); Gainesville (September 12, 2011); Palatka (September 13, 2011); Eustis (September 13, 2011); Chipley (September 16, 2011); New Port Richey (October 11, 2011); and Lakeland (October 12, 2011).

⁹ A Type B Stipulation is where the Utility and staff agree on an issue, and the Intervenor take no position.

This recommendation addresses the Utility's quality of service, the requested final rates, and the appropriate disposition of the interim rates, implemented PAA rates, and regulatory assets.¹⁰ The Commission has jurisdiction pursuant to Sections 367.081 and 367.082, F.S.

Prior Rate Case and Monitoring Plans (Docket No. 080121-WS)

Docket No. 080121-WS was established on February 29, 2008, with the Utility's notification of its intent to submit an application for general rate relief for its jurisdictional water and wastewater systems. By Order No. PSC-09-0385-FOF-WS (080121-WS Final Order), the Commission found that the quality of service provided by AUF was marginal for all systems, except the Chuluota system, which was found to be unsatisfactory. Because of concerns with AUF's customer service, the Commission ordered a six-month Monitoring Plan to address concerns with AUF's failure to handle customer complaints properly, AUF's call centers' process for handling complaints, and incorrect meter readings that resulted in improper bills. The Utility was required to submit recordings of calls to its call centers,¹¹ monthly reports, and other documentation to verify the accuracy of the meter readings and resulting customer bills.¹²

Upon completion of these reporting requirements, staff presented its recommendation regarding AUF's quality of service at the March 16, 2010, Commission Conference. In addition, staff provided an update of the Utility's compliance with the Department of Environmental Protection (DEP), county health departments (HDs), and water management districts (WMDs), which oversee AUF's compliance with environmental rules and regulations. After hearing from staff, interested parties, and several customers at the conference, the Commission concluded in Order No. PSC-10-0218-PAA-WS (April 2010 Order)¹³ that, while preliminary results showed substantial improvement in AUF's customer service, additional monitoring was required to ultimately determine the adequacy of AUF's quality of service. The Commission ordered continued monitoring of AUF's customer service through December 31, 2010, including customer complaints, meter reading and billing accuracy, and environmental compliance. The Commission instructed staff to work collaboratively with AUF and the other parties in order to develop a cost-effective, efficient, and meaningful supplemental monitoring plan.

Staff met with representatives from AUF, OPC, AG, and several customer representatives to discuss specifics of a cost-effective monitoring plan consistent with the Commission's direction. AUF and OPC agreed to a jointly-proposed Phase II Monitoring Plan and submitted their Agreement on Scope of Phase II Monitoring. In this document, they agreed upon the criteria by which quality of service would be measured. By Order No. PSC-10-0297-PAA-WS (May 2010 Order),¹⁴ the Commission approved the Phase II Monitoring Plan jointly proposed by AUF and OPC with certain Commission-ordered additions. The approved Phase II Monitoring Plan entailed monitoring: (1) customer complaints; (2) estimated meter readings; (3) aesthetic water quality for seven of AUF's systems; (4) the filing of reports by AUF and OPC; (5) staff's

¹⁰ There are 39 issues and 24 stipulations.

¹¹ This was so that the Customer Service Representative's performance could be evaluated and assessed.

¹² Commission staff also verified that a sampling of selected meter readings were accurate.

¹³ Issued April 6, 2010, in Docket No. 080121-WS.

¹⁴ Issued May 10, 2010, in Docket No. 080121-WS

monitoring of environmental compliance; and (6) staff's further evaluation of customer billing samples through calendar year 2010.

Pursuant to the Phase II Monitoring Plan, AUF filed its Final Phase II Monitoring Report on February 28, 2011.¹⁵ Subsequently, on March 31, 2011, OPC filed its Response to AUF's Summary Report and Current Status of AUF's Quality of Service in Docket No. 100330-WS.

Because OPC's response concerning the Utility's quality of service in Docket Nos. 080121-WS and 100330-WS was combined, staff combined its discussions on quality of service for the two dockets in one recommendation, and the Commission voted on the quality of service in the combined dockets. Further, pursuant to the PAA Order issued subsequent to this vote, the Commission found that the quality of service provided by AUF remained marginal, though it did appear that the quality of service had improved. Based on this finding, the Commission reduced the return on equity (ROE) by 25 basis points, and directed staff to meet with AUF, OPC, and the other Intervenors to develop a Phase III Monitoring Plan. Finally, because the Phase III Monitoring Plan could be adequately handled in Docket No. 100330-WS, the Commission voted, as final agency action, to close Docket No. 080121-WS. This was done with the acknowledgment that, while the quality of service for the Chuluota water and wastewater systems would continue to be evaluated in Docket No. 100330-WS, the rates for those systems were not a part of the rate case in Docket No. 100330-WS. Because the Commission's finding on quality of service was protested by both AUF and several Intervenors, a Phase III Monitoring Plan has not yet been developed.

¹⁵ This final report was a summary of the other reports.

Approved Stipulations

The Commission has previously approved several stipulated issues, stipulated adjustments, and partially stipulated issues. The stipulated issues are reflected later in this recommendation as “Stipulated” in sequential order of the approved numbering of the issues, pursuant to the Prehearing Order No. PSC-11-0544-PHO-WS, issued November 23, 2011, and subsequent decisions by the Commission at the Technical Hearing held on November 29 and 30 and December 1 and 7, 2011. Also, a consolidated list of all stipulations is attached as the Appendix.

Abbreviations and Technical Terms

For reference purposes, the following is a list of acronyms and technical terms which have been used in this recommendation:

Company and Party Names

AAI	Aqua America, Inc.
ACO	Aqua Customer Operations
AG	Attorney General
ASI	Aqua Services, Inc.
AUF	Aqua Utilities Florida, Inc.
OPC	Office of Public Counsel
Pasco County	Pasco County Board of County Commissioners
YES	Yes Companies, LLC d/b/a Arredondo Farms

Technical Terms and Acronyms

ADITs	Accumulated Deferred Income Taxes
AFPI	Allowance for Funds Prudently Invested
AWWA	American Water Works Association
BFC	Base Facility Charge
BSP	Bate Stamp Page
CART	Complaint Analysis and Remediation Team
CATS	Consumer Activity Tracking System
CIAC	Contributions in Aid of Construction
CLP	Connecticut Light and Power Company
CSRs	Customer Service Representatives
CUPs	Consumptive Use Permits
DEP	Department of Environmental Protection
DITs	Deferred Income Taxes
DMRs	Discharge Monitoring Reports
DOL	Director and Officer Liability
DRCE	Deferred Rate Case Expense
EPA	Environmental Protection Agency
ERCs	Equivalent Residential Connections
ERT	Electronic Radio Transmitter
EUW	Excessive Unaccounted for Water
EWQ	Electronic Work Queue
EXH	Hearing Exhibit
F.A.C.	Florida Administrative Code
FDPS	Florida Delinquency Process Summary
FGUA	Florida Governmental Utility Authority
FPL	Florida Power & Light Company
FPUC	Florida Public Utilities Company
FRC	Firm Reliable Capacity

F.S.	Florida Statutes
FWSC	Florida Water Services Corporation
gpd	Gallons per Day
gpm	Gallons per Minute
HD	Health Department
I&I	Infiltration and Inflow
IT	Information Technology
IRC	Internal Revenue Code
kgals	per 1,000 gallons
MACRS	Modified Accelerated Cost Recovery System
MCLs	Maximum Contaminant Levels
MFRs	Minimum Filing Requirements
MOU	Memorandum of Understanding
NARUC	National Association Regulatory Utility Commission
O&M	Operations and Maintenance
PAA	Proposed Agency Action
PBWNs	Precautionary Boil Water Notices
psi	Pounds per Square Inch
POD	Production of Documents
RAFs	Regulatory Assessment Fees
ROE	Return on Equity
SARCs	Staff-Assisted Rate Cases
SFCO	Short Form Consent Order
SMCLs	Secondary Maximum Contaminant Levels
SSU	Southern States Utilities, Inc.
TR	Transcript
TTHMs	Total Trihalomethanes
U&U	Used and Useful
USOA	Uniform Systems of Accounts
WCI	Water Conservation Initiative
WMDs	Water Management Districts
WRB	Water Rate Band
WTP	Water Treatment Plant
WWRB	Wastewater Rate Band
WWTP	Wastewater Treatment Plant

Discussion of Issues

QUALITY OF SERVICE

Issue 1: What is AUF's quality of service?

Recommendation: Staff recommends that the quality of AUF's product and the operating condition of the Utility's plant and facilities are satisfactory, as well as its attempt to address customer satisfaction. Therefore, staff recommends that AUF's overall quality of service be deemed satisfactory. In accordance with Rule 25-30.433(8), F.A.C., O&M expense should be reduced by \$60,180, and working capital should be increased by \$60,180. (Golden, Jones-Alexis, McRoy, Rieger, Thompson, Fletcher)

Position of the Parties

AUF: AUF's overall quality of service is good, and has significantly improved since the Company's last rate case.

OPC: AUF's quality of service is unsatisfactory. AUF has on-going poor water quality issues, billing problems, and poor customer service.

YES: Unsatisfactory.

Pasco County: Aqua's quality of service is unsatisfactory. In this and every rate case, the Commission shall make a determination of the quality of service provided by the utility. R 25-30.433(1), F.A.C. In making this determination, the Commission must evaluate three separate components of the utility's water and wastewater operations: (1) quality of the utility's product (water and wastewater); (2) operational conditions of the utility's plant and facilities; and (3) the utility's attempt to address customer satisfaction. *Id.* Aqua's service remains unsatisfactory in all three areas.

AG: AUF's quality of service is unsatisfactory. AUF has on-going poor water quality issues, billing problems, and poor customer service.

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), the Commission determines the overall quality of service provided by the utility by evaluating the quality of the utility's product, the operating condition of the utility's plant and facilities, and the utility's attempt to address customer satisfaction. AUF's compliance history with the Department of Environmental Protection (DEP), County Health Departments (HDs), and Water Management Districts (WMDs), and comments or complaints received from customers is also considered.

AUF, OPC, Pasco County, and YES witnesses provided testimony concerning the quality of product and operating condition of AUF's 58 water and 27 wastewater systems. Staff sponsored nineteen DEP, HD, and WMD witnesses who provided testimony regarding each of AUF's systems located within their respective areas of responsibilities. In addition, testimony was provided describing AUF's attempt to address customer satisfaction. AUF, OPC, YES,

Pasco County, and staff witnesses testified regarding service hearings, customer complaints, correspondence, and prior AUF monitoring plans. Also, customers provided testimony at ten service hearings and provided comments at nine customer meetings.

PARTIES' ARGUMENTS

AUF

AUF asserted that the overwhelming evidence in this proceeding demonstrates that the Utility's overall quality of service is good as a result of its ongoing quality control initiatives, customer service enhancements, and water quality improvement projects. (AUF BR 1-2)

AUF argued that there is undisputed evidence that AUF is in compliance with the applicable DEP, HD, and WMD standards for the vast majority of its water and wastewater systems, and that notably, no witness for OPC testified as to the operational condition of AUF's plants and facilities. (TR 1640, 278-80, 1641; EXH 294) Furthermore, AUF maintained that none of the OPC witnesses that testified on water and wastewater quality had any experience in water or wastewater quality analysis. AUF noted that, although Pasco County and YES attempted to argue that the quality of AUF's water and wastewater service was deficient, close review of the record showed that those arguments lack credible evidentiary support. Neither Pasco County nor YES offered any expert testimony to support their claims regarding alleged water and wastewater quality deficiencies. (TR 976, 1266, 1296; AUF BR 3-4)

AUF also noted that it continues to take steps to address billing and payment issues raised by customers in the last rate case, and in customer meetings and service hearings in the instant case. (TR 290-291; AUF BR 9-10) AUF argued that it has taken significant steps to address customer satisfaction in the area of aesthetic water quality. (TR 214, 291; AUF BR 6) AUF asserted that a downward trend in the number of water quality complaints from customers in the seven systems selected for the Utility's 2008 Original Aesthetic Program shows that customers are seeing the benefits of the Utility's aesthetic water quality improvements. (TR 216, 281, 300, 1635; AUF BR 7) In addition, AUF argued that the record shows it has proactively established its own quality of service metrics as part of a robust quality assurance program to achieve and maintain customer satisfaction, and has made steady improvement in the quality of customer service since the last rate case. (AUF BR 14)

OPC

OPC argued that the overall analysis of AUF's systems related to DEP compliance shows persistent water quality problems. The numerous violations, consent orders, and non-compliance incidents over the last three years demonstrate that AUF is routinely out of compliance with DEP and water standards that frequently result in an unsatisfactory product. (OPC BR 9-11)

OPC argued that the Commission's mission statement states that it is committed to ensuring that Florida's consumers receive some of their most essential services, including water and wastewater, in a safe, affordable, and reliable manner. According to OPC, the Commission should find that AUF provides unsatisfactory service at unaffordable rates. Specifically, OPC

argued that the Utility's overall quality of service is unsatisfactory as a result of its ongoing poor performance in the areas of water quality, billing, and customer service, despite an ongoing monitoring program. According to OPC, customers' testimony confirms that no significant improvements have been made. (OPC BR 2, 5) Further, OPC argued there was no significant improvement in the quality of service based on the eight months of additional Phase II monitoring. (OPC BR 14)

YES

YES asserted that the service hearing testimony, particularly the testimony provided at the Gainesville service hearing, demonstrates that the customer service, water quality, and billing practices of AUF are deplorable, unsatisfactory, and do not warrant a rate increase. Moreover, YES argued that the evidence demonstrates that the Utility's quality of service to customers at Arredondo Farms has declined since its last rate case, as evidenced by a 400 percent increase in the number of customers who testified at the Gainesville service hearing in 2011 as compared to the customer meeting held in 2010. (TR 1767-1768; EXH 346; YES BR 1)

YES argued that the evidence showed that AUF has been on notice for years of excessive sedimentation and hard water at Arredondo Farms, but failed to take any action to remedy the problem. (TR 1688) YES demanded that AUF should not be granted a rate increase on its promise to improve water quality; rather, AUF should not receive a rate increase unless and until water quality at Arredondo Farms has improved. (YES BR 1-2) YES also asserted that overwhelming evidence shows that AUF provides substandard and deficient customer service. In particular, the Gainesville service hearing testimony makes clear that the Utility's Customer Service Representatives (CSRs) serving Arredondo Farms are particularly rude and condescending. (YES BR 3)

Pasco County

Pasco County's position was that the operational conditions of AUF's plants and facilities are unsatisfactory, as demonstrated by the numerous warning letters and consent orders issued by regulatory agencies. (Pasco County BR 4) Pasco County asserted that rather than be out front of the issues and regularly maintain and upgrade its systems, AUF waited for a problem to occur before spending money and time to address obvious issues which affect the environment. Pasco County noted that AUF does not even do land surveys prior to purchasing systems. (TR 1673) Pasco County maintained that this is irresponsible and confirms the lack of institutional control over AUF's systems. (Pasco County BR 5)

According to Pasco County, Rule 25-30.433(1), F.A.C., states that the testimony of a utility's customers shall be considered in the Commission's determination of the utility's quality of service. Pasco County maintained that the extensive testimony at the New Port Richey service hearing clearly shows that AUF's water quality is poor. (EXH 26, BSP 860-1640; Pasco County BR 3)

AG

The AG adopted the position of the OPC on water quality and added that water safety should be of great concern to this Commission. The AG argued that the DEP witnesses identified ongoing concerns about water safety, and the perception of many customers is that the water is not safe to drink. The AG urged the Commission to take steps to monitor the safety of AUF's water and take whatever steps necessary to ensure that customers can feel safe to drink the water and use it for cooking and bathing. (AG BR 2-5)

The AG noted that numerous customers testified during the service hearings that AUF's overall quality of service is unsatisfactory. According to the AG, many of the same problems have persisted since the last rate case. If the water quality was satisfactory, customers would not mind the cost of water as much; however, customers testified that they are paying excessive rates for water they cannot use. (AG BR 2) The AG supported the position espoused by OPC and concurred with OPC witnesses' analyses of these complaints as well as those provided during the 2010 customer meetings and those filed with the Commission. (AG BR 3)

YES, Pasco County, and AG did not present any testimony addressing the results of the Phase II monitoring reports.

ANALYSIS

Quality of Product and Operating Condition

As noted by AUF witness Luitweiler, many of AUF's systems were constructed 40 to 50 years ago. The majority of AUF's water systems are small systems that serve primarily residential customers, utilizing basic chlorination for treatment. The witness also noted that AUF's wastewater systems vary in size and complexity but generally employ traditional wastewater treatment methods, such as screening, extended aeration, clarification, disinfection, and effluent disposal by spray irrigation or percolation ponds. (TR 207-208; EXH 55)

Witness Luitweiler testified that the water quality from AUF's water and wastewater facilities is good, and the facilities are in good operating condition. The witness asserted that AUF complies with DEP and applicable WMD regulations, and has a clearly defined strategy to maintain compliance. Further, the witness maintained that AUF has a strong commitment to customer service and is dedicated to attempting to address customer satisfaction as shown by, among other things, its ongoing efforts to improve the aesthetic quality of water for its customers.

Witness Luitweiler stated that AUF is committed to operating its water and wastewater systems in compliance with all applicable standards of DEP, the various HDs, and the WMDs. He asserts that most of the systems have been recently inspected by the applicable regulatory agencies and have no outstanding compliance issues. He further asserted that there have been no Notices of Violation issued for any of the systems since the Final Order was issued in AUF's last rate case. (TR 208-209)

Witness Luitweiler testified that AUF has taken aggressive steps to resolve all of the environmental compliance issues identified in the 2008 rate case. The witness noted that at the close of the evidentiary record in the 2008 rate case, AUF had open consent orders for five systems, including the Chuluota, The Woods, and the Zephyr Shores water systems, and the Village Water and the South Seas wastewater systems. All of those consent orders have now been closed with the exception of the Village Water consent order. (TR 209-210; EXH 56)

Witness Luitweiler acknowledged that there are three new outstanding consent orders related to: (1) effluent disposal at the Village Water wastewater system; (2) storage capacity at the Sunny Hills water system; and (3) Gross Alpha Particle Activity at the Peace River water system. However, he opined that AUF's environmental compliance record in Florida is excellent. Witness Luitweiler admitted that, as with any type of aging infrastructure, there will be maintenance and repair requirements which, at times, will present environmental compliance challenges. He asserted that the fact that virtually all of its systems are in compliance with environmental requirements is clear evidence that AUF is committed to environmental compliance. He concluded that no further action by the Commission is needed to ensure the quality of AUF's water and wastewater product and the operating condition of its facilities. (TR 213-214)

Staff sponsored 19 witnesses from the DEP, HD, and WMD that testified regarding each of AUF's systems located within their respective areas of responsibility. These witnesses testified that, generally: the overall operation and maintenance of AUF's systems were in compliance with DEP, HD, or WMD rules and regulations and the condition of AUF's facilities is satisfactory, with some systems having improved and others having remained the same. Witnesses testified that inspection records are satisfactory and most of the recent sanitary survey inspections indicated no deficiencies, although some did have a few minor deficiencies which AUF corrected in a timely manner. (TR 428-429, 973, 1019, 1028-1029, 1359, 1367) Staff-sponsored DEP witness Dodson testified that it is not uncommon to find a number of small deficiencies at any facility. She stated that in general, AUF is doing a good job of maintaining these facilities. (TR 1367) Staff witness Lott, who is responsible for review of capacity analysis reports, 4-log virus inactivation studies, sole source aquifer studies, and permit determinations for all public drinking water systems in the DEP Central District, testified that the permits he reviewed that have not yet been cleared for service are not indicative that the system is out of compliance, only that a full clearance has not been submitted for the permit within the five-year timeframe. (TR 1356) When staff witness Sloan was asked to compare the AUF facilities in Polk County to other utilities, she indicated that AUF's systems are in good condition and comparable to other privately-owned utilities or county water systems. (TR 973)

Representing the Northwest WMD, witness Chelette testified that AUF was not found to have significant compliance issues. (TR 1344) Witness Walker, on behalf of the St. Johns River WMD, testified that in general, AUF does not submit compliance submittals in a timely manner, but once the data is requested, the Utility is able to provide it. (TR 241, 1347; EXH 148) Witness Yingling, with the Southwest Florida WMD, found no compliance issues. (TR 1345)

In review of the 19 staff-sponsored witnesses' testimony regarding AUF's compliance history, OPC witness Vandiver testified that the testimony, whether taken individually or as a

whole, is persuasive in determining that AUF's quality of service is unsatisfactory. The witness pointed out that 11 of these staff-sponsored witnesses indicated that AUF's overall operation and maintenance of the treatment plants and distribution systems were satisfactory or met minimum requirements, giving the implication that the quality of service is satisfactory. However, witness Vandiver also noted that 28 of the 62 systems (45 percent) have issues affecting the quality of service provided by AUF, including 78 quality issues involving: (1) systems operating without a permit; (2) multiple systems exceeding maximum contaminant levels (MCLs), (3) failure to notify the public and DEP of positive E. coli test results, (4) sanitary sewage overflows, (5) plant maintenance issues, and (6) numerous failures to submit timely reports. (TR 1409-1412; EXH 204, 205) Witness Vandiver further noted that 9 of the staff witnesses listed 23 issues that were included in consent orders; with an additional 8 witnesses who identified 34 issues that were included in warning letters or non-compliance letters. In her testimony, witness Vandiver found it troubling that the staff witnesses identified pages of violations, non-compliances, and other deficiencies, and yet they deem the overall quality of the plant operations satisfactory. She argued that the overall picture painted by this staff-sponsored testimony is of a company that routinely fails to follow the rules that are put in place to protect the customers. (TR 1412-1414)

Witness Vandiver pointed out that while some may consider reporting requirements inconsequential in a general sense, it is these reporting requirements that allow regulatory authorities to monitor the level of the quality and safety of the plant operations. When the witness compared the magnitude of the customer testimony, as well as the number of quality issues listed by the staff witnesses, she found that they frequently address the same issues. The OPC witness noted that the customers are the ones who are harmed if the utility fails to report instances where it exceeds MCLs or when poorly maintained facilities result in sewage spills or main breaks and customers are subjected to potential health risks when the company fails to adequately and properly issue precautionary boil water notices (PBWNs). (TR 1412-1414)

OPC witness Poucher testified that he reviewed DEP's voluminous files dealing with water quality issues with all of the AUF systems dating as far back as 2002, as well as the staff recommendation dealing with water quality that was part of the original PAA proceeding in this docket. The witness noted that during the 2008 rate case there were several water quality violations that were unresolved at the time of the hearings. He also stated that having had an additional year to clean up its act, so to speak, AUF appears to have resolved its existing formal violations that have been identified by DEP. (TR 753-754)

OPC witness Woodcock testified that since 2007, there have been a total of 26 primary water quality violations, 20 total coliform violations, 15 secondary violations, and 15 violations for late or not reported parameters. Since 2010, there have been a total of 3 primary water quality violations, 6 total coliform violations, 2 secondary violations, and 1 violation for late or not reported parameters. Since 2007, the AUF wastewater treatment plants have been issued minor out of compliance notices 96 times and significant out-of-compliance issues 39 times. (TR 627; EXH 80)

Staff notes that the Utility currently has open DEP consent orders for the Village Water wastewater system and the Peace River and Sunny Hills water systems. In addition, the Utility currently has open warning letters for the Jasmine Lakes, Palm Terrace, and South Seas

wastewater systems, and the Interlachen Lakes Estates/Park Manor and Village Water water systems. Systems with DEP consent orders and warning letters that have been closed during the last several years include the Chuluota, The Woods, Twin Rivers, Tomoka View, Zephyr Shores, and Jungle Den water systems, and the Jasmine Lakes, Palm Terrace, South Seas, and Arredondo wastewater systems. The status of each system that is currently under enforcement is discussed below.

Open Consent Orders

As shown on Table 1-1, AUF currently has three open consent orders related to the Village Water wastewater treatment plant (WWTP) regarding effluent disposal, the Peace River water treatment plant (WTP) regarding Gross Alpha Particle Activity above MCLs, and the Sunny Hills WTP regarding storage capacity and water monitoring concerns.

Table 1-1

Open Consent Orders		
System	County	Current Status
Village Water WWTP	Polk	DEP Consent Order
Peace River WTP	Hardee	DEP Consent Order
Sunny Hills WTP	Highlands	DEP Consent Order

Village Water WWTP

AUF witness Luitweiler testified that the previous owner of the Village Water wastewater system constructed the ponds below the ground water table. A combination of DEP regulations, policies, and actions has created an intractable situation for this small, predominantly industrial wastewater system. AUF continues to pursue two solutions: (1) leasing land and constructing a sprayfield and associated piping, and (2) entering into an agreement with the City of Lakeland and building infrastructure to convey treated effluent through an effluent disposal pipeline to an electric generating station. Pursuant to the consent order, AUF has executed a long-term lease with a nearby property owner for land for a spray field for effluent disposal, and has completed the soil evaluation and the preliminary design of the spray fields. The findings of the soil evaluation prompted AUF to negotiate with DEP an extension of the deadlines in the consent order in order to take one last look at an alternative involving use of the effluent disposal system operated by the City of Lakeland. Discussions with the City of Lakeland are continuing; however, without at least partial funding from the WMD, witness Luitweiler believes that this alternative is not likely to be economically viable. The WMD has advised that funding is not likely to be available. Both solutions are prohibitively expensive for this system with 48 industrial customers. The WWTP has operated for 30 months with only one exceedance of a permit limit reported on monthly Discharge Monitoring Reports (DMRs). AUF has continued a dialog with DEP about the impact (or lack thereof) of the status quo, regulatory obstacles to potential alternatives, and the potential impact on rates (which is substantial). Witness Luitweiler testified that just the capital cost of the spray field solution alone is approximately \$354,915, and just the capital cost of the Lakeland interconnect solution alone is approximately \$527,555. (TR 211, 277-280, 1641; EXH 221)

Staff-sponsored DEP witness Greenwell testified that the Village Water wastewater facility was significantly out of compliance and that the Utility has been unable to address the long-term disposal solution for the ponds and the inadequate maintenance of the ponds. (TR 441) Witness Greenwell pointed out that a consent order was executed on August 21, 2007, for operating the facility without a permit and failure to maintain the ponds, including proper access control. The consent order has been amended multiple times and remains open. (TR 442; EXH 159) Witness Greenwell further stated that while AUF still remains out of compliance with the pond issue, the consent order gives them a certain amount of relief and AUF is attempting to find a corrective action to address the pond disposal issue. (TR 455) Staff believes AUF is adequately addressing the effluent disposal issue.

Peace River WTP

AUF witness Luitweiler and staff-sponsored witness Greenwell testified with respect to the DEP consent order from June 2010 for the Peace River water system that required AUF to perform bi-monthly sampling for Gross Alpha Particle Activity and Combined Radium for 24 consecutive months. According to witness Luitweiler, AUF also conducted a pilot study to evaluate possible treatment methods. Although the facility is currently in compliance with the MCLs for Gross Alpha Particle Activity and Combined Radium, witness Luitweiler pointed out that results of the bimonthly sampling triggered a requirement under the consent order to begin to design radium removal treatment. Design was completed and a permit application was submitted to DEP in June 2011. DEP issued a construction permit on August 18, 2011. (EXH 219) AUF executed a contract with the supplier of the treatment system and bid the construction in September 2011. At the time of the hearing, AUF was in discussions with the two lowest bidders (approximately \$139,000 and \$144,000) about qualifications and interpretation of the bids, and expected to make an award by the end of October 2011. AUF anticipated completion of construction before February 15, 2012 (180 days from the issuance of the DEP permit, as required under the consent order). Staff believes AUF has responded timely to this consent order. AUF has requested that the cost of this pro forma project be included in rate base. Discussion of the pro forma adjustment is contained in Issue 3. (TR 212, 438, 445-446, 1641; EXH 157, 219)

Sunny Hills WTP

AUF witness Luitweiler testified that the Sunny Hills consent order, which was executed in December 2010, involved DEP's determination that the existing storage capacity for the water system was not sufficient. Therefore, DEP required AUF to, among other things, increase its current storage capacity. AUF submitted plans and a permit application to DEP for a new storage tank and related piping. DEP issued a construction permit for installation of the storage tank, piping, and related improvements required by the consent order. Witness Luitweiler indicated that AUF executed a contract for construction of the tank and improvements in the amount of \$231,076, effective September 14, 2011. At the time of the hearing, work was underway and AUF anticipated the project to be complete and in service in December 2011. Witness Luitweiler explained that AUF is requesting that the cost of this pro forma project be included in rate base. Discussion of the pro forma adjustment is contained in Issue 3. (TR 211, 1641; EXH 218)

According to staff-sponsored DEP witness Penton, the Sunny Hills consent order was aimed at addressing the Utility's: (a) failure to provide a total useful finished water storage capacity of at least 25 percent of the system's maximum day water demand as required under Rule 62-555.320(19)(a), F.A.C.; (b) failure to provide satisfactory results of a 20 sample bacteriological well survey before placing Well 1 into permanent service after having been out of operation for more than six months, as required under Rule 62-555.315(6)(b), F.A.C.; and (c) failure to perform routine nitrate/nitrite monitoring and raw bacteriological monitoring of the water produced by Well 1, when it was producing water for public consumption in July and August 2007, as required under Rules 62-550.500, 62-550.512, and 62-550.518(2), F.A.C. Witness Penton stated that the consent order is still in force. (TR 1033-1034; EXH 152) She testified that the conditions related to the bacteriological well survey and the failure to perform routine nitrate/nitrite monitoring have been addressed (TR 1036-1038) Staff concludes that the consent order remains open to resolve the water storage capacity issue. Because construction of a storage tank and other related improvements is nearing completion, staff believes that AUF is adequately addressing this consent order.

Open Warning Letters

AUF has four open warning letters related to the Jasmine Lakes and Palm Terrace wastewater systems regarding treatment plant operational compliance concerns, the Interlachen Lakes Estates/Park Manor water system related to source water testing positive for E. coli, and the Village Water water system related to lead and copper monitoring, as shown in Table 1-2.

Table 1-2

Open Warning Letters		
System	County	Current Status
Jasmine Lakes WWTP	Pasco	DEP Warning Letter
Palm Terrace WWTP	Pasco	DEP Warning Letter
Interlachen Lakes Estates WTP	Putman	DEP Warning Letter
Village Water WTP	Polk	PCHD Warning Letter

Jasmine Lakes and Palm Terrace WWTP

AUF witness Luitweiler testified that AUF moved quickly to respond to the issues identified by DEP at its Jasmine Lakes and Palm Terrace wastewater facilities. AUF met with DEP on July 28, 2011, to discuss all actions taken. Furthermore, witness Luitweiler stated that AUF has provided DEP thorough written responses which document that the issues identified by DEP have been resolved. (TR 212-213) For Jasmine Lakes, witness Luitweiler pointed out that DEP staff conducted an inspection of the facility on September 8, 2011, and indicated that all outstanding maintenance issues had been satisfactorily addressed and that a closure letter from DEP would be forthcoming. (TR 1643)

Witness Luitweiler noted that DEP conducted a final inspection of the Palm Terrace system on October 5, 2011, and indicated at that time that all items had been satisfactorily

addressed and that a closure letter would be forthcoming. (TR 1643) Witness Luitweiler indicated that the most substantive issue related to the installation of a replacement force main at Palm Terrace to convey treated wastewater effluent to a spray field. The prior main had been installed by a previous owner before the system was acquired by AUF, and traversed a concrete apron conveying storm water to a Pasco County storm water pond. AUF applied to Pasco County for a permit to replace the main on June 1, 2011, and received the permit on July 20, 2011. Witness Luitweiler confirmed that construction was completed on August 3, 2011, and DEP was present to witness the completion and testing of the new force main. (TR 212-213)

Staff witness Greenwell testified that AUF received warning letters from DEP for Jasmine Lakes and Palm Terrace on June 23, 2011 for being out of compliance for maintenance issues. Although these warning letters are still outstanding, witness Greenwell explained that AUF has taken corrective action and the systems are substantially in compliance. (TR 441; EXH 158) Concerning Palm Terrace, at the time of the hearing, witness Greenwell indicated that DEP had not decided whether to attempt to enter into a consent order with AUF. (TR 452) Witness Greenwell discussed the plant operational situation at Palm Terrace and acknowledged that a 2,000 gallon discharge into a storm water retention pond was an unauthorized discharge and would be considered a violation of DEP regulations. Concerning the above ground pipe that broke causing the discharge, witness Greenwell suggested that it certainly was constructed in a manner that did not seem consistent with sound engineering practices. However, witness Greenwell testified that AUF appears to be moving towards amending the compliance problems. When asked about the Palm Terrace plant being taken off line with the wastewater sent to a regional plant, witness Greenwell indicated that for smaller plants, regional control would have clear advantages; however, he does not consider Palm Terrace to be a small plant. Witness Greenwell was not aware of any discussions to take the facility off line. (TR 456-458, 461-465)

While not related to the DEP warning letter issued for Palm Terrace, Pasco County raised a concern regarding whether AUF had the legal authority to maintain a required overflow pipe on County property. (TR 1672) AUF witness Luitweiler explained the dispute by indicating that prior to AUF's acquisition of the Palm Terrace wastewater system, and in accordance with normal utility practice, an overflow pipe was installed in the berm between the percolation pond and an adjacent Pasco County storm water management pond. He pointed out that the purpose of the pipe was to prevent water in the pond from ever flowing over the top of the berm in an uncontrolled manner that could erode and eventually induce failure of the berm. Although the witness maintained that the current location of the pipe is legally permissible, he noted that, in an attempt to resolve the matter without litigation, AUF engaged a consulting engineer and a lawyer to secure an easement from the County for this pipe. Meanwhile, witness Luitweiler explained that AUF has placed a cap on the pipe which can be removed in an emergency, but that otherwise provides assurance to the County that the pipe is not discharging into the storm water basin. (TR 1644)

Pasco County witness Mariano testified that some nearby residents of the Palm Terrace WWTP alerted the County to a possible discharge to a County storm water pond adjacent to AUF's effluent storage ponds. The witness visited the site with some County personnel and residents in May 2011. At that time, he observed a PVC pipe crossing a County storm water spillway. The pipe was above ground and appeared to be recently repaired, as a small piece of

cut PVC pipe was on the ground next to the repair. The replaced pipe was visible behind AUF's fence. The repaired joint pipe was leaking slowly at the time of the visit. (TR 977-978; EXH 143) Witness Mariano indicated that the pipe carries treated effluent to the AUF's disposal spray field. A DEP letter indicated that a break in this pipe discharged effluent to the County's pond on May 17, 2011. (TR 978; EXH 144) Witness Mariano noted the leaking pipe and discarded PVC were potential violations of the County storm water regulations, but the County chose not to prosecute these violations if AUF agreed to bury the pipe. AUF had since applied for and received a County right-of-way use permit to place the pipe underground.

Additionally, witness Mariano noted that while viewing the above ground pipe, he noticed percolation in the County's storm water pond while effluent was flowing through the pipe. That raised concerns regarding a possible leak in AUF's effluent pipe or another source of discharge of effluent to the County pond. Witness Marino testified that County personnel investigated historical records and found a plan sheet showing a direct pipe connection from AUF's ponds to the County's pond. With the assistance of AUF personnel, a direct pipe connection was discovered. (EXH 145) Witness Mariano pointed out that the County has no record that would give AUF the authority to maintain this pipe on County property or to allow the direct discharge of its effluent to the County pond. The County asked AUF to provide any documentation it had regarding this matter. AUF indicated that it had no record of any permit or application to Pasco County. (TR 978-979, 985; New Port Richey TR 38-39) Witness Mariano acknowledged that AUF had replaced the pipe, noting that the pipe had to go underground to meet code. Pasco County gave an easement to AUF because that pipe had to go underground a long way to get to AUF's spray field. (TR 996-997)

Pasco County argued that if AUF had done a simple land survey at the time it purchased the Palm Terrace system, it would have learned about the easement issue as well as the above-ground pipe at that time. (TR 1673) Pasco County maintained that AUF acted irresponsibly in this instance and that it confirms the lack of institutional control over AUF's systems, which is costing its customers in higher rates. (Pasco County BR 2, 5-6) While AUF may have not preformed its due diligence in the purchase of these systems, staff believes that the Utility has since adequately responded to the issue when it was brought to their attention.

Interlachen Lakes Estates/Park Manor WTP

Staff witness Montoya testified that a DEP warning letter was sent out to AUF on August 9, 2011, advising AUF of possible violations resulting from July 2011 source water tests that showed the system tested positive for E. coli from Well No. 2. AUF failed to notify DEP, complete repeat sampling per the Ground Water Rule, and issue Public Notices within 24 hours of knowledge of the E. coli positive result. (EXH 151) AUF has since performed proper repeat sampling and issued a public notice. However, witness Montoya pointed out that DEP has deemed the well contaminated and that AUF has decided to take steps to submit an application for 4-Log approval to deal with the microbial contamination. Well No. 2 has been taken off line and the E. coli issue has been resolved. Witness Montoya indicated that DEP drafted a consent order for failure to notify DEP and to issue a public notice within the required time, and, at the time of the hearing, planned to send the consent order out to AUF. AUF is replacing the second well and has filed an application for 4-Log approval with DEP. Witness Montoya stated that this

shows DEP that AUF is monitoring its bacteriological results and the quality of its water. (TR 1018-1028)

Village Water WTP

Staff witness Sloan testified that the Polk County HD sent January 20, 2011, warning notices to AUF for failure to sample for nitrate/nitrites in 2010 for the Orange Hill/Sugar Creek water system, Gibsonia Estates water system, and Rosalie Oaks water system. (TR 963; EXH 154) At the hearing, witness Sloan indicated that those notices are now closed and there is a new warning notice for the Village Water water system issued November 12, 2011, for lead and copper monitoring during June through September 2011. The warning letter will be closed once AUF samples next year. (TR 960, 969-970, 973) Staff believes AUF is adequately addressing this issue.

Other Compliance Concerns

Chuluota WTP and WWTP

AUF witness Luitweiler testified that in AUF's last rate case, the Commission denied a rate increase for both Chuluota's water and wastewater systems because it found that the quality of service for those systems was unsatisfactory. That finding was based primarily on water quality compliance issues involving total trihalomethanes (TTHMs), which were ongoing with the DEP at the time of the last rate case. Since the last rate case, witness Luitweiler points out that AUF has made significant improvements to the Chuluota water system and, to date, has invested over \$2.1 million dollars in plant improvements to address the TTHM issue. As a result, a consent order was closed in December 2010, and a follow up inspection in January 2011 noted that the plant was in good operating condition with no deficiencies. (TR 209-210, 1366)

Witness Luitweiler testified that there is a reference in staff-sponsored DEP witness Miller's testimony that AUF had not implemented public access reuse for the Chuluota WWTP. (TR 946-947) However, witness Luitweiler concluded that AUF had worked diligently and cooperatively with the City of Oviedo to bring into operation the reuse connection between the Chuluota effluent disposal system and the City's irrigation system. Since mid-October, AUF has been providing substantial volumes of reuse water to the City's irrigation system on a daily basis. Witness Luitweiler asserted that the system is now in compliance. (TR 1642)

Staff witness Miller later acknowledged that AUF just began providing public access reuse to the City of Oviedo on October 18, 2011. This system is currently still in violation of its annual average flow for the effluent disposal of the sprayfield; however, the annual average flow should be coming down. Witness Miller stated that DEP is not planning on taking any formal enforcement action because it appears that AUF is on the way back into compliance. (TR 950-952, 956-957)

River Grove WTP

Test results for TTHMs show the River Grove system exceeding the MCL. (EXH 17) Witness Luitweiler testified that AUF has evaluated a number of options to cost-effectively address this issue. Based on that evaluation, AUF is currently negotiating an agreement with Putnam County to purchase water. Witness Luitweiler indicated that available water quality information reviewed from Putnam County currently indicates that its water is in compliance with the standards for TTHMs. AUF anticipates entering into the agreement with the County before the end of the year, obtaining permits for the project, and installing the interconnect in the first quarter of 2012. (TR 1642-1643) Staff believes AUF is adequately addressing the situation.

Jungle Den WWTP

At his November 16, 2011 deposition, AUF witness Luitweiler testified that he believed that a DEP inspection and November 5, 2010 noncompliance letter that listed several deficiencies at the Jungle Den WWTP, percolation ponds, and sprayfield, were conducted pursuant to an application for a permit renewal for Jungle Den. Witness Luitweiler indicated that AUF's consulting engineer prepared a full response, filed December 7, 2010, that addressed the DEP issues. He believes that the deficiency issue has been resolved with DEP. (EXH 198) In his direct testimony, staff witness Miller testified that DEP had no records indicating a response from AUF regarding various deficiencies addressed in the noncompliance letter. (TR 947; EXH 150) At the hearing, he updated his testimony by stating that the condition of the plant was addressed in the DEP permit renewal and the compliance schedule is part of the permit. (TR 958) Therefore, staff concludes that AUF is satisfactorily addressing the compliance issue.

Peace River WWTP

AUF witness Luitweiler testified that there is a reference in staff witness Greenwell's testimony that the Peace River WWTP is out of compliance for undefined maintenance issues. (TR 441) Witness Luitweiler stated that a warning letter has not been issued for this matter; however, it should be noted that a construction permit was issued for installation of a surge tank, digester tank, and other improvements at this facility on February 21, 2011, which AUF believes addresses the maintenance issues mentioned by witness Greenwell. Witness Luitweiler pointed out that construction drawings for the project are complete and AUF is reviewing a proposal from a contractor. (TR 439-440, 1641-1642) Staff notes that witness Greenwell did not specify the maintenance issues referred to in his testimony. Based on witness Luitweiler's response, staff concludes that AUF has adequately addressed the maintenance issue at this system.

South Seas WWTP

AUF witness Luitweiler testified that DEP issued a Short Form Consent Order (SFCO) for the South Seas WWTP for permitting and maintenance issues, and for having released wastewater without providing proper treatment. AUF completed all the requirements which included repairs to tanks and other various repairs and upgrades to the system under the permit conditions. DEP inspected the facility in September 2011 and issued a SFCO to close out all outstanding issues at this facility on October 11, 2011. (TR 1642; EXH 222)

Staff witness Eck testified that the South Seas WWTP had been under DEP enforcement for the past three years and that AUF had worked with DEP to resolve the case. AUF made repairs to tanks and other various repairs and upgrades to the system. (TR 1363)

Precautionary Boil Water Notices

AUF argued that it follows DEP guidelines on issuing PBWNs, and that not one of the DEP witnesses gave any indication that AUF's policies and practices for issuing these notices failed to comply with DEP guidelines. (TR 264-65, 1627-28) AUF also believed that the evidence showed that Pasco County's policies and practices with respect to PBWNs is virtually the same as those of AUF. (AUF BR 5; EXH 350)

AUF witness Luitweiler testified that AUF is committed to ensuring, and works hard to ensure, that its customers are properly notified. He testified that most boil water notices are precautionary advisories issued as a result of main breaks. If the main breaks or the resultant shut-down results in a loss of pressure to the system below 20 psi, Florida regulators require issuance of a PBWN to the affected customers because of a remote possibility that depressurization of the system could result in contamination. Witness Luitweiler explained that lifting the advisory usually requires collection of two sets of bacteria samples on two consecutive days once system pressure is restored. The laboratory test requires at least 24 hours to complete the process. Therefore, these advisories are normally in effect for three days, and sometimes longer if the laboratory is not open, for instance over a weekend or holiday. (TR 1626-1627)

Witness Luitweiler testified that the verbiage in the mandatory notice is dictated by the regulations and can give the impression that contamination of the water system has occurred. However, in almost every case, tests come back clear demonstrating that there never was any contamination of the system. The notices are required and are issued out of an abundance of caution to protect susceptible persons from a remote possibility of contamination. Witness Luitweiler acknowledged that immediate notification to all affected customers is not a realistic expectation; however, Florida regulators require notification within 24 hours of a triggering event. (TR 1627)

In discussing how the PBWNs are issued, witness Luitweiler testified that AUF, and most water systems in Florida, predominantly use hand delivery of notices to reach customers, particularly if the number of affected customers is fewer than a couple hundred. This process can take time and is labor intensive depending on the size and make-up of the system. However, the process is generally effective and meets the requirements of the regulations. Witness Luitweiler explained that AUF's notices generally also include the address for the AUF website and a phone number to allow customers to call for more information. Witness Luitweiler pointed out that AUF also posts information internally for its Customer Service Representatives (CSRs) in the call centers, enabling CSRs to provide information to customers who might experience a service outage, including when service is expected to be restored and whether a PBWN is or will be in effect. (TR 1627-1628)

For large scale outages or advisories affecting hundreds or thousands of customers, AUF posts a notice on the AUF web site. AUF also posts updates and notices when an advisory is

lifted. In discussing AUF's ability to utilize phone notification, witness Luitweiler testified that AUF has available a system for launching a phone campaign to customers for whom the Utility has phone number records. AUF utilizes this system in Pennsylvania, and occasionally in other states, including in Florida when circumstances warrant. The system can call thousands of numbers and deliver a short message in a matter of minutes. The message will direct customers to the AUF web site where more information and updates are posted. The message will also typically provide a phone number which customers can call for more information. However, neither this method, nor any other method, is a perfect method for notifying customers. It has been witness Luitweiler's experience that there is no fail-safe process to ensure that every customer receives timely notification of a triggering event. Wind and rain can cause hand delivered notices to be lost or damaged. Notices might not be seen by residents until they enter or exit their home by the door on which the notice is posted. Phone calls might not reach every resident, might not be answered, or might go to a voice message and/or answering machine and not be played back immediately. If a radio or television advisory is given, customers may not have radios or TVs tuned to the station carrying the notice at the time it is broadcasted. Further, witness Luitweiler pointed out that newspaper notices cannot be expected to provide timely notification. (TR 265-268, 1628-1629)

AUF issues PBWNs in advance of planned outages necessary to make system improvements. For example, witness Luitweiler testified that the clearwells at the Tomoka View and Twin Rivers water systems had to be taken out of service to install liners to address a directive from the Volusia County HD. AUF provided advance PBWNs and delivered bottled water to customers. With the implementation of the federal Ground Water Rule in Florida in 2010, witness Luitweiler indicated DEP has required additional testing of raw water (prior to disinfection) for bacteria, and has required PBWNs to be issued in circumstances where bacteria are found in the well, even if simultaneous sampling of the disinfected water at the point of entry or in the distribution system are clear of bacteria. This new rule has resulted in AUF issuing several PBWNs in the past two years. (TR 1629) Additionally, witness Luitweiler explained that a Tier 1 PBWN has long been required when a combination of routine and follow-up distribution system samples on consecutive days test positive for a combination of total and fecal coliform bacteria. Such an event is generally considered to be an indication of bacterial contamination of the distribution system warranting prompt and aggressive notification of customers to avoid or minimize exposure. Witness Luitweiler stated that AUF has never experienced a violation caused by this category of circumstances. (TR 1630)

Witness Luitweiler described AUF's response to incidents at Jasmine Lakes, Palm Terrace, and Chuluota. On April 16, 2010, AUF issued a PBWN at the Jasmine Lakes system when well test results were found positive for E. coli bacteria. In that situation, AUF notified customers using an outbound phone campaign with a recorded message, posted the notice on its web site, and provided a copy to the after-hours call service. In November 2010, valve replacements and installation of new valves prompted notifications at Palm Terrace in conformance with DEP regulations. Phone notification was also used during this event. In May 2011, a break on a 4-inch water main at Palm Terrace occurred and PBWNs were hand delivered. Another main break occurred on a 4-inch main in Palm Terrace in August 2011; in that case, AUF implemented an emergency telephone notification to 1,660 phone numbers. A June 2011 planned outage was implemented in the Chuluota system to accommodate a project by

Seminole County to replace and re-align storm water piping and replace sidewalks. Witness Luitweiler indicated that AUF prepared and distributed, by hand delivery, notices to potentially affected customers of anticipated localized water service interruptions necessitated by the main relocation work. (TR 1630-1634)

OPC witness Dismukes testified that the PBWNs were of particular concern for the customers and provided several examples of customer complaints about notices being untimely or non-existent. (TR 1055-1056) OPC witness Vandiver prepared a summary of staff witness testimony addressing PBWNs. (EXH 206) She reported that in that list, there are eight witnesses that addressed 183 instances where notices were provided. She noted that one witness, staff witness Rodriguez, did not identify how many instances, but referenced occasions since 2009 that DEP had been notified days after the interruption of service by the utility through the local health department who had received complaints from customers. Witness Vandiver pointed out that, except for staff witness Rodriguez, the other staff witnesses made statements that they have been notified timely and that AUF had timely notified the customers. However, witness Vandiver believed that these statements appear to be based on self-reporting by AUF. She noted that staff witness Carrico indicated that her office was properly notified of each of these PBWNs in a timely manner, the utility documents submitted to DEP indicate that PBWNs were issued to their customers, and witness Carrico had not been made aware of any incident when PBWNs were not issued. Witness Vandiver pointed out that none of the staff witnesses testified that they spoke with any customers who confirmed that the PBWNs were in fact distributed and received timely. (TR 1413-1414)

In its brief, Pasco County argued that AUF had failed repeatedly to properly and fully inform its customers of PBWNs in the Jasmine Lakes and Palm Terrace service areas. Pasco County believed that AUF provided no indication that it even investigated the complaints and asserted that AUF certainly made no attempts to improve its delivery of the PBWNs. Pasco County maintained that customers are not satisfied and AUF is doing little if anything to correct the situation. (Pasco County BR 7-8)

Pasco County witness Mariano testified that, as a County Commissioner, he received complaints about AUF PBWNs. During 2011, he received complaints from the Jasmine Lakes and Palm Terrace service areas where AUF failed to properly and fully inform its customers of the PBWNs. Witness Mariano assisted the residents in preparing a Boil Water Notices Survey and sending the completed surveys to Governor Rick Scott with a copy to the Commission. (EXH 141) Witness Mariano explained that approximately 340 customers completed the survey. He believed that the results of the survey indicate that AUF has been inconsistent in notifying customers about the need to boil water. Witness Mariano pointed out that according to the surveys, 137 customers stated that they never received any form of notice, 78 received notice via a letter size piece of paper, and 92 received a door hanger. Only 17 indicated they received a phone call from AUF. (TR 976-977)

Several staff witness, including witnesses Carrico, Greenwell, Harrison, and Penton, acknowledged that AUF has issued multiple PBWNs over the last three years. They testified that AUF issued the notices as required and further discussed how the PBWNs are handled. (TR 429-434, 440, 448-449, 458-459, 465-466, 1030, 1033, 1350; EXH 153) Witness Carrico testified

that water systems, including AUF, self-report when it comes to boiled water notices. (TR 421) Staff witness Dodson testified that AUF issued PBWNs as required, completed necessary corrective actions, conducted follow-up sampling, and rescinded the notices as required and in a timely manner. Witness Dodson noted that the Utility does not always have control over the chain of events that necessitate the issuance of PBWNs, and it is not uncommon to find a number of PBWNs issued for any facility. (TR 1367; EXH 156) Staff witness Rodriquez testified that the two AUF systems that she reviewed, Arredondo Estates and Arredondo Farms, have had PBWNs on various occasions since 2009. However, she is not completely sure if AUF has notified the customers in a timely manner in each occasion. Witness Rodriquez testified that sometimes DEP had been notified several days after the interruption of service by the Utility. Complaints about the interruption of service due to water main breaks or other problems (power failure, repairs) have been received by the local HD, and they have forwarded the complaints to DEP. Witness Rodriquez investigated some of the complaints and found that, lately, AUF has been responding better to PBWN issues and notification to the customers. (TR 1369) Staff witness Sloan testified that, in each instance, the notices were hand delivered to all affected water customers. (TR 965, 971-972; EXH 155)

Based on DEP witness testimony that AUF's policies and practices for issuing PBWNs complied with DEP guidelines, staff agrees with AUF's position that it follows DEP guidelines on issuing PBWNs. Although evidence was presented that AUF had been inconsistent in notifying customers, staff is persuaded by AUF witness Luitweiler who indicated that there is no fail-safe process to ensure that every customer receives timely notification. AUF did provide evidence that it has developed procedures to provide customer notification in multiple ways, and enables its call centers to provide information to customers who inquire about service outages. Therefore, staff believes that AUF's process of customer notification regarding PBWNs is satisfactory and no adjustment is recommended.

Conclusion of Quality of Product and Operating Condition

Staff agrees with AUF that the evidence in this record demonstrated that it is in compliance with the applicable regulatory standards for the majority of its water and wastewater systems. Many of AUF's water and wastewater systems were constructed 40 to 50 years ago, and, because of the aging infrastructure, there have been maintenance, repair, and environmental compliance challenges. With 58 water and 27 wastewater systems, compliance can be daunting. For the seven systems with current consent orders and warning letters, staff believes that the testimony indicated that AUF has demonstrated that it has taken adequate corrective actions toward resolving outstanding compliance issues.

Staff agrees with OPC's argument that it is necessary to follow the rules that are put in place to protect the customers. However, staff believes that OPC and the other Intervenor failed to show that AUF's compliance record is marginal or unsatisfactory. Staff is not persuaded by the Intervenor's arguments' that, based on their review, compliance problems exist and AUF is doing little to correct them. Staff believes that the Intervenor's testimony is offset by the staff-sponsored witnesses from the DEP, HD and WMD, who testified that it is not uncommon to find a number of deficiencies at any facility, and that AUF is comparable to other systems. Staff believes that the testimony of the DEP, HD and WMD witnesses supports a finding that the

overall operation and maintenance of AUF's systems were generally in compliance. Based on the evidence presented, while AUF has ongoing compliance issues, given the age considerations and the number of systems involved, staff believes that AUF has actively engaged in pursuing environmental compliance.

Staff does not take lightly the arguments of some of the Intervenors that the perception of many customers is that the water is not safe to drink. Staff agrees with the statement made by the AG that water safety should be of great concern to this Commission. In fact, it is largely for that reason that the Commission seeks the testimony of representatives from the DEP, HD and WMD, which are the agencies with primary jurisdiction over the quality of the product and operating conditions of the facilities. Staff is aware that the operating and compliance status of any utility's plants and facilities do not necessarily coincide with the customers' perception of whether the utility's product is of acceptable quality. However, staff believes the Commission should weigh heavily the evidence provided by the experts from the agencies with primary jurisdiction in determining the quality of the product and operating conditions of the facilities. In this case, the testimony of the witnesses from these agencies indicates that the overall operations and maintenance of AUF's water and wastewater systems were generally in compliance. Therefore, based on the record evidence, staff recommends that pursuant to Rule 25-30.433(1), F.A.C., the quality of the utility's product and the operating condition of the utility's plant and facilities are both satisfactory.

Attempt to Address Customer Satisfaction

Service Hearings, Complaints, and Correspondence

AUF, OPC, YES, Pasco County, and staff witness Hicks testified regarding customer testimony at service hearings, customer complaints, and correspondence received by the Commission.

Service Hearings

Ten customer service hearings were held around the state between August 29 and October 12, 2011. Approximately 371 customers attended these noticed hearings and 170 customers provided sworn testimony regarding AUF's quality of service. Local legislators and county officials also attended several of the service hearings and provided comments. The following table provides an overview of the number of customers who attended and spoke at each of the service hearings.

Table 1-3

Date	Location Of Service Hearing	Customers In Attendance	Customer Speakers
August 29, 2011	Greenacres	24	13
August 30, 2011	North Fort Myers	0	0
August 31, 2011	Sebring	24	11
September 1, 2011	Oviedo	14	9
September 12, 2011	Gainesville	45	40
September 13, 2011	Palatka	10	6
September 13, 2011	Eustis	85	22
September 16, 2011	Chipley	24	7
October 11, 2011	New Port Richey	85	36
October 12, 2011	Lakeland	60	26
	Total	371	170

Of the 466 specific concerns expressed by customers, approximately 19 percent related to water quality. These complaints included sediment, color, sludge, film, and pressure. Approximately 34 percent of the concerns related to billing. These complaints involved backbilling, meter reading accuracy, service disconnections, high rates, and affordability. Twenty percent of complaints related to outages, boil water noticing, impact on properties and communities, and customer service. The remaining 27 percent of complaints encompassed other issues, such as lifestyle changes and health problems.

AUF witness Chambers testified that the Utility thoroughly investigated each customer issue raised at the service hearings. She stated that while many customers discussed issues that had already been resolved, some customers' concerns were addressed on site at the appropriate service hearing and other customers' concerns were addressed subsequent to the service hearings. (TR 1738) Witness Chambers presented testimony regarding AUF's responses to customers' billing-related testimony. (TR 1739-1751) AUF witness Rendell also presented testimony providing responses to specific concerns, such as AUF's negotiations with the City of Lake Worth for a revised bulk water rate, customers' desire to receive service from Pasco County or the Florida Governmental Utility Authority (FGUA), customers' year-round payment of a monthly base facility charge (BFC), and the cost to ratepayers of AUF's acquisitions of other utility systems.

According to OPC's brief, customers continued to complain about AUF's poor water quality, plant maintenance, and customer service during the service hearings. As further discussed below, OPC witness Vandiver testified that the complaints from the 2010 customer meetings were similar in nature to those from the 2011 service hearings. (TR 1257) OPC witness Poucher testified that AUF has the highest complaint rate of any Commission-regulated utility in Florida. His analysis showed that complaints filed with the Commission against AUF represented 41 percent of the total water and wastewater complaints filed during 2010, and 44 percent of the complaints filed during the first 10 months of 2011. However, he admitted that he did not make any adjustments to make the comparison more comparable between different-sized

utilities, such as determining the percentage of complaints on a per 100 customer basis. Staff disagrees with witness Poucher's testimony that AUF has the highest complaint rate of any Commission-regulated company in Florida. Staff notes that Commission audit staff analyzed water and wastewater utility complaints in another case and determined that, when compared on a per 100 customer basis, AUF did not have the highest percentage of complaints for Commission-regulated water and wastewater utilities during 2010.¹⁶ (TR 757, 911-912, 724, 1425; EXH 313; OPC BR 6)

According to OPC witness Dismukes, concerns raised at the service hearings included AUF's slow response time in resolving problems and criticisms of CSRs' interactions with customers. She noted that customers also expressed complaints regarding untimely or inadequate information provided by the Utility, billing issues such as unfair billing practices and meter reading inconsistencies, and treatment by CSRs ranging from ineffective to apathetic or rude. (TR 1051, 1052) Witness Dismukes further explained that some of AUF's field service technicians seem indifferent to damages that they may cause, and one customer testified that an honest field technician feared losing his job if he was too outspoken with regard to the Utility's overcharging for services. (TR 1055)

OPC witness Poucher asserted that the service hearing complaints were a reiteration of prior testimony, customer letters, and complaints already filed with the Commission. He testified that although complaints regarding AUF's failure to consistently and timely read meters have subsided, new issues have risen with respect to automatic meter reading activities that have generated complaints about inaccurate, inconsistent, and nonexistent monthly billing, as well as high bills and backbilling. (TR 1442-1443)

Witness Poucher emphasized that the number of witnesses who testified at the service hearings represents only a fraction of the number of individuals who attended. He noted that many customers were excluded from attending and participating in the service hearings because many of AUF's systems serve seasonal customers who do not reside in Florida during the summer and early fall months. In addition, witness Poucher stated that many customers were excluded due to work, disability, or child or parental care responsibilities. (TR 1425) Witness Poucher emphasized that testifying witnesses presented evidence reflective of the entire customer base. (TR 1426) He concluded that the testimony reinforces record evidence that demonstrates AUF's business plan is producing an unacceptable quality of service for a product that is not drinkable at rates that are unaffordable. (TR 1442) He further concluded that although the Utility was notified that it needed to improve its service and was given more than a year to do so, the service hearings did not produce customer support for AUF as he expected they would. (TR 1443) Staff understands that a number of customers were excluded from participating in the service hearings due to factors such as residency and work and child care responsibilities. However, OPC failed to recognize that it would have been impossible for the Commission to schedule the service hearings for dates and times that were convenient for every party, interested person, and affected customer in the instant case.

¹⁶ See Order No. PSC-11-0541-SC-WS, issued November 22, 2011, in Docket No. 110254-WS, Initiation of show cause proceedings against Four Points Utility Corporation in Polk County for violation of Commission rules and regulations as outlined in the Florida Public Service Commission's management audit for Four Points Utility Corporation and Bimini Bay Utilities Corporation issued June 2011, p. 14.

According to Pasco County, of the 36 customers who testified, 25 complained of poor water quality. Senator Fasano testified that the water was undrinkable and substandard, and Representative Legg provided similar comments. (New Port Richey TR 25, 26, 33) The County asserted in its brief that many more customers complained of poor water quality in the 759 petitions signed by Jasmine Lakes and Palm Terrace customers. (EXH 26, BSP 860-1640; Pasco County BR 3)

Complaints and Correspondence

According to AUF's brief, since its last rate case, the Utility has formed a Complaint Analysis and Remediation Team (CART) and developed an electronic work queue (EWQ), purchased equipment to facilitate on-site meter tests in order to achieve efficiencies and enhance customer confidence in the process, and standardized its processes for its field service technicians to improve interactions between field technicians and the call center in order to enhance customer responsiveness and efficiency. (TR 288-289, 293, 303-304, 580; AUF BR 9) In addition, AUF has worked with YES representatives to effectively address unique issues affecting the Arredondo Farms mobile home park. (TR 1334-1336, 1843, 367-368; EXH 196)

According to AUF witness Chambers, undisputed evidence shows that the volume of complaints filed against the Utility has fallen dramatically since its last rate case. (TR 1718) Witness Chambers asserted that the reduction is significant given that customer complaint volumes typically increase during a contested rate case proceeding. She further alleged the reduction is also impressive given the well-orchestrated efforts by interested parties and other non-party special interest groups to encourage customers to complain in hopes that the sheer volume would persuade the Commission to deny AUF's request for rate relief. (TR 1718-1719; AUF BR 15) Finally, AUF asserted that the reduction in the volume of complaints is telling in light of the aggressive and inflammatory tactics employed by OPC witness Poucher, who encouraged customers to complain and characterized the instant rate case as a "war." (TR 791-792; AUF BR 16)

Witness Chambers emphasized AUF's strong commitment to customer service. She stated that the Utility is dedicated to anticipating and meeting the needs of its customers by effectively utilizing CSRs, field technicians, and technology to enhance its quality of service. AUF has listened to its customers' concerns and implemented several significant proactive measures to address customer satisfaction. (TR 287) She explained that AUF's commitment involves having a Customer Field Services Manager in Florida who manages all customer service functions, including service orders, billing issues, water quality issues, meter reading and customer interface. In addition, witness Chambers noted that the Utility has a dedicated call center for AUF-related calls and is committed to ensuring that CSRs are well-trained to respond to customers in an effective, prompt, and courteous manner. (TR 288)

As previously noted, witness Chambers stated that in an effort to improve AUF's customer service, AUF developed CART, which held its first meeting in September 2009. The CART meets monthly to address escalated calls (customer calls transferred to a Senior CSR or a Supervisor) and to identify trends and problem areas, as well as areas where additional training is needed. (TR 288-289, 305) Witness Chambers explained that the EWQ is a work order created

for an escalated call when a Senior CSR or Supervisor is not available. She acknowledged that an EWQ is closed after only one attempt to reach the customer, regardless of whether a Senior CSR or Supervisor is able to leave a voicemail message for the customer. (TR 307) The system tracks EWQs and generates reports that are reviewed weekly. (EXH 199, BSP 89) Witness Chambers denied any knowledge of instances in which CSRs refused to transfer a customer's call following the customer's request to speak with a Supervisor. (TR 306) Witness Chambers noted zero consumption as one of the problem areas identified by the CART, a billing-related issue which involves the Utility undercharging a customer due to factors beyond the Utility's control (such as meter equipment damaged by vandalism, a weather event, or third-party construction activities, or repeated move-ins/move-outs at a residence) or due to a malfunctioning electronic radio transmitter (ERT). She testified that the number of escalated calls has significantly decreased since the CART was formed. (TR 288-289, 1725; EXH 199, BSP 12-15, 62-63)

Witness Chambers calculated that the number of complaints against AUF filed with the Commission in 2010 was approximately 24 percent lower than the number filed in 2007. From 2009 to 2010, the number of complaints filed decreased by 19 percent. (TR 1718) Additionally, the Utility averaged 10 complaints per month for the period January-July 2011. In contrast, the Utility averaged 18 per month and 13 per month in 2009 and 2010, respectively. (TR 293) According to witness Chambers, despite the well-orchestrated effort by OPC, YES, Pasco County, and other non-party special interest groups to encourage customers to complain against AUF, the volume of complaints has decreased. Witness Chambers claimed that OPC witnesses Poucher and Vandiver provided incomplete and one-sided testimonies with regard to these complaints and that OPC's failure to acknowledge the significant drop in complaints underscores the bias of its analysis. (TR 1718-1719)

Witness Chambers and OPC witness Poucher disagreed with regard to the nature of customers' calls to AUF's call center. Witness Chambers deemed witness Poucher's assumption that all incoming calls are customer complaints erroneous when, in fact, records show that the vast majority of calls involve routine issues such as move-in and move-out requests, payment questions, and requests to verify account balances. In response to a Commissioner's question, witness Chambers testified that AUF may receive a greater number of complaints than other states in which AAI provides services due to greater water quality challenges in Florida. (TR 1782-1783)

In response to customer testimony from the service hearings that CSRs were rude, witness Chambers explained that she listened to all available calls during which customers alleged CSRs were rude. (TR 1779) Witness Chambers acknowledged that there was one call in which the CSR could have been more helpful, but she countered that none of the CSRs were rude. Two supervisors and one other manager also reviewed these calls, witness Chambers asserted. (TR 1761, 1767) She admitted that, while reviewing these calls, she perceived that CSRs reciprocated customers' frustrations to some degree. (TR 1783-1784)

In its brief, AUF characterized Food & Water Watch, a nonprofit organization that challenges the corporate control and abuse of consumers' water resources, as a lobbying group whose political agenda is to abolish privately-owned water utilities throughout the country.

According to AUF, Food & Water Watch is involved in a campaign called Florida Flow (For Local Ownership of Water) (also known as FlowFlorida) to request that state officials prevent any new acquisitions by AUF, reduce the Utility's rate of return, and help communities remunicipalize local water systems. (TR 877; EXH 323) AUF implied that the organization is one of the entities involved in the well-orchestrated effort to arouse customer complaints. AUF further argued that Pasco County witness Mariano's recommendation to reduce the Utility's return on equity (ROE) follows nearly verbatim the remunicipalization strategy set forth by Food & Water Watch. (TR 877, 879; EXH 323, 325; AUF BR 15-16) AUF stated in its brief that an OPC witness described the Utility to a Food & Water Watch representative as using its position to steal from customers. (TR 887; EXH 5, 321; AUF BR 16)

Referencing AUF witness Chambers' acknowledgement that an EWQ is closed after only one attempt to return a customer's call, OPC argued in its brief that the Utility's failure to make more than one attempt to contact a customer confirms customer testimony regarding difficulties in resolving problems. OPC further argued that customers have complained that when they are able to reach a CSR, CSRs are rude. (TR 307, 1052, 1053; EXH 199, 330) With regard to witness Chambers' testimony that during at least one call that she reviewed, the CSR could have been more helpful, OPC argued that she made a generic sampling of some of the customers who testified. (TR 1761; OPC BR 8)

OPC witness Dismukes testified that customer service includes communication with customers, the speed and courtesy of responding to customer questions, and customers' satisfaction with the resolution of their concerns or problems. (TR 1047) OPC witness Poucher concluded, however, that while utilities sometimes make customers happy and sometimes do not, customers generally live with the results. (TR 726) Witness Dismukes also recognized that AUF has implemented several customer service improvement measures, which include the formation of a CART, implementation of EWQs to handle escalated calls, development of a detailed Supervisor Audit, auditing of all of its replaced meters, standardization of its service order processing system for field technicians, refinement of on-site meter and bench test procedures, and provision of an informational brochure for seasonal customers. (TR 1049)

OPC witness Vandiver argued that AUF's quality of customer service is uniformly unsatisfactory and that customers are often unable to talk with someone who is responsive to their concerns. (TR 635) Further, OPC witness Poucher testified that many AUF customers feel that their complaints over the past years have fallen on deaf ears. He stated that he would not be surprised by reduced attendance at customer hearings and fewer complaints and correspondence filed with the Commission because customers are tired of complaining without seeing results. (TR 739) Staff believes that witness Poucher's assertion that customers' complaints have fallen on deaf ears directly contradicts OPC witness Dismukes' recognition of the many service improvement measures implemented by AUF. As such, staff disagrees with witness Poucher's statement and believes that the Utility has, in fact, listened to and taken action with respect to customers' concerns. Furthermore, staff disagrees with witness Poucher's correlation between the level of customer participation and AUF's response to complaints. Several reasons for decreased customer participation could be given, including a customer's choice not to participate or inability to participate due to reasons provided in witness Poucher's testimony regarding customers' exclusion from the service hearings in the instant case. (TR 1425)

Witness Poucher admitted that some of the statistics provided in AUF's Phase II Monitoring reports indicate improvement. He argued that prior to 2010, the Utility had a tremendous problem with inaccurate or nonexistent meter reading and estimated bills, and there was little evidence to suggest that the Utility even cared. He acknowledged, however, that the Utility's current use of digital meters caused complaints of estimated bills to decline significantly. He also acknowledged that the Utility's reports indicate improvement in call center performance, although he cautioned that these reports can be deceiving since AUF did not consider certain types of data. (TR 750-751) Witness Poucher concluded that the best way to find out if customers are satisfied is to ask them if they are. (TR 752)

Witness Vandiver presented her analysis of billing and service complaints filed with the Commission during the period 2007-2010. (TR 639) This analysis, which confirmed AUF witness Chambers' testimony, revealed that the total number of complaints decreased by 24 percent during the period 2007-2010. (EXH 82) Witness Vandiver claimed that despite the fact that AUF was notified by the Commission's 080121-WS Final Order that the Utility would be under even more scrutiny, her analysis of customer complaints reflects an increase of 6 percent in 2009. She acknowledged that the number of complaints decreased by 19 percent in 2010. However, she argued that since AUF knew it would be filing a rate case and would be under increased scrutiny by the Commission, the Utility should have put extra effort into the services it provides to its customers. (TR 639) Staff disagrees with witness Vandiver's criticism of the effort that AUF committed to its customer service in that it is inaccurate and vague. Staff believes that the Utility's improvements to many facets of its customer service are supported by substantial record testimony and evidence. In addition, witness Vandiver acknowledged a 24 percent decrease in complaints during the period 2007-2010; and OPC witness Dismukes acknowledged AUF's service improvement measures, as previously discussed. Moreover, while OPC characterized AUF's service improvements as inadequate, it failed to provide constructive input regarding those improvements and how they should be changed or enhanced in order to meet OPC's benchmark for satisfactory service.

While staff acknowledges AAI's efforts to improve its customer service procedures, staff believes AAI could further improve its escalated call process by modifying its procedures to require more than one attempt to contact a customer before closing the EWQ. This would be particularly helpful in cases where the AAI Supervisor is unable to leave a message on the first call because the customer is not home and does not have an answering machine. Staff notes that AUF's Florida Delinquency Process includes two attempts to make a reminder telephone call to customers before disconnection. (EXH 302) Staff encourages AAI to consider a similar modification to its escalated call procedures to include a minimum of two or three attempts to call a customer before closing the EWQ.

OPC witness Poucher testified that he reviewed the 210 customer complaints filed with the Commission during the period January 1, 2010, through July 28, 2011, to determine any error or fault on AUF's part. (TR 724-725; EXH 92-99) He asserted that seldom does any complaint in the Commission's files reflect a rule violation because the Commission has so few rules regarding customer service, especially for water and wastewater companies. Thus, his analysis did not take into consideration whether the Commission determined that a rule violation occurred. (TR 725) Witness Poucher acknowledged, however, that his analysis of each

complaint did not include discussion of the complaint with the respective customer or Commission staff involved or with the Utility. (TR 891) Staff is persuaded by AUF witness Chambers' characterization of the analysis of complaints by OPC witness Poucher as incomplete and biased. By failing to discuss each of the 210 complaints with the customer, Commission staff involved, and the Utility, witness Poucher's analysis could not have reflected all perspectives of the circumstances involved. Furthermore, he could not have come to a reliable determination of whether AUF was at fault or made any errors in any of the complaints.

Witness Poucher alleged that the Commission's complaint files represent the tip of the iceberg for AUF since the majority of complaints are held in the Utility's own records, which are difficult, if not impossible, to recover. (TR 726) Regarding the nature of customers' calls to AUF's call center, he also suggested that the real indicator of the volume of complaints against the Utility is the number of calls received at the Utility's call center. (TR 891) He testified that Florida customers' calls have averaged more than 5,000 per month, while the Commission's complaint files indicate 210 complaints received during the period January 1, 2010, through July 28, 2011; and Florida customers' calls currently average more than 60,000 each year, or approximately 3 calls per customer per year. Given his characterization of the complaints in the Commission's files, witness Poucher indicated that he accepts these complaints as representative of the thousands of complaints received by the Utility each year. (TR 727) However, he recognized that a majority of the call center's incoming calls are not complaints, as determined by the Commission. (TR 891-892) In addition, he acknowledged that the Commission's files are valuable because its database is manageable and contains fairly reliable data, whereas he would be unable to analyze the complaints in AUF's records due to their volume. He deemed the Commission's files an excellent source to target corrective action where it will do the most good. (TR 727)

In response to AUF witness Chambers' testimony regarding a well-orchestrated effort by interested parties and other non-party special interest groups to encourage customers to complain against AUF, witness Poucher challenged that his review of complaints revealed absolutely no evidence that customers filed false complaints. He asserted that during AUF's and OPC's meetings with customer representatives during the Phase II Monitoring Program, both the Utility and OPC encouraged customers to file water quality complaints so that AUF could address those issues. He further stated that OPC encourages customers to participate and provide their input in a rate case proceeding, regardless of whether customers support or oppose the Utility's petition. He concluded that AUF's poor service and high rates for an inferior product have persuaded customers to organize in order to seek relief, and he suggested that FlowFlorida was developed as a result of those very issues. (TR 728, 746)

OPC witness Poucher denied involvement with Food & Water Watch. (TR 877) He further denied any knowledge that Pasco County witness Mariano was following FlowFlorida's strategy by stating that if AUF's ROE was reduced, its rates would be dramatically affected and the Utility would quickly "come to the table" with regard to remunicipalization of its local systems. (TR 879-880)

Witness Poucher further testified regarding some Pasco County customers' desire for the Utility to sell its local systems to FGUA or to Pasco County in order to receive the County's

rates. He admitted that he had not researched whether these customers would, in fact, be charged the County's rates if these systems were acquired by FGUA. Specifically, witness Poucher stated that that is not part of OPC's job since FGUA is not regulated by the Commission and that he is not responsible for managing customers' expectations as it relates to a potential acquisition of AUF's local systems by FGUA. (TR 859-861) Witness Poucher further stated that he did not speak to any Pasco County customers regarding such an acquisition by any entity. (TR 866)

Pasco County argued in its brief that AUF's response to customer complaints is to tell customers there are no problems. Despite 25 comments regarding poor water quality at the New Port Richey service hearing and many more quality complaints in written petitions, AUF responded with one paragraph of testimony stating that no odor or water quality issues were found. (TR 1655; EXH 26, BSP 860-1640; Pasco County BR 6) Further, Pasco County alleged that over the past few years, the County has received numerous complaints from AUF customers regarding poor service, poor water quality, and exorbitant rates. The County intervened in this action in an attempt to obtain some relief for the many frustrated customers. In response to AUF's implication that there would not have been so many customers complaining but for the actions of the County and other Intervenor, Pasco County stated that it did encourage customers to express their complaints, and the Utility's President also encouraged customers to speak at the New Port Richey service hearing and likely at all of the service hearings. (New Port Richey TR 13) Further, Pasco County asserted that with so many customers hurting from the high rates and poor water quality, they did not need any encouragement to voice their concerns. (Pasco County BR 8)

With regard to several utilities in Pasco County that were acquired by FGUA, witness Mariano acknowledged that customers of these utilities were not charged Pasco County's rates following the acquisitions. He clarified that customers' new rates are based upon the acquisition price of the utility. (TR 991-992) He further acknowledged that an FGUA customer with a quality of service issue must address that issue with FGUA or the Pasco County Commission; and that the FGUA board consists of no elected officials, although a representative of the Board of County Commissioners sits on that board. (TR 993-994) Witness Mariano asserted that since FGUA's acquisitions of each of those utilities, the Pasco County Commission has not received a single quality of service complaint. (TR 996)

In its brief, the AG explained that customers testified that they had made great sacrifices to conserve water, including not bathing daily, not participating in activities that would require them to bathe, not flushing toilets after each use, saving water from showers to flush toilets, and not having guests because they could not afford additional water usage. Customers also testified about frequent replacement of water heaters, faucets, and appliances due to poor water quality. (AG BR 3) With regard to customer service, the AG adopted OPC's statement and added that the use of an independent verifier, which AUF conceded it does not currently employ, would assist the Utility in identifying areas of concern and improving customer service, resulting in decreased costs and satisfied customers who feel their complaints are taken seriously. (AG BR 4) The AG concluded that the poor water quality has impacted the customers, small business owners, and communities served by AUF. As a result of the poor water quality and the high rates, some customers have vacated their rental properties while others have been unable to sell their homes and move because potential buyers do not want to own homes in areas served by

AUF. (AG BR 3) With respect to the AG's encouragement of AUF's use of an independent verifier to review customer calls, staff points out AUF witness Chambers' testimony that she has found Commission staff to be helpful, knowledgeable, and a good resource. She concluded that if AUF needed to find an objective, unbiased third party, Commission staff would be a good choice. (TR 1777) In addition, regarding the AG's argument that AUF's service has prevented residents from selling their homes, staff believes that the AG has failed to consider the role of Florida's statewide decline in property values and high level of home foreclosures, as demonstrated by the Florida Legislature Office of Economic and Demographic Research. (TR 1814)

In response to AUF witness Chambers' statement regarding a well-orchestrated effort by interested parties and other non-party special interest groups to encourage customers to complain against AUF, the AG asked witness Chambers whether OPC asked service hearing witnesses to testify to their experiences with AUF, even if those experiences were positive. Witness Chambers conceded that that was true and acknowledged that OPC's statement did not sound like an encouragement to complain. (TR 1763)

In her testimony, staff witness Hicks noted that CATS was reviewed for complaints filed against AUF under Rule 25-22.032, F.A.C. (TR 1371) Approximately 400 complaints were received from January 1, 2009, through September 30, 2011. An analysis of these complaints revealed 71 percent concerned billing issues, and the remaining 29 percent dealt with quality of service issues. (TR 1371) Of the 400 complaints, 46 or 11 percent were determined to be apparent violations of Commission rules. (TR 1371) AUF received 21 apparent rule violations in 2009, 18 apparent rule violations in 2010, and as of September 31, 2011, AUF has received 7 apparent rule violations. (TR 1372)

As of December 7, 2011, the Commission has received approximately 558 letters and e-mails in this docket in which customers expressed opposition to the rate increase and frustration regarding the lifestyle changes that increased rates would further necessitate. Customers described their overall dissatisfaction with the level of service they receive and the quality of the water; they also asked specific questions about the Commission's rate case process as it relates to the instant case. (EXH 106) Comments were also submitted by several local and state government officials expressing opposition to the Utility's application for a rate increase, including letters from state Legislators, Pasco County Commissioners, and Polk County Commissioners. In addition, more than 900 signatures on petitions were filed with the Commission on April 26 and May 5, 2011, by 2 Legislators who represent customers in Pasco County. The Polk County Commission filed with the Commission its Resolution No. 10-174 stating its objection to the instant rate case proceeding.

Billing

AUF, OPC, and YES witnesses provided testimony regarding customers' billing issues, including concerns regarding backbilling, high bills, online payment options, leak adjustments, and shut-off due to nonpayment of bills.

In its brief, AUF noted that it continues to take steps to address billing and payment issues raised by customers in the last rate case, and in customer meetings and service hearings in the instant case. (TR 290-291; AUF BR 9-10) As noted in AUF's brief, to better educate seasonal customers of various programs available, the Utility sends an informational brochure to customers encouraging them to contact the call center when they leave the state so that their account is properly noted as seasonal. (TR 289, 304; AUF BR 10) AUF discussed the Utility's practice of offering seasonal customers the option to postpone payment of base facility charges while the customer is residing outside of Florida. (TR 336-337)

With respect to the length of time covered by a customer's backbill, AUF witness Chambers claimed that there have been rare occasions in which AUF has, through human error, billed a customer for a longer period of time than 12 months. (EXH 199, BSP 68) Witness Chambers then stated that AUF put in a new process to ensure that AUF does not backbill any customers for longer than 365 days. The new process, which went into service in November 2011, is an automated coding system that will now alert a CSR to review the account in order to ensure that a bill exceeding 365 days is not presented to a customer. (TR 316-317) Zero consumption reads also make up a portion of the backbilling issue. To address this issue, AUF has created a monthly zero consumption report, which reports accounts with zero consumption for more than 6 months. (TR 320) Regarding the calculation of backbills, witness Chambers stated that backbills are calculated using a daily average methodology. (TR 1778)

In an attempt to mitigate high bills, AUF has implemented a process in which an alert message is placed on a customer's bill if it is a high bill or the bill covers a period longer than 35 days. The high bill alert prompts the customer to investigate for potential leaks and visit AUF's website for more detailed information. The long period bill alert advises the customer that they can request a payment arrangement upon contacting the call center. (TR 292, 304; AUF BR 11)

With regard to leak and pool adjustments provided to customers, AUF witness Chambers testified that the Utility developed a water conservation and leak detection informational section on their website. (TR 289)

According to AUF witness Chambers, in order to address customers' requests for online payment options, the Utility has developed a new program, Aqua Online that allows customers to view bills online for free and provides an option to pay bills online as well. (TR 291, 309-310) The payment option is provided by a third-party vendor, SpeedPay, which collects a convenience fee of \$3.20 for each payment a customer makes online. (TR 310-311) AUF's Aqua Online bill insert informs customers of the paperless billing options, the availability of the program at no cost to the customers, and the immediate access to current and past bills, all of which allow ease of payment. (EXH 302)

For a utility to shut-off service for non-payment, Rule 25-30.320, F.A.C., requires that the utility provide five working days' written notice, separate and apart from a bill for service. AUF witness Chambers provided the Utility's Florida Delinquency Process Summary (FDPS). (EXH 302) Under AUF's FDPS policy, a customer is provided at least 10 days' advance written notice indicating that service will be discontinued if payment is not received. (TR 291) Witness Chambers explained that AUF also attempts to call a customer prior to discontinuing service,

which is not required by Commission rules. (TR 292) In addition to attempting to contact a customer by telephone, the Utility's policy is to proceed with service termination only when the customer's outstanding balance exceeds \$100. (TR 292, 372) Where service is terminated for failure to pay, AUF attempts to reinstate service within the next business day following the date of payment confirmation. (TR 291-292, 372)

With regard to AUF's billing practices related to seasonal customers, OPC noted in its brief that although AUF provides a long period bill message on the first bill received to allow a customer to pay over a longer period of time, this practice contributes to backbilling and high bill problems complained of by customers. (OPC BR 7)

OPC witness Poucher testified that the most frequent complaints against AUF relate to billing issues. He asserted that the volume of backbilling complaints today should not be so large as a result of AUF's installation of new meters that reduced occurrences of estimated reads and largely eliminated human error from the meter reading process. He stated that complaints have persisted due to AUF's improper handling of complaints and ineffective procedures. (TR 731) In addition, AUF witness Chambers and OPC witness Poucher disagreed with respect to the length of time a customer is backbilled. OPC witness Poucher countered that according to the Commission's complaint records, 16 customers were backbilled for greater than 365 days. (TR 734-735) YES witness Kurz also provided testimony related to specific customer complaints about backbilling. (TR 1299-1300)

OPC witness Poucher stated that 31 percent of complaints filed with the Commission against AUF deal with unusually high bills. (TR 729) He stated that many of these cases can be tracked down to billing errors and meter read errors, while other billing errors can be traced to leaks at the customer's premises. (TR 729) Witness Poucher stated that the Utility does not appear to have any plan or procedure to deal with the high bill issue other than to suggest that the customer check for leaks and make sure that the flapper in the toilet is operational or to conduct an expensive meter check at the customer's premises. (TR 730)

With respect to AUF's leak and pool adjustments, OPC witness Poucher conceded that where it can be determined that there was a leak at the customer's premises and the customer pays to fix the leak, the company provides a leak adjustment to the bill. (TR 729)

Aesthetics

AUF witness Luitweiler testified that a downward trend in the number of water quality complaints from customers in the systems addressed by the Utility's 2008 Original Aesthetic Program shows that customers are seeing the benefits of the improvements being made. Further, he explained that AUF is developing the next tier of systems for the second phase of its aesthetic improvement project, which will include the Arredondo Farms water system, among others. Witness Luitweiler concluded that AUF's efforts to improve aesthetic water quality clearly demonstrate its commitment to customer service and to addressing customer satisfaction. (TR 216-217)

Arredondo Farms is a mobile home community located in Gainesville that receives water and wastewater services from AUF. As the owner and operator of Arredondo Farms, YES provides affordable rental housing to its residents and is also an AUF customer. In its brief, AUF characterized the community as one in which the resident population has been largely transient for years, which results in a large number of move-ins and move-outs and, in turn, creates a greater number of service orders and presents billing challenges. AUF further confirmed in its brief that the system has been included in the second phase of the Utility's aesthetic improvement project. (AUF BR 7-9)

AUF witness Luitweiler testified that the U.S. Environmental Protection Agency (EPA) National Secondary Drinking Water Regulations set non-mandatory Secondary Maximum Contaminant Levels (SMCLs) for constituents based on aesthetic considerations, such as taste, color, and odor. EPA and DEP do not enforce these SMCLs. Such constituents are not considered to present a risk to human health at or below the SMCL. He acknowledged that the raw water source for some of AUF's water systems contains naturally occurring constituents, such as iron and sulfides, which at times can cause undesirable color, taste, and odor. Some of these raw water sources also contain calcium and other minerals, which can lead to hard water. He asserted that these constituents can often be difficult and expensive to remove. (TR 214-215; EXH 56)

Witness Luitweiler referenced AUF's Original Aesthetic Program developed to address customer comments related to aesthetic water quality provided during the 2008 rate case. As a result of this program, AUF identified seven water systems where customers had expressed the most concern regarding aesthetic water quality issues, including Lake Josephine, Leisure Lakes, Sebring Lakes, Rosalie Oaks, Tangerine, Tomoka View, and Zephyr Shores. The scope and results of this aesthetic water quality improvement initiative are set forth in detail in AUF's Final Phase II Quality of Service Monitoring Report dated February 28, 2011 (Final Report). (TR 215; EXH 56) Witness Luitweiler testified that aesthetic water quality improvements have been completed at the Rosalie Oaks (flushing hydrants and blowoffs), Zephyr Shores (flushing hydrants, blowoffs, and installation of sequestration treatment), Tangerine (pipe replacement and looping, and installation of sequestration treatment) and Tomoka View (chloramination) systems. Work on permitting and installation of AdEdge treatment to remove hydrogen sulfide is currently ongoing at Leisure Lakes, Lake Josephine, and Sebring Lakes. Additionally, Lake Josephine and Sebring Lakes were interconnected in 2010 to improve supply, pressure, and flushing. Improved distribution system monitoring and flushing were also implemented. (TR 215-216, 1637-1639) Witness Luitweiler stated that by tracking AUF's water quality complaints, he saw convincing evidence that the water quality has improved. Where AUF has made treatment and flushing protocol changes, substantial and demonstrable improvements in water quality have been achieved. (TR 273)

According to witness Luitweiler, AUF intends to continue to address aesthetic water quality issues beyond the seven systems discussed above. In selecting the systems to be included in the first phase of aesthetic water quality improvements, priority was given to systems with SMCL exceedences for taste and odor (due mainly to hydrogen sulfide, iron, and manganese). Priority was also given to systems that could have issues with primary drinking water standards. While work on some of the projects in the first phase continues, witness Luitweiler announced

that AUF is developing the next tier of systems to be included in the second phase of the aesthetic improvement project. The Arredondo Farms, Hermit's Cove, River Grove, and Arredondo Estates water systems have been selected for this second phase. (TR 216-217)

Witness Luitweiler pointed out that Arredondo Farms had no SMCL exceedences and no issues related to primary standards. Thus, it was placed in the second tier of systems to be considered for aesthetic improvements. The witness contended that the quality of AUF's product at the Arredondo Farms water system is good, as is the operational condition of that system. Furthermore, witness Luitweiler stated that AUF has made, and continues to make, concerted attempts to address customer satisfaction at the Arredondo Farms system. (TR 217) Witness Luitweiler admitted that Arredondo Farms' water is hard, but not exceptionally hard for Florida. He argued that the Commission has consistently recognized that it is not unusual for Florida water utilities to experience water hardness issues, and the Commission has not taken punitive actions against utilities that do. The witness noted that in the 1996 rate case involving Arredondo Farms (which was then owned by Arredondo Utility Corporation), the Commission found, in Order No. PSC-96-0728-FOF-WS,¹⁷ that while the water at the system was hard, it did not present a health hazard. The Commission went on to conclude that the treated water provided by Arredondo Utility met or exceeded all requirements for safe drinking water and that the utility had satisfactory water quality. The Commission also warned in that Order that a system-level solution to the hard water issue at Arredondo Farms would not be cost-effective or prudent, and that the cost to make such improvements would be passed on to the customers through their rates. The Commission noted at that time that customers who found the scaling problem to be intolerable had other options. They could either have a local water softening company install a water softening unit at a variable price, or they could purchase a whole house filter. AUF maintained that there is no evidentiary basis for the Commission to reverse its previous decision and conclude otherwise in the instant case. (TR 217-219, 1684-1699; EXH 346-349; AUF BR 6)

In consideration of system-level alternatives to address the hardness at Arredondo Farms, witness Luitweiler indicated that options under consideration currently include softening processes other than lime softening, which is still very expensive, adding a sequestering agent tailored to address the effects of calcium and magnesium, or purchasing water from Gainesville Regional Utilities. He stated that AUF's ultimate goal is to find a balanced solution that will maximize benefits to customers and minimize upward pressure on rates. (TR 219-220, 257-262, 271-273, 1640) AUF does not currently have a budget for a specific project because, as witness Luitweiler pointed out, it is premature to determine exactly what actions AUF is going to take. Witness Luitweiler acknowledged that the costs to address the hardness issues and other secondary issues may be recovered through a future rate case. (TR 255-256)

With regard to Arredondo Farms, AUF suggested that record evidence indicates that the community has experienced a high turnover rate of residents well before YES' January 2008 acquisition of the community. (TR 1278) AUF witness Chambers testified that due to the high volume of turnover, the Utility finds it difficult to determine the true customer of record, which

¹⁷ Issued May 30, 1996, in Docket No. 951234-WS, In re: Application of Arredondo Utility Corporation, Inc., for a staff-assisted rate case in Alachua County, p. 3.

then leads to the issuance of long bills. (TR 367-368) Further, evidence related to an AUF study of move-out data for Arredondo Farms from October 2008 through September 2011 was introduced, and AUF witness Rendell affirmed that the study indicated that the number of move-outs in the community were higher in each of the two months preceding AUF's implementation of PAA rates than in each of the two months following the same. Specifically, there were 23 move-outs in June 2011 and 22 move-outs in July 2011. The PAA rates were implemented in August 2011. There were 16 move-outs in August 2011 and 18 move-outs in September 2011. (TR 1845-1846; EXH 353)

Further, AUF witness Rendell and YES witnesses Harpin and Kurz disagreed with respect to the impact of the Utility's quality of service on the real estate value of property in the community. Witness Rendell testified that a presentation made by the Florida Legislature Office of Economic and Demographic Research in October 2011 shows that the entire state of Florida is currently experiencing a decline in property value and a very high level of home foreclosures. He asserted that the presentation clearly shows that the decline in the housing market is a statewide phenomenon which has nothing to do with AUF's rates. The presentation actually shows that the counties in Florida with the highest number of loans in foreclosure occur in Dade, Osceola and St. Lucie Counties where AUF does not own or operate any water or wastewater systems. Witness Rendell asserted that there is no causal relationship between the real estate crash and AUF's rates. (TR 1813-1814, 1840; EXH 226)

In response to a Commissioner's question, AUF witness Rendell testified that Arredondo Farms' customers reap a tremendous benefit by being AUF customers rather than customers of a small local utility. He suggested that there's a proliferation of hundreds of small systems throughout the State of Florida. In an effort to contain this proliferation of small systems, witness Rendell explained, the Commission considered consolidation of small systems. Consolidation allows for synergies between a utility and companies that provide products and services, which then allows the utility to provide service at a reduced cost, sharing of personnel, and a greater number of customers over which to spread costs. Witness Rendell suggested that AUF is better equipped than a small utility to attract qualified personnel and to obtain financing in order to address compliance concerns. Thus, he conducted that AUF customers do not experience as significant an impact as customers of a small utility when AUF receives a rate increase. (TR 569-571)

OPC witness Dismukes cited the testimony of numerous customers who expressed their complaints about water quality and objections to any rate increase. (TR 1048) She stated that customers complained about their inability to consume the water, health concerns, and the additional expenses incurred unjustly due to purchases of bottled water and water filters. (TR 1060, 1062) Further, witness Dismukes testified that customers have found their use of the Utility's water to be inconvenient and embarrassing. (TR 1064) OPC witness Vandiver also emphasized that customers find it objectionable to use the water for cleaning and bathing. In some systems, she further alleged, customers have found the odors emanating from the wastewater plant and inadequate disposal of wastewater to be objectionable. (TR 635)

YES witness Kurz referenced complaints from Arredondo Farms residents related to, among other issues, the quality of the water. Several residents claimed that the water often

smells like bleach; they do not consume the water due to its foul taste; the water is hard and requires special cleaning agents to remove stains from surfaces; they purchase bottled water for consumption; they use water filtration systems; they boil water prior to use; the water has made their children ill; buildup of sand and calcium in water lines has caused low pressure and necessitated cleaning and replacement of lines, water heaters, and other appliances; and the lack of fluoride in the water has caused dental issues. (TR 1303, 1305-1308, 1311, 1323) Residents purchase water for many household uses, such as food and beverage preparation, pet care and consumption, personal hygiene, and general consumption. (TR 1305-1306, 1063-1065, 1687; Gainesville TR 33, 85, 96, 98, 112, 116-117, 130, 147, 171, 177, 181-182) Witness Kurz contended that residents do not feel they are receiving a quality product, given AUF's rates and the expenses they bear in purchasing bottled water and resolving maintenance issues. (TR 1323) Additionally, she referenced complaints of high bills at vacant homes, high bills due to backbilling, and poor customer service from AUF's call center. (TR 1299)

YES witness Starling testified with respect to several issues encountered by Arredondo Farms and its residents, including a main break that flooded a community playground, the removal or demolition of mobile homes by homeowners due to their inability to continue residing there or their inability sell their homes, sediment accumulation in water heaters and damaged heater elements, sediment accumulation in water lines that result in little to no pressure, and sewer backup incidents. She provided photographs to emphasize the impact of these issues on the community. (Gainesville TR 132-135, 143; EXH 14) She further confirmed that she has encountered obstacles in her attempts to assist residents with their AUF-related issues, such as difficulty in establishing payment plans, rude CSRs, and AUF's lack of a streamlined customer service process that causes calls to be transferred among departments in order to achieve a resolution. (Gainesville TR 136-137) Similarly, witness Kurz described that when she worked on a customer's issue, she contacted the Utility's call center, spoke with members of AUF's management team on several occasions, and was repeatedly redirected back to the call center. (TR 1330-1331) Witness Kurz also provided similar testimony with respect to hardness and sediment buildup, emphasizing that the costs of plumbing maintenance are borne by residents and YES. (TR 1323; EXH 135)

Witness Kurz also testified that when YES representatives have contacted AUF's call center, CSRs have behaved very unprofessionally and have offered no resolutions. (TR 1300) She referenced instances of interactions with CSRs and characterized being intentionally put on hold without returning to the line as "very rude." (TR 1331) Witness Kurz concluded that "the customer service provided by AUF is rude and condescending." (TR 1323) However, she also suggested that CSRs who are not properly equipped to address issues specific to particular service areas may experience a high volume of calls from customers in those areas and, in turn, may experience frustration. In combination with customers' frustration that CSRs cannot address water quality issues to the customers' satisfaction, this creates a tense environment in which customers' grievances continue to remain unresolved. (TR 1332-1333)

YES witness Kurz alleged that, despite the countless hours that YES staff spent attempting to resolve customers' issues and obtain responses from members of AUF's management team, it was not until YES intervened in the instant case that AUF demonstrated that it was concerned about these issues. (TR 1326) In addition, she asserted that when members

of AUF's management team were responsive, their solutions were passive rather than cooperative, and they did not seem to desire to identify the root causes of the billing issues. (TR 1337-1338) Witness Kurz argued that YES' earnest attempts to obtain AUF's attention were futile until YES representatives testified at the Gainesville service hearing. Their testimony resulted in communication from the Utility in order to begin working on the relevant issues, and discussions of creating a YES/AUF joint task force began. (TR 1331)

According to witness Kurz, a YES/AUF joint task force was formed some time after the Gainesville service hearing. She noted that members of the task force include AUF's President, Rick Fox; AUF and AAI employees Troy Rendell and Susan Chambers; AUF's Counsel, Kimberly Joyce; and YES employees Shawn Harpin, Jeremy Gray, Mallory Starling, and herself. AUF witnesses Chambers and Rendell confirmed that the Utility has been actively participating in the task force. (TR 360, 1843) Witness Kurz testified that approximately three meetings have been held with the primary goal to reduce billing errors. (TR 362, 1335) One of the task force's achievements has been improvement in billing errors related to the new customer process. Witness Kurz stated that YES has implemented an AUF-generated application for utility service, which has given the Utility greater confidence in accurate establishment of customer accounts. (TR 1335-1336)

Witness Kurz acknowledged that progress has been made through the YES/AUF joint task force. (TR 1326) She also recognized some cooperation issues, citing some departure from the procedures agreed upon by all members. A continued focus on the issues at hand was needed, she suggested. Witness Kurz also mentioned that the participants in the task force include upper level CSRs, some of which "have not been completely helpful with Mallory Starling," who assists residents with their AUF-related issues on a daily basis. (TR 1338-1339)

YES witness Harpin asserted that AUF's quality of service and rates have led to a massive number of vacancies in this rental community and encumbered the affordable housing market in Arredondo Farms; and they have negatively impacted YES' business by causing YES to incur increased marketing expenses and lost revenues after residents vacate their homes. (TR 1269-1271; EXH 139) Witness Harpin asserted that the real estate value of property in the community is negatively impacted by AUF's quality of service and the perception of poor water quality. (TR 1275-1276) Additionally, witness Harpin noted that YES has incurred increased payroll and maintenance expenses for the sole purpose of managing the water issues in Arredondo Farms. (TR 1271)

YES witness Gray also asserted that AUF's rates have severely impacted Arredondo Farms. He further noted that the Utility's 93 percent rate increase in 2009 has resulted in customer bills of approximately \$125 per month, which represents nearly 50 percent of YES' monthly lot rental fee. According to witness Gray, the Utility's rates have forced residents to leave their homes, with 52 percent of move-outs citing their water bills as the reason for moving. With an average of four move-outs per month since January 2011, witness Gray claimed that approximately 32 residents had vacated their homes as of September 12, 2011. Additionally, he stated that YES incurs \$1,998 per month to refurbish, remarket, and relist that home to attract a new resident, which has amounted to approximately \$64,000 in expenses year-to-date. According to witness Gray, these figures do not account for the amounts of lost rental income

and rent concessions. He concluded that the Utility's rates are putting YES out of the affordable housing market and that the Utility's growing quality of service problems have increased massive write-offs, increased turnover costs, impacted resident retention, increased payroll expense, and reduced the rent amount YES can charge. YES witness Kurz provided similar comments regarding AUF's impact on YES' business. (TR 1322; Gainesville TR 119, 121)

YES witness Green testified that he is responsible for maintaining the more than 100 rental homes in Arredondo Farms. He alleged that due to AUF's poor response and the community's water problems, YES has taken proactive measures in solving and attempting to avoid these problems. Witness Green explained that YES established a program called Gold Key Service, in which maintenance personnel conduct monthly inspections of the community's homes. Witness Harpin added that technicians ensure there are no leaks in the home that would result in a high water bill due to AUF's rate tiers. Technicians replace plumbing lines that provide little to no water pressure due to sediment and calcium build up from the poor water quality; replace toilet parts that no longer function due to sediment and cause the toilet to run, leading to high bills; and replace water heater elements that have corroded due to calcification as a result of the water. (TR 1271) Witness Green asserted that he has retrieved at least five gallons of sediment from water lines at a particular home, replaced water heater elements, and replaced those elements again within two weeks as a result of six to ten inches of sediment buildup in the lines. He further stated that he has replaced showerheads, supply lines, shutoff valves, and faucets inside a home, all of which has become an uncontrollable cost issue for YES. Leak detection and meter check services are also provided to residents as a part of the Gold Key Service program. According to witness Green, maintenance personnel conduct weekly meter readings for all lots and ensure that meters are functioning correctly. In order to maintain residents, he noted they repair any problems identified at YES' cost. (Gainesville TR 160-161; EXH 195)

AUF presented evidence from the website Homesfacts.com, a service that provides due diligence information to potential buyers and renters regarding a particular community. The Homefacts.com website indicated that Arredondo Farms' water quality is rated as 9.8 out of 10. (TR 1280-1281; EXH 332) With respect to this evidence, YES witness Harpin stated that the exhibit did not show which chemicals were tested and found, which chemicals were tested and not found, and which chemicals were not tested. He also asserted that he was not familiar with Homefacts.com's rating scale. (TR 1284-1285) However, he admitted that Homefacts.com's water quality rating of 9.8 out of 10 would favorably impact a potential resident's decision to move into Arredondo Farms. (TR 1286)

Prior Monitoring

As previously discussed in the case background, AUF and OPC disagreed regarding the outcome of the jointly proposed Phase II Monitoring Plan approved by the Commission in its May 2010 Order. AUF witness Chambers provided testimony regarding AAI's call center performance and operations. AUF submitted seven monthly reports that showed two to five years of data for company-wide and Florida-specific performance measurements taken from January 2007 through October 2011. Utility management uses the reports internally to ascertain whether the Utility is meeting its targeted service performance levels, understand recent

performance, identify adverse trends, track pending service orders, and ensure that service order requests are properly addressed as soon as practicable. Witness Chambers testified that the data gathered in these reports during the Phase II monitoring period was consistent with AUF's expectations, and there did not appear to be abnormal variances or trends for Florida calls. (EXH 65, 177, 189, 223, 304)

A comparison of performance data from January 2007 through October 2011 indicates that AAI has generally maintained an improved level of performance since October 2008, a period of three years.¹⁸ Witness Chambers testified that the Utility consistently met most of its self-imposed service goals with some minor exceptions. In general, the exceptions were explained by AUF and linked to known causes, such as a water main break, hurricane, or impact of move ins/move outs and well accounts.¹⁹ Also, the number of accounts affected by the exceptions were quite low, sometimes as few as 1 or 2 accounts. (TR 381-382; EXH 65, 189)

Following the end of the Phase II monitoring period, additional improvements were noted in January 2011 through October 2011. On average, AAI's 3 call centers answered over 87,000 calls per month with approximately 5,300 calls, or 6.0 percent, placed by Florida customers. Although AAI's total calls increased in 2011, Florida calls decreased by an average of 112 calls per month. In addition, the percentage of Florida calls related to service issues, such as water outages, high bills, and service line leaks, decreased from 12.6 percent during Phase II to 10.5 percent during 2011, a reduction of 2.1 percent. The remaining calls were primarily informational in nature, with nearly 85 percent of all calls handled through AAI's Interactive Voice Response system. In fact, over 60 percent of Florida calls (an average of 3,200 calls per month), were for routine move ins/move outs, pay by phone/SpeedPay, account balance verification, and customer account changes, which consistently ranked as the top 4 reasons for calls. Also, on average, calls to CSRs were answered in 40 seconds, and complaints filed directly with AAI were closed in 5 days. (EXH 65, 189, 302, 303, 304)

Regarding service complaints, witness Chambers testified that any call related to a water quality complaint, a boil water notice or an emergency repair is immediately addressed by a customer service technician through the issuance of a service order. AUF strives to address customer concerns within 7 to 14 days of the service orders, with 7 days being the goal. Witness Chambers testified that the overwhelming majority of service order requests were addressed within those timelines, and that Phase II monitoring reports show that AUF vigilantly tracks, and consistently follows through on, service order requests.²⁰ (EXH 65)

Witness Chambers also discussed several procedures related to operation of AAI's call centers, including reviewing call center service metrics, determining staffing requirements, providing CSR training, and conducting CSR performance evaluations. AAI previously

¹⁸ A detailed analysis of the Phase II monitoring reports through December 2010 is provided in Order No. PSC-11-0256-PAA-WS, issued June 13, 2011, in this docket. Attachment 2.

¹⁹ Well accounts are AUF internal accounts for which meter readings are obtained and consumption is tracked, but no bills are issued. However, because the accounts are being tracked, they will appear on the unbilled report during any months for which a meter reading is not obtained, thereby increasing the percentage of active accounts not billed.

²⁰ See Order No. PSC-11-0256-PAA-WS, issued June 13, 2011, in this docket. Attachment 2, p. 153.

conducted customer research to gain customer feedback regarding call wait times and expanded call center service hours. The survey indicated that only 18 percent of survey participants answered that their call wait times were longer than expected, and although 82 percent of respondents were in favor of extending the call center hours to include late night hours, a weekend day, or 24 hour/7 day operation, only 20 percent were willing to pay for the increased CSR hours. In addition, AAI reviews its call center metrics on an annual basis to determine if changes are needed. Witness Chambers testified that AAI tries to find a balance between metrics that are cost-effective and address customer service. (EXH 302)

Witness Chambers also provided testimony to illustrate AAI's proactive approach to staff its call centers to accommodate increased call volumes. The average number of CSRs working per day at AAI's call centers increased from approximately 42 CSRs to nearly 63 CSRs between January 2007 and January 2008, representing a 50 percent increase. During that time, AAI converted its customers to one customer information system, and increased the number of customers from 704,150 to 849,027. Witness Chambers testified that AAI increased the number of CSRs in response to the increased call volumes and number of customers. In addition, the Phase II monitoring reports indicate that the call center performance metrics improved following the addition of more CSRs. (EXH 199, EXH 223)

AAI also monitors monthly blocked call or busy signal data provided by the telephone company to assess whether additional phone lines may be needed to handle call volumes. (EXH 199, EXH 302) Witness Chambers testified that over the past three years, AAI's call centers had received over 5.8 million calls, and that during that time, the rate of calls blocked had averaged 0.55 percent. (TR 1715-1716) In fact, 12 of the 22 months reviewed between January 2010 and October 2011 had a blocked call rate of zero. (EXH 302)

Also, witness Chambers described the process that AAI uses to route customer calls between its three call centers in an effort to minimize customers' call wait times and ensure that calls are answered by knowledgeable CSRs. AAI's 3 call centers currently have 116 dedicated lines to support the maximum requirement of 83 CSRs and the automated Interactive Voice Response system. In addition to 77 CSRs employed to work at the call centers, within the Quality Control Organization located in Bryn Mawr, Pennsylvania, there are 4 additional CSRs who answer calls during the peak days of Monday and Tuesday and 2 additional CSRs who answer Aqua Online calls Monday through Friday, for a total of 83 CSRs. All CSRs are assigned to various call queues based upon their training rather than their physical work location, ensuring that all call centers have CSRs trained to answer any type of call from any state served by AAI. (EXH 199, 302)

In addition, witness Chambers testified that AAI has taken steps to upgrade the training of its CSRs. Since the last rate case, AAI has had 35 CSRs complete a 3-course customer service training program developed by the AWWA for utility company CSRs. Witness Chambers testified that AAI was the first utility in the country to have its employees complete the full range of the AWWA's courses, demonstrating AAI's commitment to CSR training and improving customer service. (TR 301-302; EXH 199)

Further, witness Chambers discussed AAI's procedures for evaluating its CSRs on a monthly basis and calculating combined call quality scores for each call center. The quality scores are determined by AAI's call center managers who review ten randomly selected calls for each CSR per month for performance expectations including greeting and closing, adherence to policy, analytical skills, and soft skills. (EXH 177, 199) Soft skills are allocated 40 points and analytical/strategic thinking skills are allocated 60 points. (EXH 302) Witness Chambers explained that any CSR who is found to be rude would receive a score below 85, and that any CSR who receives a score below 85 percent receives coaching. (EXH 199) In addition, witness Chambers testified that if a CSR's quality scores did not continue to improve, they could eventually be terminated. (TR 349) Since October 2008, all call quality scores for AAI's call centers have remained above AAI's stated goal of 85 percent, sometimes reaching 95 percent. (EXH 65, 189)

Witness Chambers concluded that the results of the Phase II Monitoring show that AUF has been proactive in adopting aggressive quality control methods and has done an excellent job in meeting those service quality goals, and that AUF has made steady improvement in the quality of customer service since the 2008 rate case. (TR 299-300) Witness Chambers added that the CSR Call Quality scores improved dramatically when compared to 2008, the estimation rate for Florida has been consistently below the target goal of one percent, and there has been a downward trend in complaints filed with the Commission. (TR 300) In addition to her direct testimony, witness Chambers provided rebuttal testimony on several points raised by OPC related to the Phase II Monitoring Plan, as will be discussed later.

Three witnesses filed testimony on behalf of OPC regarding the Phase II Monitoring Plan. OPC witnesses Poucher and Dismukes both testified that AUF had shown some improvement in its service quality and call center performance. Witness Poucher noted that meter reading complaints related to estimated bills have declined significantly due to AUF's meter replacement program. (TR 750) Also, witness Dismukes acknowledged that a comparison of the first quarter of 2008 to the last 10 months of 2010 shows that AUF improved its abandon rate from an average of 6 percent to 3.1 percent, improved the percentage of calls answered in less than 90 seconds from 70 percent to 86 percent, and reduced the average speed to answer calls from 86 seconds to 33 seconds.²¹ (TR 1050)

However, all three witnesses asserted that AUF has not significantly improved its quality of service as perceived by customers. Witnesses Vandiver and Dismukes both noted several instances in which the Utility failed to meet its own service goals, and witness Vandiver added that any failures in these areas directly impact customer bills. (TR 639-641, 1050; EXH 82) Witness Poucher suggested that AUF's service metric regarding abandoned calls failed to take into account the customers who got a busy signal and were blocked from entering the call center queue. (TR 751) Witness Poucher noted that most of the busy signal complaints he recalled involved customers who said they had a bad problem and could not reach the Utility. He identified three customers who specifically complained at a service hearing about getting a busy

²¹ Witness Dismukes included March and April 2010 in this analysis, which were outside the Phase II monitoring period.

signal; one customer each at the Lakeland, Gainesville, and New Port Richey hearings. (TR 907; EXH 202, 313)

Witnesses Poucher and Dismukes also discussed their concerns with the content of the Phase II monitoring reports. Witness Poucher testified that he believes AUF's goals are unsatisfactory, the national call center performance results are not directly translatable to Florida operations, and that AUF did not provide historical tracking data that was requested by OPC in its initial meetings that could be used to track improved operating performance over an extended period of time. (TR 749) He also suggested that AUF's goal of answering 80 percent of its calls in less than 90 seconds is not strong enough and should be changed to a goal of answering 95 percent of all calls in 30 to 50 seconds. (TR 904)

In addition, witness Dismukes noted that AAI's call center metrics do not show specific statistics for Florida customers. She recommended that the Commission order the Utility to gather state specific call center data on a going forward basis, if the cost of doing so is reasonable. (TR 1050) Witness Dismukes provided the Connecticut Light & Power Company's (CLP) call center statistics for 2008 and 2009 as an example of call center standards adopted in other jurisdictions. (EXH 329) She indicated that she would expect differences between the statistics that an electric company would generate versus a water company, such as a longer average handle time per call for electric utility calls because they are more complex and have more complex customers than a water utility. (TR 1221-1222) However, witness Dismukes later testified that she was not recommending that the Commission use the CLP call center metrics as a benchmark to measure AUF's call center performance. (TR 1260) She suggested that an AWWA publication regarding water utility customer relations best practices would be a good reference for measuring a utility's customer service performance. (TR 1223)

In response, AUF disagreed with OPC's claim that no historical data was provided. AUF witness Chambers testified that in addition to providing all of the information contemplated in the Phase II reports to which OPC had agreed, AUF specifically provided historical information concerning the reports and metrics. (TR 1716; EXH 223) Also, regarding OPC's recommendation that the Commission order the Utility to gather state specific call center data on a going forward basis, AUF witness Chambers testified that AAI does not currently have the ability to produce the Call Center Monitoring Statistics Report for a specific state, and she did not know if the system could be modified to produce such a report. (TR 749, 1050; EXH 199) In response to OPC's assertion that AUF's goals are unsatisfactory and that the call answer time goal should be changed, AUF witness Chambers testified that to change the call answer time goal of answering 80 percent of all calls in less than 90 seconds to answering 80 percent of all calls in 60 seconds would require hiring additional CSRs and most likely increasing the dedicated phone lines. Also, the company would have to staff for the peak days of Monday and Tuesday. (TR 749, 904, 1773-1774) However, based upon the input that AUF received initially from its customers in the Pennsylvania survey, she testified that it would not be appropriate to change this goal, and that the current goal of answering 80 percent of all calls in less than 90 seconds should be maintained. Further, the current metrics in 2011 show an overall average answer time of 40 seconds. (EXH 199) In addition, witness Chambers disagreed with OPC's assertion that AAI has an insufficient number of telephone lines in its call centers and that blocked calls are a significant problem. Witness Chambers testified that 116 lines of capacity are

more than an adequate number of incoming lines and that the average blocked call rate of .55 percent is an excellent record in her opinion. (TR 1715-1716)

Also, in response to the OPC's exhibit on CLP's call center statistics for 2008 and 2009, witness Chambers demonstrated that AAI had already adopted similar metrics and achieved significantly better performance than CLP. A comparison of CLP's statistics to AAI's current statistics for 2011 shows that CLP's 2009 average speed to answer CSR handled calls was 296.6 seconds versus AAI's lower average of 41 seconds. Witness Chambers also noted that CLP's average call abandonment rate was 19.1 percent in 2008 and 26.2 percent in 2009 versus AAI's 2011 average abandon rate of 3.6 percent. Further, CLP's average call handle time was approximately 6 minutes and 24 seconds versus AAI's 2011 average handle time of 4 minutes and 28 seconds. (TR 1790-1791; EXH 329)

Conclusion of Attempt to Address Customer Satisfaction

Staff reviewed the testimony provided at the ten service hearings with regard to AUF's quality of service, as well as the Utility's testimony regarding the same. The record reflects that customers expressed complaints related to water quality, billing, outages and PBWNs, customer service, community impact, and lifestyle changes. Staff does not take lightly the concerns of these individuals, particularly considering the current state of our economy as it pertains to levels of employment and income and the ability of working class and retired citizens to pay their water and wastewater bills. However, staff is persuaded by the Utility's testimony that AUF has worked diligently to address specific customer complaints by working toward resolutions with customers. Staff is also persuaded by the Utility's willingness to work with customers with regard to such items as establishing payment plans and applying Commission rules related to billing and discontinuance of service in a more customer-friendly manner.

The Utility has asserted that it has taken many steps toward improving customer service, including establishing programs to enhance customer responsiveness, improve customers' interactions with field technicians and CSRs, standardize routine utility processes, and enhance customers' confidence in the Utility. Record evidence indicates that complaints filed against the Utility have decreased by approximately 24 percent from 2007 to 2010, despite the fact that there was a protested rate case in progress which generally leads to an increase in complaints filed. Staff agrees with AUF that this decrease in the volume of complaints can be attributed to the fact that customers are experiencing the benefits of the Utility's improvements. Furthermore, while OPC characterized AUF's service improvements as inadequate, it failed to provide definitive suggestions regarding those improvements and how they should be changed or enhanced in order to meet OPC's benchmark for satisfactory service.

With respect to OPC's account of complaints regarding untimely or inadequate information provided by AUF, staff believes that AUF's process of customer notification regarding PBWNs is satisfactory, as previously discussed. Regarding complaints of meter reading inconsistencies, staff has taken into account AUF witness Chambers' testimony regarding events that can affect meter readings, such as damaged or malfunctioning meter equipment. Staff agrees that such events, whether within or beyond the Utility's control, can

occur in the normal course of business, and staff recognizes that AUF has taken steps to handle the occurrence of such events.

Although testimony reflects that CSRs have been rude to customers, staff believes that this is not a widespread problem that permeates the Utility's call centers. Rather, staff believes that AUF has worked to provide additional training to its CSRs in order to provide more satisfactory and more efficient service to callers, and AUF has cited that its review of calls in which customers deemed CSRs rude revealed only one instance in which the CSR could have been more helpful but was not rude. Staff would encourage AUF to continue to provide training to its CSRs, particularly with respect to those issues that are unique to Florida customers, such as water quality.

Staff acknowledges that customers have historically had significant concerns with respect to AUF's billing practices. Staff was persuaded by AUF's arguments regarding billing issues. As stated in AUF's brief, the Utility continues to take steps to address billing and payment issues raised by customers in the 2008 rate case and in customer meetings and customer service hearings in the instant case. Staff has reviewed the policies and procedures AUF has in place to address backbilling, high bills, online payments, leak adjustments, and shut-off for nonpayment instances and does not believe there is a problem with the service provided. Staff believes that the Utility has satisfactorily addressed and resolved these customer billing-related issues. In fact, the Utility has gone beyond what is required by Commission rules in its efforts to address customer billing concerns.

Regarding aesthetics, staff is persuaded by evidence of AUF's attempt to address customer satisfaction as shown by, among other things, its ongoing efforts to improve the taste, color, odor, and hard water aesthetic quality of water for its customers. Staff agrees with AUF that the naturally occurring aesthetic properties in some systems' water sources can often be difficult and expensive to remove. Staff acknowledges AUF's aesthetic program a competent plan to effectively address its customers' aesthetic water quality concerns. This is evident through confirmation of work that has been completed to improve aesthetic water quality.

The Intervenors failed to provide evidence that AUF is providing a harmful product to its customers. However, because of its natural components, there was evidence that the Utility's product was undesirable to many customers. Staff believes that although AUF's aesthetic improvement project has been well developed and appears to be progressing toward improvement in customer satisfaction concerning water quality, AUF is faced with a challenging situation. The Intervenors failed to provide significant evidence that would be considered helpful in improving upon AUF's current programs. Without environmental enforcement activities indicating possible health risks, staff is not persuaded by the Intervenors' arguments that AUF is somehow causing a safety issue. Staff encourages the continuation of AUF's aesthetic improvement program and the inclusion of the next tier of systems intended for the second phase of the project. In addition, staff encourages the continuation of the YES/AUF joint task force to continue to work toward unique account establishment, billing, and shutoff issues that affect the Arredondo Farms community.

AUF and OPC disagreed regarding the outcome of the jointly proposed Phase II Monitoring Plan. AUF argued that it has made steady improvement in the quality of customer service since the 2008 rate case, while OPC argued that there was no significant improvement in the quality of service based on the eight months of additional monitoring. (AUF BR 14; OPC BR 14) Staff agrees with points raised by both parties. OPC is correct that there were no significant improvements noted solely during the eight months of additional monitoring. However, when the review is extended to include all the available information leading up and subsequent to Phase II, the record supports AUF's testimony that its call center and customer service performance has improved. Further, the record supports that AUF has either maintained or further improved its performance measures since October 2008, a period of three years.

Staff disagrees with OPC's assertion that AUF did not provide historical data or sufficient information on Florida calls. AUF has provided data as far back as January 2007 for certain performance measures. Combined with the updated information through October 2011, all the parties were given nearly five years of data to review. Further, five of the seven reports provided during the Phase II monitoring period were specifically related to Florida calls. Staff believes that using all of the reports together provides a comprehensive view of AAI and AUF's performance with respect to calls and complaints from Florida customers. In addition, staff disagrees with OPC's testimony that the national call center performance results are not directly translatable to Florida operations. Staff would propose that exactly the opposite is true since all AAI customer calls are routed through AAI's call centers using the same process. The evidence supports that Florida customers will share similar call experiences with customers from other states, and that call metrics are affected more by other factors, such as call volume and the number of CSRs, than by the state from which the call is placed. Although staff agrees with OPC's testimony that blocked call data should be considered when reviewing call center performance, staff disagrees with OPC's assertion that blocked calls are a significant problem with AAI's call center operations or performance metrics. (EXH 65, 189, 223, 302, 303, 304) Further, the evidence demonstrates that AAI has implemented call center metrics similar to those implemented in other jurisdictions, and in fact, experienced better results than those reported in the CLP call center exhibit provided by OPC witness Dismukes. (EXH 329)

Staff believes the evidence demonstrates that AAI has taken many steps to ensure proper operation of its call centers including, but not limited to: reviewing its call center metrics on an annual basis; responding to permanent increased call volumes by employing additional CSRs; responding to peak call days by adding additional CSRs on those days; implementing a call routing system that allows calls to be routed to other call centers during times of high call volumes; assigning CSRs to various call queues based upon their training to ensure that calls are answered by CSRs trained on those issues; monitoring monthly blocked call/busy signal data to assess when additional phone lines and/or CSRs may need to be added; evaluating CSR performance monthly; providing coaching to CSRs with inadequate performance scores; and providing additional training to CSRs through the AWWA. In addition, the record shows that AAI previously conducted a year-long survey of its Pennsylvania customers to review the need and desire on the part of customers to add additional call hours and CSRs. Staff believes all these factors demonstrate that AAI is being attentive to the performance of its call centers and is prepared to make changes in its telephone system, call center staffing, and training when the performance data indicates sufficient need. Further, staff believes the evidence demonstrates that

AAI is managing its call center appropriately and that no further action is needed regarding obtaining additional types of data or reports related to AAI's call center operations.

Regarding the results of the Phase II Monitoring Plan, overall, staff believes the evidence supports AUF's arguments that it has been proactive in establishing its quality of service metrics and implementing changes to address customer service concerns. The evidence also supports AUF's assertion that it has made steady improvement in the quality of customer service since the 2008 rate case, and has either maintained or further improved its customer service performance metrics since October 2008, a period of three years. Staff is not persuaded by the Intervenor's arguments that the Utility failed to provide sufficient information or that the current performance goals are inappropriate. Staff believes the evidence demonstrates that AAI is managing its call centers appropriately and should not be required to modify its system to collect additional types of data related to AAI's call center operations.

In review of the evidence provided, staff is persuaded by AUF's arguments that no further action by the Commission is needed with regard to the Utility's attempt to address customer satisfaction. Staff recommends that pursuant to Rule 25-30.433(1), F.A.C., AUF's attempt to address customer satisfaction is satisfactory.

Further, in light of staff's recommendation of satisfactory quality of service, staff believes that any quality of service monitoring costs incurred during the test year should be amortized over a 5-year period pursuant to Rule 25-30.433(8), F.A.C. In a late-filed hearing exhibit, the Utility reflected that it included \$75,225 in test year expenses for the Commission-approved Phase I Monitoring Plan. (EXH 341) In accordance with Rule 25-30.433(8), F.A.C., staff recommends that O&M expenses be reduced by \$60,180 and working capital be increased by \$60,180. The table below reflects the adjustments to each rate band and stand-alone system.

Table 1-4

Amortization of Phase I Monitoring Plan Costs		
System	O&M Expenses	WCA
Water Band 1	(\$14,047)	\$14,047
Wastewater Band 1	(2,497)	2,497
Water Band 2	(6,244)	6,244
Wastewater Band 2	(11,452)	11,452
Water Band 3	(3,814)	3,814
Wastewater Band 3	(1,406)	1,406
Water Band 4	(17,354)	17,354
Wastewater Band 4	(697)	697
Breeze Hill Water	(295)	295
Breeze Hill Wastewater	(295)	295
Fairways Water	(1,078)	1,078
Fairways Wastewater	(556)	556
Peace River Water	(229)	229
Peace River Wastewater	(214)	214
Total	(\$60,180)	\$60,180

CONCLUSION

Based on the record evidence, and the parties' arguments, staff believes that AUF has developed effective and ongoing quality control initiative, customer service enhancements, and water quality improvement projects. Staff recommends that the quality of the Utility's product and the operating condition of the Utility's plant and facilities are satisfactory, as well as its attempt to address customer satisfaction. Therefore, staff recommends that AUF's overall quality of service be deemed satisfactory.

Issue 2: What, if any, additional actions should be taken by the Commission based on AUF's quality of service?

Recommendation: If the Commission approves the staff recommendation in Issue 1, AUF should be required to provide quarterly reports regarding PBWNs and improvements to aesthetic quality for a period of one year following the issuance of the Commission's Final Order. Staff will review each report for consistency with the Commission's order and will report to the Commission if staff has any concerns. (Rieger, Golden, Jaeger)

Position of the Parties

AUF: No further action should be taken by the FPSC because AUF's quality of service is good and has significantly improved since the last case.

OPC: The Commission should reduce AUF's ROE 100 basis points for its unsatisfactory service. Also, a Monitoring Plan should be reinstated to address the quality of service problems regarding water quality, billing problems, and customer service.

YES: AUF's return on equity should be reduced by 1% for its failure to provide satisfactory customer service and quality product. Additionally, the Commission should disallow a portion of executive salaries and the requested rate case expense.

Pasco County: Pasco County adopts the position of the Office of Public Counsel as if fully set forth herein and the Commission should lower Aqua's return on equity (ROE) by 100 basis points because of its less than satisfactory quality of service.

AG: The AG adopts the position of OPC.

Staff Analysis: In the Commission's PAA Order issued in this docket, the Commission found that AUF's quality of service was marginal, imposed a 25-basis point reduction from the midpoint of the ROE calculated pursuant to the current leverage graph, and required development of a Phase III Monitoring Plan. These findings and requirements were protested, and thus became null and void.

At the request of the parties, what had been one issue addressing quality of service in the PAA Order was split into two issues, with the first issue (Issue 1 above) addressing the quality of service, and the second issue (this issue) addressing whether any additional actions should be taken by the Commission based on AUF's quality of service. Under this issue, there are two main subparts. The first subpart addresses whether the quality of service is so deficient that AUF should be penalized by reducing its ROE from the normal midpoint as would be indicated by the current leverage formula. The second subpart addresses whether the quality of AUF's service is so deficient that a third monitoring plan should be initiated. Each of these subparts is discussed below.

PARTIES' ARGUMENTS

Parties' Arguments on Penalties/Reduction of ROE

AUF

AUF witness Szczygiel testified that he disagreed with OPC witness Dismukes' testimony urging the Commission to impose a 100 basis point penalty on the Utility's ROE for insufficient quality of service. Witness Szczygiel pointed to the testimony of AUF witnesses Luitweiler and Chambers, along with various DEP and WMD witnesses, that demonstrates that AUF's quality of service is good and has significantly improved since the last rate case. Further, he testified that the reduction is unwarranted and would result in confiscatory rates. Finally, witness Szczygiel noted that witness Dismukes had argued for similar draconian ROE penalties in the last rate case, which the Commission rejected. (TR 1452-1453)

AUF argued in its brief that a plain reading of Section 367.111, F.S., authorizes the Commission to reduce a utility's ROE only if it is shown that the utility has failed to provide water and wastewater service that meets standards promulgated by the DEP or WMDs. AUF also cited a case in which the Florida Supreme Court cautioned that the Commission's authority to reduce earnings is a "powerful tool" to bring about improved utility services, but it should be used "carefully" so as to avoid depressing earnings to a level that would jeopardize the utility's ability to continue service improvement programs. See Askew v. Bevis, 283 So. 2d 337, 340 (Fla. 1973). AUF referenced two Commission orders that it believes demonstrate that the Commission has been careful to limit ROE penalties to egregious situations such as where the utility has flagrantly disregarded environmental regulations or ignored Commission rules.²² AUF asserted that there is no evidence in this case, and indeed no claim, that AUF has flagrantly disregarded DEP or Commission rules, charged unauthorized rates, or ignored staff's requests for information. (AUF BR 16-17) Further, AUF noted in its brief that OPC witnesses could not identify any promulgated DEP or WMD standard that AUF failed to meet in this case. (TR 847, 1191; AUF BR 17)

In addition, AUF cited the Supreme Court decision in Gulf Power Co. v. Wilson, 597 So. 2d 270 (Fla. 1992), and noted that it is particularly instructive in addressing whether the Commission should impose an ROE penalty on AUF. In its brief, AUF discussed that in that case, the utility's management admitted that a senior executive had for years been engaged in corrupt practices such as theft, misuse of utility property, and inappropriate political contributions. The Commission reduced Gulf Power's ROE by 50 basis points, but limited that ROE reduction to a period of two years on the basis that utility management had shown a commitment to address its prior problems. AUF noted that none of those extraordinary circumstances are present in AUF's case. AUF argued in its brief that AUF is committed to taking actions beyond that required by law to improve customer service. Further, AUF argues

²² See Order No. PSC-03-0699-PAA-SU, issued June 9, 2003, in Docket No. 020439-SU, In re: Application for a staff-assisted rate case in Lee County by Sanibel Bayous Utility Corporation; and Order No. PSC-98-0763-FOF-SU, issued June 3, 1998, in Docket No. 971182-SU, In re: Application for a staff-assisted rate case in Marion County by BFF Corp.

the punitive ROE penalty recommended by OPC ignores AUF's good faith efforts to provide and improve its quality of service to customers, and should be rejected. (AUF BR 17)

OPC

OPC witness Poucher recommended that the Commission should reach a finding that AUF's service is unsatisfactory and set rates based on an ROE that is at least 100 basis points below the midpoint until such time as AUF's service is deemed satisfactory by the Commission. (TR 723-724) Witness Poucher testified that the 100 basis point reduction would serve as an incentive to motivate AUF to improve its service, product, and operational efficiency. (TR 756) Witness Poucher also indicated that there were no DEP or WMD standards that he was alleging that AUF had failed in this case to warrant an ROE penalty. Rather, he stated that the recommendation was based upon customer complaints about customer service that were heard at the service hearings, and on AUF's failure to meet some of its internal performance goals. (TR 848-849)

OPC witness Dismukes also recommended that the Commission reduce AUF's ROE by 100 basis points. In support of this recommendation, witness Dismukes asserted that the customer testimony and customer complaints, as well as the information provided in the testimony of witnesses Vandiver and Poucher, provide clear indications that despite the Commission's initial finding of substantial improvement, the Utility has a long way to go before its quality of service can be considered satisfactory. (TR 1072) Witness Dismukes discussed several cases in which the Commission has made ROE reductions, including a 100 basis point reduction for Pine Island Utility and Consolidated Utilities Company, a 50 basis point reduction for Aloha Utilities and Ocean Reef Club, and a 25 basis point reduction for Southern States Utilities (the predecessor for most of the AUF systems). (TR 1072-1076; OPC BR 12) Witness Dismukes added that while there has been some improvement in the call center statistics, there are still numerous problems which have not been resolved, including: customer service, billing accuracy, estimated bills, and water quality. Thus, there has been a continuation of the problems identified in the 2008 rate case. (TR 1076) Witness Dismukes also indicated that she was not testifying on DEP standards, and that her testimony regarding water quality deficiencies was from the customer's perspective from the service hearing transcripts. (TR 1191)

OPC argued in its brief that the reduction of 100 basis points is necessary to effect change in AUF's behavior that is long overdue without creating financial jeopardy to the Utility. (OPC BR 13) OPC also noted that a 25 basis point reduction in revenue is less than \$90,000 on a combined basis, and represents .6 percent of AUF's 2010 total revenue or less than .01 percent of AAI's 2010 total revenue. In contrast, a 100-basis point reduction would be approximately 2.6 percent of AUF's total revenues and .05 percent of AAI's total revenue. (TR 1077; OPC BR 13)

YES, Pasco County, and AG

Although the other Interveners agreed that AUF's ROE should be reduced by 100 basis points, they did not offer specific testimony or any arguments in their briefs on this issue. Also, YES took the position that the Commission should disallow a portion of executive salaries and the requested rate case expense, but did not present any argument under this issue.

Parties' Arguments on Continued Monitoring

AUF

AUF argued in its brief that the record reflects that additional monitoring is not required and would impose unnecessary costs on the Utility and its customers. Further, AUF argued that for over two years its service quality has already been the focus of two separate and rigorous monitoring plans. (TR 295-300; AUF BR 18) AUF contended that the monitoring results, which are a part of the record in this case, show that AUF has good customer service and consistently complies with environmental requirements. (EXH 65; AUF BR 19) AUF also noted that the record evidence shows that the Phase I and Phase II Monitoring Plans have imposed significant costs on AUF in excess of \$230,000. (TR 1569-74; EXH 341, 342; AUF BR 19)

In addition, AUF stated in its brief that, "OPC's request for continued monitoring rings hollow especially when OPC was so apathetic to the monitoring plans it initially worked to develop and ultimately agreed to." AUF added that, "[t]he apathy was exemplified at the hearing when OPC witness Poucher admitted that, while AUF had complied with OPC's request and provided OPC with the audio tapes of all of the calls into the call centers, the OPC had never attempted to listen to even one of the tapes." (TR 895-898; AUF BR 19) AUF also noted that witness Poucher admitted that the OPC had never visited and inspected AAI's call center even though such inspection was expressly contemplated by the Commission's Phase II Monitoring Order. (TR 899; AUF BR 19) During her deposition, witness Chambers elaborated that AUF felt that OPC's visit to an AAI call center would give OPC a better understanding of AAI's organization by providing OPC with firsthand knowledge of the call centers, how the calls come in and how AAI operates. (EXH 199) AUF concluded in its brief that "[i]n light of AUF's demonstrated commitment to improved customer service, additional monitoring is unnecessary and would not be cost-effective." (AUF BR 19)

During her deposition, witness Chambers testified that AAI does not currently have the ability to produce the Call Center Monitoring Statistics Report for a specific state as was suggested by OPC witness Dismukes, and she did not know if the system could be modified to produce such a report. Also, she opposed OPC witness Poucher's suggestion that the Utility be required to provide information on every complaint as part of a Phase III Monitoring Plan because it had already done so during Phase I at a cost of \$100,000. In the event a third round of monitoring is implemented, witness Chambers suggested that it include reports similar to those used during Phase II. (EXH 199)

OPC

As discussed in Issue 1, OPC believes AUF's quality of service is unsatisfactory. Consequently, OPC witness Poucher testified that that the Commission should require its staff to continue to actively monitor AUF's service quality and require AUF to provide prompt and comprehensive reports regarding its efforts and progress in providing a drinkable, quality product. (TR 754) Witness Poucher recommended that Commission staff, OPC, and AUF work collectively to develop and implement a monitoring program that includes measurement, benchmarks, and programs that will improve AUF's operational efficiencies and service quality.

(TR 760) During his deposition, witness Poucher recommended that the Phase III Monitoring Plan should include a review of every complaint received by the Utility as was done in the Phase I Monitoring Plan. He recommended that the Commission require the Utility to provide documentation showing the facts and closure of every complaint received, not just the complaints filed with the Commission. (EXH 202)

OPC witness Vandiver testified that she had not developed a specific monitoring plan or performance standards, but suggested that a third phase of monitoring should include DEP compliance, billing issues, and customer service issues. In addition, she suggested that the Commission would need to develop some of the metrics instead of using AUF's metrics, unless AUF has some metrics that meet what the Commission is interested in. (TR 702-705)

Regarding additional options, OPC witness Dismukes recommended that the Commission order the Utility to gather state specific call center data on a going forward basis, if the cost of doing so is reasonable, and suggested use of an AWWA publication regarding utility customer service best practices. (TR 1050) Although witness Dismukes provided an exhibit showing call center metrics for CPL, she later indicated that she was not suggesting that it be used as a benchmark to measure AUF's performance. (TR 1260; EXH 329)

YES, Pasco County, and AG

None of these three parties offered any specific testimony or arguments in their briefs regarding additional monitoring.

ANALYSIS

Penalties/Reduction of ROE

Section 367.111(2), F.S., states in part, "[i]f the Commission finds that a utility has failed to provide its customers with water or wastewater service that meets the standards promulgated by the Department of Environmental Protection or the water management districts, the Commission may reduce the utility's return on equity until the standards are met." As discussed in Issue 1, staff believes AUF has taken steps, and is continuing to take steps, which address the environmental compliance and customer service issues that have been raised. Staff has recommended in Issue 1 that AUF's quality of service is satisfactory, and therefore, staff does not believe that an ROE penalty adjustment is warranted.

However, if the Commission disagrees with staff that the quality of service is satisfactory, then staff believes that pursuant to the holding of the Florida Supreme Court in Gulf Power Co. v. Wilson, cited by AUF above, and Section 367.011, F.S., the Commission may reduce the ROE from the midpoint. OPC cited numerous times where the Commission has reduced the ROE based on marginal quality of service. Depending on the severity of the deficient quality of service, staff believes that the Commission could reduce the ROE by up to 100 basis points without violating the holding in the Gulf Power Co. v. Wilson case. However, staff notes that a penalty approaching 100 basis points has only been imposed under egregious circumstances.

Continued Monitoring

As noted above, AUF believes no continued monitoring is warranted, but OPC witness Poucher recommended the Commission require the Phase III Monitoring Plan include a review of every complaint received by the Utility as was done in the Phase I Monitoring Plan. Staff witness Hicks provided testimony regarding the Commission's process for regularly reviewing complaints filed with the Commission for rule violations. She testified that during the complaint resolution process, complaint staff determines if the complaint is a possible rule violation. If it is determined that the complaint is a possible rule violation, an infraction close-out code is applied to the complaint so that it can be tracked. Technical staff is then notified when there appears to be a significant number of possible violations of the same rule or a large quantity of possible violations received in a short time frame. Witness Hicks testified that AUF did not receive a significant number of apparent rule violations from 2009 through 2011. (TR 1372)

However, as noted by witness Poucher, witness Hicks' review is only applicable to complaints filed with the Commission. Witness Poucher recommended that the Commission require the Utility to provide documentation showing the facts and closure of every complaint received by AUF, not just the complaints filed with the Commission. (EXH 202).

Staff believes that something similar to this has already been done in Phase I, and that it proved to be quite costly. As noted by AUF, the Phase I and Phase II Monitoring Plans have imposed significant costs on AUF in excess of \$230,000. (TR 1569-74; EXH 341, 342; AUF BR 19) Further, by witness Poucher's own admission, these plans did not appear to be effective. Also, during Phase I, approximately six months of call center sound recordings and detailed complaint records were monitored with no adverse trends noted by Commission staff. Although OPC has recommended that the Commission require similarly detailed records again, witness Poucher admitted that OPC never listened to any of the call center sound recordings provided to OPC by AUF during Phase I. Witness Poucher stated, "I didn't think they were of value since you made the company aware that you're going to be taking observations of their calls." (TR 895-898) Therefore, staff does not believe continued monitoring of this nature is warranted. Staff believes that further intense monitoring is not cost effective and may have reached a point where it is counterproductive.

Further, the evidence suggests that while OPC has been a strong proponent for the Phase I and Phase II Monitoring Plans, and took part in the development of the Phase II Monitoring Plan, it appears that OPC has little faith in the efficacy and worth of the data that was provided pursuant to the Plans. Instead, OPC has relied more heavily on customer testimony in determining what further actions should be required. Based upon staff's recommendation in Issue 1 that AUF's quality of service is satisfactory, staff does not believe a third round of call center monitoring is necessary, and agrees with AUF's testimony that a Phase III Monitoring Plan would impose unnecessary costs on the Utility and its customers. In addition, due to OPC's heavy reliance on customer testimony, as opposed to analysis of the statistical data provided in the monitoring reports, staff believes that additional monitoring in the nature of the Phase I or Phase II Monitoring Plans should not be continued.

However, staff does acknowledge that, based on testimony provided, there appears to be significant customer and Intervenor concern regarding the number of and compliance with the requirements for PBWNs. Also, it appears that AUF's water quality aesthetics for the first seven systems in Phase II (and Chuluota) did have some success, but there still appears to be aesthetic problems with a significant number of AUF systems. In consideration of the less than positive perception by those parties towards AUF's handling of PBWNs and aesthetics, staff believes that further emphasis should be placed on PBWNs, and AUF should continue to address cost-effective improvements in aesthetics.

Specifically, staff believes that all of the parties' concerns can be addressed more effectively through staff's review of quarterly status reports regarding PBWNs and aesthetic quality improvements, along with the Commission's current process for monitoring complaint trends, rather than a third phase of monitoring addressing AUF's call centers and all complaints not filed with the Commission. To address these two concerns, staff believes that for a period of one year following the Commission's final order, AUF should provide quarterly reports regarding PBWNs. These reports should include an explanation for each occurrence, the name of the systems where each PBWN occurred, the number of customers affected, explanation as to how the customers were notified, and the length of time the PBWNs remained in effect. The PBWN reports should also include a summary of customer responses to the PBWNs.

AUF should also provide quarterly reports to the Commission for a period of one year regarding aesthetics. In order to provide updated information for each of the aesthetic improvement projects that are currently ongoing, these reports should include information regarding the project completion status, the expected completion date if not already achieved, and any observations regarding improvement of aesthetic quality to the customers as a result of the project's completion. In addition, AUF should report any progress toward improving aesthetic quality concerning the next tier of systems intended for improvements as discussed in Issue 1.

As indicated above, the information obtained through the recommended reports is for the Commission to observe AUF's attempt to address customer satisfaction related to PBWNs and aesthetic water quality. Staff will review each report for consistency with the Commission's order and will report back to the Commission if staff has any concerns. Therefore, staff recommends that for a period of one year following the Commission's final order, AUF should provide quarterly reports to the Commission regarding PBWNs and improvements to aesthetic quality.

CONCLUSION

Based on the analysis above, staff recommends that there should be no continued monitoring plan similar to the plans developed in Phase I and Phase II except as discussed above concerning PBWNs and aesthetics. For these two concerns, AUF should be required to provide quarterly reports regarding PBWNs and improvements to aesthetic quality for a period of one year following the issuance of the Commission's Final Order in this docket. Staff will review each report for consistency with the Commission's order and will report to the Commission if staff has any concerns.

RATE BASE

Issue 3: What is the appropriate amount of pro forma plant, and related depreciation and property taxes, for the following specific protested pro forma plant projects; Breeze Hill Wastewater I&I Project, Lake Josephine and Sebring Lakes AdEdge Water Treatment Project; Leisure Lakes AdEdge Water Treatment Project; Peace River Water Treatment Project; Tomoka View Twin Rivers Water Treatment Plant Tank Lining Project; Sunny Hills Water System Water Tank Replacement Project?

Recommendation: Based on the support documentation provided by AUF, the Utility has supported \$792,347 related to the six protested pro forma projects. As such, AUF’s pro forma plant additions should be increased by \$24,182 for water and decreased by \$21,835 for wastewater. In accordance with the depreciation rates prescribed in Rule 25-30.140, F.A.C., corresponding adjustments should be made to increase accumulated depreciation and depreciation expense by \$1,132 for water and decrease accumulated depreciation and depreciation expense by \$485 for wastewater. In addition, corresponding adjustments should be made to decrease property taxes by \$8,549 for water and \$2,136 for wastewater. The specific rate band and system adjustments are as follows:

Rate Band/System	Plant	Accumulated Depreciation	Depreciation Expense	Property Taxes
Water Band 2	\$21,004	(\$93)	\$93	\$671
Water Band 4	(23,922)	190	(190)	(9,658)
Breeze Hill-Wastewater	(21,835)	485	(485)	(2,136)
Peace River- Water	27,099	(1,230)	1,230	437
Total Adjustments	\$2,347	(\$647)	\$647	(\$10,686)

(Fletcher)

Position of the Parties

AUF: AUF’s pro forma plant additions which have been protested in this case are prudent projects needed to address and improve water quality and to comply with FDEP requirements. The appropriate amount of pro forma plant and related depreciation and property taxes are more fully detailed below.

OPC: A pro forma plant project should not be included in this rate proceeding if the physical construction of the project has not begun. To date, construction has not begun on the Leisure Lakes AdEdge Water Treatment Project (\$150,000), the Peace River Water Treatment Project (\$50,000), and the Sunny Hills Water System Water Tank Replacement Project (\$120,000) and these amounts should not be included in rate base.

YES: Yes defers to the position of the Office of Public Counsel (the “OPC”) on this issue.

Pasco County: Pasco County adopts the position of the Office of Public Counsel as if fully set forth herein.

AG: The AG adopts the position of the OPC.

Staff Analysis: In the PAA Order, the Commission disallowed several proposed pro forma projects requested by AUF due to insufficient supporting documentation regarding the cost and completion of the projects.²³ In AUF's cross-petition of the PAA Order, it requested that six of these projects be recognized for purposes of this case.

PARTIES' ARGUMENTS

AUF

AUF witness Luitweiler testified that, to include a pro forma project in rate base, the Commission requires documentation supporting the purpose, design, and price of the project to allow sufficient evaluation of the project's prudence. (TR 222) This requirement is typically met through executed contracts, work orders, and current price quotes. (TR 222) OPC witness Woodcock, the only other witness to address AUF's pro forma plant requests, conceded that if AUF secured bids and provided proof that construction would be underway within the required period, then the projects should be placed into rate base. (TR 626) In its brief, the Utility asserted that its undisputed evidence supports the purpose, design, and price of these six pro forma plant projects, and also demonstrates that each has been or will be placed into service within the required period. (AUF BR 20) Thus, AUF contended that these six projects should be included in rate base. (AUF BR 20)

AUF argued that it has demonstrated that all six of these projects will be completed by February 2012, within 24 months after the end of the test year. (TR 221-225, 234-237, 1624-1626, 1641, 1660) The Utility contended that OPC's assertions that AUF's pro forma plant projects will not be completed within 18 months from the end of the historic test year references a non-existent standard. (TR 54, 234, 236-237) Moreover, the Utility pointed out that Section 367.081(2)(a)2., F.S., provides that, in fixing rates which are just, reasonable, compensatory and not unfairly discriminatory, the Commission "shall consider utility property, including land acquired or facilities constructed or to be constructed within a reasonable time in the future, not to exceed 24 months after the end of the historic base year," not 18 months. (TR 22) The following discussion addresses AUF's support for each of these six plant projects.

Breeze Hill Wastewater I&I Project

AUF witness Luitweiler testified that the Breeze Hill wastewater system previously had a high amount of I&I. (TR 222) Witness Luitweiler proposed an I&I rehabilitation project in its rate case filing to address the excessive I&I. (TR 222) Witness Luitweiler stated this project was completed in March 2011. (TR 222) He indicated that, on May 31, 2011, this project was closed from CWIP into plant in service. (TR 222-223) Witness Luitweiler testified that the total amount of this now-closed project is \$78,165, including overhead. (TR 223; EXH 58)

Lake Josephine and Sebring Lakes AdEdge Water Treatment Project

Witness Luitweiler testified this project has been designed, permit applications have been submitted to DEP, and the equipment ordered. (TR 222) In his rebuttal testimony, he testified

²³ See Order No. PSC-11-0256-PAA-WS, pp. 35-42.

that the filtration equipment from AdEdge was delivered on October 12, 2011. (TR 1624) Witness Luitweiler stated that a contractor was engaged to complete installation of the AdEdge treatment at both facilities by November 2011. (TR 1624; EXH 198) Witness Luitweiler testified that the projected cost for these two projects of \$372,760 should be included in rate base as pro forma plant. (TR 1624; EXH 57, 216, 217, 297)

Leisure Lakes AdEdge Water Treatment Project

Witness Luitweiler testified this project has been designed, a permit application has been submitted to DEP, and the equipment ordered. (TR 223) In his rebuttal testimony, he testified that the filtration equipment was ordered from AdEdge while the permit application was pending at DEP. (TR 1626) Witness Luitweiler testified that a construction permit was finally issued by DEP on October 6, 2011. (TR 1626) He stated that the work on installing the treatment equipment is to begin in November 2011. In its brief, AUF stated it expects construction to be completed by mid-January 2012. (AUF BR 21) Witness Luitweiler testified that actual costs of \$105,799, plus additional costs for installation, inspection and certification for this project should be included in rate base as pro forma plant. (TR 223-224, 234, 1626; EXH 60, 220)

Peace River Water Treatment Project

Witness Luitweiler testified that AUF completed the Peace River Water Treatment Project design and submitted the permit application to DEP. (TR 224) He testified that AUF executed a contract with the treatment system supplier on August 23, 2011. (TR 1625; EXH 297) In his late-filed deposition Exhibit 5, witness Luitweiler provided an executed contract for construction dated November 18, 2011. (EXH 297) He asserted this project is expected to be completed by February 15, 2012. (TR 1625; EXH 198, page 19) Witness Luitweiler testified this project, which is required by a DEP Consent Order, will cost \$204,681 and should be included in rate base as pro forma plant. (TR 224, 236, 1625; EXH 61, 219, 297)

Tomoka Twin Rivers Water Treatment Plant Tank Lining Project

Witness Luitweiler testified that the need for this project was identified in a February 2, 2010, Volusia County Department of Health (VCHD) letter, which addressed the age and condition of the concrete block tank at the Tomoka Twin Rivers plant. (TR 223) Witness Luitweiler indicated that the previous owner failed to coat the tank and the project to reline the tank was completed in May 2011. (TR 223) On June 30, 2011, this project was closed from CWIP into plant in service. (TR 223) Witness Luitweiler indicated that the total amount of this now-closed project is \$48,066, including overhead, and should be included in AUF's rate base in this rate case. (TR 223; EXH 59)

Sunny Hills Water System Water Tank Replacement Project

Witness Luitweiler testified that AUF completed a design for a new water tank and piping, and the design and construction permit application was filed with DEP on June 6, 2011. (TR 224) Subsequently, the tank was ordered, a contract was executed on September 14, 2011, and AUF authorized a contractor to commence work. (TR 233; EXH 297) Witness Luitweiler

asserted that the total amount of this project is \$267,885 and should be included in rate base as pro forma plant. (TR 224, 233, 1625; EXH 62, 218, 297)

In closing, AUF argued that three of these projects were performed to comply with environmental requirements, including: (1) Peace River Gross Alpha Treatment; (2) Sunny Hills Additional Storage; and (3) Tomoka Twin Rivers Tank Liners. (TR 225) The Lake Josephine and Sebring Lakes AdEdge and Leisure Lakes AdEdge Treatment projects were undertaken due to the Commission-approved Phase II Aesthetic Water Quality Improvement plan. (TR 225) As such, AUF argued that it is entitled to recover the costs of these projects pursuant to Section 367.081(2)(a)2.c., F.S.

OPC

OPC protested the inclusion of several of these items due to the uncertainty of the completion of the projects. (OPC BR 15) OPC witness Woodcock testified that he was concerned that even though the equipment for improvements may have been purchased, there is no commitment that they will actually be installed and placed into operation. (TR 626) Further, witness Woodcock expressed that even though the projects may be bid out to a contractor to install, there may be other reasons that could delay or prevent the projects from being completed. (TR 626) However, witness Woodcock conceded that, once construction is under way there is a greater likelihood that the facilities will be completed. (TR 626) The three remaining systems for which construction has yet to start are the Leisure Lakes AdEdge Water Treatment Project, the Peace River Water Treatment Project, and the Sunny Hills Water System Water Tank Replacement Project. (OPC BR 16)

Leisure Lakes AdEdge Water Treatment Project

In its brief, OPC stated that the Utility included \$150,000 in its MFRs for the Leisure Lakes AdEdge Water Treatment Project. (EXH 234, MFR Schedule A-3; OPC BR 16) OPC pointed out that AUF witness Luitweiler testified that the Utility expected to bid the construction by early November 2011. (TR 223) OPC also noted that, as of the date of AUF witness Luitweiler's deposition on November 16, 2011, AUF still had not signed a contract. (EXH 198, Page 30) OPC stated that witness Luitweiler testified that the current estimated date for the bids to be awarded was the middle of December. (TR 234) Based on OPC witness Woodcock's concern that any project is uncertain until construction actually begins, OPC stated that this project is still very uncertain. (OPC BR 16) OPC expressed concern that, if any construction begins in the next month, it will be well over 20 months after the test year before this project might be completed, and as such, the Peace River project should not be included in rate base. (OPC BR 16)

Peace River Water Treatment Project

In its brief, OPC stated that the Utility included \$50,000 in the MFRs for the Peace River Water Treatment Project. (EXH 239, MFR Schedule A-3; BR 16) OPC pointed out that AUF witness Luitweiler testified that the Utility expected to bid the construction by October 3, 2011. (TR 224) OPC also noted that, as of the date of witness Luitweiler's deposition on November

16, 2011, the Utility had still not signed a contract. (EXH 198, Page 18) OPC stated that witness Luitweiler testified that the contract for construction had been awarded. (TR 230) OPC also argued that while witness Luitweiler had executed a contract, he could not confirm whether the Notice to Proceed had been issued. (OPC BR 16) Based on OPC witness Woodcock's concern that any project is uncertain until construction actually begins, OPC stated that this project is still very uncertain. (OPC BR 16) OPC expressed concern that, if any construction begins in the next month, it will be well over 20 months after the test year before this project might be completed, and as such, the Peace River project should not be included in rate base. (OPC BR 16)

Sunny Hills Water System Water Tank Replacement Project

In its brief, OPC stated that the Utility included \$120,000 in the MFRs for the Sunny Hills Water System Water Tank Replacement Project. (EXH 232, MFR Schedule A-3; OPC BR 16) Witness Luitweiler testified that the Utility expected construction to be completed by December 15, 2011. (TR 224) OPC also pointed to witness Luitweiler's deposition where he testified that a Notice to Proceed had been issued and that he would provide that as a Late Filed Exhibit No. 4. (EXH 198, Pages 25-26) However, OPC stated that its review of the late filed exhibits does not show a Notice to Proceed. (BR 16) OPC stated that witness Luitweiler was asked about the status of the project and still could not confirm that construction had started. (TR 233) Based on OPC witness Woodcock's concern that any project is uncertain until construction actually begins, OPC stated that this project is still very uncertain. (OPC BR 17) In its brief, OPC expressed that, if any construction begins in the next month, it will be well over 20 months after the test year before this project might be completed, and as such, the Peace River project should not be included in rate base. (OPC BR 17)

For the reasons discussed above, OPC recommended that these three projects should not be included in rate base.

YES, Pasco County, and AG either deferred to or adopted the position of OPC on this issue.

STAFF ANALYSIS

Section 367.081(2)(a)2., F.S., states:

For purposes of such proceedings, the commission shall consider utility property, including land acquired or facilities constructed or to be constructed within a reasonable time in the future, not to exceed 24 months after the end of the historic base year used to set final rates unless a longer period is approved by the commission, to be used and useful in the public service

The test year in this case is the historical 13-month average year ended April 30, 2010. The 24-month period following this test year will end on April 30, 2012. As such, staff disagrees with the OPC-contention that the Leisure Lakes AdEdge Water Treatment Project, the Peace River Water Treatment Project, and the Sunny Hills Water System Water Tank Replacement Project should not be included in rate base because it would be over 20 months after the test year before

these projects might be completed. In addition, staff disagrees with the OPC argument that pro forma plant projects should not be included in rate base unless construction has begun because the Commission has previously approved pro forma plant based on an award bid or executed contract.²⁴

Based on the support documentation provided by AUF, staff recommends that the Utility has supported \$792,347 related to the six protested pro forma projects. The table below reflects the breakdown by rate band and stand-alone system.

Table 3-1

Supported Pro Forma Plant Projects				
Band/ System	Description	MFR Amount	Staff Amount	Adjustment
Water Rate Band 2	Additional Storage	\$120,000	\$141,004	\$21,004
Water Rate Band 4	Tank Liners	70,000	48,066	(21,934)
Water Rate Band 4	Secondary Water Treatment	300,000	341,367	41,367
Water Rate Band 4	Secondary Water Treatment	150,000	106,646	(43,354)
Breeze Hill Wastewater	Sewer I&I	100,000	78,165	(21,835)
Peace River Water	Gross Alpha Project	50,000	77,099	27,099
Total		\$790,000	\$792,347	\$2,347

CONCLUSION

Based on the support documentation provided by AUF, staff recommends that the Utility has supported \$792,347 related to the six protested pro forma projects. As such, the Utility's pro forma plant additions should be increased by \$24,182 for water and decreased by \$21,835 for wastewater. In accordance with the depreciation rates prescribed in Rule 25-30.140, F.A.C., staff recommends that corresponding adjustments should be made to increase accumulated depreciation and depreciation expense by \$1,132 for water and decrease accumulated depreciation and depreciation expense by \$485 for wastewater. In addition, corresponding adjustments should be made to decrease property taxes by \$8,549 for water and \$2,136 for wastewater. The specific rate band and system adjustments are set forth in the table on the following page.

²⁴ See Order Nos. PSC-10-0400-PAA-WS, pp. 10-11, issued June 18, 2010, in Docket No. 090392-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities, Inc. of Pennbrooke; and PSC-08-0622-PAA-WU, pp. 5-6, issued September 24, 2008, in Docket No. 060540-WU, In re: Application for increase in water rates in Pasco County by Colonial Manor Utility Company.

Table 3-2

Pro Forma Plant and Corresponding Adjustments				
Rate Band/System	Plant	Accumulated Depreciation	Depreciation Expense	Property Taxes
Water Band 2	\$21,004	(\$93)	\$93	\$671
Water Band 4	(23,922)	190	(190)	(9,658)
Breeze Hill-Wastewater	(21,835)	485	(485)	(2,136)
Peace River- Water	(27,099)	(1,230)	1,230	437
Total Adjustments	\$2,347	(\$647)	\$647	(\$10,686)

Issue 4: What are the appropriate used and useful percentages and the associated composite used and useful percentages for the following specific protested water treatment and related facilities of Arredondo Estates, Arredondo Farms, Breeze Hill, Carlton Village, East Lake Harris/Friendly Center, Fern Terrace, Hobby Hills, Interlachen/Park Manor, Lake Josephine/Sebring Lakes, Picciola Island, Rosalie Oaks, Silver Lake Estates/Western Shores, Tomoka View, Twin Rivers, Venetian Village, Welaka, and Zephyr Shores?

Recommendation: Staff recommends that all of the AUF WTPs that were not previously stipulated should be considered 100 percent U&U, with the exception of 6 systems (Table 4-1). The resulting composite U&U percentages, based on the number of customers in each rate band, are shown on Attachment 1. Further, the rate base adjustments are shown on Schedule 3-C and the depreciation expense and property tax adjustments are shown on Schedule 4-C. (Walden, Fletcher)

Position of the Parties

AUF: Other than the stipulations agreed to and accepted during the course of the proceeding, the appropriate used and useful (“U&U”) percentages for the remaining water treatment and related facilities for protested water treatment and related facilities are identified in the Direct and Rebuttal Testimony of William Troy Rendell and the Rebuttal Testimony of Frank Seidman.

OPC: The proper calculation of the U&U percentages for water treatment and storage plant should be based upon the requirements of Section 367.081(2)(a), Florida Statutes, and Commission Rule 25-30.4325, F.A.C.

YES: Yes defers to the position of the OPC on this issue.

Pasco County: Pasco County adopts the position of the Office of Public Counsel as if fully set forth herein.

AG: The AG adopts the position of the OPC.

Staff Analysis: Rule 25-30.4325, F.A.C., addresses the considerations to be used in determining the U&U percentages for water treatment systems. The U&U percentage is determined by dividing the numerator, which includes peak customer demand less excessive unaccounted for water (EUW), plus fire flow and a growth allowance, by the denominator, which is based on the firm reliable capacity (FRC) of the wells. For systems with storage facilities, the FRC is based on 16 hours of pumping and the units are referenced in gallons per day (gpd). For systems without storage facilities, the units are referenced in gallons per minute (gpm). The rule also contains a provision by which an alternative calculation may be considered if supporting justification is provided, including service area or treatment capacity restrictions, changes in flows due to conservation or a reduction in the number of customers, and alternative peaking factors. Paragraph (4) of the rule provides that a water plant is considered 100 percent U&U if the service area “is built out and there is no apparent potential for expansion of the service territory or the system is served by a single well.” The appropriate adjustments for EUW have been stipulated by all parties, as shown in PAA Issue 4 in the Appendix.

AUF and OPC agreed on U&U percentages for many of the water treatment systems; however, OPC protested the U&U percentages for the following WTPs: Arredondo Estates, Arredondo Farms, Breeze Hill, Carlton Village, East Lake Harris/Friendly Center, Fern Terrace, Hobby Hills, Interlachen/Park Manor, Lake Josephine/Sebring Lakes, Picciola Island, Rosalie Oaks, Silver Lakes Estates/Western Shores, Tomoka View, Twin Rivers, Venetian Village, Welaka, and Zephyr Shores. In witness Woodcock’s testimony, OPC agreed with the PAA Order for the Fairways WTP. (TR 602) The parties disagreed on several U&U issues, including reliance on prior Commission orders; the appropriate U&U determination for systems with one well; and the impact of growth trends, reductions in demand, and fire flow on the U&U calculation. Table 4-1 contains a summary of AUF’s and OPC’s proposed U&U percentages, along with staff’s recommended U&U percentages for each of the systems in dispute. Details of AUF’s and OPC’s U&U calculations, staff’s recommended U&U percentages, and the resulting composite U&U percentages are shown, by rate band, on Attachment 1.

Table 4-1

System	WTP U&U		
	AUF U&U%	OPC U&U%	Staff Rec U&U%
Arredondo Estates	100	80	100
Arredondo Farms	100	61	100
Breeze Hill	100	26	100
Carlton Village	95	91	95
East Lake Harris/Friendly Center	100	41	100
Fern Terrace	100	68	100
Hobby Hills	100	41	100
Interlachen/Park Manor	100	76	100
Lake Josephine/Sebring Lakes	85	25	85
Picciola Island	75	56	75
Rosalie Oaks	100	12	100
Silver Lake Estates/Western Shores	94	74	94
Tomoka View	100	43	100
Twin Rivers	100	24	100
Venetian Village	74	63	74
Welaka	80	74	80
Zephyr Shores	100	26	100

PARTIES’ ARGUMENTS

AUF

AUF’s position is that all of the U&U findings in the Commission’s PAA order should be approved as final. AUF witness Rendell testified that the Commission should use its previously approved U&U methodologies and resulting percentages in determining the correct amounts of U&U for WTPs. He stated that AUF used the same methods in its filing as were approved in the last rate case which were based upon Commission rules. Witness Rendell asserted that

regulatory certainty is a core principle for any regulated utility and that ignoring the last approved U&U percentages undermines that certainty. The courts have made it clear that the Commission must “adhere to its prior practices in calculating used and useful percentages.”²⁵ (TR 474, 476-477)

AUF witness Seidman testified that OPC witness Woodcock’s U&U conclusions are erroneous because they misinterpret the governing statutes and rules, as well as the intent of those statutes and rules. He noted that there is no statutory definition of U&U, describing the term U&U as a regulatory rate setting term for the cost of property that is included in a utility’s rate base on which the utility is entitled to earn a rate of return. The balance of the cost of the property that is excluded from rate base is referred to as non-U&U or future use plant. (TR 1606) Witness Seidman provided background on the U&U concept citing statutory provisions in Chapters 367 and 403, F.S., as well as Rules 25-30.431, 25-30.432, and 25-30.4325, F.A.C., and how those statutes and rules evolved into the rules that were codified in 1999 and 2008.

Witness Seidman testified that this Commission has regulated water and wastewater utilities since 1959, and a common issue has been the determination of “property used and useful in the public service.” A change was made to the statutory language in 1999 prohibiting the Commission from imputing contributions in aid of construction against property U&U in the public service, pursuant to Section 367.081(2)(a)1., F.S. In addition, language was added as Section 367.081(2)(a)2., F.S., which requires the Commission to consider property U&U if it is needed to serve current customers, as well as additional customers for five years after the test year or longer if supported by the evidence. (TR 1605-1607)

Witness Seidman described the Commission’s efforts to standardize or codify its approach to determining U&U over the years, relying on the Commission’s broad authority under Section 367.011, F.S., to liberally construe the statutes. Witness Seidman notes that the Commission’s policy developed through orders, internal memoranda, and workshops, and ultimately led to the codification of Rules 25-30.432 and 25-30.4325, F.A.C., which address U&U for WWTPs and WTPs, respectively. He further notes that OPC was an active party in the rulemaking process. (TR 1606-1609)

AUF witness Seidman agreed with witness Rendell that AUF’s determination of U&U complies with the methodology and intent of the Commission’s rules, and that a utility should be able to rely on approved U&U methodologies litigated and adjudicated in prior cases. If such reliance cannot be had, he alleged that regulatory uncertainty results. Witness Seidman testified that witness Woodcock’s arguments in the instant docket are the same that he made in Docket No. 080121-WS, the last AUF docket, and in Docket No. 070183-WS, the Commission’s U&U rulemaking docket.²⁶ He asserted that the positions advanced by Woodcock were rejected by the Commission in both of those dockets, which are now closed. Further, witness Seidman disagreed with OPC’s argument that U&U for each system must be relitigated in every rate case, and asserted that this is contrary to the intent of the governing rules. Finally, he stated that the

²⁵ Southern States Utilities v. Florida Water Services Corp., 714 So. 2d 1046, 1057 (Fla 1st DCA 1998)

²⁶ See Order No. PSC-08-0328-FOF-WS, issued May 20, 2008, in Docket No. 070183-WS, In re: Proposed adoption of Rule 25-30.4325, F.A.C., Water Treatment Plant Used and Useful Calculations; and staff’s recommendation dated March 27, 2008, in same docket.

rules in place are intended to reduce the need for experts to re-argue the same issues over and over. (TR 1605, 1610-1614, 1805) AUF witness Rendell testified that ignoring previously approved U&U methodologies and percentages will result in protracted disputes that ultimately lead to higher rate case expense for the customers. (TR 474, 478)

Witness Seidman testified that reductions in consumption may decrease demand below plant design and previous production levels, but should not affect U&U calculations. He stated that the plant is no less U&U than before those reductions occurred, even if mathematical calculations might show a different conclusion. While reductions in demand will result in a lower U&U number, he testified that recognition must be given to providing service in a prudent manner, which would include changes in demand, whether demand goes up or down. A utility must provide safe, efficient, and sufficient service in accordance with good engineering practice and must also have stability in its financial position so that funding can be obtained at reasonable costs. Further, witness Seidman asserted that a utility must be ready to serve regardless of changes in market demand or its customer base. Finally, witness Seidman concluded that witness Woodcock's approach of recognizing reductions in demand for U&U purposes did not make sense. (TR 1614-1617)

In its brief, AUF argued that OPC's disagreement with the PAA Order's U&U determinations deviate from Rule 25-30.4325, F.A.C. AUF asserted that witness Woodcock's reliance on the general provision of the rule allowing an alternative U&U calculation under certain circumstances was misplaced. Citing Palm Beach Canvassing Board v. Harris, 772 So. 2d 1273, 1287 (Fla. 2000), AUF argued that the general provisions of paragraph 3 of the rule must yield to the specific provisions of paragraph 4. AUF also refuted witness Woodcock's position with respect to rounding up a U&U percentage. Citing a prior Commission order,²⁷ AUF argued that considering a system 100 percent U&U when the applicable formula results in a U&U of 90 percent is a proper evaluation of costs that should be recognized as necessary to provide service to existing customers, taking into account prudence of investment, economies of scale, and other factors recognized in Rule 25-30.4325(2), F.A.C. (AUF BR 23-24)

OPC

OPC witness Woodcock testified that he made calculations based upon Commission Rule 25-30.4325, F.A.C., for water systems, and relied on Section 367.081(2)(a), F.S., which provides that the Commission shall consider property U&U in the public service when such property is needed to serve current customers, including an allowance for growth. He asserted that to provide a complete and thorough review of a utility during a rate case, U&U should be evaluated every time. Over time, there are material changes in the growth of a service area, how the system is operated, and the usage patterns of the customer base. He also stated that there may be new or different information submitted that corrects inaccurate information from a prior rate case. He concluded that customers are bearing the full brunt of the risk associated with stranded capacity in systems with little or no growth, declining growth or decreased usage. The end result is higher rates for the customers who have no control over these factors. (TR 601-602, 604-606; OPC BR 17)

²⁷ See Order No. PSC-03-1440-FOF-WS, issued December 22, 2003, in Docket No. 020071-WS, In re: Application for a rate increase in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.

Witness Woodcock testified that he disagreed with prior Commission decisions to round up to 100 percent when an older system with little or no growth is calculated to be 95 percent U&U. He testified that this approach is not supported by any U&U rule and results in higher rates for the customers. (TR 607-608) OPC argued that staff has stretched the interpretation of Rule 25-30.4325, F.A.C., beyond its reasonable limits to determine systems to be 100 percent U&U where the systems are not built out and where a potential does exist for expansion of the service territory. Witness Woodcock noted that, while the Commission included a growth allowance for many of the AUF systems in the last rate case, since that time, the economy has undergone a recession and many of the AUF systems have experienced a decline in the growth factor. (TR 606-607) Further, noting the portions of Rule 25-30.4325(4), F.A.C., addressing reductions in flows related to conservation or a reduction in the number of customers, witness Woodcock argued that the rules require that U&U be re-evaluated for systems where flows have decreased. Witness Woodcock maintained that a change in the growth rate and a decline in customer demand provided sufficient justification to reevaluate the overall U&U of all of the AUF systems. (TR 604-606, OPC BR 18-19)

Another area of concern for witness Woodcock was determining whether a system is built out. Witness Woodcock's opinion was that a swing of 25 percent is an appropriate figure to use to account for incremental sizing of facilities and the differences between design estimates and actual usages. In the case where a service area appears to be built out with no apparent opportunity to expand the service, he proposed a recognition of 100 percent U&U for treatment facilities provided that the calculated U&U percentage is greater than 75 percent. If the calculated percentage is less than 75 percent, he advocated using the calculated U&U percentage rather than recognizing a built-out condition, as contemplated under Rule 25-30.4325, F.A.C. He explained that original facilities could have been overdesigned, designed to serve a larger service area, land use might have changed from the original concept, or the customer demand could be less than originally contemplated. Regardless of the reason, he concluded that there are large amounts of stranded capacity that will never be used by the customers and should be recognized in the U&U analysis. (TR 612-613; OPC BR 18-19)

YES, Pasco County, and AG either deferred to or adopted the position of OPC on this issue. None of these parties included any argument on this issue in their respective briefs.

ANALYSIS

AUF and OPC agreed on the U&U percentages for all but 17 of AUF's WTPs. Table 4-1 reflects AUF's and OPC's U&U positions, as well as staff's recommendations for each of the WTPs that were not stipulated. As described above, the parties disagreed on issues related to reliance on prior Commission orders; the appropriate U&U determination for systems with one well; and the impact of reductions in demand, growth, and fire flow on the U&U calculation.

Staff agrees with AUF's position that a utility should be able to rely on approved U&U methodologies litigated and adjudicated in prior cases. Without such reliance, regulatory uncertainty results. Further, staff believes that the Commission's intent in adopting Rule 25-30.4325, F.A.C., was to mitigate unnecessary litigation with respect to U&U issues. (TR 474, 476-477)

Staff is not persuaded by witness Woodcock's testimony that reliance on prior Commission orders is a race to increase U&U, with no real justification for doing so. It is the policy of the Commission to rely upon prior Commission Orders in addressing issues where the facts and circumstances are the same or similar. However, staff agrees that when there is a change in facilities or operation of a system, further evaluation is warranted in determining the appropriate U&U percentage. In the instant case, only two systems have experienced a change since the last rate case. The interconnection between the Lake Josephine and Sebring Lakes systems was made permanent and DEP now considers the two facilities one system; and one well was added at the Zephyr Shores water system. (TR 479-480; EXH 249, p. 80)

Systems with One Well

AUF has four WTPs with one well each, including Breeze Hill, Fern Terrace, Rosalie Oaks, and Twin Rivers. AUF's position is that pursuant to Rule 25-30.4325(4), F.A.C., a water treatment system should be considered 100 percent U&U if the system is served by a single well. AUF witness Seidman characterized witness Woodcock's testimony on U&U as his disagreement with the Commission's rules, specifically Rule 25-30.4325(4), F.A.C., which states:

A water system is considered 100% used and useful if the service territory the system is designed to serve is built out and there is no apparent potential for expansion of the service territory or the system is served by a single well.

(TR 1610)

Witness Seidman quoted from the staff recommendation in the U&U rule docket, Docket No. 070183-WS, dated March 27, 2008, p. 27, which was approved by the Commission:

The Commission has consistently found that systems with one well and systems that are built out with no apparent potential for expansion are 100% used and useful unless it appears that the system was not prudently designed.²⁸ These systems, and there are hundreds of them in Florida, are typically built by developers to serve a relatively small area. Staff believes that it is not efficient to require a sophisticated used and useful analysis to ascertain whether these types of systems are oversized for the developments they are designed to serve. (Rather, a

²⁸ See, e.g., Order No. PSC-96-1320-FOF-WS, issued October 30, 1996, in Docket No. 950495-WS, In re: Application for rate increase and increase in service availability charges by Southern States Utilities, Inc. for Orange-Osceola Utilities, Inc. in Osceola County, and in Bradford, Brevard, Charlotte, Citrus, Clay, Collier, Duval, Highlands, Lake, Lee, Marion, Martin, Nassau, Orange, Osceola, Pasco, Putnam, Seminole, St. Johns, St. Lucie, Volusia, and Washington Counties, p. 58 (finding that in systems with only one component [such as a single well], that component is considered 100 percent used and useful), rev'd on other grounds, Southern States Utils. v. PSC, 714 So. 2d 1046 (Fla. 1st DCA 1998); and Order No. PSC-03-1440-FOF-WS, issued December 22, 2003, in Docket No. 020071-WS, In re: Application for rate increase in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida, p. 44 (finding that it is not unreasonable or unusual for the Commission to consider distribution and collection systems that are 80% or more built out to be 100% used and useful in instances where there is virtually no growth potential and the existing lines are the minimum size needed to serve the existing customers).

used and useful analysis should only be performed as an alternative when there is evidence indicating that the system may be oversized.)

(TR 1610)

In its brief, AUF argued that witness Woodcock's testimony does not say that there is anything imprudent about these systems. Moreover, AUF argued that witness Woodcock's exception to Rule 25-30.4325(4), F.A.C., generates the type of unnecessary costs and inefficiencies the Commission sought to avoid by adopting the rule. Therefore, AUF concluded that there is no basis to determine that AUF's systems with one well are less than 100 percent U&U. (AUF BR 24)

Fern Terrace, Rosalie Oaks, and Twin Rivers were found 100 percent U&U in the last AUF rate case. AUF notes that the Breeze Hill system, now in its first rate proceeding under AUF ownership, was previously found 100 percent U&U in two prior Commission staff-assisted rate cases.²⁹ Witness Rendell noted that OPC participated in both of those rate cases and did not appeal the U&U determinations from either case. In the 2001 Breeze Hill rate case, the Commission found:

The design criteria method of analysis represents the highest potential need that may be required of a system during any given peak day. Since this system has only one well, no less than the actual capacity of 200 gpm could serve the existing customers. . . . We find it unlikely that Breeze Hill Mobile Home Park . . . will ever contain 350 persons to meet the requirement of Rule 62-555.315, Florida Administrative Code, for a second well.

(TR 480, 1810; Order No. PSC-02-1114-PAA-WS, p. 7)

Witness Woodcock testified that he considered Breeze Hill, Fern Terrace, Rosalie Oaks, and Twin Rivers exceptions to Rule 25-30.4325(4), F.A.C. Relying upon the alternate calculation provision specified in Rule 25-30.4325(3), F.A.C., witness Woodcock indicated that he wanted to be sure that he was only considering systems where a further analysis would have a significant impact; therefore, he generated criteria to provide a conservative basis for isolating special cases. His criteria for calculating a U&U percentage for systems with one well was that he considered whether the supply well was rated at greater than 150 gpm and whether the calculated U&U was 75 percent or less. Witness Woodcock based his allowance of 150 gpm upon his experience as an engineer. Because single wells are allowed for smaller service areas of less than 150 service connections or less than 350 persons, expectations are that single well systems will have a low capacity. Using a design of 1 gpm per connection generally matches the 1.1 gpm per connection specified in the Commission's Rule 25-30.4325(7)(a), F.A.C., and equates to the 150 service connections in DEP's Rule 62-555.315, F.A.C. Because each of the four systems have well capacity of greater than 150 gpm, and the calculated U&U was less than

²⁹ Order No. PSC-02-1114-PAA-WS, issued August 14, 2001, in Docket No. 011481-WS, In re: Application for staff-assisted rate case in Polk County by Bieber Enterprises, Inc. d/b/a Breeze Hill Utilities, holder of Certificate Nos. 598-W and 513-S; Order No. PSC-99-2394-FOF-WS, issued December 7, 1999, in Docket No. 990356-WS, In re: Application for staff-assisted rate case in Polk County by Bieber Enterprises, Inc. d/b/a Breeze Hill Utilities.

75 percent, witness Woodcock conducted further evaluation, finding Breeze Hill, Fern Terrace, Rosalie Oaks, and Twin Rivers to be 26, 68, 12, and 24 percent U&U, respectively. (TR 617-618; EXH 284, pp. 8-9)

Breeze Hill, Fern Terrace, Rosalie Oaks, and Twin Rivers each have one well, with capacities ranging from 177 to 268 gpm, and each system serves approximately 100 customers. The parties agree that each of these systems have had no significant growth in the past five years. The Commission found each of these systems to be 100 percent U&U in prior rate cases.

The Commission has consistently found that systems with one well are 100 percent U&U unless it appears that the system was not prudently designed. Staff agrees with witness Seidman's reference to the justification provided when Rule 25-30.4325, F.A.C., was adopted. It is not efficient to require a sophisticated U&U analysis to ascertain whether these types of systems are oversized for the developments they are designed to serve. Rather, a U&U analysis should only be performed as an alternative when there is evidence indicating that the system may be oversized.

Staff agrees with AUF's argument that OPC offered no testimony to suggest that the four systems with one well were imprudently designed. Rather, OPC relied on two criteria, whether the supply well was rated at greater than 150 gpm and whether the calculated U&U was 75 percent or less. While witness Woodcock characterized these criteria as conservative, staff was not persuaded that those criteria should be used to determine whether to apply Rule 25-30.4325(4), F.A.C. Further, as with most of AUF's WTPs, these systems were constructed more than 30 years ago and have experienced no significant growth in the past five years. Therefore, staff recommends that Breeze Hill, Fern Terrace, Rosalie Oaks, and Twin Rivers be found 100 percent U&U, consistent with prior Commission decisions and Rule 25-30.4325(4), F.A.C.

Systems with Growth

Only four AUF WTPs that were not stipulated in this proceeding have experienced any significant growth in the past five years, including Carlton Village, Picciola Island, Venetian Village, and Welaka. Both AUF and OPC provided U&U calculations for these four systems. However, AUF's position was to rely on the higher U&U finding in Docket No. 080121-WS and OPC's position was to rely on a new calculation based on the peak demand in the test year.

AUF's position was that Carlton Village is 95 percent U&U, Picciola Island is 75 percent U&U, Venetian Village is 74 percent U&U, and Welaka is 80 percent U&U, as reflected in Docket No. 080121-WS. As previously discussed, AUF maintained it was entitled to regulatory certainty and, therefore, the Commission should use its previously approved U&U methodologies and resulting percentages in determining the correct amounts of U&U for these water systems. Witness Seidman recognized that water and wastewater utilities were subject to reductions in consumption by customers, and even a loss of customers, as a result of conservation efforts and events beyond the control of a utility. When this happens, demand may decrease to something less than that for which it was prudently designed and less than levels it had previously served. According to witness Seidman, the Commission already recognizes the impact of reduced consumption on revenue requirements by adjusting billed consumption with a repression adjustment. Witness Seidman testified that putting witness Woodcock's approach

into practice would be inconsistent with the efforts made by this Commission and Florida's WMDs to promote conservation. According to witness Seidman, the Commission has a responsibility to the utility, as well as to the customer, which is precisely why the Commission has consistently recognized that a utility company should not be penalized for incurring prudent investment to provide capacity to its customers, even if the customers or consumption is then reduced for factors beyond a utility's control. When there is a decrease in demand, a utility's facilities are still providing service to the customers. Witness Seidman testified that witness Woodcock was certainly correct that going through the mathematical exercise of dividing demand by capacity will result in a lower number, but stated that recognition must be given to providing service in a prudent manner. That means being ready to serve when demand changes, up or down. Witness Seidman testified that witness Woodcock's approach would mean that a utility could recover costs when demand goes up, but not recover costs when demand goes down. (TR 474, 1604, 1613-1616)

OPC's position was that Carlton Village is 91 percent U&U, Picciola Island is 56 percent U&U, Venetian Village is 63 percent U&U, and Welaka is 74 percent U&U. Witness Woodcock recommended that the Commission recognize changes in system demand, including diminished demand, in U&U calculations. For the Carlton Village and Venetian Village water systems, witness Woodcock pointed out that the growth factors had decreased since the last rate case. He also noted that for Picciola Island and Welaka, while the growth rates increased since the last rate case, the customer usage declined to the extent that the calculated U&U percentages for this proceeding are less than in the prior rate case. (TR 605, 614; EXH 74, p. 1)

Staff is not persuaded by witness Woodcock's argument that diminished flows should be relied on in determining the appropriate U&U percentage for systems. While Rule 25-30.4325(3), F.A.C., provides for consideration of a decrease in flows, the rule also provides for consideration of whether the investment was prudent. Staff agrees with AUF's position that OPC did not demonstrate that the systems were not prudently designed. Further, staff agrees with AUF that the Commission should not reduce a system's U&U percentage merely due to a reduction in flow. Rather, the Commission should recognize the greater demand that was relied on when the higher U&U percentage was previously approved in the prior case.

However, staff notes that AUF's proposed U&U percentages for Carlton Village, Picciola Island, and Venetian Village, were not fully litigated in Order No. PSC-09-0385-FOF-WS, but were stipulated.³⁰ In Order No. PSC-96-1320-FOF-WS, issued October 30, 1996, in Docket No. 950495-WS after a full evidentiary hearing, the Commission found all three WTPs to be 100 percent U&U. In this rate case, AUF requested that the Carlton Village, Picciola Island, and Venetian Village systems to be considered 95, 75, and 74 percent U&U. Clearly when there has been a change in circumstances, a change in structure or operations, or if the Commission has made a mistake, then the Commission should revisit the calculation. Staff does not believe the U&U percentages approved in the prior rate case should be reduced. As a result of a change in flows, because AUF proposed lower U&U percentages with rate case than were previously approved, staff recommends that AUF's proposed U&U percentages for Carlton Village, Picciola Island, and Venetian Village should be approved.

³⁰ See Order No. PSC-09-0385-FOF-WS, issued May 29, 2009, in Docket No. 080121-WS, In re: Application for increase in water and wastewater rates by Aqua Utilities Florida, Inc., p. 36.

For the Welaka WTP, the U&U percentage was fully litigated in Docket No. 080121-WS and found to be 79.72 percent U&U. Again, where there has been no structural or operational change, but merely a reduction in flows, staff does not believe that the U&U determination from the prior rate case should be reduced. See, e.g., Order No. PSC-03-1440-FOF-WS³¹ (“When a rate case is filed, prior Commission orders involving the same systems or system components from prior rate cases should be reviewed and considered as part of the analysis in the current rate case proceeding.”). As AUF witnesses Rendell and Seidman both testified, there have been no material structural or operational changes to AUF’s systems since the last rate case to justify deviating from the Commission’s previously approved U&U methodologies and resulting percentages. (TR 1612-1617; EXH 224; AUF BR 25) In summary, staff recommends that Carlton Village, Picciola Island, Venetian Village, and Welaka, be found 95, 75, 74, and 80 percent U&U, respectively.

Systems Without Growth

The parties agree that the nine remaining AUF systems that were not stipulated in the current proceeding have had no significant growth since the last rate case, including Arredondo Estates, Arredondo Farms, East Lake Harris/Friendly Center, Hobby Hills, Interlachen/Park Manor, Lake Josephine/Sebring Lakes, Silver Lake Estates/Western Shores, Tomoka, and Zephyr Shores. Witness Rendell’s testimony and exhibits reflect that six of the water systems, including Arredondo Estates, Arredondo Farms, East Lake Harris/Friendly Center, Hobby Hills, Interlachen/Park Manor, and Tomoka, were considered built out and therefore 100 percent U&U in Docket No. 080121-WS and there have been no changes in the structure or operation of those systems since that case. In addition, witness Rendell testified that, although a second well was added to the Zephyr Shores system to comply with DEP Rule 65-555.315(2), F.A.C., which requires community systems serving more than 350 persons to have more than one well, the number of customers served by the Zephyr Shores system has declined over the past 14 years. (TR 490, 1808) AUF argued that Rule 25-30.4325(4), F.A.C., and Commission precedent require that these systems be treated as 100 percent U&U unless the system was not prudently designed. Further, AUF asserted that because witness Woodcock did not testify that there is anything imprudent about these systems, each of these seven water systems should be considered 100 percent U&U in the current case. (AUF BR 24; TR 1610, 1805-1806)

Witness Rendell testified that, in the last two rate cases, while the Lake Josephine and Sebring Lakes systems were interconnected, the interconnection valve was not open. Subsequently, the interconnection valve has been opened and became permanent in order to address pressure concerns in one small section of Lake Josephine and improve the reliability of service of both systems. The opening of the valve did not add any additional capacity to the treatment system. In the last rate case, the Lake Josephine system was found 92 percent U&U and the Sebring Lakes system was found 45 percent U&U. AUF proposed that the combined Lake Josephine/Sebring Lake system be considered 85 percent U&U based on the weighted average U&U percentages found in the last rate case for the two systems. (TR 1809) AUF refuted witness Woodcock’s proposal to eliminate fire flow from the U&U calculation, relying

³¹ See Order No. PSC-03-1440-FOF-WS, p. 38.

on prior Commission orders allowing fire flow, even for systems with limitations on the amount of fire flow available. However, it should be noted that AUF did not include fire flow in its U&U calculation, nor was fire flow included for this system in Docket No. 080121-WS. (AUF BR 25; TR 1803-1805)

The Silver Lake Estates/Western Shores system was found 93.71 percent U&U in Docket No. 080121-WS, recognizing that the system was experiencing some growth. There has been a significant reduction in demand, no significant growth, and no change in the structure or operation of the system since the last rate case. Therefore, AUF proposed that Silver Lake Estates/Western Shores be considered 94 percent U&U, consistent with the Commission's finding in that rate case. (TR 474; EXH 68, pp. 1, 6)

OPC's position was that these nine water systems should be considered less than 100 percent U&U. Witness Woodcock testified that: Arredondo Estates is 80 percent U&U; Arredondo Farms is 61 percent U&U; East Lake Harris/Friendly Center and Hobby Hills are both 41 percent U&U; Interlachen/Park Manor is 76 percent U&U; Lake Josephine/Sebring Lakes is 25 percent U&U; Silver Lake Estates/Western Shores is 74 percent U&U; Tomoka is 43 percent U&U; and Zephyr Shores is 26 percent U&U. (EXH 73, pp. 1-2)

As previously discussed, Witness Woodcock testified that he was concerned with the reliance on build out and prior Commission orders as appropriate justifications for finding systems 100 percent U&U. Referring to the Commission's PAA Order, he noted that the phrase "prior order" was relied upon 38 times to justify a U&U percentage higher than a calculation would support, while the term "built out" was used 26 times. He noted that there have been material changes to many of these systems since the last rate case that affect the U&U calculations, especially in the areas of growth and demand. (TR 603-605)

Witness Woodcock also testified that, as previously discussed, for systems with a calculated U&U percentage of less than 75 percent, such a difference goes beyond the expected variability of planning and design, leaving large amounts of stranded capacity that will never be used. Witness Woodcock testified that the actual U&U calculation should be used when it results in a U&U of 75 percent or less for systems such as Tomoka and Zephyr Shores. (TR 611-613)

Noting that the U&U calculations for the Arredondo Estates, Arredondo Farms, and Interlachen/Park Manor distribution systems revealed portions of the distribution systems are available for new connections, witness Woodcock testified that it is completely incongruous and unreasonable to find those systems built out and, therefore, 100 percent U&U. Therefore, he stated that reliance on the prior order finding the WTPs 100 percent U&U should not be allowed. (TR 608-610, 613)

Witness Woodcock testified that the Lake Josephine/Sebring Lake system should be considered 25 percent U&U. OPC's position is that, as interconnected systems, there are significant changes to the FRC of the water treatment system which has a direct impact on the U&U calculation. Further witness Woodcock did not support the provision of fire flow for a water plant unless lines are properly sized and there are sufficient hydrants to actually provide service to the entire service area. He argued that if all the customers do not benefit from the

provision of fire flow, that capacity is not U&U for all customers. Similarly, witness Woodcock stated that fire flow should be excluded from the U&U calculation for the Silver Lake Estates/Western Shores system, making the system 74 percent U&U. (TR 606-607, 615-616, 626; EXH 75, pp. 12-13, EXH 284)

Witness Woodcock testified that, pursuant to Rule 25-30.4325(4), F.A.C., both the design service area must be built out and there must be no potential for service area expansion in order to be considered to be 100 percent U&U. (TR 607) He provided aerial photos of the East Lake Harris/Friendly Center and Hobby Hills service areas to demonstrate that those systems have significant developable land within AUF's service territory that is available for potential expansion. He further testified that there do not appear to be any other utilities in the area that could easily provide service to the properties. Witness Woodcock asserted that the second part of the 100 percent built-out test has not been met because there is the ability for the utility to expand. Therefore, witness Woodcock recommended performing a U&U calculation for each of these WTPs, which results in each of the two systems being 41 percent U&U. (TR 610-611; EXH 76, EXH 77)

The parties agree that nine AUF water systems have had no significant growth in the past five years, including Arredondo Estates, Arredondo Farms, East Lake Harris/Friendly Center, Hobby Hills, Interlachen/Park Manor, Lake Josephine/Sebring Lakes, Silver Lake Estates/Western Shores, Tomoka, and Zephyr Shores. AUF's position is that all of these systems, with the exception of Lake Josephine/Sebring Lakes and Silver Lake Estates/Western Shores should be considered 100 percent U&U, consistent with the Commission's decision in the last rate case. Further, AUF asserted that Silver Lake Estates/Western Shores, is 94 percent U&U, consistent with the Commission's decision in Docket No. 080121-WS and Lake Josephine/Sebring Lakes is 85 percent U&U based on the weighted average of the U&U calculation for the two systems in that rate case. OPC's position was that U&U should be recalculated for each of these nine systems.

Consistent with staff's recommendation in the prior sections of this issue, staff agrees with AUF that the six water systems that have had no changes in the structure or operation of those systems since Docket No. 080121-WS and were considered built out and therefore, 100 percent U&U in that case should be considered 100 percent U&U in the current rate case, consistent with Rule 25-30.4325(4), F.A.C., and prior Commission decisions. Despite OPC's arguments to the contrary, staff believes that while there is some vacant land available for development in the East Lake Harris/Friendly Center and Hobby Hills service territories, the lack of growth and age of those systems, as well as the Commission's prior findings that the systems were built out are sufficient to demonstrate that those systems should continue to be considered 100 percent U&U. The WTPs serving these systems are more than 30 years old. (EXH 250, p. 237, EXH 251, p. 158)

Although a well was added at the Zephyr Shores water system to comply with DEP's rules, staff agrees with AUF that the system is built out, as demonstrated by a decline in connections in the past 14 years. The system, which is more than 30 years old (EXH 264, p. 271), was considered 100 percent U&U in Docket No. 080121-WS. Therefore, staff recommends that because the Zephyr Shores service area is built out and no evidence was

presented to indicate that the system was not prudently designed, the WTP should be considered 100 percent U&U, consistent with Rule 25-30.4325(4), F.A.C.

The Silver Lake Estates/Western Shores system was found 93.71 percent U&U in Docket No. 080121-WS. There has been no significant growth in customers, a significant reduction in demand, and no change in the structure or operation of the system since the last rate case. Therefore, staff recommends that the system be found 94 percent U&U, consistent with the Commission decision in Docket No. 080121-WS. Further, staff was not persuaded by OPC's argument that fire flow should be excluded from the U&U calculation because all customers do not benefit from the fire flow. Staff agrees with AUF that Rule 25-30.4325(1)(c), F.A.C., states that when fire flow is provided, a minimum of either the fire flow required by the local governmental authority or two hours at 500 gpm should be included in the U&U calculation. The Commission has consistently included fire flow in the U&U calculation over OPC's objections, even when there were few hydrants in the service area.

In Docket No. 080121-WS, Lake Josephine was found to be 92 percent U&U and Sebring Lakes was found to be 45 percent U&U. Subsequently, a valve in the existing interconnection between the two systems was permanently opened to improve pressure and reliability. The U&U calculation proposed by OPC reflects the requirement in Rule 25-30.4325(6), F.A.C., that the largest well be removed to determine the FRC. However, in the prior rate case Lake Josephine and Sebring Lakes were considered separate systems and the largest well was removed from each system. The FRC (denominator) is much higher in OPC's calculation, based on removing only one well for both systems, than in the prior case, resulting in a significantly lower U&U calculation. While the Lake Josephine/Sebring Lakes systems are now combined as one system, staff does not agree that making the existing interconnection should result in the Commission reducing the U&U percentages found in that case. The permanent interconnection adds increased reliability to both systems. Based on the Commission's decision in Docket No. 080121-WS, staff recommends that a weighted average 85 percent U&U should be approved for the Lake Josephine/Sebring Lakes WTP.

CONCLUSION

Staff recommends that all of the AUF WTPs that were not previously stipulated should be considered 100 percent U&U, with the exception of 6 systems (Table 4-1). The resulting composite U&U percentages, based on the number of customers in each rate band, are shown on Attachment 1. Further, the rate base adjustments are shown on Schedule 3-C and the depreciation expense and property tax adjustments are shown on Schedule 4-C.

Issue 5: What are the appropriate used and useful percentages and the associated composite used and useful percentages for the following specific protested water distribution systems of Arredondo Estates, Beecher's Point, Breeze Hill, Gibsonia Estates, Interlachen/Park Manor, Kingswood, Oakwood, Orange Hill/Sugar Creek, Palm Port, Palms Mobile Home Park, Peace River, Piney Woods, Ravenswood, River Grove, Rosalie Oaks, Silver Lake Estates/Western Shores, Silver Lake Oaks, Skycrest, Stone Mountain, Sunny Hills, The Woods, Twin Rivers, Venetian Village, Village Water, Welaka, and Wootens?

Recommendation: Staff recommends that all of the AUF water distribution systems that were not previously stipulated should be considered to be 100 percent U&U, with the exception of 9 systems (Table 5-1). Attachment 2 contains staff's recommended U&U percentages and the resulting composite U&U percentages based on the number of customers in each rate band. Further, the rate base adjustments are shown on Schedule 3-C and the depreciation expense and property tax adjustments are shown on Schedule 4-C. (Walden, Fletcher)

Position of the Parties

AUF: Other than the stipulations agreed to and accepted during the proceeding, the appropriate U&U percentages for the specific protested water distribution systems are identified in AUF's MFRs and in the Direct and Rebuttal Testimony of William Troy Rendell and the Rebuttal Testimony of Frank Seidman.

OPC: U&U should be calculated using the "lot count" methodology unless the service territory includes commercial and multi-family customers, in which case the total number of customers served should be compared to the total number of customers to be served at buildout.

YES: Yes defers to the position of the OPC on this issue.

Pasco County: Pasco County adopts the position of the Office of Public Counsel as if fully set forth herein.

AG: The AG adopts the position of the OPC.

Staff Analysis: The Commission does not have a rule that specifies how the U&U determination for water distribution systems is to be made. Commission practice has been to compare the customers (or ERCs) receiving service to the lots with service available. In addition, a growth allowance may also be included in the U&U calculation, pursuant to Section 367.081(2), F.S.

While the parties agreed on the U&U percentages for 32 of AUF's water distribution systems, there is disagreement with respect to the following 26 distribution systems: Arredondo Estates, Beecher's Point, Breeze Hill, Gibsonia Estates, Interlachen/Park Manor, Kingswood, Oakwood, Orange Hill/Sugar Creek, Palms Mobile Home Park, Palm Port, Peace River, Piney Woods, Ravenswood, River Grove, Rosalie Oaks, Silver Lake Estates/Western Shores, Silver Lake Oaks, Skycrest, Stone Mountain, Sunny Hills, Twin Rivers, Venetian Village, Village Water, Welaka, Wootens, and The Woods. Many of the parties' arguments are the same or similar to the arguments related to the appropriate U&U determination for WTPs, including

reliance on prior Commission decisions, determination as to whether a system is built out, and rounding up the U&U percentage. Table 5-1 contains a summary of AUF's and OPC's proposed U&U percentages, along with staff's recommended U&U percentages for each of the distribution systems in dispute. Attachment 2 reflects, by rate band, the details of AUF's and OPC's U&U positions, as well as staff's recommendation, for each of the 26 water distribution systems that were not stipulated.

Table 5-1

Distribution System U&U			
System	AUF U&U%	OPC U&U%	Staff Rec U&U%
Arredondo Estates	100	90	100
Beecher's Point	100	58	100
Breeze Hill	100	92	100
Gibsonia Estates	100	84	100
Interlachen/Park Manor	83	79	78
Kingswood	100	98	100
Oakwood	100	98	100
Orange Hill/Sugar Creek	100	94	100
Palm Port	100	94	100
Palms Mobile Home Park	88	79	88
Peace River	100	79	100
Piney Woods	100	89	100
Ravenswood	100	88	100
River Grove	100	80	100
Rosalie Oaks	100	80	100
Silver Lakes Estates/Western Shores	100	88	100
Silver Lake Oaks	87	83	87
Skycrest	100	93	100
Stone Mountain	54	48	46
Sunny Hills	13	11	10
The Woods	76	70	76
Twin Rivers	100	98	100
Venetian Village	85	81	85
Village Water	100	68	100
Welaka	52	51	52
Wootens	68	43	68

PARTIES' ARGUMENTS

AUF

Consistent with AUF's position with respect to the appropriate U&U percentages for WTPs, AUF argued that the Commission should rely on the U&U percentages for the water distribution systems found in Docket No. 080121-WS. Witness Rendell testified that AUF used the same methods as were approved in that case. Witness Rendell testified that regulatory

certainty is a core principle for any regulated utility and asserted that ignoring the last approved U&U percentages undermines that certainty. (TR 474, 476-478, 481, 1801-1802)

In its brief, AUF argues that considering a built-out system to be 100 percent U&U is a practice rooted in the history of Florida's water and wastewater system development and properly includes evaluation of cost that should be recognized as necessary to provide service to existing customers within the service area. (AUF BR 26)

AUF witness Seidman testified that a utility must be ready to serve regardless of changes in market demand or its customer base and noted that the system layout should also be considered. He concluded that even when every lot is not served and might never be served, a distribution system must be continuous and for all those reasons, it would be reasonable to conclude that a system is 100 percent U&U whether all lots are occupied. Witness Seidman asserted that it should never be concluded that simply because a calculated percentage was less than 100 that a reduction should be made to U&U. (TR 1617-1619)

Witness Seidman testified that, while the Commission has historically relied upon a lot count method (comparing the number of lots served with lots with service available), that method has not been codified in a rule. Further, while the lot count method is a starting point, the system layout should also be considered. He cautioned about relying solely on a lot count calculation and suggested that judgment should be considered. Citing a prior Commission decision, AUF argued that distribution and collection systems should be considered to be 100 percent U&U that are 80 percent or more built out, where there is no real growth potential, and the existing lines are the minimum size needed to serve existing customers.³² AUF argued that the U&U determination for distribution and collection lines should be the same as for electric, gas, and telephone. That assessment focuses on whether they are reasonably necessary to provide service within the service area. (AUF BR 24; TR 1617-1619)

Witness Rendell noted that, in the last rate case, OPC had stipulated to the U&U percentages for the distribution systems at Interlachen/Park Manor, Stone Mountain, and Sunny Hills, but protested those percentages in this case, despite there being no operational or structural changes to those systems since the last rate case. In addition, the Breeze Hill distribution system was previously found 100 percent U&U in the two prior staff assisted rate cases. OPC participated in those cases and did not appeal those decisions and there have been no structural or operational changes to the system since the last rate case. Further, witness Rendell asserted that the Fairways and Peace River systems are built out with no possibility for expansion; thus, consistent with Commission practice, those distribution systems should be considered to be 100 percent U&U. (TR 482-484)

³² See Orders No. PSC-09-0385-FOF-WS, issued May 29, 2009, in Docket No. 080121-WS; Order No. PSC-10-0585-PAA-WS, issued September 22, 2010, in Docket No. 090462-WS, In re: Application for increase in water and wastewater rates by Utilities, Inc. of Florida; and Order No. PSC-07-0505-SC-WS, issued June 13, 2007, in Docket No. 060253-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.

OPC

Consistent with its position with respect to U&U for WTPs, OPC argued that the U&U percentage for distribution systems should be re-evaluated for each new rate case to produce the most accurate percentage. OPC argued that the U&U percentage should not be rounded up, but only rounded to the nearest full single percentage point to avoid overstating the U&U percentage. Further, OPC argued that the U&U percentage should be based on a comparison of the total number of lots with active customers to the total number of lots served by the distribution system. (OPC BR 20-21)

Witness Woodcock testified that the Commission's reliance on prior decisions and findings that systems were built out resulted in U&U percentages that were higher than the calculated U&U percentages. For example, witness Woodcock noted that Rosalie Oaks was considered to be 100 percent U&U in the PAA Order, based on a prior Commission decision, when AUF, OPC, and staff had calculated the U&U percentage to be 80 percent. (TR 603-605, 623-624)

Witness Woodcock agreed with using the lot count methodology unless the service territory includes commercial and multi-family customers, in which case the total number of customers served should be compared to the total number of potential customers to be served at buildout, based on the service area maps, for both distribution and collection systems. Witness Woodcock relied on the latter methodology in evaluating the Jungle Den collection system, which has several lots with multi-family customers; however, he did not rely on that methodology for any of the distribution systems that are in dispute. (TR 623-625; EXH 79, p. 1)

YES, Pasco County, and AG either deferred to or adopted the position of OPC on this issue. None of these parties included any argument on this issue in their respective briefs.

ANALYSIS

AUF and OPC agreed on the U&U percentages for all but 26 of the AUF water distribution systems. Table 5-1 reflects AUF's and OPC's U&U positions, and the staff recommendation for each of the distribution systems that were not stipulated.

As previously discussed, staff agrees with AUF witnesses Rendell and Seidman that it is the policy of the Commission to rely on prior Commission decisions when there has been no change in the operating capacity of the system since the last rate case. In AUF's 2008 rate case, the Commission found that a system fully developed as planned, without potential for expansion, with minimal or no growth, few vacant lots, and small distribution lines should be considered to be 100 percent U&U. The Commission concluded that distribution systems that had a growth factor of 1.05 or less were considered to be 100 percent U&U. Of the 26 distribution systems that were not stipulated in the current proceeding, 14 were found 100 percent U&U in Docket No. 080121-WS, including Arredondo Estates, Beecher's Point, Gibsonia Estates, Kingswood, Orange Hill/Sugar Creek, Palm Port, Piney Woods, Ravenswood, River Grove, Rosalie Oaks, Silver Lake Estates/Western Shores, Skycrest, Twin Rivers, and Village Water.

Staff was not persuaded by OPC's arguments regarding re-evaluating systems in each rate case or its concerns with regard to finding a system to be 100 percent U&U when vacant lots exist. Staff believes that, as with WTPs, when systems are not experiencing growth, especially when a system is an older system, it is likely that built-out conditions exist. Finding a system to be 100 percent U&U is appropriate when the system is the minimum size necessary to serve the development or when the system is otherwise built out. Therefore, staff recommends that the 14 distribution systems that were considered to be 100 percent U&U in Docket No. 080121-WS should be considered to be 100 percent U&U in the instant docket. Staff also agrees with AUF that the Breeze Hill and Peace River distribution systems should be considered built out and, therefore, 100 percent U&U. Further, staff recommends that the Oakwood system, which was found to be 97 percent U&U in Docket No. 080121-WS, should also be considered built out and, therefore, 100 percent U&U. It should be noted that Oakwood was found to be 100 percent U&U in Order No. PSC-96-1320-FOF-WS, in Docket No. 950495-WS.

For two of the distribution systems, Palms Mobile Home Park and Wootens, staff recommends that the systems should be considered to be 88 and 66 percent U&U, respectively, consistent with the Commission's decision in Order No. PSC-09-0385-FOF-WS, in Docket No. 080121-WS. For the remaining seven distribution systems, including Interlachen/Park Manor, Silver Lake Oaks, Stone Mountain, Sunny Hills, The Woods, Venetian Village, and Welaka, staff recommends that the systems should be considered to be 78, 87, 46, 10, 76, 85, and 52 percent U&U, respectively, based on calculations from data filed in this case, comparing the number of lots served to lots with service available.

CONCLUSION

Staff recommends that all of the AUF water distribution systems that were not previously stipulated should be considered to be 100 percent U&U, with the exception of 9 systems (Table 5-1). Attachment 2 contains staff's recommended U&U percentages and the resulting composite U&U percentages based on the number of customers in each rate band. Further, the rate base adjustments are shown on Schedule 3-C and the depreciation expense and property tax adjustments are shown on Schedule 4-C.

Issue 6: What are the appropriate used and useful percentages and the associated composite used and useful percentages for the following specific protested wastewater treatment and related facilities of Arredondo Farms, Breeze Hill, Fairways, Florida Central Commerce Park, Holiday Haven, Jungle Den, Kings Cove, Leisure Lakes, Morningview, Palm Port, Peace River, Rosalie Oaks, Silver Lake Oaks, South Seas, Summit Chase, Sunny Hills, The Woods, Valencia Terrace, Venetian Village, and Village Water?

Recommendation: Staff recommends that all of the AUF WWTPs that were not previously stipulated should be considered 100 percent U&U, with the exception of 7 systems (Table 6-1). The resulting composite U&U percentages, based on the number of customers in each rate band, are shown on Attachment 3. Further, the rate base adjustments are shown on Schedule 3-C and the depreciation expense and property tax adjustments are shown on Schedule 4-C. (Walden, Fletcher)

Position of the Parties

AUF: Other than the stipulations agreed to and accepted during the proceeding, the appropriate U&U percentages for the specific protested wastewater treatment and related facilities are identified in AUF's MFRs and in the Direct and Rebuttal Testimony of William Troy Rendell and the Rebuttal Testimony of Frank Seidman.

OPC: The proper calculation of the U&U percentage for wastewater treatment plant should be based upon the requirements of Section 367.081(2)(a), Florida Statutes, and Commission Rule 25-30.432, F.A.C.

YES: Yes defers to the position of the OPC on this issue.

Pasco County: Pasco County adopts the position of the Office of Public Counsel as if fully set forth herein.

AG: The AG adopts the position of the OPC.

Staff Analysis: Rule 25-30.432, F.A.C., provides that the U&U percentage for a WWTP is determined by dividing the numerator, which includes customer demand plus a growth allowance less excessive infiltration and inflow (I&I), by the permitted capacity of the WWTP. The customer demand shall be the same basis as the permitted capacity. The rule also provides that the Commission will also consider other factors, such as the extent to which the area served by the plant is built out, whether the permitted capacity differs from the design capacity, whether there are differences between the actual capacities of the individual components of the wastewater treatment plant and the permitted capacity of the plant, and whether the flows have decreased due to conservation or a reduction in the number of customers. The appropriate adjustments for I&I have been stipulated by all parties, as shown in PAA Issue 8 in the Appendix.

OPC protested the U&U percentage adjustments for 20 of AUF's 27 WWTPs, including Arredondo Farms, Breeze Hill, Fairways, Florida Central Commerce Park, Holiday Haven, Jungle Den, Kings Cove, Leisure Lakes, Morningview, Palm Port, Peace River, Rosalie Oaks,

Silver Lake Oaks, South Seas, Summit Chase, Sunny Hills, The Woods, Valencia Terrace, Venetian Village, and Village Water. Table 6-1 contains a summary of AUF's and OPC's proposed U&U percentages, along with staff's recommended U&U percentages for each of the systems in dispute. AUF's and OPC's U&U calculations, staff's recommended U&U percentages, and the resulting composite U&U percentages are shown, by rate band, on Attachment 3.

Table 6-1

WWTP U&U			
System	AUF U&U%	OPC U&U%	Staff Rec U&U%
Arredondo Farms	100	66	100
Breeze Hill	56	24	56
Fairways	100	42	100
Florida Central Commerce Park	100	41	100
Holiday Haven	75	62	62
Jungle Den	100	37	100
Kings Cove	100	46	100
Leisure Lakes	39	32	38
Morningview	100	33	100
Palm Port	58	51	58
Peace River	100	56	100
Rosalie Oaks	100	50	100
Silver Lake Oaks	42	34	42
South Seas	100	40	100
Summit Chase	100	36	100
Sunny Hills	49	23	49
The Woods	100	61	100
Valencia Terrace	100	40	100
Venetian Village	100	49	100
Village Water	79	64	79

PARTIES' ARGUMENTS

Many of the U&U assertions for WWTPs provided by AUF witnesses Rendell and Seidman and OPC witness Woodcock are the same as those relied on in addressing U&U for WTPs discussed in Issue 4, including reliance on prior Commission decisions and the impact of growth trends and reductions in demand on the U&U calculation.

AUF

AUF's position is that the Commission should approve the U&U percentages approved in the PAA Order for all of the WWTPs. Those percentages are consistent with the U&U percentages approved by the Commission in Docket No. 080121-WS, with the exceptions of

Breeze Hill, Peace River, and Fairways, which were not included in that case, as well as Village Water, for which AUF proposed an increased U&U percentage from that case.

For the Breeze Hill system, witness Rendell advocated that the Commission rely on two prior staff-assisted rate cases in which the Breeze Hill WWTP was found to be 56.3 percent U&U.³³ Quoting from the prior Breeze Hill rate case order, he noted that the Commission found that land that was once planned for potential development has reverted back to agricultural status and the probability of expanding utility plant beyond its current capacity is unlikely, making the WWTP valuable to only the existing subdivision. Witness Rendell noted that OPC participated in both of those rate cases and did not appeal the U&U determinations in those cases. Further, there have been no operational or structural changes to the Breeze Hill system since the last rate case. (TR 474-476, 1810-1811) In addition, witness Rendell testified that the Fairways and Peace River systems, which were not included in the last AUF rate case, are completely built out with no possibility of expansion and should be considered to be 100 percent U&U. (AUF BR 27; TR 484-487; EXH 68, p. 2)

As previously discussed, Witness Seidman testified that the Commission recognizes that, when there is a reduction in usage by customers, the plant is no less U&U in the public service than it was before the reduction in demand. Citing prior Commission orders, witness Seidman³⁴ testified that the Commission has consistently recognized that a utility company should not be penalized for incurring prudent investment to provide capacity to customers when the customers or consumption is then reduced based on factors beyond the utility's control. (TR 1614-1615)

OPC

OPC's position is that the Commission should re-evaluate U&U for each system in every rate case based on changes in plant, demand, or growth. (OPC BR 21) Witness Woodcock testified that Rule 25-30.432, F.A.C., requires that the U&U percentage for WWTPs be re-evaluated for systems where flows have decreased. Relying on the flows contained in the DMRs, he found some instances where the flows listed in the filing did not match the DMRs that he reviewed, but in most cases there was no significant difference. He also referred to DEP's operating permits and, where different capacities were listed for treatment and disposal, separate U&U calculations were made and the larger of the two U&U values was used. He recommended that actual calculated percentages be relied upon for rate setting. (TR 606, 618-620)

Witness Woodcock testified that if the U&U calculation for a collection system was less than 100 percent, that was an indication that there are vacant lots available for new connections, and thus the WWTPs should not be considered built out nor 100 percent U&U. For example, The Woods WWTP was 100 percent U&U in the PAA Order based on the system being built out

³³ See Order No. PSC-02-1114-PAA-WS, issued August 14, 2001, in Docket No. 011481-WS, In re: Application for staff-assisted rate case in Polk County by Bieber Enterprises, Inc. d/b/a Breeze Hill Utilities, holder of Certificate Nos. 598-W and 513-S; and Order No. PSC-99-2394-FOF-WS, issued December 7, 1999, in Docket No. 990356-WS, In re: Application for staff-assisted rate case in Polk County by Bieber Enterprises, Inc. d/b/a Breeze Hill Utilities.

³⁴ Witness Seidman cited Order Nos. PSC-09-0385-FOF-WS, PSC-10-0585-PAA-WS, and PSC-07-0505-SC-WS, which were also cited in the prior issue.

even though the calculated U&U was 75 percent for the plant and 71 percent for the collection system. Witness Woodcock argued that there are lots available for new growth and recommended that his calculation of 61 percent be used for The Woods WWTP. Similarly, he argued that the Fairways, Jungle Den, Peace River, and Rosalie Oaks WWTPs, which were previously considered to be 100 percent U&U based on the systems being built out, should be considered to be 42, 37, 56, and 50 percent U&U, respectively, based on his U&U calculations for those WWTPs, recognizing that those systems also have vacant lots. (TR 618-620; EXH 73)

Consistent with his assertions regarding WTPs in Issue 4, witness Woodcock advocated that if a U&U calculation results in less than 75 percent, then a system should not be considered built out and a U&U adjustment should be made. Witness Woodcock believes that an allowance of 25 percent is reasonable to account for mismatches between design capacity and actual demand. He opined that these differences could result from facilities that were designed to serve a larger service area than what is certificated, a land use change from the original concept, oversized facilities, or a customer base that requires less service than originally contemplated. Based on this reasoning, witness Woodcock recommended that eight systems that were found 100 percent U&U in the last rate case, including Arredondo Farms, Florida Central Commerce Park, Kings Cove, Morningview, South Seas, Summit Chase, Valencia Terrace, and Venetian Village, be considered to be 66, 41, 46, 33, 40, 36, 40, and 49 percent U&U, respectively. (TR 618-622)

For the remaining seven WWTPs, witness Woodcock relied on a new calculation for U&U, instead of relying on the higher U&U calculation found in a prior rate case, arguing that the reductions in demand since the last rate case should be reflected in the new U&U calculations. He recommended that those systems, including Breeze Hill, Holiday Haven, Leisure Lakes, Palm Port, Silver Lake Oaks, Sunny Hills, and Village Water be considered to be 24, 62, 32, 51, 34, 23, and 64 percent U&U, respectively.

YES, Pasco County, and AG either deferred to or adopted the position of OPC on this issue. None of these parties included any argument on this issue in their respective briefs.

ANALYSIS

As previously discussed, staff agrees with the testimony of AUF witnesses that it is Commission policy to rely on U&U decisions in prior orders when there has been no change in the facilities or operation of a system. Staff is not persuaded that a reduction in demand should be relied on to require a new U&U calculation. Performing a new U&U calculation in each rate case and ignoring prior decisions ignores the importance of regulatory certainty and results in costly evaluations, particularly when there has been no change in the facilities or operation of a system. This does not preclude the Commission from correcting any errors which may have been made in prior proceedings.

Eleven of the systems protested by OPC were found to be 100 percent U&U in Docket No. 080121-WS, including Arredondo Farms, Florida Central Commerce Park, Jungle Den, Kings Cove, Morningview, Rosalie Oaks, South Seas, Summit Chase, The Woods, Valencia Terrace, and Venetian Village. With no evidence to support a change in facilities or operation of

any of these systems, staff recommends that these systems be found 100 percent U&U because they are essentially built out with no apparent potential for expansion. In addition, the Fairways and Peace River system, which were not included in AUF's last rate case, should be considered 100 percent U&U because the service areas appear to be built out with no apparent potential for expansion.

The U&U percentages for the Palm Port, Silver Lake Oaks, and Sunny Hills WWTPs were stipulated in Docket No. 080121-WS. Therefore, staff recommends that the U&U percentages requested by AUF for those systems, 58, 42, and 49 percent, respectively, which are less than or equal to the U&U amounts approved by the Commission in Docket No. 950495-WS, should be approved. In addition, rather than rely on the stipulated percentage from Docket No. 080121-WS for the Holiday Haven system, staff recommends that AUF's and OPC's calculated U&U amount of 62 percent should be recognized. For Leisure Lakes, AUF requested 39 percent U&U based on the Commission's decision in Docket No. 080121-WS. Because that decision was based on a stipulation, staff recommends that the Commission rely on its decision in Docket No. 950495-WS, where the plant was found to be 38 percent U&U. For Village Water, staff recommends that AUF's U&U calculation of 79 percent be approved, based on the system's peak demand and a growth allowance. Finally, staff recommends that the Breeze Hill WWTP be considered 56 percent U&U based on the Commission's decision in the two prior Breeze Hill rate cases, Docket Nos. 990356-WS and 011481-WS. Therefore, staff recommends that Breeze Hill, Holiday Haven, Leisure Lakes, Palm Port, Silver Lake Oaks, Sunny Hills, and Village Water be considered to be 56, 62, 38, 58, 42, 49, and 79 percent U&U, respectively.

CONCLUSION

Staff recommends that all of the AUF WWTPs that were not previously stipulated should be considered 100 percent U&U, with the exception of 7 systems (Table 6-1). The resulting composite U&U percentages, based on the number of customers in each rate band, are shown on Attachment 3. Further, the rate base adjustments are shown on Schedule 3-C and the depreciation expense and property tax adjustments are shown on Schedule 4-C.

Issue 7: What are the appropriate used and useful percentages and the associated composite used and useful percentages for the following specific protested wastewater collection systems of Beecher's Point, Breeze Hill, Fairways, Holiday Haven, Jungle Den, Peace River, Rosalie Oaks, Silver Lake Oaks, Sunny Hills, The Woods, and Village Water?

Recommendation: Staff recommends that all of the AUF collection systems that were not previously stipulated should be considered to be 100 percent U&U, with the exception of 5 systems (Table 7-1). Attachment 4 contains staff's recommended U&U percentages and the resulting composite U&U percentages based on the number of customers in each rate band. Further, the rate base adjustments are shown on Schedule 3-C and the depreciation expense and property tax adjustments are shown on Schedule 4-C. (Walden, Fletcher)

Position of the Parties

AUF: Other than the stipulations agreed to and accepted during the proceeding, the appropriate U&U percentages for the specific protested wastewater collection systems are identified in AUF's MFRs and in the Direct and Rebuttal Testimony of William Troy Rendell and the Rebuttal Testimony of Frank Seidman.

OPC: Utilizing the same concepts presented in Issue 4, the U&U percentage for wastewater collection plant should be calculated in the same manner as calculating the U&U percentage for water distribution plant.

YES: Yes defers to the position of the OPC on this issue.

Pasco County: Pasco County adopts the position of the Office of Public Counsel as if fully set forth herein.

AG: The AG adopts the position of the OPC.

Staff Analysis: The Commission does not have a rule that specifies how the U&U determination for wastewater collection systems is to be made. As previously discussed, Commission practice is to compare the customers (or ERCs) receiving service to the lots with service available. In addition, a growth allowance may also be included in the U&U calculation, pursuant to Section 367.081(2), F.S.

While AUF and OPC agree on the U&U percentages for 16 of the wastewater collection systems, there is disagreement with respect to 11 of the collection systems, including Beecher's Point, Breeze Hill, Fairways, Holiday Haven, Jungle Den, Peace River, Rosalie Oaks, Silver Lake Oaks, Sunny Hills, Village Water, and The Woods. Table 7-1 contains a summary of AUF's and OPC's proposed U&U percentages, along with staff's recommended U&U percentages for each of the systems in dispute. Attachment 4 reflects AUF's and OPC's U&U positions, as well as staff's recommendation, for each of the 11 wastewater collection systems that were not stipulated.

Table 7-1

Collection System U&U			
System	AUF U&U%	OPC U&U%	Staff Rec U&U%
Beecher's Point	100	45	100
Breeze Hill	100	94	100
Fairways	100	99	100
Holiday Haven	75	69	69
Jungle Den	100	87	100
Peace River	100	79	100
Rosalie Oaks	100	93	100
Silver Lake Oaks	87	83	87
Sunny Hills	55	36	55
The Woods	71	61	71
Village Water	58	42	58

PARTIES' ARGUMENTS

The overall U&U concepts described by AUF witnesses Rendell, Seidman, and OPC witness Woodcock for wastewater collection systems are consistent with their arguments related to water distribution systems as discussed in Issue 5, as well as WTPs and WWTPs as discussed in Issues 4 and 6. AUF relies on regulatory certainty resulting from reliance on previous Commission decisions, while OPC supports recalculating U&U in each rate case. (AUF BR 27; OPC BR 22)

AUF

AUF witness Rendell testified that AUF is requesting that the Commission recognize the U&U amounts determined in the Commission's PAA decision, relying on the arguments that AUF used the same methods that were approved in the last rate case and recognizing that there have been no structural or operational changes to the collection systems. (TR 474, 476, 481)

In Docket No. 080121-WS, three of the collection systems in dispute were found to be 100 percent U&U, including Beecher's Point, Jungle Den, and Rosalie Oaks. The Commission found the Breeze Hill collection system to be 100 percent U&U in the two prior staff assisted rate cases. According to witness Rendell, OPC participated in those cases and did not appeal those decisions. Further, there have been no structural or operational changes to the system since the last rate case. According to witness Rendell, the Fairways and Peace River systems are completely built out with no possibility of expansion and should also be considered to be 100 percent U&U. For the remaining five collection systems, including Holiday Haven, Silver Lake Oaks, Sunny Hills, The Woods, and Village Water, AUF proposes that the Commission find those systems to be 69, 87, 55, 71, and 58 percent U&U, respectively, consistent with the Commission's decision in AUF's last rate case. (TR 482-484, 487; EXH 68, p. 5)

OPC

OPC witness Woodcock's testimony for wastewater collection systems parallels the testimony he provided for water distribution systems discussed in Issue 5. Consistent with that testimony, witness Woodcock recalculated the U&U percentages for each of the disputed collection systems, relying on a comparison of lots served to lots with service available, for all systems with the exception of Jungle Den. For the Jungle Den collection system, witness Woodcock relied on a comparison of the number of customers connected with the number of potential customers, instead of relying on comparing lots served to lots with service available. Because there are a number of lots in that system that have ten customers per lot, witness Woodcock proposed adjusting the number of lots available to reflect the number of potential customers. Witness Woodcock supports a U&U percentage of 87 percent for Jungle Den to recognize about 20 vacant lots that would likely accommodate single family homes. (TR 623-625; EXH 79, p. 2; EXH 278, 279, 280, 281; OPC BR 22)

YES, Pasco County, and AG either deferred to or adopted the position of OPC on this issue. None of these parties included any argument on this issue in their respective briefs.

ANALYSIS

As previously discussed, staff agrees with AUF that when systems are not experiencing growth, especially when that system is an older system, it is likely that a built-out condition exists. Some vacant lots may be found in a utility's service area, but the timing of the addition of customers on those lots is difficult to predict. AUF and OPC agreed that none of the collection systems for which the U&U percentage was disputed have had any significant growth in the past five years, with the exception of Village Water which experienced about six percent growth over the past five years. In addition, as discussed in Issues 4, 5, and 6, staff agrees with AUF witnesses Rendell and Seidman who supported reliance on prior Commission decisions and the need for regulatory certainty. Therefore, staff recommends that the four collection systems in dispute that were found to be 100 percent U&U in prior cases, including Beecher's Point, Breeze Hill, Jungle Den, and Rosalie Oaks, should be considered to be 100 percent U&U because those systems appear to be built out with no apparent potential for expansion. In addition, staff recommends that the Fairways and Peace River systems appear to be built out and should therefore also be considered to be 100 percent U&U.

For the Holiday Haven, Silver Lake Oaks, Sunny Hills, The Woods, and Village Water systems, the U&U percentages relied on by AUF from Docket No. 080121-WS were stipulated amounts. Rather than rely on stipulated percentages from Docket No. 080121-WS, for these systems, staff recommends that AUF's calculated U&U amounts of 69, 87, 55, 71, and 58 percent should be recognized for Holiday Haven, Silver Lake Oaks, Sunny Hills, The Woods, and Village Water. Staff reviewed system maps and verified the customer and lot counts provided by AUF were more accurate.

CONCLUSION

Staff recommends that all of the AUF collection systems that were not previously stipulated should be considered to be 100 percent U&U, with the exception of 5 systems (Table 7-1). Attachment 4 contains staff's recommended U&U percentages and the resulting composite U&U percentages based on the number of customers in each rate band. Further, the rate base adjustments are shown on Schedule 3-C and the depreciation expense and property tax adjustments are shown on Schedule 4-C.

Issue 8: Should any adjustments be made to Deferred Rate Case Expense? (Fallout Issue)

Recommendation: Yes. Consistent with the annual amortization amount approved in the Utility's 2008 rate case and Commission practice, Deferred Rate Case Expense should be increased by \$540,012. (Fletcher)

Position of the Parties

AUF: The appropriate amount of Deferred Rate Case Expense should be updated to include the revised rate case expense addressed in the Rebuttal Testimony of Stan Szczygiel.

OPC: Deferred Rate Case expense should be reduced by \$219,711.

YES: Yes defers to the position of the OPC on this issue.

Pasco County: Pasco County adopts the position of the Office of Public Counsel as if fully set forth herein.

AG: The AG adopts the position of the OPC.

Staff Analysis: AUF included \$777,577 of Deferred Rate Case Expense (DRCE) in its working capital allowance. With the jurisdictional factor applied, the Utility reflected a total of \$467,713 for its rate bands and stand-alone systems in the instant case. Staff notes that this issue is comprised of two components. The first component is the unamortized balance of rate case expense from the 2008 rate case and the second component is the amount of rate case expense approved in Issue 22.

Deferred Rate Case Expense - 2008 Rate Case

In Order No. PSC-09-0385-FOF-WS, the Commission approved a total Rate Case Expense of \$1,501,609.³⁵ Amortization went into effect April 1, 2009. Recognizing that rates for the current rate case will not go into effect before March 2012, staff calculated a 13-month average balance of \$573,172 for the first year new rates will be in effect. Commission practice is to include one-half of rate case expense in working capital.³⁶ One-half of the 13-month average balance of \$286,586 ($\$573,172/2$) should be included in the working capital calculation. Consistent with the annual amortization amount approved in the Utility's 2008 rate case, and using one-half of the 13-month average balance for DRCE through March 2012, staff recommends that test year DRCE be reduced by \$181,127 ($\$467,713 - \$286,586$), as shown in Table 8-1 below.

³⁵ See Order No. PSC-09-0385-FOF-WS, p. 60.

³⁶ See Order Nos. PSC-09-0375-PAA-GU, issued May 27, 2009, in Docket No. 080366-GU, In re: Petition for rate increase by Florida Public Utilities Company, p. 21; and PSC-00-0248-PAA-WU, issued February 7, 2000, in Docket No. 990535-WU, In re: Request for approval of increase in water rates in Nassau County by Florida Public Utilities Company (Fernandina Beach System), pp. 13-14.

Table 8-1

Deferred Rate Case Expense – 2008 Case			
Band	MFR Amount	Staff Amount	Staff Adjustment
Water Band 1	\$109,949	\$72,342	(\$37,608)
Wastewater Band 1	20,606	13,278	(7,328)
Water Band 2	50,154	32,454	(17,700)
Wastewater Band 2	11,119	54,062	42,943
Water Band 3	30,948	20,178	(10,769)
Wastewater Band 3	85,767	7,288	(78,479)
Water Band 4	134,676	85,740	(48,936)
Wastewater Band 4	1,866	1,244	(623)
Breeze Hill - Water	2,488	0	(2,488)
Breeze Hill - Wastewater	2,410	0	(2,410)
Fairways - Water	9,253	0	(9,253)
Fairways - Wastewater	4,743	0	(4,743)
Peace - Water	1,944	0	(1,944)
Peace - Wastewater	1,788	0	(1,788)
Total:	\$467,713	\$286,586	(\$181,127)

Deferred Rate Case Expense - Current Rate Case

As discussed in Issue 22, staff recommends total rate case expense for the current case in the amount of \$1,442,278. To reflect one-half of the total rate case expense, \$721,139 (\$1,442,278/2) should be included in the working capital calculation. This results in an increase to DRCE in the amount of \$721,139, as shown in Table 8-2 below.

Table 8-2

Deferred Rate Case Expense – Current Case			
Band	MFR Amount	Staff Amount	Staff Adjustment
Water Band 1	\$0	\$169,494	\$169,494
Wastewater Band 1	0	77,322	77,322
Water Band 2	0	47,717	47,717
Wastewater Band 2	0	207,610	207,610
Water Band 3	0	31,776	31,776
Wastewater Band 3	0	17,153	17,153
Water Band 4	0	132,218	132,218
Wastewater Band 4	0	2,890	2,890
Breeze Hill - Water	0	3,849	3,849
Breeze Hill - Wastewater	0	3,729	3,729
Fairways - Water	0	14,276	14,276
Fairways - Wastewater	0	7,325	7,325
Peace - Water	0	3,010	3,010
Peace - Wastewater	0	2,770	2,770
Total:	\$0	\$721,139	\$721,139

CONCLUSION

Consistent with the annual amortization amount approved in the Utility's 2008 rate case and Commission practice, staff recommends that the DRCE be increased by \$540,012 [(\$181,127) +\$721,139], as shown in Table 8-3 below.

Table 8-3

Deferred Rate Case Expense – Both 2008 and Current Rate Cases			
Band	MFR Amount	Staff Amount	Staff Adjustment
Water Band 1	\$109,949	\$241,836	\$131,887
Wastewater Band 1	20,606	90,601	24,448
Water Band 2	50,154	80,171	59,622
Wastewater Band 2	11,119	261,672	60,096
Water Band 3	30,948	51,954	36,948
Wastewater Band 3	85,767	24,441	53,739
Water Band 4	134,676	217,959	158,674
Wastewater Band 4	1,866	4,133	2,267
Breeze Hill - Water	2,488	3,849	1,360
Breeze Hill - Wastewater	2,410	3,729	1,318
Fairways - Water	9,253	14,276	5,023
Fairways - Wastewater	4,743	7,325	2,581
Peace - Water	1,944	3,010	1,066
Peace - Wastewater	1,788	2,770	982
Total:	\$467,713	\$1,007,725	\$540,012

Issue 9: What is the appropriate Working Capital Allowance?

Recommendation: The appropriate jurisdictional Working Capital Allowance is \$2,944,738. As such, Working Capital should be decreased by \$520,490. The specific rate band and system adjustments are set forth in the Staff Analysis section below. (Fletcher)

Position of the Parties

AUF: This is a fall out calculation issue subject to the resolution of the other protested issues in this proceeding.

OPC: Working capital allowance should be reduced consistent with OPC's recommended adjustments, resulting in a Working Capital allowance of \$2,400,778.

YES: Yes defers to the position of the OPC on this issue.

Pasco County: Pasco County adopts the position of the Office of Public Counsel as if fully set forth herein.

AG: The AG adopts the position of the OPC.

Staff Analysis: The amount of working capital is a fall-out issue. In its filing, AUF requested a total jurisdictional Working Capital Allowance of \$3,465,229. As addressed in the Stipulations for PAA Issues 2, 11, and 12, Deferred Debits have been increased by \$93,048 and Accrued Taxes reduced by \$1,153,548. As discussed in Issue 1, staff has recommended working capital be incremental by \$60,180. As discussed in Issue 8, staff has recommended that DRCE be increased by \$288,660. In addition to these adjustments, staff believes that an offsetting adjustment is necessary regarding system-specific Regulatory Assets.

In its filing, the Utility included \$380,595 in its MFRs for Regulatory Assets. A Regulatory Asset typically involves a cost incurred by a regulated utility that would normally be expensed currently but for an action by the regulator or legislature to defer the cost as an asset to the balance sheet. This allows a utility to amortize the Regulatory Asset over a period greater than one year. Included in AUF's calculation was the 10-year amortization of a \$664,192 that began on January 1, 2006 related to a Regulatory Asset (in lieu of a surcharge) approved in the Utility's 2004 transfer docket.³⁷ This Regulatory Asset is associated with specific systems. Staff calculated the 13-month average for each rate band for the test year. Based on the proper allocation of Regulatory Assets by system and rate bands, the amount recorded for Wastewater Rate Band 2 should be reduced by \$35,273 and the amount recorded for Wastewater Rate Band 3 should be increased by the same amount.

³⁷ See Order No. PSC-05-1242-PAA-WS, issued December 20, 2005, in Docket No. 040951-WS, In re: Joint application for approval of sale of Florida Water Services Corporation's land, facilities, and certificates in Brevard, Highlands, Lake, Orange, Pasco, Polk, Putnam, a portion of Seminole, Volusia, and Washington counties to Aqua Utilities Florida, Inc., pp. 10 and 37.

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CONCLUSION

Based on the above, staff recommends a total jurisdictional Working Capital Allowance of \$2,944,738. This represents a net reduction of \$520,490 ($\$93,048 - \$1,153,548 + \$60,180 + \$540,011$).

Issue 10: What is the appropriate rate base for the April 30, 2010, test year?

Recommendation: Consistent with the stipulated adjustments and staff recommended adjustments, the appropriate 13-month average rate base is \$21,011,049 for water and \$13,963,604 for wastewater. (Fletcher)

Position of the Parties

AUF: This is a fall out calculation issue subject to the resolution of the other protested issues in this proceeding.

OPC: Rate base should be reduced consistent with OPC's recommended adjustments to Used and Useful and Pro Forma Plant Adjustments, and Working Capital Adjustments.

YES: Yes defers to the position of the OPC on this issue.

Pasco County: Pasco County adopts the position of the Office of Public Counsel as if fully set forth herein.

AG: The AG adopts the position of the OPC.

Staff Analysis: Based upon the Utility's adjusted 13-month average test year balances, the stipulated adjustments, and staff's recommended adjustments in the previous issues, the appropriate 13-month average rate base is \$21,011,049 for water and \$13,963,604 for wastewater. Schedules 3-A and 3-B reflect staff's recommended rate base calculations. Staff's proposed adjustments to rate base are shown on 3-C Schedules.

COST OF CAPITAL

Issue 11: What is the appropriate amount of accumulated deferred taxes to include in the capital structure?

Recommendation: The appropriate amount of accumulated deferred income taxes to include in the capital structure is \$2,133,903 (Cicchetti, Springer)

Position of the Parties

AUF: This is a fall out calculation issue subject to the resolution of the other protested issues in this proceeding.

OPC: Accumulated deferred taxes should be reduced consistent with OPC's recommended adjustments.

YES: Yes defers to the position of the OPC on this issue.

Pasco County: Pasco County adopts the position of the Office of Public Counsel as if fully set forth herein.

AG: The AG adopts the position of the OPC.

Staff Analysis: As shown on the MFR Schedules, AUF proposed a total balance of \$1,456,472 in accumulated deferred income taxes (ADITs) in the capital structure. However, the Utility's filing shows that AUF did not include deferred income taxes related to the requested pro forma plant additions when the MFRs were originally filed on September 1, 2010. The Utility explained that it did not make an adjustment because the impact on the total balance of ADITs was expected to be immaterial. The Utility provided a schedule that shows the deferred tax effect of the pro forma plant additions as a debit adjustment of \$26,813 to ADITs.

Pursuant to the Small Business Jobs Act of 2010 that was signed into law on September 27, 2010, a taxpayer is allowed 50 percent bonus depreciation for certain eligible property acquired and placed in service during 2010.³⁸ For qualified property placed in service after September 8, 2010 and before January 1, 2012, the Tax Relief Unemployment Insurance Reauthorization and Job Creation Act of 2010 provides for additional bonus depreciation allowance for a total of 100 percent cost recovery in the first year. (IRC Section 168(k)(1) and (5)) As shown on the MFR schedules, the balance of ADITs does not include the deferred tax effects of bonus depreciation related to plant placed into service between January 1, 2010 and April 30, 2010 or pro forma plant. The bonus depreciation was not considered because the new law was not enacted at the time the Utility filed its MFRs.

The current law was enacted on September 27, 2010, and, therefore, now constitutes a known and measurable change. Therefore, staff recommends including the deferred income taxes related to the bonus depreciation allowed under current law in the balance of accumulated deferred income taxes. In addition to the applicable bonus depreciation allowance for qualified

³⁸ Small Business Jobs Act of 2010, Pub. L. No. 111-240, § 2022, 124 Stat. 2504 (September 27, 2010).

property, Modified Accelerated Cost Recovery System (MACRS) tax depreciation should be recognized based on applicable convention, as prescribed by IRC Section 168(d).³⁹ The net effect of the adjustments is a substantial increase in the balance of accumulated deferred income taxes and, thus, a decrease to the Utility's overall cost of capital.

Deferred income taxes related to plant represent deferred tax effects related to the difference in book and tax depreciation caused by accelerated tax depreciation. Tax normalization provisions of the Internal Revenue Code (IRC) require the Utility to record deferred income taxes in accordance with ASC 740.⁴⁰ Further, IRC Section 168(i)(9) requires consistent application of estimates and projections of tax expense, depreciation expense, and the reserve for deferred taxes with respect to rate base for ratemaking purposes.⁴¹ Per IRC Section 168(f)(2), the consequence of violating the normalization method of accounting is the loss of the ability to utilize accelerated tax methods of depreciation.⁴²

The full-year convention was applied to pro forma plant for computation of regulatory depreciation for ratemaking purposes. Consistent with the tax normalization requirements, the full amount of deferred income taxes resulting from the difference in the methods used to compute book depreciation expense and the tax depreciation deduction should be included in the balance of deferred income taxes. As discussed in Issue 3, staff recommends including pro forma plant additions of \$792,347 in rate base. Consequently, the deferred income taxes generated by the allowed plant additions should be included in the balance of the accumulated deferred income taxes. Accumulated deferred income taxes also were adjusted to reflect staff's recommendations regarding composite used and useful percentages addressed in issues 4 through 7.

Based on the aforementioned, staff recommends a consolidated adjustment of \$662,982. Therefore, the appropriate balance of ADITs to include in AUF's capital structure is \$2,133,903.

³⁹ 26 U.S.C. § 168(d) (2011).

⁴⁰ Codification of Accounting Standards and Procedures, Statement of Auditing Standards No. 109, § 740 (Fin. Accounting Standards Bd. 1992).

⁴¹ 26 U.S.C. § 168(i)(9) (2011).

⁴² 26 U.S.C. § 168(f)(2) (2011).

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Issue 12: What is the appropriate Commission-approved leverage formula to use in the case?

TYPE B STIPULATION⁴³: AUF and Staff agree that the appropriate leverage formula to use is the leverage formula in effect at the time the Commission makes its final decision.

⁴³ A Type B Stipulation is one where the Utility and Staff agree, and the Intervenors take no position. All Type A and B Stipulations were approved by the Commission at the hearing in this docket on November 29, 2011.

Issue 13: What is the appropriate weighted average cost of capital including the proper components, amounts and cost rates associated with the capital structure?

Recommendation: The appropriate weighted average cost of capital for AUF is 7.47 percent. (Cicchetti, Springer)

Position of the Parties

AUF: This is a fall out calculation issue subject to the resolution of the other protested issues in this case.

OPC: No position.

YES: Yes defers to the position of the OPC on this issue.

Pasco County: Pasco County adopts the position of the Office of Public Counsel as if fully set forth herein.

AG: No position.

Staff Analysis: Based upon the decisions in preceding issues and the proper components, amounts and cost rates associated with the capital structure, staff recommends a weighted average cost of capital of 7.47 percent for all systems.

As discussed in Issue 11, staff recommends adjustments to the balance of zero cost accumulated deferred taxes resulting in deferred taxes of \$2,133,903. As discussed in Issue 12, it has been stipulated that the leverage formula in effect when the Commission makes its final decision will be used in this case. The appropriate ROE using this methodology is 9.76 percent. This return is based on the application of the Commission's leverage formula approved in Order No. PSC-11-0287-PAA-WS and an equity ratio of 61.31 percent.⁴⁴ Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes.

Based on the proper components, amounts, and cost rates associated with the capital structure for the pro forma test year ended April 30, 2010, staff recommends the appropriate weighted average cost of capital for AUF for purposes of setting rates in this proceeding is 7.47 percent, as shown on Schedule 1.

⁴⁴ See Order No. PSC-11-0287-PAA-WS, issued July 5, 2011, in Docket No. 110006-WS, In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.

NET OPERATING INCOME

Issue 14: What are the appropriate billing determinants for the test year?

Recommendation: The appropriate billing determinants for the test year are shown in AUF's MFR Schedules E-2 and E-14. (Lingo)

Position of the Parties

AUF: The appropriate test year billing determinants to be used are those contained in the MFRs and the billing analysis filed in this case.

OPC: Test year revenue should be increased to reverse the test year impact of reduced usage that is either due to the Company's high rates, poor customer service, or factors beyond the control of the customers. The test year revenue should be increased by \$372,925.

YES: Yes defers to the position of the OPC on this issue.

Pasco County: Pasco County adopts the position of the Office of Public Counsel as if fully set forth herein.

AG: The AG adopts the position of the OPC.

Staff Analysis: The billing determinants list the number of bills rendered and the number of gallons sold during the test year, by customer class and meter size, for each of AUF's rate bands and stand alone systems.⁴⁵ The raw data for these schedules originates in AUF's MFR Schedules E-14, which shows the actual number of test-year bills for each rate band and stand-alone system, rendered in 1,000-gallon increments by customer class and meter size. The billing data is shown in summary form on MFR Schedules E-2.⁴⁶

PARTIES' ARGUMENTS

AUF

AUF witness Szczygiel testified that the billing determinants are reasonable and appropriate because they are based on an accurate and representative number of bills, ERCs, and consumption data for AUF's water and wastewater systems that are a part of this case. (TR 92, 95)

⁴⁵ Aqua Utilities Florida, Inc., Minimum Filing Requirements, Schedules E-2 and E-14.

⁴⁶ Id.; See Order PSC-09-0385-FOF-WS, issued May 29, 2009, in Docket No. 080121-WS, In re: Application for increase in water and wastewater rates in Alachua, Brevard, DeSoto, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida, Inc.

OPC

OPC witness Dismukes testified that an adjustment to increase the number of kgals sold in the test year is appropriate. The adjustment, totaling 56,722.5 kgals as shown on Schedule 25 of her testimony, reverses the reduction in test-year consumption experienced in the Scottish Highlands area. The result of this adjustment is a test-year revenue imputation (increase) of \$372,925. The recommended adjustment to kgals originates from AUF's budget variance reports. (EXH 128; TR 1131-1132) Witness Dismukes further testified that AUF should absorb the revenue impact of reduced sales for two reasons: 1) the Utility has more control of the factors that led to the reduced consumption than customers do, and 2) the Utility's ROE already includes a risk component which should compensate AUF for reduced sales. (TR 1132; EXH 203)

YES, Pasco County, and AG either deferred to or adopted the position of OPC on this issue. None of these parties included any argument on this issue in their respective briefs.

ANALYSIS

Under cross-examination, witness Dismukes agreed that: 1) ratemaking is prospective in nature, and 2) it is not realistic to expect the Scottish Highlands irrigation well customers to return to AUF's system during the first 12 months the new rates will be in effect. (TR 1127-1128) Witness Dismukes admitted that if the Commission were to set rates using revenue greater than expected to be generated from rates, regulatory risk would increase. (TR 1231)

Staff witness Stallcup testified that once customers have invested in the installation of shallow wells, those customers will not return to AUF for their irrigation demands. These lost gallons and their associated revenues represent a permanent reduction in AUF's sales that should not be artificially adjusted back into the test year. Therefore, witness Stallcup believes that: 1) witness Dismukes' adjustment to test year kgals and the associated revenues recommended was not reflective of the period when AUF's new rates will go into effect, 2) the adjustment recommended by witness Dismukes would result in rates that would fall short of generating AUF's revenue requirement, and 3) the resulting rates would therefore not be compensatory as required by Section 367.081, F.S. (TR 1390) Witness Stallcup also believes that if witness Dismukes' adjustment to kgals is adopted, it would likely require an additional risk premium to the appropriate ROE to compensate investors for the revenue shortfall. (TR 1391)

On rebuttal, witness Szczygiel testified that witness Dismukes' recommended adjustment to add back lost consumption associated with the irrigation wells in Scottish Highlands would be confiscatory and contrary to long-standing policy. In addition, witness Szczygiel testified that drops in consumption due to the installation of irrigation wells is not unique to AUF. (TR 1492-1493) Witness Szczygiel agreed with the points raised by witness Stallcup regarding witness Dismukes' recommended consumption adjustment. (TR 1497)

Staff is persuaded by statements and admissions made by witness Dismukes under cross-examination, in particular: 1) ratemaking is prospective in nature, and 2) it is not realistic to expect the Scottish Highlands irrigation well customers to return to AUF's system during the first 12 months the new rates will be in effect. (TR 1127-1128) These statements are consistent

with the testimony of witness Stallcup. Furthermore, staff agrees with witness Stallcup that the adjustment recommended by witness Dismukes would not only result in rates that would fall short of generating AUF's revenue requirement, but that the resulting rates would therefore not be compensatory as required by Section 367.081, F.S. Therefore, staff believes witness Stallcup's arguments are compelling.

Furthermore, staff is also persuaded by relevant prior Commission decisions. The Commission has long dealt with the issue of reduced consumption and the appropriate way to handle the consumption reduction on a prospective basis. Staff notes two cases in particular. The first case involved a staff-assisted rate case for Sebring Ridge Utilities, Inc., in Highlands County. The Commission, in its Proposed Agency Action order, stated,

Based on information received from a customer residing in the Bluffs condominiums (Bluffs), the Bluffs installed irrigation wells around August, 1995. Therefore, utility consumption will be less for these customers. We have estimated a reduction in consumption of 15% and have adjusted test year consumption accordingly.⁴⁷

Although the above-referenced order was protested, the protest was eventually withdrawn, and a subsequent order was issued making the PAA order final and effective.⁴⁸

Another case that speaks to the issue at hand involved a staff-assisted case for Bieber Enterprises, Inc. d/b/a Breeze Hill Utilities. In that case, the Commission discussed an anticipated consumption reduction and how it should be accounted for:

Since the customer meeting, we have been notified that 12 additional customers have sunk private wells, allowing a total of 16 customers access to those wells to provide water for their outdoor needs. The ease of installation of wells, coupled with their relatively low cost, presents us with a unique situation from a ratesetting perspective. We must account for the anticipated loss of gallonage sales attributable to those 16 customers who now have access to newly-sunk wells before a rate structure may be designed and the appropriate rates set.⁴⁹

Although the circumstances of each case differ slightly, the common thread is that, like AUF, each utility was faced with consumption reductions arising from the installation of irrigation wells. The Commission, by estimating the consumption reductions before setting rates in each case, recognized that: 1) the consumption reductions were not transitory in nature, 2) the utilities should not absorb the revenue impact of the reduced sales, and 3) the reductions had to be accounted for before setting rates. Failure to appropriately account for these consumption

⁴⁷ See Order No. PSC-96-0869-FOF-WS, issued July 2, 1996, in Docket No. 950966-WS, In re: Application for a staff-assisted rate case in Highlands County by Sebring Ridge Utilities, Inc.

⁴⁸ See Order No. PSC-96-1458-FOF-WS, issued December 2, 1996, in Docket No. 950966-WS, In re: Application for a staff-assisted rate case in Highlands County by Sebring Ridge Utilities, Inc.

⁴⁹ See Order No. PSC-02-1114-PAA-WS, issued August 14, 2002, in Docket No. 011481-WS, In re: Application for a staff-assisted rate case in Polk County by Bieber Enterprises, Inc. d/b/a Breeze Hill Utilities, holder of Certificate Nos. 598-W and 513-S.

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reductions would have resulted in rates that would not be compensatory as required by Section 367.081, F.S. Such is the circumstance in the instant case.

CONCLUSION

Based on the foregoing, staff recommends that the appropriate billing determinants for the test year are shown in AUF's MFR Schedules E-2 and E-14.

Issue 15: What is the appropriate amount of test year revenues?

Recommendation: The appropriate annualized water and wastewater revenues are \$8,357,510 and \$4,908,138, respectively. As a result, water revenue should be reduced by \$110,012, and wastewater revenue should be reduced by \$58,306. A breakdown of these recommended adjustments are shown in the Staff Analysis section below. (Fletcher)

Position of the Parties

AUF: The appropriate test year billing determinants to be used are those contained in the MFRs and billing analysis filed in this rate case. This is a fall out calculation subject to the resolution of Issue No. 14.

OPC: The amount of test year revenues should be consistent with OPC's recommended adjustments. This results in water test year revenues of \$8,756,984 and wastewater test year revenues of \$4,184,151.

YES: Yes defers to the position of the OPC on this issue.

Pasco County: Pasco County adopts the position of the Office of Public Counsel as if fully set forth herein.

AG: The AG adopts the position of the OPC.

Staff Analysis: The appropriate amount of test year revenue is a fall-out calculation using the billing determinants in the test year. Based on the recommended billing determinants in Issue 14, staff has recalculated annualized revenue for each system in order to ensure that there were no calculation errors by the Utility. Staff notes that the Utility used the effective rates of the three different sets of rates that were in effect during the test year instead of the rates in effect prior to filing the instant case. Based on its recalculation, staff recommends that the appropriate annualized water and wastewater revenues are \$8,357,510 and \$4,908,138, respectively. As a result, water revenue should be reduced by \$110,012 and wastewater revenue should be reduced by \$58,306.

Staff's recommended adjustments to annualized test year revenue are as shown in Table 15-1 below.

Table 15-1

Appropriate Annualized Revenues Adjustments			
Rate Band/System	AUF Annualized Revenue Adj.	Staff Annualized Revenue Adj.	Staff Recommended Rev Adjustment
Water Band 1	\$23,356	(\$76,506)	(\$99,862)
Water Band 2	6,165	(18,714)	(24,879)
Water Band 3	13,112	(2,209)	(15,321)
Water Band 4	86,310	198,118	111,808
Wastewater Band 1	(529)	2,014	2,543
Wastewater Band 2	163,002	43,988	(119,014)
Wastewater Band 3	17,519	18,420	901
Wastewater Band 4	43,186	20,068	(23,118)
Breeze Hill Water	204	721	517
Breeze Hill Wastewater	437	1,039	602
Fairways Water	(2,380)	(1,574)	806
Fairways Wastewater	288	805	517
Peace River Water	1,603	2,007	404
Peace River Wastewater	1,496	(2,726)	(4,222)
Total:	\$353,769	\$185,451	(\$168,318)

Issue 16: Should adjustments be made to the allocation methodology used to allocate costs and charges to AUF by Aqua America, Inc. and its affiliates?

Recommendation: Yes, O&M expense should be reduced by \$29,772 consistent with the adjustments contained in staff's analysis. The adjustments to each rate band and stand-alone system are set forth in the Staff Analysis section below. (Fletcher)

Position of the Parties

AUF: No. The allocation methodology is a fair, reasonable and accurate method to allocate costs and charges to AUF by Aqua America, Inc. and its affiliates.

OPC: Yes, Aqua America should be required to allocate common costs to its non-regulated operation so that its regulated operations including AUF do not subsidize the non-regulated operation.

YES: Yes defers to the position of OPC on this issue.

Pasco County: Pasco County adopts the position of the Office of Public Counsel as if fully set forth herein.

AG: The AG adopts the position of the OPC.

Staff Analysis:

PARTIES' ARGUMENTS

AUF

AUF witness Szczygiel testified that AAI and its affiliates allocate costs and charges to AUF in accordance with the policy set forth in AAI's Corporate Charges Allocations Manual. (TR 82; EXH 52) Witness Szczygiel asserted that AUF's affiliate cost allocation policy ensures that costs are properly allocated to AUF's ratepayers. (TR 82) In its brief, the Utility stated no witness has challenged AUF's affiliate cost allocation methodology in this case. (AUF BR 29) Specifically, the Utility's reliance on that statement was that OPC witness Dismukes stated that she did not find any problems with the mechanical allocation. (TR 1248) The Utility also argued that AUF's affiliate cost allocation methodology was previously analyzed, reviewed, and approved by the Commission in Docket No. 080121-WS, and there is no evidentiary basis to deviate from that precedent. (AUF BR 29)

In his rebuttal testimony, witness Szczygiel agreed that Aqua Georgia should be allocated a portion of ASI's costs based on an imputed customer count of 408 customers which results in an annual reduction to AUF of approximately \$244. (TR 1460, 1461) Witness Szczygiel asserted that Suburban Environmental Service Company falls under Aqua Resources and has been imputed a customer count of 2,695, and as such, has already received a portion of ASI's costs. (TR 1461)

With regard to Utility & Municipal Services, Inc., witness Szczygiel explained that this entity is owned by Aqua PA and receives passive income similar to other forms of passive income in many states, such as passive income from antenna leases. (TR 1461) As a result, witness Szczygiel contended that these passive revenues do not have an associated customer count and therefore receive no allocation. (TR 1461) Witness Szczygiel pointed out that most of the passive revenue AAI earns serves to reduce the revenue requirement of the operating company in the applicable state. (TR 1461)

With regard to Aqua Operations, witness Szczygiel explained that this is a legal entity which holds and administers operation and maintenance contracts in the applicable states. (TR 1461) AUF witness Szczygiel argued that OPC witness Dismukes acknowledged that there are no charges from AAI, ASI or ACO for the vast majority of the municipal contracts. (TR 1089, 1462) Witness Szczygiel asserted that, to the extent any services are provided to non-regulated affiliates, costs are allocated from affiliates using the existing affiliate interest agreement and the underlying allocation methodology consistent with the 2008 rate case. (TR 1462)

With regard to common officers and directors of regulated and non-regulated affiliates, witness Szczygiel testified that the fact that there are common officers should not dictate whether or not to allocate officers' salaries. (TR 1463) Witness stated that all legal entities require assigned officers and directors. (TR 1463) Witness Szczygiel contended that, in the case of Aqua Operations, which covers multi-state non-regulated contracts, the contracts are handled at the state level and are generally administered by the state president. (TR 1463)

OPC

OPC witness Dismukes testified that, given that affiliate transactions are not arms-length dealings, the Commission has an obligation to closely scrutinize cost allocation techniques and methods of charging affiliates to ensure that the Utility's regulated operations are not subsidizing the non-regulated operations. (TR 1081) Witness Dismukes stated that AAI has nine non-regulated subsidiaries (TR 1083) and that AUF has contracted with one of the non-regulated subsidiaries, Aqua Services, Inc. (ASI) to provide managerial, operational, and regulatory support. (TR 1084) Witness Dismukes argued that ASI performs services for certain non-regulated affiliates. However, she noted that ASI does not consistently allocate costs to these affiliates and that there are four affiliates that do not receive allocations from ASI. (TR 1087) Witness Dismukes pointed out that, in the 2008 rate case, the Utility acknowledged the need to allocate costs to at least one of its non-regulated affiliates. (TR 1088) However, OPC argued that all non-regulated affiliates should be consistently allocated ASI costs. (OPC BR 26)

Moreover, OPC witness Dismukes indicated that the regulated and non-regulated Aqua companies have common officers and directors and that AAI failed to demonstrate that the salaries and benefits of these common officers are allocated to the non-regulated companies. (TR 1090, 1091) Witness Dismukes testified that the failure to allocate common costs to AAI's non-regulated operations causes AAI's regulated operations to subsidize the non-regulated operations. (TR 1091)

Witness Dismukes testified that certain operating companies provide contract operator services, but that no common costs are allocated for these services. (TR 1089) While the Utility

claims it did not allocate costs because no corporate services were provided directly, witness Dismukes testified that AUF failed to take into account the indirect costs associated with the additional oversight and management of the affiliates that provide these services. (TR 1089) Witness Dismukes testified that the failure to take these additional costs into account and allocate them accordingly results in an over-allocation of costs to the regulated companies without similar allocations to the non-regulated operations. (TR 1089)

YES, Pasco County, and AG either deferred to or adopted the position of OPC on this issue. None of these parties included any argument on this issue in their respective briefs.

ANALYSIS

Preliminary Matters

Before weighing in on the parties' specific arguments, there are three areas that staff believes should be addressed related to the allocation methodology, namely, required analyses of affiliate charges, staff's affiliate transactions audit, and additional AAI customers.

Allocation Methodology

Staff witness Welch explained that AAI has two divisions that allocate costs to the individual states. (TR 1375; EXH 165) The first division is ASI which accumulates and allocates common payroll from the AAI Pennsylvania office. (TR 84, 1081, 1375; EXH 165) ASI also accumulates invoices that are common to all states. (TR 84, 1081, 1375; EXH 165) Witness Welch explained these costs are allocated in two separate billings to the states, including the payroll charged based on timesheet hours wherein those hours are multiplied by a rate which includes payroll costs, benefits, taxes, pension costs, and office space costs. (TR 1375; EXH 165) Witness Welch further explained that the invoices are charged through a sundry allocation which is allocated based on number of meters. (TR 1375; EXH 165) The second division is ACO, which does the customer billing and handles the call center. (TR 83, 1081, 1375; EXH 165) Witness Welch stated that ACO accumulates all of its costs including payroll, office space, and various invoices, and allocates these costs to states that use the billing system based on number of meters. (TR 1375; EXH 165)

In addition to allocations by ASI and ACO, AAI allocates certain costs directly to states, such as insurance, fleet charges, lock box charges, and health insurance. (TR 84, 1376; EXH 165) All costs discussed above are charged to AUF's headquarters cost center which are then allocated to its non-regulated and regulated systems based on direct labor and on the number of customers. (TR 84, 85, 1376; EXH 165)

Required Analyses of Affiliate Charges

It is a utility's burden to prove that its costs are reasonable.⁵⁰ This burden is even greater when the transaction is between related parties because: (1) affiliate transactions raise the concern of self-dealing where market forces do not necessarily drive prices, and (2) utilities have

⁵⁰ See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982).

a natural business incentive to shift costs from non-regulated operations to regulated monopoly operations since recovery is more certain with captive ratepayers. Accordingly, although a transaction between related parties is not per se unreasonable, related party transactions require closer scrutiny. The legislature has recognized the need to scrutinize affiliate transactions by specifically granting the Commission access to non-regulated affiliate records. Specifically, Section 367.156(1), F.S., states:

The commission shall continue to have reasonable access to all utility records and records of affiliated companies, including its parent company, regarding transactions or cost allocations among the utility and such affiliated companies, and such records necessary to ensure that a utility's ratepayers do not subsidize nonutility activities. Upon request of the utility or any other person, any records received by the commission which are shown and found by the commission to be proprietary confidential business information shall be kept confidential and shall be exempt from s. 119.07(1).

(Emphasis added). In overturning a prior Commission decision, the Florida Supreme Court enunciated the standard for which the Commission should review affiliate transactions stating, “(w)e believe the standard must be whether the transactions exceed the going market rate or are otherwise inherently unfair.”⁵¹ This standard of review will be addressed in detail in Issue 17.

Affiliate Transaction Audit

In reviewing the corporate overhead allocated to AUF, staff auditors reviewed AAI's Board of Directors minutes to determine if any changes to future operations would affect the test year allocated amounts. (TR 1376; EXH 165) The auditors reviewed the allocation methodology used to allocate costs from ASI, ACO, AAI, and AUF headquarters by recalculating the allocation percentages and verifying the number of customers to source documents.⁵² (TR 1376; EXH 165) In addition, staff auditors performed an analytical review of ASI and ACO costs to determine whether selected costs could be traced back to supporting source documentation. (TR 1377; EXH 165) An audit of the gross costs at the parent level was performed which included an examination of costs for proper timing, amount, and classification. (EXH 165) The auditors also examined the costs to determine whether any costs were non-utility related, non-recurring, unreasonable or imprudent. (EXH 165) Further, the auditors reviewed related party transactions for reasonableness by ensuring they were commensurate with arms-length transactions. (EXH 165) Finally, selected samples were taken from the ledgers of ASI, ACO, and AAI and were traced to supporting documentation. (TR 1378; EXH 165)

Staff notes that numerous affiliate audit findings were made, the majority of which resulted in adjustments that the Utility and parties stipulated. Specifically, the total \$170,651 stipulated affiliate-adjustment⁵³ consists of the following: Sundry expense adjustment of \$5,586 (Affiliate Audit Finding 2),⁵⁴ Investor Relation Promotions and Sponsorship of Events

⁵¹ GTE v. Deason, 642 So. 2d 545, 548 (Fla. 1994)

⁵² This was done to ensure that AAI's regulated operations are not subsidizing its non-regulated operations.

⁵³ See Order No. PSC-11-0544-PHO-WS, Page 63 and PAA Order, Pages 65-66, as well as TR 1080, Lines 13-15.

⁵⁴ (TR 1379, Lines 16-21; EXH 165, Page 10)

adjustment of \$681 (Affiliate Audit Finding 3),⁵⁵ AUF Headquarters Charges adjustment of \$53,095 (Affiliate Audit Finding 4),⁵⁶ Administrative and Termination/New Hire Salary Normalization and Pro Forma adjustment of \$100,087 (Affiliate Audit Finding 6),⁵⁷ and Health Insurance Accrual adjustment of \$11,196 (Affiliate Audit Finding 7).⁵⁸

Additional AAI Customers

AUF responded to a staff data request indicating that AAI acquired 22 water and/or wastewater systems totaling 5,894 customers subsequent to the April 30, 2010, test year. (EXH 197) In a subsequent response, the Utility stated that there was no net incremental increase in overhead associated with these acquisitions. (EXH 170, 197) AUF witness Szczygiel disagreed with the PAA Order adjustments associated with these additional AAI customers because he believed they were overstated. (EXH 197) Specifically, witness Szczygiel asserted that the impact of 6,000 customers would have a de minimis impact on AUF. (EXH 197) In his late-filed deposition Exhibit 4, witness Szczygiel reflected an impact of \$5,972 related to these additional customers. (EXH 294) Because ratemaking is prospective in nature, staff believes that an adjustment is appropriate to recognize the net additional customers now served by AAI. Accordingly, staff recommends that O&M expense be reduced by \$5,972.

Review of Parties' Arguments

With the exception of no allocation of common officers' and directors' salaries and other associated costs to non-regulated entities, staff believes AUF witness Szczygiel sufficiently addressed the concerns raised by OPC witness Dismukes. Staff believes that witness Szczygiel's testimony did not provide sufficient evidence to support no allocation of common officers' and directors' salaries and associated costs to non-regulated entities. In so recommending, staff notes that "it is the [Commission's] prerogative to evaluate the testimony of competing experts and afford whatever weight to the conflicting opinions it deems necessary."⁵⁹

As stated previously, it is a utility's burden to prove that its costs are reasonable.⁶⁰ Due to the lack of sufficient evidence to support AUF's decision not to allocate common officers' and directors' salaries and associated costs to non-regulated entities, staff believes a reduction to AUF's O&M expense is warranted in order to recognize an allocation of common costs to AAI's non-regulated entities. Using the percentage of non-regulated revenues to total AAI revenues, AUF's customer percentage, and AUF's jurisdictional factor, staff recommends that O&M expense be reduced by \$23,555.

⁵⁵ (TR 1379, Lines 22-25; EXH 165, Page 11)

⁵⁶ (TR 1380, Lines 1-4; EXH 165, Pages 13-14)

⁵⁷ (TR 1380, Lines 10-15; EXH 165, Page 17)

⁵⁸ (TR 1380, Lines 16-21; EXH 165, Pages 18-20)

⁵⁹ See Gulf Power Co. v. FPSC, 453 So. 2d 799, 805 (Fla. 1984).

⁶⁰ See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982).

CONCLUSION

As stated previously, AUF witness Szczygiel agreed that Aqua Georgia should be allocated a portion of ASI's costs based on an imputed customer count of 408 customers. This results in an annual reduction to AUF of approximately \$244. (TR 1460, 1461) Because ratemaking is prospective in nature, staff believes an adjustment is appropriate to reduce O&M expense by \$5,972 in order to recognize the net additional customers now served by AAI. Finally, due to the lack of sufficient evidence to support AUF's position that no allocation of common officers' and directors' salaries and associated costs to non-regulated entities is necessary, staff believes a reduction to AUF's O&M expense of \$23,555 is warranted in order to recognize an allocation of common costs to AAI's non-regulated entities. Based on the above, staff recommends that O&M expense be reduced by \$29,772 (\$244 + \$5,972 + \$23,555)

Table 16-1

Allocated O&M Expense Adjustments	
Rate Band/System	Adjustments
Water Band 1	(\$6,970)
Wastewater Band 1	(1,251)
Water Band 2	(3,113)
Wastewater Band 2	(5,632)
Water Band 3	(1,906)
Wastewater Band 3	(699)
Water Band 4	(8,594)
Wastewater Band 4	(298)
Breeze Hill Water	(149)
Breeze Hill Wastewater	(149)
Fairways Water	(507)
Fairways Wastewater	(281)
Peace River Water	(115)
Peace River Wastewater	(109)
Total	(\$29,772)

Issue 17: Should any adjustments be made to affiliate revenue, costs, and charges allocated to AUF's systems?

Recommendation: Yes. O&M expense should be reduced by \$281,954. The adjustments to each rate band and stand-alone system are set forth in the Staff Analysis below. (Fletcher)

Position of the Parties

AUF: No adjustments should be made to affiliate revenues, costs and charges allocated to AUF's systems. Affiliate costs allocated to AUF are reasonable and benefit customers because they are below the relevant market. Moreover, AUF's affiliate costs have actually gone down since AUF's last rate case. OPC has not provided any credible evidence to support its recommended adjustments.

OPC: Yes. Affiliate costs and charges allocated to AUF's systems should be reduced by \$976,845.

YES: Yes defers to the position of the OPC on this issue.

Pasco County: Pasco County adopts the position of the Office of Public Counsel as if fully set forth herein.

AG: The AG adopts the position of the OPC.

Staff Analysis: In its filing, the Utility recorded a total inter-company expense allocation of \$2,418,638 from its parent, AAI. (EXH 277, p. 7) This amount included costs associated with AUF non-jurisdictional systems in Citrus and Sarasota counties. The amount of inter-company expense requested in this case is \$1,468,020. (EXH 277, pp. 13-14)

PARTIES' ARGUMENTS

AUF

AUF witness Szczygiel testified that the methodology by which the Utility's affiliate transaction costs are allocated to AUF was closely reviewed and approved by the Commission in its last rate case. (TR 79, 95). He stated that, since the 2008 rate case, AUF conducted a Florida Market Study which shows that its customers benefit by having centralized services provided by affiliates because the allocated costs are less than what it would incur if AUF secured the services from outside sources. (TR 78, 95; EXH 53) In support of his position on affiliate transactions, witness Szczygiel provided AAI's Corporate Charges Allocation Manual and an analysis that he argued demonstrates that the allocated costs to AUF by affiliates are below market costs. (TR 78; EXH 52, 53) AUF witness Szczygiel asserted that OPC's recommended adjustments are confiscatory and represent a reduction of over \$1.2 million in affiliate expenses that the Commission approved in the 2008 rate case. (TR 1453, 1454)

OPC

OPC witness Dismukes testified that affiliate costs have increased significantly since the 2008 rate case and the Utility has failed to explain these increases. (TR 1081, 1043, 1079-1125) Witness Dismukes stated that it is important to closely examine affiliate transactions because they do not represent arms-length dealings and regulated operations should not subsidize the non-regulated operations. (TR 1081) She asserted that Contractual Services – Management Fees increased by 281 percent since the 2008 rate case, significantly more than the reduction to miscellaneous expenses. (TR 1105, 1106) In its brief, OPC pointed out that the Utility’s O&M expense ratio is over 50 percent compared to AAI’s O&M expense ratio of 38 percent. Based on her peer group analysis, witness Dismukes recommended that AUF’s expenses related to affiliates should be reduced by \$664,023 for water and \$312,822 for wastewater because AUF has not demonstrated any economies of scale or other commensurate benefits to customers. (TR 1122-1123)

YES, Pasco County, and AG either deferred to or adopted the position of OPC on this issue. None of these parties included any argument on this issue in their respective briefs.

ANALYSIS

In this issue, OPC and the other Intervenors recommend a reduction of \$664,023 for water and \$312,822 for wastewater. OPC argued that the reduction is appropriate because AUF has not demonstrated any economies of scale or other commensurate benefits to customers. (TR 1122-1123)

In evaluating whether and how much affiliate costs should be included in rates, staff reviewed the relevant statutes and cases on rates and affiliate transactions. Section 367.081(2)(a)1., F.S., sets forth the Commission’s responsibility in rate setting. Specifically, Section 367.081(2)(a)1, F.S., states:

The commission shall, either upon request or upon its own motion, fix rates which are just, reasonable, compensatory, and not unfairly discriminatory. In every such proceeding, the commission shall consider the value and quality of the service and the cost of providing the service, which shall include, but not be limited to, debt interest; the requirements of the utility for working capital; maintenance, depreciation, tax, and operating expenses incurred in the operation of all property used and useful in the public service; and a fair return on the investment of the utility in property used and useful in the public service. . . .

As reflected in the statute cited above, the Commission is required to set reasonable rates, but the Commission must also set rates that are compensatory. The provisions in the statute do require that the Commission consider the cost of providing service, which includes operating expenses incurred in the operation of all property used and useful in the public service, as well as a fair return on the investment of the Utility in property used and useful in the public service. In conducting its analysis of the appropriate operating expenses to be included, staff was mindful of two Florida Supreme Court cases. Staff analyzed the case of Keystone Water Co v. Bevis, 278 So. 2d 606 (Fla. 1973), in which the Court held that a utility is entitled to a fair rate of return on

property used or useful in public service. In Keystone, the Court found that rates which do not yield a fair rate of return are unjust, unreasonable, and confiscatory and their enforcement deprives a utility of due process.⁶¹ Additionally staff analyzed the case of GTE v. Deason, 642 So. 2d 545 (Fla. 1994), in which the Florida Supreme Court laid out the Commission's standard of review for affiliate transactions. GTE v. Deason is useful in determining what, if any, affiliate costs should be included as part of AUF's O&M expenses. In GTE v. Deason, the Court stated:

The mere fact that a utility is doing business with an affiliate does not mean that unfair or excess profits are being generated, without more. Charles F. Phillips, Jr., *The Regulation of Public Utilities* 254-55 (1988). We believe the standard must be whether the transactions exceed the going market rate or are otherwise inherently unfair. . . . If the answer is "no," then the PSC may not reject the utility's position.

GTE v. Deason, 645 So. 2d at 547-548. The following is staff's analysis of the record evidence applying Keystone v. Bevis and GTE v. Deason as appropriate.

Benefit to Ratepayers from Affiliate-Provided Services

OPC challenged the amount of benefit ratepayers receive from affiliate-provided services and recommended that AUF's revenue requirement be reduced by \$664,023 for water and \$312,822 for wastewater. OPC's challenge is multi-faceted. First, OPC challenges AUF's evidentiary support using a market-based study to support its affiliate transactions. Second, OPC provides a peer group comparison to support its position that AUF's revenue requirement be reduced. Third, OPC challenges AUF's claim that being part of a large organization in which management, operations, and regulatory support provided by the Utility's parent and sister companies reduces costs to customers. Staff will address the parties arguments under two separate headings below. The Evidentiary Support for the Affiliate Services subsection addresses both AUF's market-based study and OPC's peer group analysis. In the subsection Cost of Operating AUF's Systems, staff reviews OPC's argument that it is the parent organization's costs that are increasing Florida ratepayers costs without giving any benefit to Florida ratepayers.

Evidentiary Support for Affiliate Services

Case law has established that the standard to use in evaluating affiliate transactions is whether the cost of those transactions exceeds the going market rate or is otherwise inherently unfair.⁶² Staff notes that it is a utility's burden to prove that its costs are reasonable.⁶³ Staff believes this burden is even greater when the transaction is between related parties for two reasons: (1) affiliate transactions raise the concern of self-dealing where market forces do not necessarily drive prices, and (2) utilities have a natural business incentive to shift costs from non-regulated operations to regulated monopoly operations since recovery is more certain with captive ratepayers. Although a transaction between related parties is not per se unreasonable,

⁶¹ See Keystone Water Co. v. Bevis, 278 So. 2d 606, 609 (Fla. 1973).

⁶² See GTE Florida, Inc. v. Deason, 642 So. 2d 545 (Fla. 1994).

⁶³ See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982).

related party transactions require closer scrutiny. To address the benefit to customers from affiliate-provided services, staff believes it is appropriate to address AUF witness Szczygiel's market-based study and the peer group comparison offered by OPC witness Dismukes.

For purposes of its review of AUF's affiliate transactions, staff requested that the Utility provide any and all documents in its possession, custody or control that demonstrate whether charges from all affiliates are provided to AUF at the lower of cost or market. (EXH 188, BSP 2008) In its response, AUF provided a recent study prepared by the Utility's sister company, Aqua Virginia, which was submitted to the Virginia Public Service Commission. (EXH 188, BSP 2008-2010) This study compared the fully-loaded hourly rates, including all benefits and applicable taxes, of ASI employees with the hourly rates charged by engineering, accounting, and other consultants from the private sector. (EXH 188, BSP 2008-2010) According to that study, the hourly rates of ASI employees were lower than consultants from the private sector. (EXH 188, BSP 2008-2010)

In its supplemental response, AUF provided a similar analysis comparing the hourly rates of ASI employees to hourly rates of private sector consultants in Florida. (EXH 188, BSP 2015-2026) Witness Szczygiel argued that the Florida-specific analysis revealed that the hourly rates of ASI employees were lower than consultants from the private sector. (TR 78, 95; EXH 188, BSP 2015-2026) The Utility further stated that ASI is a service company formed by AAI to provide centralized management, accounting, engineering, human resources, information technology support, legal, and rate case support to AAI's operating subsidiaries. (EXH 188, BSP 2016) AUF asserted that ASI allows all of its operating subsidiaries to take advantage of the economies of scale provided by common ownership of numerous companies. (EXH 188, BSP 2016) For example, the Utility contended that affiliated companies like AUF can share accounting software, asset software, and billing and customer information software, thus saving the individual companies from the cost of acquiring such software on their own. (EXH 188, BSP 2016)

If operated as a stand-alone company, AUF asserted it would have to hire and retain additional employees and/or outside contractors to provide the many services now being provided by ASI. (EXH 188, BSP 2016) For example, the Utility stated that ASI offers a centralized staff of professional engineers to AUF and other AAI operating subsidiaries. (EXH 188, BSP 2016) The Utility indicated that these professional engineers provide services such as obtaining and preparing requests for proposals and evaluating submitted proposals from various engineering firms and are available to AUF as needed. (EXH 188, BSP 2016) AUF contended that the cost of sharing the expense of an engineering staff is far less than contracting outside engineering firms, which not only bill to cover the fully loaded cost of their engineering staff, but also to include a profit margin. (EXH 188, BSP 2016) The Utility stated that the average hourly cost of engineering services allocated to AUF from ASI, including overhead, is approximately \$82 an hour. (EXH 188, BSP 2016) AUF asserted that two Florida engineering firms were surveyed for their billing rates, and the rates ranged from \$110 per hour for entry level professional staff to \$140 per hour for principals. (EXH 188, BSP 2016-2017) Based on these billing rates, AUF calculated that the per hour cost savings ranges from approximately 25 to 41 percent by using ASI. (EXH 188, BSP 2017)

Likewise, if operated as a stand-alone company, AUF asserted it would have to hire an attorney or attorneys, or contract out legal services to outside law firms, for recurring general matters. (EXH 188, BSP 2017) As a subsidiary of AAI, AUF stated it can access legal services from the legal staff at ASI. (EXH 188, BSP 2017) The average 2009 billing rate for Florida law firms, as published in the "2010 Economics & Law Office Management Survey" conducted by the Florida Bar, was approximately \$247 an hour.⁶⁴ (EXH 188, BSP 2017; EXH 85, p. 9) The Utility stated that the hourly rate, including overhead, for legal services in the test year charged to AUF by ASI was approximately \$140 an hour, which represents a savings of approximately 43 percent compared to the Florida Bar average rate. (EXH 188, BSP 2017)

AUF also contended it has access to a full accounting staff at ASI with experience in all phases of accounting, including accounts payable, property, tax, general ledger, payroll, purchasing, and accounts receivable. (EXH 188, BSP 2017) The Utility stated that the average hourly rate billed from ASI was approximately \$57 an hour. (EXH 188, BSP 2017) AUF stated that the "2008 PCPS/TSCPA National MAP Survey" conducted by the American Institute of Certified Public Accountants showed national average rates for accounting professionals. (EXH 188, BSP 2017) The Utility asserted that these hourly rates, adjusted for inflation, are Directors - \$161, Managers - \$137, Senior Associates - \$110 and Associates - \$88. (EXH 188, BSP 2017) AUF contended that the average rate charged by ASI, which includes all levels of personnel, is approximately 35 percent less at the low end and 65 percent less at the high end when compared to the national averages. (EXH 188, BSP 2017)

AUF further asserted that as a subsidiary of AAI, it has access to a full range of management professionals. (EXH 188, BSP 2017) The Utility contended that some, but not all, of the services provided by AAI professionals include human resources, information processing, investor relations, financial planning, internal audit, regulatory affairs, and corporate governance (EXH 188, BSP 2017). AUF stated that the "Operating Ratios for Management Consulting Firms, 2007 Edition" survey conducted by the Association of Management Consulting Firms shows the range of billing rates of management consultants in the U.S. (EXH 188, BSP 2017-2018) The Utility asserted that those rates, adjusted for inflation, are \$115 an hour for an entry level consultant at a small firm to \$468 per hour for the highest level consultant at a large firm. (EXH 188, BSP 2018) AUF contended that the average hourly rate charged by ASI for the test year was approximately \$128, which is approximately 73 percent less than the high end of the national average. (EXH 188, BSP 2018)

⁶⁴ Please see the following table for staff's calculation of the average \$247 hourly rate.

<u>Percentage</u>	<u>Hourly Rate</u>	<u>Amount</u>
13%	150	\$20
27%	200	54
25%	250	63
5%	275	14
14%	300	42
2%	325	7
14%	350	49
100%		\$247

As for customer service provided by ACO, the Utility contended that AAI had total customer service charges of \$15,485,729 during the test year in this rate case. (EXH 188, BSP 2018) AUF stated that AAI's total cost of \$15,485,729 translates to a per customer cost of \$18.12 per year. (EXH 188, BSP 2017) The Utility asserted that the "Benchmarking Performance Indicators for Water and Wastewater Utilities: 2007 Annual Survey Data and Analyses Report" released by the American Water Works Association listed an average customer service cost per account, adjusted for inflation, of approximately \$44, which is more than double the AAI per customer service charge. (EXH 188, BSP 2018) AUF concluded that the per hour costs for services and costs per customer confirm that operating AUF as an affiliate of AAI is beneficial to Florida customers. (EXH 188, BSP 2018)

In its brief, OPC argued that AUF offered a market analysis with numerous shortcomings as support for its position that its affiliate costs do not exceed market rates. OPC witness Dismukes expressed numerous concerns with AUF's Florida Market Based Study, such as: (1) the study did not consider services provided by ASI to the other entities included in the Utility's study; (2) the Utility used only two firms to compare its engineering costs; (3) AUF's comparison appeared to assume that every hour spent by ASI personnel could be billed at a rate comparable to a skilled lawyer, consultant, certified public accountant or professional engineer regardless of the level of expertise of the ASI employee; (4) the comparison failed to consider that companies typically use outside counsel or consultants for specialized areas of law or professional services, not the day-to-day operations of a business; and (5) AUF's comparison failed to consider that outsourcing of this magnitude would likely be frowned upon by regulators due to the high costs that would be passed to ratepayers. (TR 1092-1100)

In response to OPC witness Dismukes' concerns that the initial study only included two engineering firms, AUF witness Szczygiel testified that AUF added two more engineering firms for a total of four engineering firms to update the Utility's Market Based Study. (EXH 209) In addition, witness Szczygiel stated he revised the study to exclude all ASI employees that hold less than a Bachelors' degree in the categories of accountants and management professionals to address witness Dismukes' concern that the level of expertise of ASI employees relative to third party certified public accountants and skilled consultants. (TR 1471, Lines 5-6)

In contrast to AUF's market based study approach, OPC witness Dismukes developed a peer group of PSC-regulated utilities to compare their expenses with AUF's expenses in an effort to test the reasonableness of affiliate-provided services. (TR 1118) Specifically, this peer group consisted of 15 Class B utilities and 29 Class C utilities. (TR 1118) Witness Dismukes pointed out that her peer group consisted of only Class B and Class C utilities because AUF's systems included in this rate case would all be considered Class B or Class C utilities on a stand-alone basis. (TR 1118) When developing the Class B/Class C peer group, she weighted the Class B and C utilities' data in proportion to the revenue of the systems in each rate band. (TR 1118) For the individual systems, witness Dismukes matched each system's Class ranking to the Class comparison. (TR 1119) For example, she considered Breeze Hill a Class C utility on a stand-alone basis; therefore, its affiliate charges were compared only to Class C utilities. (TR 1119) Witness Dismukes' peer group only compared administrative and general expenses, which consist of salaries and wages for employees and officers, contractual services expenses, and miscellaneous expenses. (EXH 124) Based on the total for all Rate Bands and stand-alone

systems, under the peer group approach, OPC witness Dismukes testified that the administrative and general expenses should be reduced by \$664,023 for water and \$312,822 for wastewater. (TR 1119, 1124)⁶⁵

AUF witness Szczygiel disagreed with making financial adjustments to any business entity using a peer group comparison like the one developed by OPC witness Dismukes. (TR 1475) He explained that the source data relied on by OPC witness Dismukes does not permit an apples-to-apples comparison with AUF. Witness Szczygiel contended that the varying levels of services provided by the service companies to their individual affiliates, the different allocation methodologies, and the lack of detail in the data submitted prevented a clear determination of the amount of costs charged or the prudence of those charges. (TR 1475) Witness Szczygiel stated that there is no indication that witness Dismukes has audited the source documents of the utilities in her peer group, nor is there any indication that she has a baseline understanding of the condition of their facilities. (TR 1475) He also asserted that there is no showing of whether the utilities in witness Dismukes' peer group are in need of rate relief, whether they are operating at a loss, or whether they have a service company. (TR 1475) Moreover, witness Szczygiel testified that the corporate structures, expenses, operating standards, and environmental compliance records of the utilities in witness Dismukes' peer group are not considered. (TR 1475)

While staff agrees with OPC witness Dismukes that AUF's Market Based Study does not offer a realistic comparison of market based rates (OPC BR 28), staff also agrees with AUF witness Szczygiel that the peer group analysis presented by witness Dismukes does not provide an adequate comparison. (AUF BR 36) Staff notes that the Commission's decision in AUF's 2008 rate case disagreed with witness Dismukes' previous recommendation to use a comparison of PSC-regulated utilities to AUF in evaluating affiliate-provided services. In the Utility's 2008 rate case, the Commission specifically found the following: "[w]e find that the comparison analysis proposed by witness Dismukes does not provide an appropriate basis to warrant an adjustment being made."⁶⁶ As acknowledged by witness Dismukes, there are complexities associated with determining the reasonableness of affiliate transactions. (TR 1118) To that point, staff believes that witness Dismukes' peer group comparison does not adequately compare the duties, activities, and responsibilities for the Utility's affiliate-provided services.

If the Commission were to approve OPC's proposed adjustment of \$976,845 (\$664,023 + \$312,822), it would represent a disallowance of approximately 67 percent⁶⁷ of AUF's proposed allocated overhead. Staff is concerned with removing such a significant portion of costs unless there is a sufficient evidentiary record to support the removal of those costs. Thus, staff believes an evaluation of the justified costs to operate the Utility's systems, which is discussed in detail below, is necessary to resolve this issue.

⁶⁵ With the staff-recommended O&M expense adjustments in other issues and before any other recommended adjustments to affiliate-provided services, staff notes that OPC's proposed adjustment in this issue would result in the approval of total O&M expense that is approximately 6 percent less than the total O&M expense approved in the Utility's 2008 rate case.

⁶⁶ See Order No. PSC-09-0385-FOF-WS, p. 78.

⁶⁷ This percentage is calculated by using the proposed adjustment of \$976,845 divided by total intercompany allocation for this case of \$1,468,020.

Cost of Operating AUF's Systems

OPC challenged AUF's claim that being part of a large organization in which management, operations, and regulatory support provided by the Utility's parent and sister companies reduces costs to customers. (TR 1121; OPC BR 39) Based on its review of O&M expense for Class C utilities, OPC stated that the layers of management associated with the Utility's allocated overhead has not produced any cost savings for customers. (TR 1261) OPC contended that AUF's operating expenses are too high when compared to other Class C utilities. (TR 1121)

To test OPC's assertion, staff performed an analysis that compared the long-term debt cost of the utilities in OPC witness Dismukes' peer group which had long-term debt to AUF's cost rate for long-term debt provided by AAI. The following table depicts staff's calculation of a weighted cost of long-term debt for all the utilities in OPC witness Dismukes' peer group that had long-term debt at the time the Commission last established those utilities' ROEs.

Table 17-1

Weight Cost of Long-Term Debt Calculation				
Utility Name	Balance	% of Total	Effective Interest Rate	Weighted Cost Rate
Continental Utility, Inc. ⁶⁸	\$930,630	15.64%	11.50%	1.80%
Rainbow Springs Utilities, L.C. ⁶⁹	939,052	15.78%	9.30%	1.47%
Tradewinds Utilities, Inc. ⁷⁰	782,218	13.14%	5.23%	0.69%
Venture Associates Utilities Corp. ⁷¹	28,780	0.48%	7.68%	0.04%
Allen LaFortune and Otis Fonder ⁷²	31,560	0.53%	10.00%	0.05%
Buccaneer Water Service ⁷³	211,966	3.56%	7.45%	0.27%
Crestridge Utility Corporation ⁷⁴	8,499	0.14%	11.00%	0.02%
Damon Utilities, Inc. ⁷⁵	12,705	0.21%	5.00%	0.01%
Keen Sales, Rentals and Utilities, Inc. ⁷⁶	54,944	0.92%	7.00%	0.06%

⁶⁸ See Order No. 25347, p. 24, issued November 14, 1991, in Docket No. 910093-WS, In re: Request for rate increase in Sumter County by Continental Utility, Inc.

⁶⁹ See Order No. PSC-96-1229-FOF-WS, p. 38, issued September 30, 1996, in Docket No. 950828-WS, In re: Application for rate increase in Marion County by Rainbow Springs Utilities, L.C.

⁷⁰ See Order No. PSC-11-0385-PAA-WS, p. 27, issued September 13, 2011, in Docket No. 100127-WS, In re: Application for increase in water and wastewater rates in Marion County by Tradewinds Utilities, Inc.

⁷¹ See Order No. PSC-96-0790-FOF-WU, p. 37, issued June 18, 1996, in Docket No. 930892-WU, In re: Application for amendment of Certificate No. 488-W in Marion County by Venture Associates Utilities Corp.

⁷² See Order No. 21652, p. 17, issued August 2, 1989, in Docket No. 881601-WU, In re: Application of Allen LaFortune and Otis Fonder for a staff-assisted rate case in Pasco County.

⁷³ See Order No. PSC-96-1466-FOF-WU, p. 8, issued December 3, 1996, in Docket No. 960133-WU, In re: Application for staff-assisted rate case in Lee County by MHC-DeAnza Financing Limited Partnership d/b/a Buccaneer Water Service.

⁷⁴ See Order No. 21919, p. 16, issued September 19, 1989, in Docket No. 890170-WU, In re: Application of Crestridge Utility Corporation for staff-assisted rate case in Pasco County.

⁷⁵ See Order No. PSC-09-0618-PAA-WS, p. 25, issued September 11, 2009, in Docket No. 080709-WS, In re: Application for staff-assisted rate case in Highlands County by Damon Utilities, Inc.

⁷⁶ See Order No. PSC-09-0716-PAA-WU, p. 33, issued October 28, 2009, in Docket No. 090072-WU, In re: Application for staff-assisted rate case in Polk County by Keen Sales, Rentals and Utilities, Inc.

Utility Name	Balance	% of Total	Effective Interest Rate	Weighted Cost Rate
River Ranch Water Management, L.L.C. ⁷⁷	376,642	6.33%	10.00%	0.63%
Shangri-La by The Lake Utilities, Inc. ⁷⁸				
Barnett Bank Loan	1,150,000	19.32%	10.75%	2.08%
Barnett Bank Money Mortgage	300,000	5.04%	10.00%	0.50%
Tymber Creek Utilities, Incorporated ⁷⁹				
Shirah Builders, Inc.	35,340	0.59%	3.25%	0.02%
Sun Trust	26,759	0.45%	3.25%	0.01%
Environmental Protection Systems of Pine Island, Inc. ⁸⁰				
Notes Payable Cheery Estates	11,187	0.19%	8.00%	0.02%
Notes Payable KRS Land Dev.	40,491	0.68%	8.00%	0.05%
Notes Payable KRS Resort	5,478	0.09%	8.00%	0.01%
Notes Payable Cheery Builders	17,850	0.30%	8.00%	0.02%
Line of Credit-SunTrust	205,061	3.45%	8.00%	0.28%
County Loan	480,036	8.07%	4.50%	0.36%
BFF CORP. ⁸¹				
Wachovia Bank	81,391	1.37%	9.25%	0.13%
MIRA International, Inc.	47,791	0.80%	9.00%	0.07%
B.J. Roderick	4,959	0.08%	9.00%	0.01%
Fairmount Utilities, The 2nd, Inc. ⁸²	45,974	0.77%	7.25%	0.06%
Sebring Ridge Utilities, Inc. ⁸³				
Loan 1 from Fairmount Utilities The 2nd, Inc.	1,500	0.03%	10.60%	0.00%
Loan 2	17,582	0.30%	10.00%	0.03%
Loan 3	12,459	0.21%	11.50%	0.02%
Loan 4	90,990	1.53%	11.25%	0.17%
TOTAL	\$5,951,844	100.00%		8.88%

Based on staff's calculation in the table above, the weighted average cost rate for long-term debt of the utilities in OPC witness Dismukes' peer group is 8.88 percent. As recommended in Issue 13, the Utility's cost rate for debt is 5.10 percent. AUF's cost of debt is 378 basis points less than the calculated weighted average cost of debt for the utilities in OPC witness Dismukes peer group. Using AUF's cost structure, this incremental difference in the cost of debt would equate to approximately \$600,000 in additional revenue requirement. Based

⁷⁷ See Order No. PSC-03-0740-PAA-WS, p. 58, issued June 23, 2003, in Docket No. 021067-WS, In re: Application for staff-assisted rate case in Polk County by River Ranch Water Management, L.L.C.

⁷⁸ See Order No. PSC-96-0062-FOF-WS, p. 8, issued January 12, 1996, in Docket No. 940653-WS, In re: Application for certificates to provide water and wastewater services in Lake County by Shangri-La by The Lake Utilities, Inc.

⁷⁹ See Order No. PSC-11-0345-PAA-WS, p. 35, issued August 16, 2011, in Docket No. 100359-WS, In re: Application for staff-assisted rate case in Volusia County by Tymber Creek Utilities, Incorporated.

⁸⁰ See Order No. PSC-03-1119-PAA-SU, p. 58, issued October 7, 2003, in Docket No. 030106-SU, In re: Application for staff-assisted rate case in Lee County by Environmental Protection Systems of Pine Island, Inc.

⁸¹ See Order No. PSC-02-0487-PAA-SU, p. 44, issued April 8, 2002, in Docket No. 010919-SU, In re: Application for staff-assisted rate case in Marion County by BFF Corp.

⁸² See Order No. PSC-09-0628-PAA-SU, p. 21, issued September 17, 2009, in Docket No. 080668-SU, In re: Application for staff-assisted rate case in Highlands County by Fairmount Utilities, The 2nd, Inc.

⁸³ See Order No. PSC-96-0869-FOF-WS, p.10, issued July 2, 1996, in Docket No. 950966-WS, In re: Application for a staff-assisted rate case in Highlands County by Sebring Ridge Utilities, Inc.

on this analysis, it appears that AUF customers are benefitting from the Utility's association with AAI through a lower cost of long-term debt.

Moreover, staff believes that just because the costs to operate a utility are high, this does not necessary mean that a utility is operating inefficiently. Staff believes that other factors may influence the costs to provide service to customers. Therefore a review of this particular Utility's history is helpful in understanding the costs associated with providing service. AUF acquired the majority of its system from Florida Water Services Corporation (FWSC). FWSC was formerly known as Southern States Utilities, Inc. (SSU). SSU rates were last established in 1996.⁸⁴ At that time, SSU provided water and wastewater service to approximately 102,500 water and 43,000 wastewater customers. In SSU's last rate case, the Commission approved a capband rate structure that was affirmed later by the First DCA.⁸⁵ The capband rate structure approved in Docket No. 950495-WS combined 95 water systems and 43 wastewater systems into eight rate groups for the water systems and six rate groups for the wastewater systems. Each of these groups consisted of systems with similar costs, but cross subsidies did exist within each group. When the groups were fragmented after the break up of FWSC, the loss of subsidy resulted in the remaining systems failing to produce revenues that covered their costs on a stand-alone basis.

Before these numerous smaller, higher-cost water and wastewater systems were acquired by AUF, several of SSU's larger, lower-cost systems were sold to municipalities and governmental entities. Under the approved capband rate structure, SSU had very large water and wastewater systems that were subsidizing numerous smaller water and wastewater systems.⁸⁶ As a result, SSU's rates for the smaller, higher-cost systems were considerably lower than if the smaller systems had to pay their true cost to serve. AUF purchased the collection of the smaller, higher-cost systems without the benefit of the larger systems that previously subsidized the higher-cost systems. Without the benefit of subsidization by larger systems, there is an upward pressure on rates for these smaller systems. This becomes evident when a comparison is made of a small system, Beecher's Point. Taking data from AUF's 2008 rate case, the stand-alone cost to serve a residential customer of Beecher's Point, based on a gallonage cap of 6,000, results in a monthly bill of \$384. The Commission's capband rate structure approved in the 2008 case resulted in a monthly bill of \$82.

Staff Recommended Adjustments to Affiliate Costs

Executive Salary Increases

AUF included AAI Executive Salaries for its four top executives of \$72,166 as part of its MFRs. This represents an increase of 22 percent over the amount approved in the 2008 rate case for this line item. Staff believes AUF did not provide sufficient record evidence to support an increase of 22 percent, particularly in light of the economic downturn.

⁸⁴ See Order No. PSC-96-1320-FOF-WS.

⁸⁵ See Southern States Utilities, Inc. a/k/a Florida Water Services Corporation v. F.P.S.C., 714 So. 2d 1046 (Fla. 1st DCA 1998).

⁸⁶ In 1996, SSU's four largest water systems served approximately 47,000 customers, which is more than double the present total number of AUF water customers.

Exhibit 197 includes an article from the April 2011 issue of Electricity Journal titled “Recovery of Executive Compensation Expenses in Utility Rate Cases”. As explained by the authors of this article, due to the recent economic downturn, there is greater scrutiny of executive pay across the country, including within the utility sector. (EXH 197, Deposition Exhibit 11, Page 1) As further explained in this article, utilities seeking recovery of executive compensation should explain the significant variances in year-over-year executive pay. (EXH 197, Deposition Exhibit 11, Page 9) In its proxy statement, AAI reflected a table of the various types of compensation for its top five officers from 2008 to 2010.⁸⁷ (EXH 285, Page 32) Based on a review of AAI’s proxy statement and the record in this case, staff does not believe that AAI has adequately explained the significant year-over-year salary increases for AAI’s top five executives or how these significant increases are related to Florida utility operations. (EXH 285)

Based on the evidence presented by witnesses at the technical and service hearings, staff believes the economic downturn is still being felt in Florida. There was a significant amount of testimony provided at numerous service hearings regarding the impact the depressed economy has had on AUF customers. (Oviedo TR 48; Sebring TR 57, 60; Lakeland TR 39; New Port Richey TR 26, 83; Eustis TR 109, 116, 133). In addition, Pasco County witness Mariano stated that citizens in his county are experiencing economic struggles. (TR 1001) OPC witnesses Woodcock and Vandiver also testified regarding the difficult economic conditions in the State of Florida. (TR 605, 607, 643, 661, 684, 685, 743) Moreover, AUF witness Szczygiel acknowledged that the state of the economy may be a driver impacting the Utility’s level of bad debt expense. (TR 180)

Given the state of the economy and the failure of AUF to adequately support its request for a 22-percent increase for AAI’s top executives, staff recommends that the incremental salary increases for AAI’s top executives requested in this case should not be passed on to ratepayers. In further support of its recommendation, staff notes the following finding from a recent rate case:⁸⁸

In its filing, LUSI made two adjustments to the salaries and wages expense for the current test year. The first adjustment annualized the salaries and wages expense, and the second adjustment was a pro forma increase for salary increases of 3.5 percent in April 2011. Given the tumultuous state of the economy, we find that any pay increase at this time shall not be borne by the ratepayers. As such, we find that the Utility’s annualization adjustment and pro forma pay increase shall be disallowed.

(Emphasis added)⁸⁹ Staff notes that this PAA Order was made final by Consummating Order No. PSC-11-0548-CO-WS, issued November 29, 2011.

⁸⁷ Although AUF only sought recovery of the costs associated four of its top executives, staff notes that the AAI proxy statement refers to five top executives.

⁸⁸ See Order No. PSC-11-0514-PAA-WS, pp. 20-21, issued November 2, 2011, in Docket No. 100426-WS, In re: Application for increase in water and wastewater rates in Lake County by Lake Utility Services, Inc.

⁸⁹ Staff notes that this PAA Order was made final by Consummating Order No. PSC-11-0548-CO-WS, issued November 29, 2011.

Staff notes there have been two recent Commission decisions where a 3-percent salary increase was granted because the utility's last rate case was several years ago or it was the utility's first rate case.⁹⁰ Staff notes that AUF's circumstances are distinguishable from these cases in that the Utility's last rate case was less than three years ago. Accordingly, staff recommends that O&M expense be reduced by \$17,457 to remove the amount associated with executive salary increases. This amount represents the jurisdictional portion of the requested 22 percent salary increase for the top executives.

Normalization and Pro Forma Adjustments for ASI and ACO

In its filing, AUF requested a 2.9 percent salary increase in its normalization and pro forma adjustments for Contractual Services – Management Fees. (EXH 231 through 239, 242, 243) This request relates to allocated costs from ASI. (EXH 231 through 239, 242, 243) The Utility also requested a 2.9 percent salary increase in its normalization and pro forma adjustments for Contractual Services – Other. (EXH 231 through 239, 242, 243) This request relates to allocated costs from ACO. (EXH 231 through 239, 242, 243) Based on lack of support documentation, staff believes AUF has failed to justify its 2.9 percent normalization and pro forma salary increases.

In the Utility's 2008 rate case, the Commission found the following:

We find that AUF has failed to justify its four percent increase. No support was provided to justify why four percent was appropriate. Simply providing documents of calculations does not constitute support. We do recognize, however, that the Utility should be entitled to give its employees a cost of living increase. Applying our 2008 price index of 2.39, which is based on the Gross Domestic Product increase for the year ending September 2007,⁹¹ we calculate that salaries for AUF employees shall be reduced by \$268, and, salaries for ASI and ACO employees shall be reduced by \$1,306.

(Emphasis added)⁹² In light of the discussion above and using the Commission's 2011 Price Index of 1.18 percent,⁹³ staff recommends it is appropriate to recognize an increase for all non-executive ASI and ACO employees. Accordingly, staff recommends that O&M expense be reduced by \$36,736. This adjustment leaves in place a cost-of-living increase of 1.18 percent for

⁹⁰ See Order No. PSC-11-0010-SC-WU, pp. 3,20-21, issued January 3, 2011, in Docket No. 100104-WU, In re: Application for increase in water rates in Franklin County by Water Management Services, Inc.; Staff notes that this Final Order was appealed to the First District Court of Appeals, but the Commission's decision for the granting of a 3-percent increase was not apart of Water Management Services, Inc.'s appeal. See also Order No. PSC-11-0385-PAA-WS, p. 9, issued September 13, 2011, in Docket No. 100127-WS, In re: Application for increase in water and wastewater rates in Marion County by Tradewinds Utilities, Inc.

⁹¹ See Order No. PSC-08-0104-PAA-WS, issued February 18, 2008, in Docket No. 080005-WS, In re: Annual reestablishment of price increase or decrease index of major categories of operating costs incurred by water and wastewater utilities pursuant to Section 367.081(4)(a), F.S.; and Consummating Order No. PSC-08-0140-CO-WS, issued March 5, 2008.

⁹² See Order No. PSC-09-0385-FOF-WS, pp. 107-108.

⁹³ See Order No. PSC-11-0115-PAA-WS, issued February 14, 2011, in Docket No. 110005-WS, In re: Annual reestablishment of price increase or decrease index of major categories of operating costs incurred by water and wastewater utilities pursuant to Section 367.081(4)(a), F.S.

all non-executive ASI and ACO employees, but removes the requested incremental amount above this level associated with the requested normalization and pro forma adjustments.

Indexing of Affiliate Costs

In general, staff agrees with OPC witness Dismukes that administrative and general expenses of the Utility should be explored to determine the reasonableness of the AUF's allocated affiliate costs for all the rate bands in order to make an apples-to-apples comparison. Witness Dismukes defined administrative and general expenses as salary and wages for employees and officers, Contractual Services – Accounting, Contractual Services – Management Fees, Contractual Services – Other, and miscellaneous expenses. Staff believes that administrative and general expenses should also include pensions and benefits, Contractual Services – Engineering, Contractual Services – Legal, and Contractual Services – Testing as well.

OPC witness Dismukes asserted that Contractual Services – Management Fees increased by 281 percent since the 2008 rate case, significantly more than the reduction seen in miscellaneous expenses due to the shifting of costs as alleged by AUF. (TR 1105, 1106) AUF witness Szczygiel stated that OPC witness Dismukes overstated the change in AUF affiliate costs because the Utility now records all In-State Administrative Costs, which are not affiliate costs, in Contractual Services – Management Fees, Account Nos. 634 and 734, for water and wastewater, respectively. (TR 1477) Witness Szczygiel testified that the Utility recorded \$2,164,049 as miscellaneous expenses in the 2008 rate case and \$2,116,558 as Contractual Services – Management Fees in the test year for the instant case. This represents a decrease of \$47,491 (\$2,164,049-\$2,116,558), which witness Szczygiel stated was not protested by any party. (EXH 208, Page 1) Witness Szczygiel also testified that AUF recorded \$1,298,024 of total affiliate expenses in the 2008 rate case and \$1,293,040 in the test year for the instant case. This represents a decrease of \$4,984 (\$1,298,024-\$1,293,040). Witness Szczygiel acknowledged that this issue was protested. (EXH 208, Page 1)

Staff is unable to reconcile AUF witness Szczygiel's reclassification from miscellaneous expenses to Contractual Services - Management Fees contained in Exhibit 208 with the Utility's MFRs. (EXH 231-239, 242 and 243) First, using the jurisdictional factor of 60.17 percent for the bands and systems included in the instant case, staff calculated the In-State Administrative Costs reclassified to Contractual Services – Management Fees to be approximately \$1,273,532 (\$2,116,558 x .6017). However, according to the Utility's MFRs, the reduction in total miscellaneous expenses was only \$167,975. (EXH 231-239, 242-243) Staff realizes that there would be direct charges of miscellaneous expenses for each regulated and non-regulated rate band and system, but staff could not find in the record any direct charges that would explain the significant difference between the calculated amount of \$1,273,532 and the \$167,975 amount reflected in the Utility's MFRs. Given the Utility's failure to reconcile this major reclassification with the actual decrease in miscellaneous expenses from AUF's 2008 rate case, staff believes that it would be appropriate to examine the changes in Contractual Services – Management Fees and Contractual Services – Other where ASI and ACO allocated costs are recorded, as well as miscellaneous expenses. Based on a review of AUF's filing, staff notes that the Utility's requested Contractual Services – Management Fees, Contractual Services – Other, and

miscellaneous expenses combined has increased by approximately \$1.25 million, or 69 percent over the combined amount of Contractual Services – Management Fees, Contractual Services – Other, and miscellaneous expenses approved in AUF’s 2008 rate case.

Having previously recommended that both the AUF market-study approach and the OPC peer group comparison failed to adequately support the positions of the respective parties, staff turned to an alternative approach in evaluating the affiliate costs. Staff indexed the costs using Commission-approved price indices that were established pursuant to Section 367.081(4)(a), F.S. Using the resulting amounts from all other staff-recommended expense adjustments for the above noted administrative and general expenses, the total cost per customer is approximately \$210. Utilizing the Commission-approved price indices from 2008 through 2011 and the actual decline in the total number of customers of AUF since its 2008 rate case, staff calculated an index factor of approximately 5.93 percent. Applying the index factor of 1.0593 to the approved amounts from the 2008 rate case for the above-noted administrative and general expenses, staff calculated a total cost per customer of approximately \$200. This represents a difference of approximately \$10 per customer. Applying this \$10 difference to the total number of customers of the existing 8 rate bands, staff recommends that O&M expense be reduced by \$227,762.⁹⁴ In support of this approach, staff notes that there are two similar, recent Commission decisions. In each of those decisions, the utility failed to meet its burden of proof for requested salaries increases. Accordingly, the Commission indexed their salaries using the same methodology staff is recommending in the instant docket.⁹⁵

CONCLUSION

Staff believes AUF’s argument that its allocated affiliate costs are less than the level approved in the 2008 rate case is not supported by the record. Similarly, staff believes OPC’s argument that AUF has not demonstrated any benefit to customers from its association with AAI is not supported by the record either. Based on a balanced comparison of the cost level approved in the 2008 case to the cost level requested in the instant case, staff recommends the adjustments to O&M expense summarized below.⁹⁶

Based on the discussion above, O&M expense should be reduced by \$281,954 (\$17,457 + \$36,736 + \$227,762). The recommended amount of allocated overhead from affiliated companies represents approximately 13 percent of staff’s total recommended O&M expense and

⁹⁴ If the Commission were to approve staff’s recommendation in its entirety, staff notes that this adjustment results in the approval of total O&M expense that is approximately 3 percent greater than the total O&M expense approved in the Utility’s 2008 rate case.

⁹⁵ See Order Nos. PSC-10-0423-PAA-WS, pp. 13-14, issued July 1, 2010, in Docket No. 090402-WS, In re: Application for increase in water and wastewater rates in Seminole by Sanlando Utilities Corporation; and PSC-10-0407-PAA-SU, pp. 10-11, issued June 21, 2010, in Docket No. 090381-SU, In re: Application for increase in wastewater rates in Seminole County by Utilities Inc. of Longwood. Staff notes these PAA Orders were made final by Consummating Order Nos. PSC-10-0472-CO-WS, issued July 27, 2010 and PSC-10-0456-CO-SU, issued July 16, 2010, respectively.

⁹⁶ See Order Nos. PSC-11-0010-SC-WU, p. 55; and PSC-04-0712-PAA-WS, issued July 20, 2004, in Docket Nos. 020896-WS and 010503-WU, In re: Petition by customers of Aloha Utilities, Inc. for deletion of portion of territory in Seven Springs area in Pasco County, and In re: Application for increase in water rates in Seven Sprints System in Pasco County by Aloha Utilities, Inc.

7 percent of staff's total recommended revenue requirement of \$16,067,267. The specific rate band and system adjustments are set forth in the table below.

Table 17-2

Breakdown of Rate Band and Stand-alone Systems Adjustments	
Rate Band/System	Adjustments
Water Band 1	(\$66,459)
Wastewater Band 1	(25,992)
Water Band 2	(20,179)
Wastewater Band 2	(75,518)
Water Band 3	(12,999)
Wastewater Band 3	(44,686)
Water Band 4	(20,765)
Wastewater Band 4	(2,844)
Breeze Hill Water	(1,403)
Breeze Hill Wastewater	(1,381)
Fairways Water	(4,822)
Fairways Wastewater	(2,757)
Peace River Water	(1,093)
Peace River Wastewater	(1,055)
Total	(\$281,954)

Issue 18: What is the appropriate amount of Corporate Information Technology (“IT”) charges allocated to AUF by its parent, Aqua America, Inc.?

Recommendation: The appropriate amount of Corporate IT charges allocated to AUF by AAI is \$1,984,987. Accordingly, plant, accumulated depreciation, and depreciation expense should be reduced by \$68,670, \$141,488, and \$141,488, respectively. The adjustments to each rate band and stand-alone system are set forth in the Staff Analysis section below. (Fletcher)

Position of the Parties

AUF: The appropriate amount of the Corporate IT charges allocated to AUF by Aqua America, Inc., is \$2,406,888.11 as appropriately reflected in the MFRs.

OPC: Corporate IT charges should be adjusted to reflect an allocation of the IT costs among all systems that are benefitting from the service and should be depreciated over a ten year period.

YES: Yes defers to the position of the OPC on this issue.

Pasco County: Pasco County adopts the position of the Office of Public Counsel as if fully set forth herein.

AG: The AG adopts the position of the OPC.

Staff Analysis:

PARTIES’ ARGUMENTS

AUF

AUF witness Szczygiel testified that ASI provides AUF and other AAI operating subsidiaries IT software and software support services, which allows AUF to take advantage of the economies of scale provided by AAI’s common ownership of numerous companies. (TR 87; AUF BR 37) AUF witness Szczygiel argued that the record shows that this structure allows AUF to share IT software and support costs with other affiliated companies, thus saving AUF from the cost of acquiring such IT software and support services on its own. (TR 87) Witness Szczygiel testified that the major IT systems that ASI provides to AUF include required asset tracking, customer service, billing, collections, and service delivery management. (TR 87) Witness Szczygiel stated that the cost of these Corporate IT services are allocated to AUF based on the number of customers. (TR 18-19)

The PAA Order noted that, following the filing of this rate case, AAI divested itself of eight operating subsidiaries. (TR 88) Witness Szczygiel testified that the PAA Order mistakenly assumed that AAI had previously allocated Corporate IT costs to those “divested” subsidiaries, and thereafter “reallocated” those Corporate IT costs to AUF and other surviving operating utilities. (TR 88) Witness Szczygiel asserted that AAI’s cost distribution method allocates project costs only to those subsidiaries that benefit from the project. (TR 88)

In its brief, the Utility contended that Hearing Exhibit 293 provides the 13-month average balance of the Corporate IT Asset before and after the referenced divestment, and confirms that AAI did not reallocate the Corporate IT costs to the remaining systems. In addition, while witness Szczygiel initially disagreed with the Commission's proposal to change the amortization period for Corporate IT assets from 6 to 10 years, in its brief, AUF said it no longer disagrees with the Commission's proposal to change the amortization period to 10 years. (TR 92; AUF BR 38) With this exception, AUF respectfully submitted that the Corporate IT allocations set forth in the MFRs should be restored. (AUF BR 38)

OPC

In its brief, OPC pointed out that AUF witness Szczygiel testified that during the past three years, AAI had made IT investments and these costs were allocated to AUF through a sundry allocation that assigned the costs based on the number of customers. (TR 87; OPC BR 31) OPC also pointed out that witness Szczygiel stated that these costs were allocated at the time of the project, and the allocation was not updated for new systems that were added that also benefit from the IT improvements. (TR 125; OPC BR 31) OPC contended that, if this logic were expanded to expenses, the Utility would never charge the management fees to any new systems acquired because the management was put into place before the system was added. (OPC BR 31-32)

In its brief, OPC noted that witness Szczygiel further testified that, because the Utility does not re-allocate these costs, there is no need for an adjustment to remove increased allocation for systems that are divested. (TR 13; OPC BR 32) OPC contended that, based on the Utility's assertion that the IT assets were allocated at the time of the 2008 rate case and there has been no updated allocation, AUF had justified that an adjustment is not necessary to remove any IT allocation due to the sale of divested systems. (OPC BR 32) However, OPC noted that since the time of the last rate case, AAI has purchased 23 systems in 2010 and 18 systems in 2009. (EXH 287; OPC BR 32) OPC asserted that AUF has not justified why IT costs should not be allocated in a similar fashion as other administrative expenses, and as such, these allocations should be updated to reflect the acquisition of new systems that will benefit from the services. (OPC BR 32) Lastly, in its brief, OPC agreed that the Commission should adjust depreciation expense to reflect a 10-year depreciation life. (OPC BR 32)

YES, Pasco County and AG either deferred to or adopted the position of OPC on this issue. None of these parties included any argument on this issue in their respective briefs.

ANALYSIS

In its response to a request to describe the purpose of its major software systems, AUF asserted that AAI's information systems are well recognized and proven products with a utility focus. (EXH 173, BSP 1897) The three major systems are Powerplant (Asset Tracking & Rate Case Support), Banner (Customer Service, Billing, and Collections), and Itron Service Link (Service Delivery Management). (EXH 173, BSP 1897) During the past three years, the Utility stated that AAI has made significant investments to help ensure that Banner, Powerplant, and the

systems supporting customer service and field operations are capable of effectively supporting AAI's customers. (EXH 173, BSP 1897)

Recently, in several rate cases for Utilities, Inc. (UI) subsidiaries, the Commission reduced the amount of information technology plant allocated from UI's parent to its Florida subsidiaries.⁹⁷ By Order No. PSC-10-0585-PAA-WS, the Commission found that the allocation of corporate software costs from the parent company to its subsidiaries should be based on equivalent residential connections (ERCs).⁹⁸ However, if subsidiaries are sold, the cost previously allocated to the subsidiaries should not be reallocated to the surviving utilities because no added benefit was realized by the remaining subsidiaries. The rationale for this adjustment is that customers receive no additional benefit from this investment. While the decision cited is a final order, staff notes that UI has protested this adjustment in a case from a sister utility.⁹⁹

Staff believes it is not fair, just or reasonable for ratepayers to bear any additional allocated Corporate IT plant costs. Thus, staff believes an adjustment similar to the adjustment made in the UI cases is appropriate for AUF's Corporate IT plant costs. However, there is a distinguishable difference in the way AAI allocates its IT assets and the method UI employs to allocate its IT assets.

In late-filed deposition Exhibit 2, AUF witness Szczygiel stated that, when there is a divestiture of a system within a subsidiary, each subsidiary would have to evaluate what portion if any of these assets need to be written off. (EXH 293) For the divestitures made by AUF between 2008 and 2010, witness Szczygiel asserted that there was no write off of IT assets due to the fact that the divestitures were not material to the subsidiary. As mentioned by OPC witness Dismukes, AUF's Fountain Lakes irrigation and wastewater systems were recently sold. (TR 1080) As a result of this divestiture, staff disagrees with AUF witness Szczygiel that the effect is immaterial. Based on Fountain Lakes irrigation and wastewater system customer counts, staff calculated a plant reduction of \$68,670 with corresponding reductions to accumulated depreciation and depreciation expense of \$4,578 each.

Also, by Order No. PSC-10-0585-PAA-WS, the Commission determined that the amortization period of UI's Phoenix Project software should be increased.¹⁰⁰ While the Commission originally approved a 6-year amortization period for the Phoenix Project software, it later determined in a subsequent UI case that a more appropriate amortization period was 10 years. Major software programs, such as the Phoenix Project, are not "off the shelf" software,

⁹⁷ See Order Nos. PSC-10-0407-PAA-SU, issued June 21, 2010, in Docket No. 090381-SU, In re: Application for increase in wastewater rates in Seminole County by Utilities Inc. of Longwood; PSC-10-0400-PAA-WS, issued June 18, 2010, in Docket No. 090392-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities Inc. of Pennbrooke; PSC-10-0423-PAA-WS, issued July 1, 2010, in Docket No. 090402-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation; and PSC-11-0015-PAA-WS, issued January 5, 2011, in Docket No. 090531-WS, In re: Application for staff-assisted rate case in Highlands County by Lake Placid Utilities, Inc.

⁹⁸ Issued September 22, 2010, in Docket No. 090462-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas and Seminole Counties by Utilities, Inc. of Florida, pp. 9-11.

⁹⁹ See Order No. PSC-11-0587-PAA-SU, issued December 21, 2011, in Docket No. 110153-SU, In re: Application for increase in wastewater rates in Lee County by Utilities, Inc. of Eagle Ridge.

¹⁰⁰ See Order No. PSC-10-0585-PAA-WS, p. 12.

but software tailored specifically for a particular utility. Software projects of such magnitude are costly and intended to have a useful life much greater than off-the shelf software. UI's prior customer and billing software was used in excess of 21 years.

Based on AUF witness Szczygiel's late-filed deposition Exhibit 2, AAI's 13-month average test year Corporate IT investment is over \$115 million. (EXH 293) Given the magnitude of its Corporate IT investment, staff believes that AAI will not be replacing its major IT components any sooner than 10 years. Thus, staff recommends that 10 years is a reasonable amortization period in the instant case. AUF does not disagree with the Commission's proposal to change the amortization period for Corporate IT assets from 6 to 10 years. (AUF BR 38) Accordingly, staff recommends that accumulated depreciation and depreciation expense should both be decreased by \$136,910.

CONCLUSION

In AUF's position, the Utility states that the appropriate amount of Corporate IT charges allocated from AAI to AUF is \$2,406,888, as reflected in the MFRs. However, based on each rate band and stand-alone system's MFR Schedule A-3, staff calculated a total Corporate IT allocation of \$2,053,657. With staff's proposed plant adjustment of \$68,670, staff recommends that the appropriate amount of Corporate IT charges allocated from AAI to AUF is \$1,984,987 (\$2,053,657 - \$68,670).

Based on the discussion above, staff recommends that plant, accumulated depreciation, and depreciation expense be reduced by \$68,670, \$141,488 (\$4,578 + \$136,910), and \$141,488, respectively. The following table reflects the adjustments to each rate band and stand-alone system.

Table 18-1

Recommended Corporate IT Reductions			
Rate Band/System	Plant	Accum. Depr.	Depr. Exp.
Water Band 1	(\$19,433)	\$33,480	(\$33,480)
Wastewater Band 1	(8,194)	6,583	(6,583)
Water Band 2	(14,247)	15,630	(15,630)
Wastewater Band 2	1,054	25,042	(25,042)
Water Band 3	(9,972)	9,716	(9,716)
Wastewater Band 3	(2,435)	3,416	(3,416)
Water Band 4	(18,806)	40,668	(40,668)
Wastewater Band 4	14,776	(438)	438
Breeze Hill Band Water	(1,168)	805	(805)
Breeze Wastewater	(906)	771	(771)
Fairways Water	(5,204)	3,065	(3,065)
Fairways Wastewater	(2,426)	1,547	(1,547)
Peace River Water	(829)	614	(614)
Peace River Wastewater	(880)	588	(588)
Total	(\$68,670)	\$141,488	(\$141,488)

Issue 19: Should any adjustments be made to Incentive Compensation?

Recommendation: Yes. For the reasons set forth in staff's analysis below, O&M expense should be reduced by \$45,478 to reflect removal of incentive compensation. (M. Brown, Fletcher)

Position of the Parties

AUF: No adjustments should be made to Incentive Compensation. Neither the OPC nor any of the other interveners filed testimony attempting to rebut AUF's testimony regarding the need for, and the appropriateness of, Incentive Compensation.

OPC: Yes. AAI Incentive Compensation charges are allocated to AUF by its parent, Aqua America, and are included in the analysis of affiliate costs, and thus, are part of the \$976,845 reduction to affiliate costs recommended by OPC. However, if this issue is considered separately, the Commission should remove the \$106,258 included in the test year for 2010 as well as all amounts from 2009 and all adjustments for normalization and pro forma increases.

YES: Yes defers to the position of the OPC on this issue.

Pasco County: Pasco County adopts the position of the Office of Public Counsel as if fully set forth herein.

AG: The AG adopts the position of the OPC.

Staff Analysis: In its MFRs, AUF included \$21,784 in bonus and dividend compensation of AAI's corporate management.

PARTIES' ARGUMENTS

AUF

AUF witness Szczygiel testified that the incentive compensation in the Utility's MFRs is a pay-for-performance program, and is a necessary component of the AAI executive compensation to attract and retain qualified management. (TR 89, 96) He stated that AAI has an outside consultant annually benchmark the Utility's executive compensation package against the market. (TR 90; AUF BR 39) Witness Szczygiel testified that, according to the benchmarks, AAI's executive compensation level is currently at or below market, and to remove the incentive compensation would cause executive compensation to be significantly below market, thereby making it difficult to attract and retain qualified management. (TR 89, 90, 96) He stated that the incentive compensation model is designed to benefit customers by "improving customer service, enhancing customer service, enhancing environmental compliance, controlling costs, and improving efficiencies and productivity." (TR 90) In support of his position on incentive compensation, witness Szczygiel cited Order No. PSC-09-0411-FOF-GU, where the Commission recognized that incentive compensation is "an appropriate tool to motivate employees to work efficiently and effectively. The incentive portion of salary gives the

employee the opportunity to earn the market average salary."¹⁰¹ (TR 91) In its brief, AUF also cited Order No. PSC-09-0283-FOF-EI, where the Commission recognized that reducing or eliminating incentive compensation would result in salaries falling below market level, thus affecting the Utility's ability to compete for qualified employees.¹⁰² (AUF BR 39) Witness Szczygiel stated that although AAI's proxy statement does not specifically use the words customer satisfaction, the metrics listed lead to customer satisfaction. (TR 98; EXH 285) In support of this position, he stated that metrics such as water quality, customer and revenue growth, and operation controls lead to reduced rates for customers. (TR 98) Witness Szczygiel asserted that although the Utility has not performed any surveys, the management team strives to "deliver the lowest cost and the most efficient cost of providing service." (TR 139) Witness Szczygiel related this back to the operating efficiency ratios, saying that as the Utility strives for efficiency, its rates become more affordable. (TR 139, 140) Witness Szczygiel testified that although some incentive compensation goals also relate to financial results, the goals are highly customer-oriented. (TR 179) In its brief, AUF noted that "neither the OPC nor any other intervener filed testimony attempting to rebut Mr. Szczygiel's testimony that AUF's incentive compensation is needed and appropriate." (AUF BR 39)

OPC

OPC witness Vandiver testified that no increases in salaries are appropriate in this economic climate. (TR 643) OPC stated that the CPI was less than 2 percent and no increases have been granted to Social Security for 2009 and 2010, and unemployment has increased. (TR 643; EXH 308, EXH 309) In its brief, OPC stated that "Periods of high unemployment are not the time that a company typically loses employees to other companies," implying that the Utility should have no trouble retaining employees. (OPC BR 33) OPC argued that AAI's proxy statement does not include criteria for customer satisfaction. (TR 98; EXH 285) OPC stated that the Utility's annual report indicates that the operating ratio is a performance measure for incentive compensation, thereby aligning it with shareholder interest rather than customer interests. (TR 113, 114, 115; EXH 287) In support of its position on executive incentive compensation, OPC referred to AAI's proxy statement filed with the SEC to show that salaries for its top four executives have increased significantly in the past three years, and cited a recent order issued by the North Carolina Utilities Commission on September 13, 2011, in Docket No. W-218(319). (TR 102; EXH 285) The order reflects a decision by the North Carolina Utilities Commission to reduce executive salaries and wages and compensation, basing its decision on its view that the dramatic increase in executive compensation for the top four executives was "unreasonable and overstated." (TR 104, 105; EXH 286)

YES, Pasco County, and AG either deferred to or adopted the position of OPC on this issue. None of these parties included any argument on this issue in their respective briefs.

¹⁰¹ See Order No. PSC-09-0411-FOF-GU, issued June 9, 2009, in Docket No. 080318-GU, In re: Petition for rate increase by Peoples Gas System, p. 27.

¹⁰² See Order No. PSC-09-0283-FOF-EI, issued April 30, 2009, in Docket No. 080317-EI, In re: Petition for rate increase by Tampa Electric Company, p. 58.

ANALYSIS

The Commission has previously treated a portion of the costs allocated from a parent company as management costs with the remainder disallowed as investor costs.¹⁰³ The Commission found that some management costs do benefit the ratepayer, while other costs serve to benefit the shareholder. Based on the concept that activities of executive management benefit both the ratepayer and the shareholder, the Commission disallowed one-half of the costs allocated from the executive departments. AAI rewards its executive management through bonus and dividend compensation and allocates this cost to its operating companies.

As stated in its 2010 Annual Report, AAI considers a number of key measures such as the ratio of O&M expense to operating revenue, also called the "operating expense ratio" or "efficiency ratio," to evaluate its utility business performance within AAI's regulated segment. (TR 113, 114, 115; EXH 287) Efficiency ratios are important because an improvement in the ratios usually translates to improved profitability. AAI reported operating expense ratios of 41.8, 40.3, and 38.6 percent in 2008, 2009, and 2010, respectively. (EXH 287) AAI asserted it reviews this and other ratios regularly and compares them to historical periods, to its operating budget as approved by the AAI's Board of Directors, and to other publicly-traded water utilities. (EXH 287)

Decreases in the "operating expense ratio" would be looked upon favorably since the lower the operating expense ratio, the greater the profit for the shareholder. (TR 113, 114, 115; EXH 285) Staff believes that the bonus and dividend compensation of executives provides them an incentive to achieve financial performance measures that increase shareholder value. Because this type of executive compensation aligns the interests of executives with that of shareholders, staff believes that bonus and dividend compensation should be borne by shareholders. As discussed in Issue 18, staff recommended that O&M expense be reduced by \$17,475 to remove the incremental amount associated with executive salary increases since 2008. Thus, staff recommends that O&M expense be reduced by \$42,246 to reflect removal of the 2008 incentive compensation associated with these executives.

CONCLUSION

For the reasons set forth above, staff recommends that O&M expense be reduced by \$45,478 to reflect removal of the allocated incentive compensation associated with AAI executives.

¹⁰³See Order No. PSC-92-0708-FOF-TL, issued July 24, 1992, in Docket Nos. 910980-TL, In re: Application for a rate increase by United Telephone Company of Florida, 910027-TL, In re: Petition by Bonita Springs residents for extended area service between Bonita Springs and the Fort Myers and Naples exchange, and 910529-TL, In re: Request by Pasco County Board of County Commissioners for extended area service between all Pasco County exchanges, p. 32.

Table 19-1

Breakdown of Rate Band and Stand-alone Systems Adjustments	
Rate Band/System	Adjustments
Water Band 1	(\$10,771)
Wastewater Band 1	(2,011)
Water Band 2	(4,898)
Wastewater Band 2	(8,397)
Water Band 3	(3,031)
Wastewater Band 3	(1,088)
Water Band 4	(13,182)
Wastewater Band 4	(174)
Breeze Hill Water	(242)
Breeze Hill Wastewater	(242)
Fairways Water	(461)
Fairways Wastewater	(612)
Peace River Water	(182)
Peace River Wastewater	(189)
Total	(\$45,478)

Issue 20: Should any adjustments be made to Salaries and Wages - Employees expense?

Recommendation: Yes. Staff believes Salaries and Wages - Employees expense should be reduced by \$143,289. Accordingly, a corresponding adjustment should be made to reduce Payroll Taxes by \$10,962. The specific adjustments to each rate band and system are set forth in the Staff Analysis section below. (M. Brown)

Position of the Parties

AUF: No.

OPC: Yes. The Commission should deny all increases in compensation, resulting in a total adjustment of \$220,410 for salaries and wages and \$16,861 for the related payroll taxes.

YES: AUF's executive salary increases are unjust and unreasonable and, therefore, should be decreased. Further, Yes defers to the position of the OPC on this issue.

Pasco County: Pasco County adopts and incorporates by reference the position statement of the Office of Public Counsel for this issue.

AG: The AG adopts the position of the OPC.

Staff Analysis:

PARTIES' ARGUMENTS

AUF

AUF witness Rendell testified that the Utility's requested merit-based and pro forma market-based salary increases are necessary to attract and retain qualified employees. (TR 490-493, 576-577, 588) He stated that, because of its current pay scale, the Utility has had difficulty retaining qualified employees. (TR 578, 590, 1813) In support of his position on the Utility's merit-based increase, witness Rendell cited several orders showing the Commission's support of increasing salaries for the purposes of remaining competitive in hiring and retaining qualified employees. (TR 491, 1812, 1813) He stated that the Utility has consolidated functions and duties and reduced employees, thereby lowering the total amount of salary expense in the instant case compared to the level from its last rate case. (TR 590)

Witnesses Rendell and Szczygiel testified that the merit-based increases are performance-based increases, rather than across-the-board increase given to all employees. (TR 163, 164, 577, 588) Also, witness Rendell asserted that for AUF to continue to provide its customers with quality services, the market-based pro forma increases are necessary to attract and retain qualified operators and field technicians. (TR 491) Witness Rendell stated that to do this, the Utility must be competitive in its salaries by having salaries at the level other utilities provide. (TR 491) He testified that the market-based increase is based on an updated market study conducted by Saje Consulting Group Inc. that compared AUF's salary structure to that of other similar utilities, as well as the general industry. (TR 492) In support of the study, witness Rendell cited the Utility's last rate case, where the Commission granted the market-based

increase, based on a market study conducted by Saje Consulting Group Inc. and Commission precedence. (TR 492)

OPC

OPC witness Vandiver testified that AUF's customers should not have to pay for an increase in salaries during the current economic conditions. (TR 643) She stated that the CPI was less than 2 percent, and there have been no increases for cost of living granted to Social Security recipients in 2009 or 2010. (TR 643; EXH 308) OPC argued that the economic market is poor, unemployment rates are high, and customers are struggling to pay the current bills. In its brief, OPC stated that Florida's unemployment has continued to rise, indicating that AUF should have no trouble retaining employees (OPC BR 33). OPC does not believe it is appropriate to base salary increases on a dated market study that fails to consider the unemployment level and economic climate. (TR 527) Based on the above, OPC recommends the Commission should deny any increase.

YES

YES argued that from 2008-2010, AAI unjustifiably increased the salaries of its executive officers and is now seeking to impose these costs on the rate payers of AUF. (YES BR6) In its brief, YES stated "In years in which this nation has been experiencing one of the greatest economic downturns since the Great Depression, AUF is increasing the salary of its Executives by over 60% and hundreds of thousands of dollars and then seeking a rate increase for the same." (YES BR 6)

YES argues that the magnitude of the requested salary increases are egregious. It concluded that "consequently, AUF should not be awarded a rate increase due to AUF's own decision to increase its Executives' salaries even though these Executives failed to meet AUF's own employment objectives." (YES BR 6)

Pasco County

Pasco County argued that, for many reasons, wages and salaries should not be increased. (Pasco County BR 9) It believes the economic climate does not support increased salaries. Although AUF claims it needs the increase to retain employees, Pasco County argued the Utility provided no evidence that they are having trouble with retention. In addition, there is no evidence that their retention rates differ from other utilities (TR 542) Pasco County stated that AUF also failed to present any evidence that its salaries are low for their locations in which its employees are located. (Pasco County BR 9) Pasco County asserted that AUF's market study only looked at job descriptions and not at geographic cost of living. Also, AUF provided no numbers or examples of employees that left due to low pay. Pasco County concluded that, with high unemployment in Florida, AUF should have little problem finding qualified employees. (Pasco County BR 9)

AG has adopted the position of OPC on this issue but did not provide any argument on this issue in its brief.

ANALYSIS

In its MFRs, AUF requested the following increases in Salaries and Wages expense:

Table 20-1

Requested Salaries and Wages Increase			
	Normalization	Pro Forma	Total
Net Terminations & New Hires	\$46,601	\$136,910	\$183,511
4% Wage Increase – Direct	50,109	41,338	91,447
4% Wage Increase – Admin.	31,033	41,753	72,786
Market –Based Study Increase	0	60,670	60,670
Total:	\$127,743	\$280,671	\$408,414

Staff Audit Finding No. 6 addressed expenses for terminations and new hires. Issue 2 of PAA Order No. PSC-11-0544-PHO-WS, deemed stipulated, ordered a reduction of \$100,087 to AUF's requested expense for net terminations and new hires.¹⁰⁴ (TR 1380; EXH 165) This reduction results in a revised requested amount of \$83,424, compared to AUF's initial request of \$183,511, shown on Table 20-1.

With regard to AUF's requested 4 percent normalization increase, 4 percent pro forma increase, and pro forma market-based study increases totaling \$224,903 (\$50,109 + \$31,033 + \$41,338 + \$41,753 + \$60,670), staff believes the Utility should be granted a portion of the requested increases. When compared to the salaries and wages amounts approved in the Utility's 2008 rate case, the salary and wages amounts requested in the instant case are less. As shown in Table 20-2, the Utility has requested \$268,823 less than what was approved in the 2008 rate case.

¹⁰⁴ See Order No. PSC-11-0544-PHO-WS, p. 63.

Table 20-2

Comparison of Salaries and Wages from Last Rate Case to Requested in Current Case			
SUMMARY OF SALARIES & WAGES BY RATE BAND & SYSTEM	APPROVED LRC AMOUNT	AUF MFR AMOUNT	DIFFERENCE
Water Band 1	\$262,001	\$270,576	\$8,575
Water Band 2	192,993	165,643	(\$27,350)
Water Band 3	122,950	76,316	(\$46,634)
Water Band 4	605,033	400,714	(\$204,319)
Breeze Hill - Water	0	6,316	\$6,316
Fairways - Water	0	21,390	\$21,390
Peace River - Water	0	10,868	\$10,868
Total Water:	\$1,182,976	\$951,823	(\$231,153)
Wastewater Band 1	105,329	60,319	(\$45,010)
Wastewater Band 2	315,554	326,458	\$10,904
Wastewater Band 3	66,090	41,525	(\$24,565)
Wastewater Band 4	97,449	79,372	(\$18,077)
Breeze Hill - Wastewater	0	14,534	\$14,534
Fairways - Wastewater	0	13,670	\$13,670
Peace River - Wastewater	0	10,874	\$10,874
Total Wastewater:	\$584,422	\$546,752	(\$37,670)
Total:	\$1,767,398	\$1,498,575	(\$268,823)

Staff indexed Commission-approved hourly rates for maintenance workers to compare with the requested annual salaries of AUF’s Utility Tech positions.¹⁰⁵ Staff found the requested pro forma market-based study increase to be reasonable. Staff believes that to deny AUF any increase would be a disincentive for the Utility to continue to cut expenses. However, recognizing the sensitivity of the economic climate in Florida and throughout the U.S., staff believes it would be unreasonable to grant the Utility both the 4 percent normalization and 4 percent pro forma salary increases. Staff recommends the 4 percent pro forma salary increase be denied. However, staff does believe a 1.18 percent increase (based on the 2011 price index) for the normalization salaries is reasonable and consistent with Commission precedence.¹⁰⁶

Based on the above, staff recommends the adjustments shown in Table 20-3.

¹⁰⁵ See Order No. PSC-01-2511-PAA-WS, issued December 24, 2001, in Docket No. 010396-WS, In re: Application for staff-assisted rate case in Brevard County by Burkim Enterprises, Inc., p. 33

¹⁰⁶ See Order No. PSC-09-0385-FOF-WS, issued May 29, 2009, in Docket No. 080121-WS, In re: Application for increase in water and wastewater rates in Alachua, Brevard, DeSoto, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida, Inc., p. 107

In response to staff data requests, AUF agreed that the \$3,869 related to the salary of the Senior V.P. of Corporate Development should be treated below-the-line because it related to the acquisitions of new systems, which should be borne by shareholders. This treatment is consistent with the Commission's decision in the Utility's 2008 rate case.¹⁰⁷ Neither OPC nor the other parties addressed Corporate Development and Acquisitions. The allocated share for the instant case is \$714. Accordingly, staff recommends salaries and wages be reduced by \$714, with a corresponding adjustment made to reduce payroll taxes, as shown in Table 20-3. (EXH 173)

Table 20-3

Salaries and Wages Adjustments	
Staff Normalization Adj.	(\$57,205)
Staff Pro Forma Adj.	(83,091)
Acq. & Corp. Dev. Sal Adj.	(714)
Total:	(\$143,289)

CONCLUSION

Based on the above, staff recommends that Salaries and Wages – Employees expense be reduced by \$143,289. Accordingly, a corresponding adjustment should be made to reduce Payroll Taxes by \$10,962. The specific adjustments to each rate band and system are set forth in Table 20-4 below:

¹⁰⁷ Id, pp. 89-90

Table 20-4

Total Salary and Wage Reduction & Elimination of Corporate Development		
		Payroll
Rate Band/System	Salaries	Taxes
Water Rate Band 1	(\$27,998)	(\$2,142)
Water Rate Band 2	(16,025)	(1,226)
Water Rate Band 3	(8,085)	(618)
Water Rate Band 4	(40,070)	(3,065)
Peace River - Water	(790)	(60)
Fairways - Water	(2,354)	(180)
Breeze Hill - Water	(642)	(49)
Total Water:	(\$95,964)	(\$7,341)
Wastewater Rate Band 1	(\$5,564)	(\$426)
Wastewater Rate Band 2	(25,173)	(1,926)
Wastewater Rate Band 3	(8,427)	(645)
Wastewater Rate Band 4	(5,111)	(391)
Peace River - Sewer	(779)	(60)
Fairways - Sewer	(1,164)	(89)
Breeze Hill - Sewer	(1,107)	(85)
Total Wastewater:	(\$47,324)	(\$3,620)
Total:	(\$143,289)	(\$10,962)

Issue 21: Should any adjustments be made to Bad Debt expense?

Recommendation: Yes. Based on the record in this case and consistent with Commission practice, Bad Debt expense should be based on a 3-year average. As a result, the Utility's Bad Debt expense should be reduced by \$179,375. The adjustments to each rate band and stand-alone system are set forth in the Staff Analysis section below. (Fletcher)

Position of the Parties

AUF: No.

OPC: Yes. The bad debt allowance should be reduced to \$78,605 resulting in a \$310,816 adjustment which is consistent with good billing, customer service, and meter reading practices.

YES: AUF's bad debt expense is exacerbated by its own faulty and defective management and, therefore, should be discounted. Further, YES would defer to any position of the OPC on this issue.

Pasco County: Pasco County adopts the position of the Office of Public Counsel as if fully set forth herein.

AG: The AG adopts the position of the OPC.

Staff Analysis: The Utility recorded bad debt expense of \$389,420 for the test year. (TR 93)

PARTIES' ARGUMENTS

AUF

Witness Szczygiel asserted that the Commission's policy is to set bad debt expense using a 3-year average. (TR 93, 1178, 1179, 1486-88) AUF's 3-year average calculation of bad debt expense is \$386,221. (TR 93, 1125; EXH 54.) In its brief, the Utility argued that the record shows that AUF's bad debt expense during the test year was not abnormal, and there is no legitimate basis for adjusting those expenses. (AUF BR 41)

In its brief, the Utility contended that witness Dismukes failed to demonstrate that the utilities in the comparison group have service areas with economic conditions similar to AUF, and fails to consider the credit worthiness of AUF's customers compared to other systems. (AUF BR 42) Moreover, AUF asserted that witness Dismukes made no effort to show that the utilities in the comparison group have rate structures similar to AUF's unique cap-band structure. (AUF BR 42) To this point, the Utility cited to pages 192 and 193 of Order No. PSC-96-1320-FOF-WS, wherein the Commission recognized that utilities without uniform rates are likely to have higher bad debt expenses. Finally, the Utility argued that imputing historic bad debt factors of other utilities to AUF ignores the likelihood that the current economic downturn will have a significant impact on bad debt expense, wherein AUF cited to page 31 of Order No. PSC-92-

0580-FOF-GU¹⁰⁸ which expressly noted that an overall economic downturn will have a pronounced impact on bad debt expense regardless of increased collection efforts.

OPC

OPC witness Dismukes testified that AUF has experienced billing problems from as far back as 2007. (TR 1128) In its brief, OPC pointed out that the customer testimony at the Service Hearings is replete with complaints about billing problems. (OPC BR 34) OPC also argued that a review of the number of back-bills shown in Hearing Exhibit 300 shows that the Utility had 141 backbills in 2009, 186 in 2010, and 97 in the first three months of 2011. (OPC BR 34-35) Although AUF witness Szczygiel testified that all the residential meters had been installed prior to the last rate case (TR 150); OPC stated that the Utility continues to have billing problems. (TR 35)

OPC witness Dismukes argued that AUF's requested test year bad debt level of \$389,421 is significantly greater than the average for comparable water utilities and results from its poor service and billing practices. (EXH 127) Witness Dismukes asserted that the difference is substantial enough that the Commission should place the burden on AUF to demonstrate why the ratepayers should be burdened with the additional costs. (TR 1130) Witness Dismukes provided a comparative analysis of the Utility's bad debt to a peer group of water and wastewater utilities and recommends an adjustment of \$310,816 to reduce the test year expense to \$78,605. (EXH 127)

YES

YES argued that "AUF's poor water quality, poor customer service, bad billing practices, and unaffordable rates all contribute to and exacerbate a bad debt expense by compelling customers to default on their AUF bills and vacate properties where AUF supplies water and wastewater services for alternative housing that offers more affordable utility rates while providing a higher quality of water, efficient customer service, and affective billing practices." (YEA BR 7) YES concluded that, "AUF's excessive bad debt expense is merely a result of AUF's own mismanagement and, therefore, should be discounted." (YES BR 7)

Pasco County and AG adopted the position of OPC on this issue. Neither party included any argument on this issue in their respective briefs.

ANALYSIS

In its filing, the Utility recorded Bad Debt expense of \$389,420 for the test year, as well as a pro forma bad debt expense increase of \$55,411. This represents a total request of \$444,832 for bad debt expense.

Staff believes there are four reasons why AUF's arguments for using the three-year average to determine the appropriate bad debt expense level are more compelling than OPC's

¹⁰⁸ Issued June 29, 1992, in Docket No. 910778-GU, In re: Petition for a rate increase by West Florida Natural Gas Company.

arguments for using a peer group analysis to determine the amount. First, OPC witness Dismukes conceded that she could not quantify how AUF's alleged billing, customer service or meter-reading practices impacted the Utility's level of bad debt expense. Second, the Commission recognized that utilities without uniform rates are likely to have higher bad debt expenses. Third, an overall economic downturn will have a pronounced impact on bad debt expense regardless of increased collection efforts. Fourth, numerous Commission orders supporting the convention that Bad Debt expense should be based on a 3-year average. The Commission has set Bad Debt expense using the three-year average in multiple electric,¹⁰⁹ gas,¹¹⁰ and water and wastewater cases.¹¹¹ The Commission approved a 3-year average in these cases based on the premise that a three-year average fairly represented the expected bad debt expense. Overall, the basis for determining Bad Debt expense has been whether the amount is representative of the bad debt expense to be incurred by the Utility.

However, staff does agree with OPC witness Dismukes that a true 3-year average should be used. For PAA purposes, the amount of Bad Debt expense was based on a 3-year average of the year prior to the test year, the test year itself, and the 12-month period that included some months in the test year. The amount staff is recommending in the instant case is based on a true 3-year average with no duplicative months included in the calculation. In addition, it has been determined that AUF included an amount of \$166,069 in its calculation related to a dispute over the payment for reuse from the South Seas WWTP. (EXH 173) However, the Commission has subsequently approved a zero rate for the reuse from this facility.¹¹² Thus, this amount should not be included in the calculation of Bad Debt expense. AUF is in agreement with this treatment. (EXH 173, BSP 1894)

Based on the 3-year average calculation, AUF should be entitled to Bad Debt expense of \$265,457 which staff believes is representative of AUF's Bad Debt expense on a going-forward basis. As a result, staff recommends that AUF's Bad Debt expense be reduced by \$179,375 (\$444,832 - \$265,457). The table below shows the adjustment for each rate band and stand-alone system

¹⁰⁹See Order Nos. PSC-94-0170-FOF-EI, issued February 10, 1994, in Docket No. 930400-EI, In re: Application for a Rate Increase for Marianna electric operations by Florida Public Utilities Company, p. 20; PSC-93-0165-FOF-EI, issued February 2, 1993, in Docket No. 920324-EI, In re: Application for a rate increase by Tampa Electric Company, pp. 69-70; and PSC-92-1197-FOF-EI, issued October 22, 1992, in Docket No. 910890-EI, In re: Petition for a rate increase by Florida Power Corporation, p. 48.

¹¹⁰See Order Nos. PSC-92-0924-FOF-GU, issued September 3, 1992, in Docket No. 911150-GU, In re: Application for a rate increase by Peoples Gas System, Inc., p. 6; and PSC-92-0580-FOF-GU, issued June 29, 1992, in Docket No. 910778-GU, In re: Petition for a rate increase by West Florida Natural Gas Company, pp. 30-31.

¹¹¹See Order Nos. PSC-10-0407-PAA-SU, PSC-10-0423-PAA-WS, PSC-09-0385-FOF-WS, pp. 92-96; and PSC-10-0585-PAA-WS, pp. 43-44.

¹¹² See Order No. PSC-10-0602-TRF-WS, issued October 1, 2010, in Docket No. 100049-WS, In re: Petition for approval of change in reuse rate by Aqua Utilities Florida, Inc., p. 4.

Table 21-1

Appropriate Reductions to Bad Debt Expense	
Rate Band/System	Total
Water Band 1	(\$18,134)
Wastewater Band 1	(2,900)
Water Band 2	(22,027)
Wastewater Band 2	16,602
Water Band 3	(22,987)
Wastewater Band 3	(11,052)
Water Band 4	(108,563)
Wastewater Band 4	740
Breeze Hill Water	(458)
Breeze Hill Wastewater	(769)
Fairways Water	(154)
Fairways Wastewater	(1,925)
Peace River Water	(5,165)
Peace River Wastewater	(2,581)
Total:	(\$179,375)

Issue 22: What is the appropriate amount of rate case expense?

Recommendation: The appropriate amount of rate case expense is \$1,442,277. This expense should be recovered over four years for an annual expense of \$360,569. Thus, AUF's requested rate case expense of \$1,584,791 should be decreased \$142,514. The specific adjustments to each rate band and stand-alone system are set forth in the Staff Analysis section below. (Smith)

Position of the Parties

AUF: The appropriate amount of rate case expense is \$1,584,791.

OPC: Rate case expense is overstated and should be reduced by \$265,000 from the amount requested in AUF's MFRs. Ratepayers should not have to pay any more than those costs that are reasonable and necessary.

YES: AUF's alleged rate case expense is overstated, excessive, and entirely unreasonable.

Pasco County: Pasco County adopts the position of the Office of Public Counsel as if fully set forth herein.

AG: The AG adopts the position of the OPC.

Staff Analysis: On September 1, 2010, AUF submitted MFRs requesting \$670,268 for rate case expense. Based on documented rate case expense actually incurred, the Commission approved rate case expense of \$778,269 at the PAA Commission Conference held on May 24, 2011.¹¹³ Due to timely protests filed on July 1, 2011, by OPC and Ms. Lucy Wambsgan, the issue of rate case expense is being re-litigated.

PARTIES' ARGUMENTS

AUF

AUF asserted that the appropriate amount of rate case expense is \$1,584,791. (TR 1502; EXH 340) AUF asserted that it attempted to use the Commission's PAA process to minimize rate case expense in this rate case. However, OPC propounded excessive discovery, ignored precedent, and attempted to re-litigate a number of settled issues. (AUF BR 43) AUF responded to over 991 interrogatories and 347 requests for production of documents, including subparts. Of that discovery, AUF estimates that OPC propounded 796 interrogatories and 299 requests for production of documents. AUF asserted that OPC's massive discovery has caused AUF to incur a significant amount of rate case expense. (AUF BR 44) AUF stated that its requested level of rate case expense "has been properly documented and shown to be reasonable in light of the issues, the number of parties, the discovery, and the litigation tactics employed by interveners and other interested third parties." (TR 1498-1511; EXH 340; AUF BR 43)

¹¹³ See Order No. PSC-11-0256-PAA-WS, p. 84.

OPC

OPC claimed that rate case expense is overstated and should be reduced by \$265,000. (OPC BR 35) OPC witness Dismukes asserted that ratepayers should not have to pay any more than those costs that are reasonable and necessary. The MFRs included \$670,268 for rate case expense. As of July 31, 2011, AUF reported a revised expense amount of \$1,249,320. OPC argued that the expense requested by the Utility is inflated with costs that ratepayers should not have to bear. In addition, OPC asserted that AUF should be required to share rate case expense 50/50 between ratepayers and stockholders, the same as in a 2007 case for an AUF affiliate in New Jersey. (TR 1138)

OPC's recommended adjustments bring the revised requested rate case expense of \$1,249,320 to \$809,275. If this adjusted amount is split 50/50 between the ratepayers and shareholders, the amount that should be allowed for purpose of setting rate is \$404,638. (OPC BR 40) Finally, OPC contended that the Commission should order that rate case expense approved in this proceeding should not be permitted for recovery until the rate case expense from the prior proceeding has been fully amortized. (OPC BR 40)

YES

YES argued that "the evidence is overwhelming that AUF's rate case expense is exorbitant and unreasonable." (YES BR 7) YES stated that the hourly rate of AUF's outside legal counsel of \$315 per hour is unreasonable. YES argued that the amount of legal expense associated with the incremental difference between the hourly rate charged to AUF and the average hourly rate for attorneys in the State of Florida as shown in the Florida Bar Rate Survey should be stricken from rate case expense. (YES BR 7) In addition, YES stated that AUF's outside counsel and in-house counsel failed to provide adequate detail of the work performed in this case. (YES BR 8) Finally, YES argued that AUF's outside consultants, in-house counsel, and outside counsel each "billed tens of thousands of dollars to review the same discovery responses." (YES BR 8) YES concluded that "AUF should not be allowed to churn this file at the expense of Florida's rate payers," and recommended that this practice merits a reduction to rate case expense. (YES BR 8)

Pasco County and AG have adopted OPC's position on this issue. Neither party included any argument on this issue in their respective briefs.

ANALYSIS

Staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as an estimate of the projected amount to complete the case. On November 22, 2011, AUF updated its actual and estimated rate case expense and submitted revised totals in late-filed deposition Exhibit 12. (EXH 340) In its update, AUF summarized expenses incurred through October 31, 2011 of \$1,381,623, and projected expenses through completion of the case of \$203,168, for a total requested rate case expense of \$1,584,791. However, the tabulation of several different categories of expenses incurred through October 31, 2011 in the lead table of late-filed deposition Exhibit 12 appear to be incorrect. The \$1,381,622 expenses incurred through October 31, 2011 and projected expenses through the completion

appear to be overstated by \$952. The components of the corrected rate case expense are in Table 22-1 below.

Table 22-1

Corrected LFE 12 Schedule					
	Per EXH 340	Additional Estimated Per EXH 340	Total Per EXH 340	Variance	Corrected EXH 340
Legal	\$668,494	\$118,556	\$787,050	(\$180)	\$786,870
Consultants	415,471	19,009	434,480	66	434,546
Service Company (ASI)	181,959	34,244	216,203	(838)	215,366
Other	115,698	31,360	147,058	0	147,058
Total:	\$1,381,622	\$203,169	\$1,584,791	(\$952)	\$1,583,839

Pursuant to Section 367.081(7), F.S., the Commission shall determine the reasonableness of rate case expenses and shall disallow all rate case expenses determined to be unreasonable. Also, it is the Utility's burden to justify its requested costs.¹¹⁴ Further, the Commission has broad discretion with respect to allowance of rate case expense; however, it would constitute an abuse of discretion to automatically award rate case expense without reference to the prudence of the costs incurred in the rate case proceeding.¹¹⁵ As such, staff has examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. Based on its review, staff believes several adjustments are necessary to the revised rate case expense estimate.

Legal

AUF included \$787,870 in its late-filed deposition Exhibit 12 for legal representation from Holland & Knight law firm. (EXH 340) Based on staff's review of invoices for actual expenses, staff recommends the following adjustments listed in Table 22-2.

¹¹⁴ See *Florida Power Corp v. Cresse*, 413 So. 2d 1187, 1191 (Fla. 1982).

¹¹⁵ See *Meadowbrook Util. Sys., Inc. v. FPSC*, 518 So. 2d 326, 327 (Fla. 1st DCA 1987).

Table 22-2

Adjustments to Legal Expenses	
Description	Amount
Unsupported by Invoices	(\$8,793)
Unrelated Rate Case Expense	(13,182)
ROE Issue	(611)
Pertaining to Deficiencies	(2,881)
Quality Service Monitoring Program	(7,541)
Motion Subsequently Withdrawn by Utility	(1,434)
Commission Ruled Against Motion	(7,139)
Total:	(\$41,581)

First, staff’s calculation of invoices incurred through October 31, 2011, totaled \$659,701. As shown on the summary page of AUF’s late-filed deposition Exhibit 12, the Utility included total incurred costs through October 31, 2011 of \$668,494. (EXH 340) Staff recommends an adjustment to reduce the amount of legal expense by \$8,793 for the unsupported difference. Second, as listed above, \$13,182 of legal expenses were unrelated to the instant docket. Specifically, calls made to and from staff regarding certification requirements, issues related to an acquisition workshop, legislative issues, researching the test year approval letter for Chuluota, and reviewing case law on municipalities acting against private utilities. Staff recommends reducing legal expense by \$13,182 associated with work unrelated to this rate case.

Prior to AUF filing its MFRs, the Utility incurred legal costs of \$611 for research and analysis associated with presenting an ROE witness. (TR 652) However, AUF used the Commission ROE leverage formula as opposed to sponsoring an ROE witness in this case. Staff believes that all costs related to this exercise should be removed in light of the fact that the Commission ROE leverage formula was used in the MFRs. Staff recommends reducing legal expense by \$611.

Through the direct testimony of OPC witness Vandiver (EXH 201) and the rebuttal testimony of AUF witness Szczygiel (EXH 340), both parties have agreed that \$3,313 should be removed from rate case expense for MFR deficiencies. Of this total, witness Vandiver recommended \$2,335 and \$978 be removed from legal and consultants, respectively. (TR 646) In addition, staff has calculated legal invoices totaling \$546 that are also related to MFR deficiencies. Staff recommends reducing legal expense by \$2,881 (\$2,335 + \$546) for work associated with MFR deficiencies.

Pursuant to Order No. PSC-09-0385-FOF-WS,¹¹⁶ the Utility’s overall quality of service was found to be marginal, except for Chuluota, which was deemed unsatisfactory. As a result, AUF was required to implement a quality of service monitoring plan. Staff has identified \$7,541 in legal expenses related to the monitoring plan. Staff believes that these charges should be

¹¹⁶ See Order No. PSC-11-0256-PAA-WS, p. 21.

removed from rate case expense because these costs are not related to the processing of this rate case. Accordingly, staff recommends reducing legal expenses by \$7,541.

On July 11, 2011, AUF filed a cross-petition to protest the following eight portions of Commission Order No. PSC-11-0256-PAA-WS: 1) AUF's quality of service, 2) pro forma plant additions in AUF's rate base, 3) rate case expense, 4) the Commission leverage formula used, 5) the ROE penalty applied in the PAA, 6) salary expense, 7) adjustments to IT project cost allocations, and 8) incentive compensation. On August 24, 2011, the Utility filed a Withdrawal of Distinct Cross-Petition Issue, related to the pro forma plant addition issue. Staff believes the legal costs associated with withdrawing a motion that was initially presented by the Utility should be removed from rate case expense. Staff has calculated these costs to be \$1,434. As such, staff recommends reducing legal expense by \$1,434.

On October 10, 2011, YES served a subpoena and notice for deposition on Mr. Grisham, a field employee of AUF. YES asserted that Mr. Grisham's testimony was necessary to attest to AUF's quality of service. Further, YES stated, "No other employee of Aqua has such extensive, unique, singular, and first hand knowledge of the quality of service provided to Aqua's customers residing at Arredondo Farms or Aqua's Monitoring Program violations at the property." On October 18, 2011, AUF and Mr. Grisham filed a Joint Motion to Quash Subpoena and Notice of Deposition served by YES. Subsequently, AUF and Mr. Grisham's Joint Motion to Quash Subpoena and Notice of Deposition was denied by the Commission.¹¹⁷ As a result of the motion being denied, staff recommends removing the costs related to AUF and Mr. Grisham's Joint Motion. Staff recommends reducing legal expense by \$7,139.

Finally, staff believes that AUF's estimated legal costs to complete the case of \$118,440 are excessive. Holland & Knight did not provide a detailed breakdown of the activities or duties to be performed in the 376 projected hours, nor any time allocations. Staff has evaluated the estimated legal hours to completion in AUF's 2008 rate case. The total amount of estimated hours to completion approved in the Utility's 2008 rate case was 287. Staff believes this is a more appropriate amount of hours for post-hearing procedures. Therefore, staff recommends a reduction of 89 hours (376 hours - 287 hours) at \$315 per hour, totaling \$28,035 that should be removed from rate case expense.

The amount, including projected completion costs, submitted by AUF in late-filed deposition Exhibit 12 for legal representation from Holland and Knight totaled \$787,050. (EXH 340) Based on staff's calculation of the amounts shown on the summary page of late-filed deposition Exhibit 12, this total was overstated by \$180 as shown on Table 22-1 above. Thus, the corrected legal expense submitted by the Utility in late-filed deposition Exhibit 12 is \$786,870.

Staff's recommended adjustments to legal expense total \$69,796 (\$41,581 + \$28,035 + \$180).

¹¹⁷ See Order No. PSC-11-0501-PCO-WS, issued October 26, 2011.

Consultants

Based on staff's review of the rate case expense support documentation provided by AUF, staff believes several adjustments are necessary for the cost of consultants that were retained by the Utility. First, Table 22-1 shows the variance in AUF's calculation of fees incurred for consultants as compared to staff's calculation of fees incurred for consultants supported by invoices. Accordingly, staff recommends consultants expense be increased by \$66 for calculation errors on the summary page of late-filed deposition Exhibit 12.

AUF utilized the services of the following four consultants: 1) Timothy P. Ward, 2) Ronald J. Pasceri, 3) AUF witness Seidman, and 4) Daniel Franceski. Table 22-3 provides a brief description of work performed by each consultant.

Table 22-3

Consultant Job Descriptions	
Consultant	Work Description
Timothy P. Ward, CPA	Deferred taxes, related discovery and audit responses; Used & Useful audit and discovery responses; EUW, and I&I calculations; Engineering schedules & appendix; MFR review; Discovery management.
Ronald J. Pasceri	Rate base and related audit discovery responses, completion of supporting workpapers, and analysis of book and tax issues.
Frank Seidman	Witness for Used & Useful calculation.
Daniel T. Franceski	Billing Analysis and related audit and discovery responses; MFR programming and execution; Rate design and related audit and discovery responses.

The summary page of late-filed deposition Exhibit 12 shows hourly rates for Mr. Ward, Mr. Pasceri, and Mr. Franceski that are somewhat different than the hourly rates included on the invoices of each consultant. No party took issue with the rate at which the consultants charged AUF. However, staff believes only the amounts shown on invoices should be allowed for recovery. Table 22-4 below shows the hourly rate variances and staff's recommended \$8,283 adjustment.

Table 22-4

Hourly Rate Adjustment					
Consultant	Hourly Rate on EXH 340 Summary	Hourly Rate on EXH 340 Invoices	Variance	Number of Hours	Adjustment
Timothy P. Ward	\$109	\$107	(\$2)	1,767.2	(\$3,534)
Ronald J. Pasceri	\$87	\$85	(\$2)	1,308.0	(\$2,616)
Daniel T. Franceski	\$87	\$85	(\$2)	1,066.4	(\$2,133)
Total:					(\$8,283)

Staff has reviewed the total consulting invoices submitted by AUF. Based on staff's review of the number of hours worked, AUF overstated the number of hours billed for Mr. Ward and Mr. Pasceri by 177.4 hours. Staff recommends removing the overstated hours and associated costs of \$15,581 from consulting expense. A detailed breakdown of this calculation is below in Table 22-5.

Table 22-5

Number of Hours Adjustment					
Consultant	Number of Hours in EXH 340 Summary	Number of Hours in EXH 340 Invoices	Variance	Hourly Rate	Adjustment
Timothy P. Ward	1,790.0	1,767.2	(22.8)	\$107	(\$2,440)
Ronald J. Pasceri	1,463.0	1,308.0	(155.0)	\$85	(\$13,175)
Daniel T. Franceski	1,066.0	1,066.4	0.4	\$85	\$34
Total:	4,319.0	4,141.6	(177.4)		(\$15,581)

As discussed above, both OPC witness Vandiver and AUF witness Szczygiel agreed to remove \$3,313 from rate case expense for MFR deficiencies, of which, \$2,335 is for legal expense and \$978 is for consultants. (TR 646) The \$978 consultant portion is related to two separate invoices: one for Daniel T. Franceski for \$638 and one for Ronald Pasceri for \$340. In addition to the \$978, staff recommends removing \$1,258 for invoices from Daniel Franceski related to deficiency responses. Staff recommends removing \$2,236 (\$978 + \$1,258) from consultants expense for costs pertaining to MFR deficiencies.

AUF included \$1,488 in consulting expenses for Mr. Pasceri that were related to reviewing a Virginia Commission order and preparing rate base analyses. (EXH 340) Staff recognizes that Mr. Pasceri was working on AAI systems in a different state. However, staff believes the costs associated with AAI's cases in other states should not be included in rate case expense for AUF. Therefore, staff recommends reducing consultants expense by \$1,488. In addition, staff calculated \$2,168 in consulting expenses for Mr. Pasceri that were related to the Sarasota system. Staff recommends removing \$2,168 from consulting expense since the Sarasota system is in a non-jurisdictional county and not part of this rate case.

The Utility's projected number of hours for future expenses for consultants total: 56 hours for Mr. Ward, 3 hours for Mr. Pasceri, \$7,500 for witness Seidman, and 59 hours for Mr. Franceski. The discovery actions completion date was scheduled for November 22, 2011. Mr. Ward, Mr. Pasceri, and Mr. Franceski dealt with discovery related responses. Late-filed deposition Exhibit 12 included hours worked and expenses incurred through October 31, 2011. Therefore, both consultants would have had approximately one more month of consulting work to complete before the discovery completion deadline. Considering a typical eight-hour day, the consultants would have worked approximately seven days for Mr. Ward, a half day for Mr. Pasceri, and seven and a half days for Mr. Franceski. Staff believes these estimates are reasonable. However, based on calculation errors, staff recommends a reduction of \$246 for estimate to completion. (EXH 340)

Based on the above, staff recommends rate case expense for consultants be reduced by \$29,936 (\$66 + \$8,283 + \$15,581 + \$2,236 + \$1,488 + \$2,168 + \$246).

ASI

After reviewing timesheets provided by the Utility in late-filed deposition Exhibit 12, staff believes that adjustments are needed. First, the \$838 adjustment shown on Table 22-1 above should be made due to AUF's calculation errors. Second, the following ASI employees have rate case expense associated with hours worked that are not supported by a detailed description: Kimberly Joyce (30 hours at \$109 per hour totaling \$3,270) and Kelly Burns (27 hours at \$39 per hour totaling \$1,053). It is Commission practice to rely on time records and descriptions to support Utility time spent on rate cases.¹¹⁸ As such, staff recommends that rate case expense be reduced by \$4,323. (EXH 340)

In addition, staff believes the Utility's amount of estimated future expense for ASI needs to be adjusted. AUF projected 439 hours through completion. Staff's review of the Utility's supporting documentation indicates that ASI employees worked 2,800 hours as of October 31, 2011. Based on timesheets provided, ASI employees began work on the instant docket five months prior to the MFR filing date. This equates to approximately 156 hours per month (2,800 hours / 18 months). At this rate, with approximately two months remaining in the case, ASI employees would need 312 hours to complete this case. (EXH 340) Staff recommends reducing the Utility's requested 439 hours by 127 hours (439 hours – 312 hours). Staff has adjusted the amount of hours based on the average monthly hours that have been incurred for each employee and applied to the estimated future duration of this case. These adjustments are as follows: Brian Devine – reasonable estimate to complete the case is approximately 26 hours at \$46 per hour versus the 38 hours estimated by the Utility resulting in an adjustment of 12 hours and a reduction of \$553; Kim Joyce - reasonable estimate to complete the case is approximately 81 hours at \$109 per hour versus the 122 hours estimated by the Utility resulting in an adjustment of 41 hours and a reduction of \$4,444; Kelly Burns - reasonable estimate to complete the case is

¹¹⁸ See Order Nos. PSC-11-0256-PAA-WS, p. 102; PSC-07-0130-SC-SU, issued February 15, 2007, in Docket No. 060256-SU, In re: Application for increase in wastewater rates in Seminole County by Alafaya Utilities, Inc., p. 31; and PSC-07-0205-PAA-WS, issued March 6, 2007, in Docket No. 060258-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities, Corp., p. 27

approximately 20 hours at \$39 per hour versus the 30 hours estimated by the Utility resulting in an adjustment of 10 hours and a reduction of \$391; Mary Hopper - reasonable estimate to complete the case is approximately 99 hours at \$94 per hour versus the 148 hours estimated by the Utility resulting in an adjustment of 49 hours and a reduction of \$4,650; Nameer Bhatti - reasonable estimate to complete the case is approximately 72 hours at \$39 per hour versus the 79 hours estimated by the Utility resulting in an adjustment of 7 hours and a reduction of \$287; Allison McVicker - reasonable estimate to complete the case is approximately 15 hours at \$42 per hour versus the 22 hours estimated by the Utility resulting in an adjustment of 7 hours and a reduction of \$309. These adjustments result in an adjustment of 127 hours and a reduction of \$10,633. As such, staff recommends that the rate case expense be reduced by \$15,794 (\$838 + \$4,323 + \$10,633).

Other

In late-filed deposition Exhibit 12, the Utility recorded incurred costs of \$8,193 for “printer – filing,” \$2,500 for PWC Review, and \$3,530 for other expenses. However, no documentation supporting a detailed description of these expenses has been provided. Accordingly, staff recommends that \$14,223 be disallowed from rate case expense. Staff has calculated \$59,209 for invoices for noticing requirements. However, the utility recorded \$60,114 incurred for noticing requirements. Staff recommends removing \$904 from rate case expense for the unsupported balance. (EXH 340)

AUF estimated future travel expenses of \$11,860. Because there is no detailed description of what these charges represent, nor any indication as to how the Utility arrived at this estimate, staff believes that the entire \$11,860 should be disallowed. In total, staff is recommending that “Other” rate case expense be reduced by \$26,987 (\$14,223 + \$904 + \$11,860).

Treatment of rate case expense

OPC witness Dismukes testified that the reasonable amount of rate case expense allowed in this case should be shared between the ratepayers and AUF’s shareholders. Based on decisions in New Jersey, Illinois, and Minnesota, she recommended that only 50 percent of the allowed amount of rate case expense be considered for purposes of setting rates in the instant case. (TR 1130-1140)

Witness Dismukes also testified that the Commission should discourage utilities from filing rate cases “one on top of another with little time in between, such as happened with this case.” (OPC BR 40) She recommended the Commission defer recovery of the rate case expense approved in this case until the unamortized balance of rate case expense from the 2008 proceeding has been fully recovered. (TR 1140)

In its brief, AUF argued that there is no statutory or precedential support in Florida to either deny the Utility recovery of documented rate case expense or to defer recovery of same. (AUF BR 45) AUF believes OPC’s recommendation on these points is without legal merit and is inequitable. AUF concluded that “[h]aving caused rate case expense to increase with its

voluminous discovery, it is unfair for OPC to now recommend that the FPSC deny AUF its lawful right to recover all of its reasonable rate case expense in this case.” (AUF BR 45)

Based on staff’s review of the record in this case, staff agrees with the position of AUF that there is no statutory basis or precedential support in Florida to adjust the amount of rate case expense the Utility may be permitted to recover through rates in the manner recommended by OPC. Thus, staff does not recommend that either of these approaches be implemented in this case.

CONCLUSION

In summary, staff recommends that AUF’s revised rate case expense be decreased by \$142,514. The appropriate total rate case expense is \$1,442,277. Table 22-6 below illustrates staff’s recommended rate case expense.

Table 22-6

Staff Recommended Rate Case Expense						
Expenses	MFR B-10 Estimate	Expense Incurred Per EXH 340	Additional Estimated	Total Per Utility	Staff Adjustments	Staff Recommended
Legal Fees	\$70,350	\$668,494	\$118,556	\$787,050	(\$69,796)	\$717,254
Consultants	224,062	415,471	19,009	434,480	(29,936)	404,544
Service Company (ASI)	162,344	181,959	34,244	216,203	(15,794)	200,409
Travel and Other	213,512	115,698	31,360	147,058	(26,987)	120,071
Total Rate Case Expense	\$670,268	\$1,381,622	\$203,169	\$1,584,791	(\$142,514)	\$1,442,277

Based on the four-year amortization of rate case expense pursuant to Section 367.0816, F.S., the recommended annual rate case expense of \$360,569 ($\$1,442,277/4$) should be recovered over four years. Table 22-7 reflects the annual amortization adjustments of rate case expense for each rate band and stand-alone system.

Table 22-7

Annual Amortization Adjustments					
Bands	Allocated %	MFR B-10 Estimate	Total Recommended	Total Adjustment	Amortization Adjustment
Water Band 1	23.34%	\$156,453	\$336,628	\$180,175	\$45,044
Wastewater Band 1	4.15%	27,808	59,855	32,047	8,012
Water Band 2	10.38%	69,547	149,708	80,161	20,040
Wastewater Band 2	19.03%	127,549	274,465	146,916	36,729
Water Band 3	6.34%	42,480	91,440	48,960	12,240
Wastewater Band 3	2.34%	15,659	33,749	18,090	4,523
Water Band 4	28.84%	193,284	415,953	222,669	55,667
Wastewater Band 4	1.16%	7,761	16,730	8,969	2,242
Breeze Hill - Water	0.49%	3,291	7,067	3,776	944
Breeze Hill - Wastewater	0.49%	3,291	7,067	3,776	944
Fairways - Water	1.79%	12,012	25,817	13,805	3,451
Fairways - Wastewater	0.92%	6,198	13,269	7,071	1,768
Peace River - Water	0.38%	2,550	5,481	2,931	733
Peace River - Wastewater	0.36%	2,386	5,192	2,806	702
Total:	100.00%	\$670,269	\$1,442,422	\$772,153	\$193,038

Issue 23: What is the test year pre-repression water and wastewater operating income or loss before any revenue increase?

Recommendation: The recommended test year pre-repression water operating income is \$160,463, and the recommended test year pre-repression wastewater operating income is \$751,013. (Fletcher)

Position of the Parties

AUF: This is a fall out calculation issue subject to the resolution of the protested issues in this case.

OPC: The test year pre-repression water and wastewater operating income or loss before any revenue increase should reflect OPC’s recommended adjustments.

YES: Yes defers to the position of the OPC on this issue.

Pasco County: Pasco County adopts the position of the Office of Public Counsel as if fully set forth herein.

AG: The AG adopts the position of the OPC.

Staff Analysis: Based on the stipulated adjustments and the recommended adjustments discussed in previous issues, staff recommends that the test year pre-repression water operating income is \$160,463, and the test year pre-repression wastewater operating income is \$751,013. The test year operating income or loss before any provision for increased revenues is shown in the attached Schedule 4-A and 4-B, as well as the table below.

Table 23-1

Operating Income/(Loss)	
Rate Band/System	Operating Income or (Operating Loss)
Water Band 1	\$212,232
Wastewater Band 1	(1,271)
Water Band 2	123,831
Wastewater Band 2	511,438
Water Band 3	64,102
Wastewater Band 3	(92,406)
Water Band 4	48,429
Wastewater Band 4	104,974
Breeze Hill Water	(11,682)
Breeze Hill Wastewater	(10,879)
Fairways Water	(2,095)
Fairways Wastewater	(32,877)
Peace River Water	(8,418)
Peace River Wastewater	6,098
Total:	\$911,477

Docket No. 100330-WS

Date: February 2, 2012

Issue 24: DELETED

REVENUE REQUIREMENT

Issue 25: What is the appropriate pre-repression revenue requirement for the April 30, 2010, test year?

Recommendation: The appropriate pre-repression revenue requirement for the April 30, 2010, test year is \$10,223,141 for water and \$5,844,126 for wastewater. (Fletcher)

Position of the Parties

AUF: The appropriate pre-repression revenue requirement for the test year is a fallout calculation issue subject to the resolution of the other protested issues in this case.

OPC: The total water revenue requirement should be consistent with OPC's recommended adjustments, the total water revenue requirement.

YES: Yes defers to the position of the OPC on this issue.

Pasco County: Pasco County adopts the position of the Office of Public Counsel as if fully set forth herein.

AG: The AG adopts the position of the OPC.

Staff Analysis: Consistent with the stipulated adjustments and other staff-recommended rate base, cost of capital, and net operating income adjustments, staff recommends the total pre-repression revenue requirement is \$10,223,141 for water and \$5,844,126 for wastewater. The pre-repression revenue requirement for each rate band and stand-alone system are reflected in Schedules 2, 4-A, and 4-B.

RATES AND CHARGES

Issue 26: What are the appropriate rate cap thresholds to be used to cap residential customer bills for the water and wastewater systems?

Recommendation: Based upon the stipulated subsidy limit of \$12.50, in conjunction with staff's recommended billing determinants and revenue requirements for the existing rate bands and stand-alone water and wastewater systems, the appropriate rate cap thresholds to be used to cap residential customer bills are \$69.88 for the water system and \$88.79 for the wastewater system. (Lingo)

Position of the Parties

AUF: The appropriate rate cap thresholds to be used to cap residential customer bills for the water and wastewater systems are those contained in the Commission's PAA Order and set forth in the direct testimony of staff Witness Stallcup. The only entity that protested this issue in this case was Ms. Lucy Wambsgan. Ms. Wambsgan has formally withdrawn as a party from this proceeding. Therefore, this issue is deemed stipulated pursuant to Section 120.80(13)(b), Florida Statutes.

OPC: Deleted.

YES: Yes defers to the position of the OPC on this issue.

Pasco County: Pasco County adopts the position of the Office of Public Counsel as if fully set forth herein.

AG: Deleted.

Staff Analysis:

PARTIES' ARGUMENTS

AUF did not address this issue in its brief. OPC and AG changed their position to DELETED in their respective briefs. YES and Pasco County either deferred to or adopted the position of OPC on this issue. No party presented arguments on this issue in their respective briefs.

ANALYSIS

As listed in the Prehearing Order in this case, this is a fallout issue.¹¹⁹ The parties presented no arguments on this issue. As discussed by OPC witness Vandiver, rates are a function of both the revenue requirement and billing determinants. (TR 709; EXH 201, pp. 104-105) A subsidy limit of \$12.50 (applicable only to the residential class, based upon usage levels of 7 gals per month for the water systems and 6 gals per month for the wastewater systems)

¹¹⁹ See Order No. PSC-11-0544-PHO-WS, issued November 23, 2011, in this case.

has been stipulated to by the parties.¹²⁰ Staff's recommendations regarding billing determinants and revenue requirements are discussed in Issues 14 and 25, respectively. Therefore, based upon the stipulated subsidy limit of \$12.50, in conjunction with staff's recommended billing determinants and revenue requirements for the existing rate bands and stand-alone systems, the appropriate rate cap thresholds represent fallout calculations. Based on staff's recommendations in Issues 14 and 25, the appropriate rate cap thresholds to be used to cap residential customer bills are \$69.88 for the water system and \$88.79 for the wastewater system.

CONCLUSION

Therefore, based upon the stipulated subsidy limit of \$12.50, in conjunction with staff's recommended billing determinants and revenue requirements for the existing rate bands and stand-alone water and wastewater systems, the appropriate rate cap thresholds to be used to cap residential customer bills are \$69.88 for the water system and \$88.79 for the wastewater system.

¹²⁰ Ibid.

Issue 27: What are the appropriate rate structures for the Utility's water and wastewater systems?

Recommendation: The appropriate rate structure for the Utility's residential water customers is a three-tiered inclining block rate structure with usage blocks for monthly consumption of: (a) 0-6 kgals, (b) 6.001-12 kgals, and (c) usage in excess of 12 kgals. The usage block rate factors for recommended rate band 1 should be 1.0, 1.777 and 2.665, respectively; and for recommended rate bands 2 and 3 should be 1.0, 1.5 and 2.0, respectively. The appropriate rate structure for the Utility's general service water customers is a continuation of the BFC/uniform gallonage charge rate structure, with the general service gallonage charge rate based on the average overall water rate per kgal. The BFC cost recovery allocation for the water systems should be set at 40 percent.

The appropriate rate structure for the Utility's wastewater systems is a continuation of the current BFC/gallonage charge rate structure. Residential billed monthly consumption should be capped at 6 kgals, and the general service kgal charge should be 1.2 times the corresponding residential kgal charge. The BFC cost recovery allocation for the wastewater systems should be set at 50 percent. (Lingo)

Position of the Parties

AUF: AUF is not opposed to the implementation of the capband rate structure set forth in the PAA Order. However, in designing the rate structure, the Commission may want to consider a state-wide consolidated rate structure to address some of the affordability concerns expressed in this case. The Commission has previously found that uniform rate structures would address affordability and fairness.

OPC: No position.

YES: Yes defers to the position of the OPC on this issue.

Pasco County: Pasco County combined its argument for Issues 27 through 29, and did not set out a separate summary of its position for each issue. Staff has summarized Pasco County's argument below.

AG: No position.

Staff Analysis:

PARTIES' ARGUMENTS

AUF did not address this issue in its brief. OPC and AG took no position on this issue. YES deferred to the position of OPC on this issue. As discussed above, Pasco County did not specify a position on this issue. Other than Pasco County, no other party presented argument on this issue in their respective briefs. Pasco County's argument is summarized below.

Pasco County argued that AUF's move toward uniform rates unfairly discriminates against the customers of certain systems in violation of Section 367.081(2)(a)1., F.S., and Southern States Utilities v. Fla. Public Service Commission, 714 So. 2nd 1046 (Fla 1st DCA 1998). (Pasco County BR 9-10) For the 84 percent of the AUF customers in Pasco County, those of the Jasmine Lakes and Palm Terrace systems, the \$12.50 subsidy and accompanying rate increase have resulted in rate shock. Pasco County believes this rate shock comes largely due to the subsidy that numerous systems have to pay to support the more costly systems. (Pasco County BR 10)

Pasco County acknowledged that a move back to stand-alone rates is likely not practical at this point. However, it believes that the record in this case shows that "any further rate increase, or a move to uniform rates, is unfairly discriminatory." (Pasco County BR 11) Pasco County charged that "this discrimination is the mere whim of a non-responsive corporation from another state that either buys new systems without regard to the rate impact to its other customers or for the direct purpose of supporting its desire to move to uniform rates." (Pasco County BR 11) Pasco County cited the addition of the Breeze Hill and Peace River systems as examples of how AUF's business model forces existing customers to subsidize the customers of newly acquired systems. (TR 1530-1531)

Pasco County argued that the move to rate band consolidation is driven by AUF's practice of buying unrelated systems. Pasco County concluded that, "[b]and consolidation (from 4 to 2), or creating uniform rates, is not appropriate because these disparate systems have no uniformity in water quality, there is no interconnection and the rates become ever-increasingly discriminatory in violation of Section 376.081, F.S." (Pasco County BR 12)

ANALYSIS

As listed in the Prehearing Order in this case, this is a fallout issue.¹²¹ The Utility's current residential water rate structure consists of a three-tiered inclining block rate structure, with usage blocks for monthly consumption of 0 to 5 kgals, 5.001 to 10 kgals, and all usage in excess of 10 kgals. The current usage block rate factors are 1.00, 1.25, and 3.00, respectively. The Utility is requesting that the current rate structure be changed to a three-tiered inclining block rate structure with usage blocks for monthly consumption of 0 to 6 kgals, 6.001 to 12 kgals, and all usage in excess of 12 kgals, with usage block rate factors of 1.0, 1.5, and 2.0, respectively. (EXH 231-239, 242-243)

The Commission has a Memorandum of Understanding (MOU) with the five Water Management Districts (WMDs or Districts). A guideline of the five Districts is to set the base facility charges such that they recover no more than 40 percent of the revenues to be generated from monthly service.¹²² The Commission complies with this guideline whenever possible.¹²³

¹²¹ See Order No. PSC-11-0544-PHO-WS, issued November 23, 2011, in this case.

¹²² See Order No. PSC-02-0593-FOF-WS, issued April 30, 2002, in Docket No. 010503-WU, In re: Application for increase in water rates for Seven Springs system in Pasco County by Aloha Utilities, Inc.; and Order No. PSC-03-1440-FOF-WS, issued December 22, 2003, in Docket No. 020071-WS, In re: Application for rate increase in Marion, Orange, Pasco, Pinellas and Seminole Counties by Utilities, Inc. of Florida.

¹²³ See Order No. PSC-09-0385-FOF-WS, issued May 29, 2009, in Docket No. 080121-WS; Order No. PSC-94-1452-FOF-WU, issued November 28, 1994, in Docket No. 940475-WU, In re: Application for rate increase in

This 40 percent BFC guideline is consistent with the results of the statewide Water Conservation Initiative's (WCI) final report, issued in April 2002.¹²⁴ The Commission has also cooperated with the WMDs regarding requests for conservation rate structures, implementing the inclining-block rate structure as its rate structure of choice.¹²⁵

Staff, using its recommended revenue requirements for the respective water rate bands and stand-alone systems, evaluated the Utility's request to change the residential usage blocks and usage block rate factors. This involved performing an analysis of AUF's billing data contained in MFR Schedule E-14, and evaluating the conservation signals that would be sent to the residential customer class. (EXH 230) Based on this analysis, staff believes that AUF's requested usage blocks and proposed rate factors of 1.0, 1.5, and 2.0 are reasonable because these rate factors will allow staff to continue designing an effective water conserving rate structure. (EXH 231-239, 242-243) However, as will be discussed in Issue 30, the Utility's rate factor proposal does not reflect the methodology currently used by the Commission regarding the application of repression adjustments. As will also be discussed in Issue 30, staff recommends that no repression will occur in recommended water rate band 2, and, as a result, no repression will be indicated for that rate band in Table 30-1. Based on the above, this results in usage block rate factors of: a) 1.0, 1.777 and 2.665 for usage blocks 1 through 3, respectively, for rate band 1; and b) 1.0, 1.5 and 2.0 for usage blocks 1 through 3, respectively, for rate bands 2 and (the capped) band 3.

The Commission's traditional wastewater rate structure is the BFC/gallonage charge rate structure. In order to recognize the capital intensive nature of wastewater facilities, staff recommends that the wastewater BFC be set to recover 50 percent of the revenue requirement.¹²⁶ Residential billed consumption should be capped at 6 kgals, and the general service kgal charge should be 1.2 times the corresponding residential kgal charge. The residential and general service gallonage charge portions of both the Utility's requested wastewater rate structure and staff's recommended wastewater rate structure are consistent with prior Commission decisions.¹²⁷ (EXH 231-239, 242-243)

Martin County by Hobe Sound Water Company; Order No. PSC-01-0327-PAA-WU, issued January 6, 2001, in Docket No. 000295-WU, In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.; Order No. PSC-00-2500-PAA-WS, issued December 26, 2000, in Docket No. 000327-WS, In re: Application for Staff-assisted rate case in Putnam County by Buffalo Bluff Utilities, Inc.; and Order No. PSC-02-0593-FOF-WS.

¹²⁴ Id.

¹²⁵ See Order No. PSC-09-0385-FOF-WS, issued May 29, 2009, in Docket No. 080121-WS; Order No. PSC-03-0647-PAA-WS, issued May 28, 2003, in Docket No. 020407-WS, In re: Application for rate increase in Polk County by Cypress Lakes Utilities, Inc.; Order No. PSC-00-0248-PAA-WU; Order No. PSC-01-0327-PAA-WU; Order No. PSC-02-0593-FOF-WS; and Order No. PSC-03-1440-FOF-WS.

¹²⁶ See Order No. PSC-11-0385-PAA-WS, issued September 13, 2011, in Docket No. 100127-WS, In re: Application for increase in water and wastewater rates in Marion County by Tradewinds Utilities, Inc.; Order No. PSC-09-0101-PAA-WS, issued February 16, 2009, in Docket No. 070693-WS, In re: Application for increase in water and wastewater rates in Lake County by Lake Utility Services, Inc.

¹²⁷ See Order No. PSC-07-0199-PAA-WS, issued March 5, 2007, in Docket No. 060257-WS, In re: Application for increase in water and wastewater rates in Polk County by Cypress Lakes Utilities, Inc.

CONCLUSION

Based on the foregoing, the appropriate rate structure for the Utility's residential water customers is a three-tiered inclining block rate structure with usage blocks for monthly consumption of: (a) 0-6 kgals, (b) 6.001-12 kgals, and (c) usage in excess of 12 kgals. The usage block rate factors for recommended rate band 1 should be 1.0, 1.777 and 2.665, respectively; and for recommended rate bands 2 and 3 should be 1.0, 1.5 and 2.0, respectively. The appropriate rate structure for the Utility's general service water customers is a continuation of the BFC/uniform gallonage charge rate structure, with the general service gallonage charge rate based on the average overall water rate per kgal. The BFC cost recovery allocation for the water systems should be set at 40 percent.

The appropriate rate structure for the Utility's wastewater systems is a continuation of the current BFC/gallonage charge rate structure. Residential billed monthly consumption should be capped at 6 kgals, and the general service kgal charge should be 1.2 times the corresponding residential kgal charge. The BFC cost recovery allocation for the wastewater systems should be set at 50 percent.

Issue 28: What is the appropriate level of rate consolidation for the water systems in this case?

Recommendation: Staff recommends that the appropriate level of rate consolidation for the water systems is to: (1) combine the current water rate band 1 with the Fairways water system, into a single, new rate band 1; (2) combine current rate bands 2 and 3 into a single, new rate band 2; and (3) combine current rate band 4 with the Breeze Hill and Peace River water systems into a single, new rate band 3. Staff further recommends that new rate band 3 be capped at the recommended water rate cap threshold amount of \$69.88 as discussed in Issue 26. (Lingo)

Position of the Parties

AUF: AUF is not opposed to the implementation of the capband rate structure set forth in the PAA Order. However, the Commission may want to consider a state-wide consolidated rate structure to address some of the affordability concerns expressed in this case. The Commission has previously found that uniform rate structures would address affordability and fairness.

OPC: No position.

YES: Yes defers to the position of the OPC on this issue.

Pasco County: Pasco County combined its argument for Issues 27 through 29, and did not set out a separate summary of its position for each issue. Please refer to Issue 27 for a summary of Pasco County's argument.

AG: No position.

Staff Analysis:

PARTIES' ARGUMENTS

AUF did not address this issue in its brief. OPC and AG took no position on this issue. YES deferred to the position of OPC on this issue. As discussed above, Pasco County did not specify a position on this issue. Other than Pasco County, no other party presented argument on this issue in their respective briefs. Pasco County's argument is summarized in Issue 27.

ANALYSIS

As listed in the Prehearing Order in this case, this is a fallout issue. Furthermore, as discussed in the Prehearing Order, a subsidy limit of \$12.50, applicable only to the residential class, based on usage levels of 7 kgals per month for the water systems and 6 kgals per month for the wastewater systems, has been stipulated to by the parties.¹²⁸ The Utility's current rate consolidation consists of seven rate groups: 1) four water rate bands (rate bands 1 through 4) and 2) three stand-alone systems (Breeze Hill, Fairways and Peace River) acquired subsequent to AUF's last rate case. An analysis of the monthly bills and percentage increases based on staff's recommended billing determinants, revenue requirements, rate structure and current rate groupings is shown in Table 28-1 on the following page. (EXH 230-239, 242-243)

¹²⁸ See Order No. PSC-11-0544-PHO-WS, issued November 23, 2011, in this case.

Table 28-1

Comparative Analysis of Current Rate Groupings – Water ¹²⁹								
Based on 7 Kgals of Consumption per Month ¹³⁰								
Line Nos.		Current Band 1	Current Band 2	Current Band 3	Current Band 4	Breeze Hill	Fairways	Peace River
1	BFC	\$14.63	\$19.02	\$19.12	\$22.63	\$17.62	\$25.19	\$39.28
2	0 - 6 kgals	\$2.79	\$5.17	\$4.88	\$9.06	\$12.22	\$1.75	\$6.40
3	6+ - 12 kgals	\$4.41	\$8.69	\$7.39	\$14.48	\$12.22	\$3.79	\$11.12
4	12+ kgals	\$5.89	\$11.59	\$9.85	\$19.31	\$12.22	\$5.05	\$14.83
5	Bill at Current Banding and Recom Rev Reqmt	\$35.77	\$58.72	\$55.81	\$91.49	\$103.15	\$39.50	\$88.80
6	Max Subsidy	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
7	Bill at Current Rates	\$29.15	\$44.93	\$54.25	\$70.22	\$34.41	\$19.98	\$53.48
8 = 5 – 7	Bill Incr - \$\$	\$6.62	\$13.79	\$1.56	\$21.27	\$68.74	\$19.52	\$35.32
9 = 8 / 7	Bill Incr - %	22.7%	30.7%	2.9%	30.3%	199.8%	97.7%	66.1%

Leaving the current capband rate groupings and stand-alone systems in place results in no rate band or stand-alone system subsidizing another rate band or stand-alone system. As shown in Table 28-1, the monthly bill increases for the current capband systems range from 2.9 percent to 30.7 percent. However, the monthly bill increases for the stand-alone systems of Breeze Hill, Fairways, and Peace River range would be 199.8 percent, 97.7 percent and 66.1 percent, respectively. Staff believes the increases for the three stand alone systems are especially problematic, and any recommended rate grouping should address this concern.

¹²⁹ Based on staff's recommended billing determinants, revenue requirements, and rate structures.

¹³⁰ May not calculate to amounts shown due to rounding.

Docket No. 100330-WS

Date: February 2, 2012

AUF has proposed fully consolidating all of its current rate band and stand-alone systems into a single water system with a single set of rates applicable to all water customers. (EXH 230-239, 242-243) Staff's analysis of AUF's consolidation request is shown in Table 28-2 on the following page.

Table 28-2

Analysis of AUF's Full Rate Consolidation Request – Water ¹³¹								
Based on 7 Kgals of Consumption per Month ¹³²								
Line Nos.		Current Band 1	Current Band 2	Current Band 3	Current Band 4	Breeze Hill	Fair-ways	Peace River
1	BFC	\$19.04	\$19.04	\$19.04	\$19.04	\$19.04	\$19.04	\$19.04
2	0 - 6 kgals	\$4.81	\$4.81	\$4.81	\$4.81	\$4.81	\$4.81	\$4.81
3	6+ - 12 kgals	\$9.95	\$9.95	\$9.95	\$9.95	\$9.95	\$9.95	\$9.95
4	12+ kgals	\$13.27	\$13.27	\$13.27	\$13.27	\$13.27	\$13.27	\$13.27
5	Bill Resulting From AUF's Requested Full Consolidation at Recom Rev Reqmt	\$57.86	\$57.86	\$57.86	\$57.86	\$57.86	\$57.86	\$57.86
6	Bill Resulting From Current Banding at Recom Rev Reqmt	\$35.77	\$58.72	\$55.81	\$91.49	\$103.15	\$39.50	\$88.80
7 = 5 - 6	Max Subsidy	\$22.09	(\$0.86)	\$2.06	(\$33.63)	(\$45.29)	\$18.36	(\$30.94)
8	Bill at Current Rates	\$29.15	\$44.93	\$54.25	\$70.22	\$34.41	\$19.98	\$53.48
9 = 5 - 8	Bill Incr - \$\$	\$28.71	\$12.93	\$3.61	(\$12.36)	\$23.45	\$37.88	\$4.38
10 = 9 / 8	Bill Incr - %	98.5%	28.8%	6.7%	(17.6%)	68.2%	189.6%	8.2%

¹³¹ Based on staff's recommended billing determinants, revenue requirements, and rate structures.

¹³² May not calculate to amounts shown due to rounding.

As shown on the preceding page, current rate band 4 would see a decrease in its monthly water bill of approximately 17.6 percent. There are three rate groups whose resulting bills would increase between 6.7 percent (current rate band 3) to 98.5 percent (current rate band 1). The bills for the Breeze Hill and Peace River systems would increase by 68.2 percent and 8.2 percent, respectively. However, the Fairways system would see an increase of 189.6 percent, and, as discussed above, staff believes any recommended rate grouping should address increases of this magnitude. Furthermore, AUF's proposed consolidation method would result in customers of the Fairways system paying a subsidy of \$18.36, approximately 47 percent greater than the parties' stipulated subsidy level of \$12.50. The subsidy that would be paid by current rate band 1 is even more problematic. Current rate band 1 would be paying a subsidy of \$22.09, approximately 77 percent greater than the parties' stipulated subsidy level of \$12.50. Therefore, staff believes AUF's proposed rate consolidation methodology should be rejected because: a) it results in exceeding the stipulated subsidy level for two of its current rate groups, and b) it does not result in a consolidation that mitigates problematic increases to current rate band 1, plus the Breeze Hill and Fairways systems.

One way to mitigate the increases discussed above is to cap the rates at some threshold, thereby increasing the rates for the remaining rate bands and systems. As discussed in the case of Southern States Utilities v. Florida Public Service Commission, 714 So.2d 1046, 1053 (Fla. 1st DCA 1998), "Nothing inherent in the capband methodology runs afoul of the statute. . . . Although using stepped rates or "capbands" requires offsetting increases and does not spread offsets perfectly evenly among households paying less than maximum rates, such use need not lead to unfairly discriminatory rates." Therefore, staff analyzed three combinations of water system consolidation methodologies, including utilizing a capband methodology that: a) combines the Fairways system with current rate band 1, b) combines current rate band 2 and current rate band 3, and c) combines current rate band 4 with the Breeze Hill and Peace River systems. This analysis results in staff's recommended water rate consolidation methodology, as shown in Table 28-3 on the following two pages.

Table 28-3

Analysis of Staff's Recommended Capband Rate Consolidation – Water ¹³³								
Based on 7 Kgals of Consumption per Month ¹³⁴								
		Current Band 1	Fairways	Current Band 2	Current Band 3	Current Band 4	Breeze Hill	Peace River
Line Nos.	Recommended Rate Band Groupings →	New Rate Band 1		New Rate Band 2		New Rate Band 3 = Capped Band		
1	BFC	\$18.84	\$18.84	\$22.87	\$22.87	\$17.39	\$17.39	\$17.39
2	0 - 6 kgals	\$3.37	\$3.37	\$6.06	\$6.06	\$7.00	\$7.00	\$7.00
3	6+ - 12 kgals	\$5.99	\$5.99	\$9.09	\$9.09	\$10.50	\$10.50	\$10.50
4	12+ kgals	\$8.98	\$8.98	\$12.12	\$12.12	\$14.00	\$14.00	\$14.00
5	Bill Resulting From Recom Capband Consolidation and Recom Rev Reqmt	\$45.08	\$45.08	\$68.31	\$68.31	\$69.88	\$69.88	\$69.88
6	Bill Resulting From Current Banding and Recom Rev Reqmt	\$35.77	\$39.50	\$58.72	\$55.81	\$91.49	\$103.15	\$88.80
7 = 5 - 6	Max Subsidy	\$9.31	\$5.58	\$9.58	\$12.50	(\$21.61)	(\$33.27)	(\$18.92)
8	Bill at Current Rates	\$29.15	\$19.98	\$44.93	\$54.25	\$70.22	\$34.41	\$53.48

¹³³ Based on staff's recommended billing determinants, revenue requirements, and rate structures, plus the \$12.50 subsidy limit that was stipulated to by all parties.

¹³⁴ May not calculate to amounts shown due to rounding.

Table 28-3 (cont.)

Analysis of Staff's Recommended Capband Rate Consolidation – Water ¹³⁵								
Based on 7 Kgals of Consumption per Month ¹³⁶								
		Current Band 1	Fairways	Current Band 2	Current Band 3	Current Band 4	Breeze Hill	Peace River
Line Nos.	Recommended Rate Band Groupings →	New Rate Band 1		New Rate Band 2		New Rate Band 3 = Capped Band		
9 = 5 – 8	Bill Incr - \$\$	\$15.93	\$25.10	\$23.38	\$14.06	(\$0.34)	\$35.47	\$16.40
10 = 9 / 8	Bill Incr - %	54.6%	125.6%	52.0%	25.9%	(0.5%)	103.1%	30.7%

As discussed following the analysis on Table 28-1, staff believes any recommended rate grouping should address the high percentage increases for the Breeze Hill, Fairways and Peace River systems. Based on staff's recommended rate consolidation, although staff was unable to mitigate the increase for the Fairways system, the percentage increase for the Breeze Hill system was reduced from 199.8 percent to 103.1 percent, while the percentage increase for the Peace River system was reduced from 66.1 percent to 30.7 percent. Therefore, staff's recommended rate consolidation was successful in mitigating the increases for those systems. Furthermore, current rate band 4, which is the capped band containing the higher-cost systems, would also experience a decrease based on staff's recommended consolidation.¹³⁷ Although staff's recommended rate consolidation did result in increases for the remaining rate bands or systems ranging from 14.1 percent (the Fairways system) to 26.0 percent (current rate band 1), staff believes these deviations are reasonable and necessary in order to mitigate the increases for the Breeze Hill and Peace River systems. Furthermore, no customer will pay more than the recommended threshold of \$69.88.

¹³⁵ Based on staff's recommended billing determinants, revenue requirement, and rate structures, plus the \$12.50 subsidy limit that was stipulated to by all parties.

¹³⁶ May not calculate to amounts shown due to rounding.

¹³⁷ See Order No. PSC-09-0385-FOF-WS, issued May 29, 2009, in Docket No. 80121-WS.

CONCLUSION

Based on the foregoing, staff recommends that the appropriate level of rate consolidation for the water system is to: (1) combine the current water rate band 1 with the Fairways water system, into a single, new rate band 1; (2) combine current rate bands 2 and 3 into a single, new rate band 2; and (3) combine current rate band 4 with the Breeze Hill and Peace River water systems into a single, new rate band 3. Staff further recommends that new rate band 3 be capped at the recommended water rate cap threshold amount of \$69.88 as discussed in Issue 26.

Issue 29: What is the appropriate level of rate consolidation for the wastewater systems in this case?

Recommendation: Staff recommends that the appropriate level of rate consolidation for the residential wastewater systems is: (1) leave current band 1 intact, and (2) combine current rate bands 2 and 3, plus the stand-alone systems of Breeze Hill, Fairways and Peace River, into a new capped band 2. Staff further recommends that the new rate band 2 be capped at the recommended wastewater rate cap threshold amount of \$88.79 as discussed in Issue 26. Staff recommends that the general service-only wastewater providers should be in new band 3. The Commission does not consider rate cap thresholds for general service-only wastewater providers. (Lingo)

Position of the Parties

AUF: AUF is not opposed to the implementation of the capband rate structure set forth in the PAA Order. However, in designing rate structure, the Commission may want to consider a state-wide consolidated rate structure to address some of the affordability concerns expressed in this case. The Commission has previously found that uniform rate structures would address affordability and fairness.

OPC: No position.

YES: Yes defers to the position of the OPC on this issue.

Pasco County: Pasco County combined its argument for Issues 27 through 29, and did not set out a separate summary of its position for each issue. Please refer to Issue 27 for a summary of Pasco County's argument.

AG: No position.

PARTIES' ARGUMENTS

AUF did not address this issue in its brief. OPC and AG took no position on this issue. YES deferred to the position of OPC on this issue. As discussed above, Pasco County did not specify a position on this issue. Other than Pasco County, no other party presented argument on this issue in their respective briefs. Pasco County's argument is summarized in Issue 27.

ANALYSIS

As listed in the Prehearing Order in this case, this issue is a fallout issue, and a subsidy limit of \$12.50 has been stipulated to by the parties. This subsidy limit applies only to the residential class, and is based upon usage levels of 7 kgals per month for the water systems and 6 kgals per month for the wastewater systems.¹³⁸ The Utility's current wastewater rate consolidation consists of four wastewater rate bands (residential rate bands 1 through 3, plus

¹³⁸ See Order No. PSC-11-0544-PHO-WS, issued November 23, 2011, in this case.

general service wastewater-only customers in band 4) and three stand-alone systems (Breeze Hill, Fairways and Peace River). (EXH 231-239, 242-243)

An analysis of the monthly bills and percentage increases based on staff's recommended billing determinants, revenue requirements, rate structure and current rate groupings is shown in Table 29-1 on the following page.

Table 29-1

Comparative Analysis of Current Rate Groupings – Wastewater ¹³⁹								
Based on 6 Kgals of Consumption per Month ¹⁴⁰								
Line Nos.		Current Band 1	Current Band 2	Current Band 3	Breeze Hill	Fairways	Peace River	Current Band 4 (GS Only)
1	BFC	\$19.20	\$32.45	\$66.06	\$22.13	\$33.75	\$46.07	\$79.12
2	0 - 6 kgals	\$6.49	\$8.15	\$19.97	\$12.54	\$8.69	\$9.77	\$7.96
3	Bill at Current Banding and Recom Rev Reqmt	\$58.12	\$81.32	\$185.87	\$97.35	\$85.87	\$104.71	\$136.45
4	Max Subsidy	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
5	Bill at Current Rates	\$45.63	\$78.10	\$83.35	\$39.38	\$35.45	\$82.25	\$142.97
6 = 3 - 5	Bill Incr - \$\$	\$12.49	\$3.22	\$102.52	\$57.97	\$50.42	\$22.46	(\$6.52)
7 = 6 / 5	Bill Incr - %	27.4%	4.1%	123.0%	147.2%	142.2%	27.3%	(4.6%)

As shown in Table 29-1, leaving the current capband rate groupings and stand-alone systems in place results in no rate band or stand-alone system subsidizing another rate band or system. Although the general service-only class (rate band 4) would see a decrease in their bill, all residential classes would experience increases of varying magnitude in their bills. For

¹³⁹ May not calculate to totals due to rounding.

¹⁴⁰ Based on staff's recommended billing determinants and revenue requirements.

example, based on the current rate groupings, the monthly bill increases for current rate bands 1 and 2, plus the Peace River system, would range from 4.1 percent to 27.4 percent. However, the increase for current rate band 3 would be 123.0 percent. The monthly bill increases for the Fairways and Breeze Hill systems are equally concerning, at 142.2 percent and 147.2 percent, respectively. Staff believes the magnitude of these increases are especially problematic, and any recommended rate grouping should address these concerns.

AUF has proposed fully consolidating all of these systems into a single wastewater system with a single set of rates applicable to all wastewater customers. (EXH 231-239, 242-243) Staff's analysis of AUF's consolidation request is shown in Table 29-2 on the following page.

Table 29-2

Analysis of AUF's Full Rate Consolidation Request – Wastewater ¹⁴¹								
Based on 6 Kgals of Consumption per Month ¹⁴²								
Line Nos.		Current Band 1	Current Band 2	Current Band 3	Breeze Hill	Fairways	Peace River	Current Band 4 (GS Only)
1	BFC	\$34.87	\$34.87	\$34.87	\$34.87	\$34.87	\$34.87	\$34.87
2	0 - 6 kgals	\$8.77 ¹⁴³	\$8.77	\$8.77	\$8.77	\$8.77	\$8.77	\$8.77
3	Bill Resulting From AUF's Requested Full Consolidation at Recom Rev Reqmt	\$87.48	\$87.48	\$87.48	\$87.48	\$87.48	\$87.48	\$87.48
4	Bill at Current Banding at Recom Rev Reqmt	\$58.12	\$81.32	\$185.87	\$97.35	\$85.87	\$104.71	\$136.45
5 = 3 - 4	Max Subsidy	\$29.36	\$6.15	(\$98.40)	(\$9.87)	\$1.60	(\$17.24)	(\$48.97)
6	Bill at Current Rates	\$45.63	\$78.10	\$83.35	\$39.38	\$35.45	\$82.25	\$142.97
7 = 3 - 6	Bill Incr - \$\$	\$41.85	\$9.38	\$4.13	\$48.10	\$52.03	\$5.23	(\$55.49)
8 = 7 / 6	Bill Incr - %	91.7%	12.0%	5.0%	122.1%	146.8%	6.4%	(38.8%)

As shown on the previous page, AUF's requested full rate consolidation would result in customers of current rate band 4 (the general service-only rate band) receiving a decrease of approximately 38.8 percent. More importantly, current rate band 1 would pay a subsidy greater

¹⁴¹ May not calculate to totals due to rounding.

¹⁴² Based on staff's recommended billing determinants and revenue requirements.

¹⁴³ Per Kgal.

than the stipulated level of \$12.50. Therefore, AUF's proposed consolidation methodology was rejected.

As discussed in Issue 28, one way to mitigate excessive rate increases is to cap the rates at some threshold, while not unduly increasing the rates for the remaining rate bands. Staff's third analysis involved utilizing a capband methodology that: (a) left current rate band 1 intact; (b) combined current rate bands 2 and 3 with the Breeze Hill, Fairways and Peace River systems into a new, capped rate band 2; and 3) made current rate band 4 (applicable to general service-only wastewater providers) the new rate band 3. Furthermore, staff applied its recommended rate cap threshold and rate structure, along with the stipulated subsidy limit of \$12.50, to the recommended billing determinants and revenue requirements. The results are shown on Table 29-3 on the following page.

Table 29-3

Analysis of Staff's Recommended Capband Rate Consolidation – Wastewater ¹⁴⁴								
Based on 6 Kgals of Consumption per Month ¹⁴⁵								
		Current Band 1	Current Band 2	Current Band 3	Breeze Hill	Fairways	Peace River	Current Band 4 (GS Only)
Recommended Rate Band Groupings: →		New Rate Band 1	New Rate Band 2 = Capped Band					New Rate Band 3
1	BFC	\$23.32	\$34.87	\$34.87	\$34.87	\$34.87	\$34.87	\$79.12
2	0 - 6 kgals	\$7.88	\$8.99	\$8.99	\$8.99	\$8.99	\$8.99	\$7.96
3	Bill Resulting From Recom Capband Consolidation and Recom Rev Reqmt	\$70.60	\$88.79	\$88.79	\$88.79	\$88.79	\$88.79	\$136.45
4	Bill at Current Banding and Recom Rev Reqmt	\$58.12	\$81.32	\$185.87	\$97.35	\$85.87	\$104.71	\$136.45
5 = 3 - 4	Max Subsidy	\$12.48	\$7.47	(\$97.08)	(\$8.56)	\$2.92	(\$15.92)	\$0.00
6	Bill at Current Rates	\$45.63	\$78.10	\$83.35	\$39.38	\$35.45	\$82.25	\$142.97
7 = 3 - 6	Bill Incr - \$\$	\$24.97	\$10.69	\$5.44	\$49.10	\$53.34	\$6.54	(\$6.52)
8 = 7 / 6	Bill Incr - %	54.7%	13.7%	6.5%	125.5%	150.5%	8.0%	(4.6%)

¹⁴⁴ May not calculate to totals due to rounding.

¹⁴⁵ Based on staff's recommended billing determinants, revenue requirements, and rate structures, plus the \$12.50 subsidy limit that was stipulated to by all parties.

In order to fairly compare the effects of staff's recommended capband methodology and resulting rate bands to the current rate bands and stand-alone systems, staff analyzed the subsidy information contained on line 4 of Table 29-3. A review of this information indicates that subsidies paid by systems ranged from a low of \$2.92 (Fairways system) to a high of \$12.48 (rate band 1). However, these subsidies were of benefit to the Breeze Hill, Peace River and current rate band 3 customers, because they received subsidies of \$8.56, \$15.92 and \$97.08, respectively. Therefore, staff believes the subsidies discussed above are reasonable and necessary in order to mitigate rate impacts of other customers.

CONCLUSION

Therefore, based on the foregoing, staff recommends that the appropriate level of rate consolidation for the residential wastewater systems is: (1) leave current band 1 intact, and (2) combine current rate bands 2 and 3, plus the stand-alone systems of Breeze Hill, Fairways and Peace River, into a new capped band 2. Staff further recommends that the new rate band 2 be capped at the recommended wastewater rate cap threshold amount of \$88.79 as discussed in Issue 26. Staff recommends that the general service-only wastewater providers should be in new band 3. The Commission does not consider rate cap thresholds for general service-only wastewater providers.

Issue 30: What are the appropriate resulting repression adjustments for this Utility? (Fallout issue)

Recommendation: The appropriate repression adjustments for the water systems are shown in the table below. No repression adjustment is recommended for the wastewater systems.

Staff's Recommended Repression Adjustments			
Based on Staff's Recommended Water System Capband Methodology and Rate Cap Threshold			
	Rate Band 1	Rate Band 2	Rate Band 3 (Capped)
WATER			
Kgals Repressed	(40,931)	0	(4,185)
Expense Adjustments:			
Purchased Power	(\$19,707)	\$0	(\$1,887)
Chemicals	(\$4,847)	\$0	(\$635)
Purchased Water	(\$2,019)	\$0	(\$10,472)
Regulatory Assessment Fees	(\$1,196)	\$0	(\$585)
Total	(\$27,769)	\$0	(\$13,579)

(Lingo)

Position of the Parties

AUF: This is a fall out calculation issue subject to the resolution of the other protested issues in this rate case.

OPC: No position.

YES: Yes defers to the position of the OPC on this issue.

Pasco County: Pasco County adopts the position of the Office of Public Counsel as if fully set forth herein.

AG: No position.

Staff Analysis:

ANALYSIS

As listed in the Prehearing Order in this case, this is a fallout issue.¹⁴⁶ The Utility's rate factor proposal does not reflect the methodology currently used by the Commission regarding not applying repression adjustments to nondiscretionary consumption.¹⁴⁷ Based on staff's recommended water rate consolidation discussed in Issue 28, staff recommends that no repression will occur in recommended water rate band 2, and, as a result, no repression is indicated for that rate band in Table 30-1. Based on the above, this results in usage block rate factors of: a) 1.0, 1.777 and 2.665 for usage blocks 1 through 3, respectively, for rate band 1; and b) 1.0, 1.5 and 2.0 for usage blocks 1 through 3, respectively, for rate bands 2 and (the capped) band 3.

Based on staff's recommended billing determinants, revenue requirements, rate cap thresholds, rate structures, and consolidation for the respective water systems, the recommended repression adjustments are shown in the table above. Staff's wastewater rates are based on a cap of 6 kgals, which represents nondiscretionary consumption. Therefore, no repression adjustment is recommended for the wastewater systems.

CONCLUSION

Therefore, based on staff's recommended billing determinants, revenue requirements, rate cap thresholds, rate structures, and consolidation for the respective water systems, the recommended repression adjustments are shown in Table 30-1 on the preceding page. Staff's wastewater rates are based on a cap of 6 kgals, which represents nondiscretionary consumption. Therefore, no repression adjustment is recommended for the wastewater systems.

¹⁴⁶ See Order No. PSC-11-0544-PHO, issued November 23, 2011, in this case.

¹⁴⁷ See Order No. PSC-03-1140-FOF-WS, issued December 22, 2003, in Docket No. 020071-WS, In re: Application for rate increase in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida; Order No. PSC-10-0117-PAA-WU, issued February 26, 2010, in Docket No. 080695-WU, In re: Application for general rate increase by Peoples Water Service Company of Florida, Inc.; Order No. PSC-11-0385-PAA-WS, issued September 13, 2011, in Docket No. 100127-WS, In re: Application for increase in water and wastewater rates in Marion County by Tradewinds Utilities, Inc.

Issue 31: What are the appropriate monthly rates for the water and wastewater systems for the Utility? (Fallout issue)

Recommendation: The appropriate monthly water rates are shown on Schedule 4-A, and the appropriate monthly wastewater rates are shown on Schedule 4-B. Excluding miscellaneous service charges, and including the repression adjustments shown in Issue 30, the recommended water rates produce revenues of \$10,181,793, and the recommended wastewater rates produce revenues of \$5,844,126. The Utility should file revised water and wastewater tariff sheets and a proposed customer notice to reflect the Commission-approved rates for the water and wastewater systems. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25.30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date notice was given no less than ten days after the date of the notice. (Lingo, Fletcher)

Position of the Parties

AUF: This is a fall out calculation issue subject to the resolution of the other protested issues in this rate case.

OPC: No Position.

YES: Yes defers to the position of the OPC on this issue.

Pasco County: The monthly rates should be set to avoid being unfairly discriminatory to the customers of certain systems to the benefit of others, as discussed above regarding Issues 27-29.

AG: No position.

Staff Analysis: The appropriate post-repression revenue requirement, excluding miscellaneous service charges, is \$10,223,141 for the water system and \$5,844,126 for the wastewater system. As discussed in Issue 27, staff recommends that the appropriate rate structure for the water system's residential class is a three-tier inclining block rate structure, with usage blocks for monthly consumption of: a) 0-6 kgals, b) 6.001-12 kgals, and 3) all usage in excess of 12 kgals. The recommended usage block rate factors for rate bands 1, 2, and 3 should be: a) 1.0, 1.777 and 2.665, respectively for rate band 1, and b) 1.0, 1.5 and 2.0, respectively for rate bands 2 and 3. The BFC cost recovery percentage should be set at 40 percent. Staff recommends that the appropriate rate structure for the water system's non-residential classes is the traditional BFC/uniform gallonage charge rate structure. As discussed in Issue 30, staff recommends that a repression adjustment be made to the water systems. Applying these recommendations to staff's recommended pre-repression revenue requirements result in the final rates contained in Schedule 4-A. These rates are designed to recover a post-repression revenue requirement of \$10,181,793 for the water system.

As discussed in Issue 27, staff recommends that the appropriate rate structure for the wastewater systems is a BFC/gallonage charge rate structure, with the general service gallonage charge set at 1.2 times the corresponding residential gallonage charge. The BFC cost recovery

percentage should be set at 50 percent. As discussed in Issue 30, staff recommends that no repression adjustment be made to the wastewater systems. Applying these recommendations to staff's recommended pre-repression revenue requirements result in the final rates contained in Schedule 4-B. These rates are designed to recover a revenue requirement of \$5,844,126 for the wastewater system.

The Utility should file revised water and wastewater tariff sheets and a proposed customer notice to reflect the Commission-approved rates for the water and wastewater systems. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date notice was given no less than ten days after the date of the notice.

Issue 31A: Are the resulting rates affordable within the meaning of fair, just and reasonable pursuant to Sections 367.081 and 367.121, Florida Statutes?

Recommendation: There is no “affordability” test for setting a utility’s revenue requirement under Chapter 367, F.S. Therefore, based on the stipulated subsidy limit of \$12.50, staff’s recommended rate cap thresholds, rate structures, rate consolidation and repression adjustments in prior issues, the resulting rates are as affordable as possible. Further, staff believes this issue is a rate structure issue, and it is not appropriate to use this issue to justify any decrease in the revenue requirement. (Jaeger, Fletcher)

Position of the Parties

AUF: Yes. The record is clear that the cap-band rate structure in the PAA Order and the uniform rate structure proposed by AUF are both designed to produce affordable rates. There is no “affordability” test for setting a utility’s revenue requirement under Chapter 367, Florida Statutes. Rather, consideration of “affordability” must be limited to designing an appropriate rate structure.

OPC: No. AUF has overstated its operating expenses such that the resulting rates are not affordable within the meaning and intent of fair, just, and reasonable pursuant to Sections 367.081 and 367.121, Florida Statutes. Residential customer rates should be capped at an affordable level. The Commission should make the Citizens recommended adjustments resulting in a total reduction of \$2.3 Million.

YES: The cost of water and wastewater service provided by AUF to customers at Arredondo Farms is unaffordable for those customers in comparison to the cost and service provided by other utility providers in the Gainesville market and as a whole when compared to the local housing market. Accordingly, Arredondo Farms should be moved to a lower tier for water and wastewater service.

Pasco County: The rates are not affordable for so many reasons, including that the rates are well beyond the ability of customers to pay.

AG: No. The AG adopts the position of the OPC and would add that many customers testified that they cannot afford this rate increase. This differs from the AUF comments that no one likes a rate increase. It is not an issue of “like” but one of necessity. These customers need water to live and many cannot afford the cost after making extreme sacrifices to reduce their water use. This rate increase comes less than a year after the effective date of the last unprecedented increase granted AUF. In these difficult economic circumstances, this kind of rate increase cannot be borne by the customers.

Staff Analysis:

PARTIES' ARGUMENTS

AUF

AUF argues that the capband rate structure in the PAA Order and the uniform rate structure proposed by AUF produce affordable rates and benefit customers by ensuring that rates are kept as low as possible. (TR 434-436, 438, 495-500, 1393; AUF BR 47) Further, AUF notes that the Commission has recognized those benefits by adopting uniform rates for electric and natural gas utilities in the state, and there is no legal impediment to the adoption of uniform rates for AUF's customers. (TR 497-498; AUF BR 47)

AUF argues that OPC's efforts to inject a new and undefined "affordability" criterion (TR 58, 740-747, 852; AUF BR 48) are nothing more than an attempt to reduce AUF's revenue requirement and divert the Commission's attention from the evidence supporting the need for rate relief, and are in contravention of the Florida Statutes and case law.¹⁴⁸ AUF notes that pursuant to Section 367.081(1), F.S., the Commission must fix water and wastewater utility rates that are just, reasonable, compensatory, and not unfairly discriminatory. (AUF BR 48) Further, pursuant to the holdings in United Telephone Co. v. Mayo, 403 So. 2d 962, 966 (Fla. 1981); and Keystone Water Co. v. Bevis, 278 So. 2d 606 (Fla. 1973), those rates must be established such that a utility is given the opportunity to recover its prudently incurred expenses and to earn a fair return on its investments. (AUF BR 48) In determining a utility's rates, AUF argues that the Commission must consider whether rates are confiscatory and deprive a utility of a fair return on capital investment, and failure to allow a fair rate of return would violate the utility's due process rights. See Westwood Lake, Inc. v. Dade County, 264 So. 2d 7 (Fla. 1972); and Gulf Power Co. v. Bevis, 289 So. 2d 401 (Fla. 1974). (AUF BR 48)

Citing Southern States Utilities, Inc. v. Fla. Pub. Serv. Comm'n, 714 So. 2d 1046, 1053 (Fla. 1st DCA 1998) (Southern States), AUF notes that the First District Court of Appeal (First DCA) "confirmed that 'in the aggregate, rates and charges' must assure a water and wastewater utility an opportunity to recover its 'revenue requirement,' which it described as 'the cost of the service the utility provides, operating expenses as well as the cost of capital.'" (AUF BR 48) Moreover, in that same case, AUF argues that the First DCA accepted that "an 'affordability' criterion may be used to design a utility's rate structure," but that "[b]efore setting rates for separate classes of customers, the utility must establish and the PSC must approve a determination of the utility's overall revenue requirements." Id. (AUF BR 48-49) AUF argues that to the extent that the rates of certain systems are capped at a certain level to address "affordability" criterion, any resulting "shortfall" of revenues would need to be recovered from the remaining ratepayers of the utility to ensure the utility is afforded an opportunity to recover its "revenue requirement" as required by law. (AUF BR 49) Thus, AUF concludes that if

¹⁴⁸ OPC and YES witnesses made anecdotal claims that AUF's rates and services had devalued homes and businesses. However, AUF argues there is no showing in the record that AUF's rates and services have any correlation to home or business values, foreclosures, or occupancy rates. (TR 1279-1282, 1286, 1813-14; EXH. 226; EXH 253; EXH 332)

“affordability” is to be made part of this rate case, under Florida law, its pertinence must be confined to determining the appropriate design of AUF’s rate structure. (AUF BR 49)

AUF notes that Chapter 367, F.S., provides clear direction on how to establish rates for a water and wastewater utility, and that OPC’s own witnesses concede that there is no “affordability” test in that Chapter or the Commission’s rules for setting a utility’s revenue requirement as “affordable,” “affordability,” or “unaffordable.” (TR 851, 853-854; AUF BR 49) Moreover, AUF argues that the Legislature has not included any such term in Chapter 367 despite knowing precisely how to do so.¹⁴⁹ (AUF BR 49)

AUF concludes its argument by stating that if it is deprived of its revenue requirement based on the novel, undefined and unsupported “affordability” criteria, it “would constitute an unconstitutional taking and a gross betrayal of the regulatory compact.” (AUF BR 49) Further, AUF argues that “OPC’s attempts to inject a new ‘affordability’ criterion in rate setting were properly rejected in the Prehearing Order, which struck OPC’s proposed Issue 24 and included Issue 31A as a ‘rate structure’ issue.” See Prehearing Order, at 81-83.

OPC

OPC argues that pursuant to Sections 367.081 and 367.121, F.S., rates must be fair, just and reasonable, as well as compensatory and nondiscriminatory. (OPC BR 42) OPC witness Poucher noted that the dictionary definition of compensatory includes the concept of providing payment equivalent to the value of the service or product sold and should consider the value of the product and services the customers are receiving from AUF. (TR 1432; OPC BR 42) Witness Poucher also testified that the above-noted language included the concept that the resulting rates be affordable. (TR 746; OPC BR 42)

OPC argues that the final rates approved must be such that they are affordable to customers and not cause an undue hardship to the customers. (OPC BR 42) OPC witness Vandiver “testified that the Merriam Webster dictionary defines affordable as ‘to manage to bear without serious detriment.’” (TR 1415; OPC BR 42) OPC argues that both the Commission on its webpage, and AUF, through its witness Szczygiel (TR 139), agree that investor-owned water utilities should provide quality and reliable water service at an affordable price to customers while earning a fair return for shareholders. (OPC BR 42)

OPC notes that its witness Vandiver testified the affordability of rates should be a critical component of the Commission’s determination of the prudence of the utility’s costs. (TR 1418;

¹⁴⁹ AUF notes the Legislature chose in Ch. 364, F.S., to make “affordability” relevant to the development of telecommunications rates. But, even there, AUF argues that “affordability” has never been used to deprive a telephone company of its right to recover its revenue requirement. Rather, federal and state law provide for a telecommunications company offering below-cost rates to low-income customers to receive subsidies from the Universal Service Fund thus making the company “whole.” In Florida, no similar scheme even remotely exists for water and wastewater utilities. See, e.g., Maddox v. State, 923 So. 2d 442, 446-47 (Fla. 2006) (stating that the Legislature’s use of different terms in different statutory sections indicates that different meanings were intended); and Leisure Resorts, Inc. v. Frank J. Rooney, Inc., 654 So. 2d 911, 914 (Fla. 1995) (holding that where the Legislature has used a term in one section of a statute but omitted the term in another section, the court will not read the term into the sections where it was omitted).

OPC BR 42) OPC argues that “while an individual cost on its own may be prudently incurred, that same cost may not be considered prudently incurred when evaluated as part of a group of costs.” (OPC BR 42) OPC argues that just because all individual costs appear to be prudent when taken alone does not mean that the end result must be prudent. OPC likens the process to the calculation of a state budget whereby individual expenditures may have been considered reasonable on their own, but where the end result would cause taxes (or rates) to go higher than Floridians can afford, then the Legislature (Commission) must go back and adjust those individual expenditures (expenses). (OPC BR 42)

OPC notes that both its witnesses Poucher and Vandiver testified that because of AUF’s high rates, customers could not afford to: water their lawns, use water for hygienic purposes, pay their bills, remain in their homes, or maintain their standard of living. (TR 1438-1420, 1417; OPC BR 43) Witness Poucher also testified that the concept of affordability in the telephone industry for universal service meant two standard deviations above and below the nationwide average. (TR 946-947; OPC BR 43) Both he and OPC witness Dismukes thought the Commission should compare the typical monthly bills approved in the PAA Order with the rates of other water and wastewater companies operating in the same counties as shown in Schedule 22. (TR 747, 1120; EXH 125; OPC BR 43) Witness Dismukes testified that of the 26 AUF water systems and 17 wastewater systems she compared, 25 of AUF’s water system and all of the wastewater systems had higher rates than the average of the remaining utilities’ rates in the same county. (TR 1121; OPC BR 43)

Citing Order No. 23186, issued July 13, 1990,¹⁵⁰ witness Vandiver noted that the Commission has recognized that the regulatory framework can provide a disincentive to keep costs low and encourage utilities to practice what is known as “gold plating.” (TR 1418; OPC BR 44) Witness Vandiver testified that “the Commission should consider evaluating the utility’s operations to determine that the utility does not have just such a perverse incentive to continue to raise expense so that it may continue to increase its corporate revenues.” (TR 1392, 1418; OPC BR 44) Witness Vandiver also noted that while staff witness Stallcup thought the rates were higher than would be expected, he nevertheless appeared to think or imply that the Commission was constrained by the statutory requirement that the rates be compensatory to give AUF’s all of its requested expenses. (TR 1392, 1393, 1418; OPC BR 44) Using witness Poucher’s definition of the term compensatory, she did not believe this was necessarily so. (TR 1438; OPC BR 44) Further, although AUF witness Szczygiel claimed that the rate case is driven in large part by efforts to improve water quality and environmental compliance (TR 1498), witness Vandiver noted that a large portion of the requested revenue requirement increase is being driven by ASI affiliate costs, which costs have increased by over 200 percent in less than two years. (TR 1105-1106; OPC BR 44)

OPC concludes its argument by citing Order No. PSC-09-0385-FOF-WS, issued May 29, 2009.¹⁵¹ In that Order, the Commission found that based on the respective system averages plus

¹⁵⁰ Docket No. 870347-TL, In re: Petition of AT&T Communications of the Southern states for Commission for bearance from earnings regulation and waiver of Rules 25-4.495(1) and 25-24.480(1)(b), F.A.C., for a trial period.

¹⁵¹ Docket No. 080121-WS, In re: Application for increase in water and wastewater rates in Alachua, Brevard, DeSoto, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida, Inc., pp. 126-127.

1.96 standard deviations (which captures approximately 95 percent of the variation), the affordability limits were \$65.25 for water systems and \$82.25 for the wastewater systems. (OPC BR 44; Order No. PSC-09-0385-FOF-WS, p. 127) Noting that these rate caps (“affordability limits”) were determined less than two years ago, OPC states that it is reasonable to conclude that AUF’s current increase request will only result in rates that further exceed these limits. (OPC BR 45)

Based on all the above, OPC notes that AUF’s current rates show that AUF has some of the highest rates in the state without any increases. (TR 1120; EXH 125; OPC BR 45) Moreover, OPC alleges that AUF has overstated its rate base and net operating expenses which will lead to rates that are not fair, just, or reasonable. (OPC BR 45) OPC concludes that AUF’s buying of small, troubled systems, supposedly to bring better management and economies of scale, has not delivered these benefits to its customers. (TR 1123; OPC BR 45) OPC contends that the overall rates requested by AUF are overstated, and there should be a total reduction of \$2.3 million from the amount approved in the PAA Order. (OPC BR 45)

YES

YES argues that its witness Harpin testified that an average customer of AUF residing at Arredondo Farms pays approximately \$135-150 for AUF’s water and wastewater services, and that this figure is \$76 higher per month than an existing utility operator in the Gainesville market. (TR 1269; YES BR 10) YES further notes that lot rent at Arredondo Farms averages only \$270, and lot rent with a mobile home averages \$630 per month. (TR 1269; YES BR 10) YES notes that this results in the average resident paying water and wastewater bills to AUF which represent 55 percent of their lot rent or 21 percent of their entire home rent, respectively. (TR 1269; YES BR 10) YES argues that because of these excessive rates, customers of AUF residing at Arredondo Farms are simply priced out of the housing market in Gainesville. (YES BR 10)

YES argues that its witness Starling presented a photograph of a home that was literally torn down and thrown into a dumpster when the owner could not afford to pay the AUF bills, and the home could not be moved due to its age. (Gainesville TR 133; EXH 14, BSP 25-27; TR 1841-1843; YES BR 10). YES also notes that its witness Harpin testified that since the beginning of 2011, 59 residents have left Arredondo Farms and of those, 35, or 59 percent, cited AUF’s rates and service as the reason they vacated. (EXH 139; TR 1841; YES BR 10)

YES argues that it is the only party and only property to put on evidence regarding the cost of AUF service compared to that of other utility providers in the same market and the harmful effects of AUF’s exorbitant pricing in relation to the local housing market. Based on the rates already being unaffordable, YES argues that if there is any rate increase granted to AUF, the Commission should reduce Arredondo Farm’s rate tier so that the rates for Arredondo Farms will be more affordable as compared to the local housing market. (YES BR 10) YES also notes that AUF has never performed any sort of market study of the affordability of its rates in the individual geographical regions (TR 138-140; YES BR 11), in spite of the fact that AUF purports that its “Industry Mission” is to “provide quality and reliable water service at an affordable price to customers, while earning a fair return for shareholders.” (EXH 287, p. 2; YES BR 11)

Finally, YES noted that AUF witness Szczygiel attempted to discredit YES witness Harpin's testimony. YES argues that AUF witness Szczygiel had originally testified that witness Harpin's testimony was merely an attempt to harm AUF and seize its water and wastewater business at Arredondo Farms. However, upon cross-examination, witness Szczygiel was compelled to change his rebuttal testimony to state that he has no knowledge of whether YES is in the water or wastewater business and, therefore, his written rebuttal testimony in that regard was false. (TR 1537-1539; YES BR 11)

Pasco County

Pasco County argues that numerous customers at the New Port Richey service hearing testified of their inability to pay AUF's exorbitant rates. (New Port Richey TR 54, 113; Pasco County BR 12-13) Pasco County also notes that there were similar comments about the impact of the high rates on real estate in AUF's areas, and the ability of property owners to rent houses or having to drop rents (New Port Richey TR 80, 148; Pasco County BR 13) due to AUF's rates.

Pasco County argues that this results in a downward spiral where high rates lead to less usage, and less usage means less revenue for the utility, which then leads to the need for another rate increase. (TR 144, 983; EXH 26, page 860; Pasco County BR 13) Also, Pasco County argues that high rates can lead to customers not watering their lawns and plants, which causes "brown lawns and dead landscaping." Pasco County argues that all the above depresses real estate values, increases vacancy rates, and causes even less usage and less revenues for the utility. (TR 986-987; Pasco County BR 13) Pasco County notes that AUF witness Szczygiel admitted that AUF's high rates contributed to less water usage (TR 143-144) and argues that poor water quality also contributes to less use. (Pasco County BR 13)

Finally, Pasco County notes that "the rates are not affordable because they are not in line with comparable systems, especially in Pasco County." (Pasco County BR 14) Pasco County argues that the county rates are about 2.5 times less than AUF's rates. (EXH 353; EXH 26, page 589; Pasco County BR 14) As regards FGUA'S rates, Pasco County admits that some of that agency's rates are comparable, but argues that FGUA is forced to maintain Commission approved rates when it buys a system formerly regulated by the Commission. (Pasco County BR 14)

AG

The AG adopts the position of the OPC and adds that many customers testified they could not afford this rate increase. Moreover, the AG argues that "[t]his rate increase comes less than a year after the effective date of the last unprecedented increase granted AUF," and "[i]n these difficult economic circumstances, this kind of rate increase cannot be borne by the customers." (AG BR 9)

ANALYSIS

Issue 31A was included by decision of the Prehearing Officer, following deletion of OPC's requested Issue 24. OPC initially proposed that Issue 24 be included in the net operating income portion of the case, and requested that the issue read as follows:

Are the total operating expenses prudently incurred such that the resulting rates are affordable within the meaning and intent of fair, just, and reasonable pursuant to Sections 367.081 and 367.121, Florida Statutes?

AUF objected to the inclusion of Issue 24, and the Prehearing Officer allowed parties to file briefs and present oral argument on the suitability of inclusion of the issue. After deliberation, the Prehearing Officer determined that the issue as stated was neither needed nor appropriate, and issued his ruling as a part of the Prehearing Order.¹⁵² In his ruling in the Prehearing Order, the Prehearing Officer stated in pertinent part:

OPC's argument that the prudence of any expense is a position that OPC may take in each of the issues dealing with revenue requirements. . . . OPC and any party to this proceeding may challenge an expense item because that expense was imprudent. The prudence or imprudence of that expense may be argued by each party, and may include the appropriateness of the individual expense. The parties may present such testimony or arguments as they deem relevant to the issue, including OPC's argument that affordability is a component of determining fair, just, reasonable, and not unduly discriminatory rates. Based on the testimony and subsequent briefs of the parties, the Commission determines the legitimate and prudent expense to be allowed in each individual issue and will determine the revenue requirements for the utility. Therefore, as regarding expenses, I find that OPC's concerns may be addressed as the Commission comes to each of the requested expenses in dispute, and that, therefore, the issue of whether the expenses are legitimate and prudent is subsumed in the individual issues. Therefore, in consideration of the above, and having reviewed the memoranda of OPC and AUF, the applicable case law, and statutes, I find that proposed Issue 24 is neither required nor appropriate, and it shall be excluded and stricken.

Moreover, the issue proposed by OPC, placed at the conclusion of the revenue requirements section, could jeopardize the ultimate decision of the Commission. If the Commission were to first determine the revenue requirements and then reduce those requirements because it determined that the results were unaffordable, the Commission could run afoul of a long line of cases regarding ratesetting. Pursuant to the holdings in Gulf Power Company v. Wilson, 597 So. 2d 270 (Fla. 1992); Bluefield Water Works & Improvement Company v. Public Service Commission of West Virginia, 262 U.S. 679 (1923); and Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591 (1944), a utility must be

¹⁵² See Order No. PSC-11-0544-PHO-WS, issued November 23, 2011, in this docket.

given an opportunity to recover its legitimate and prudent expenses, and a fair rate of return on its investment that is used and useful in the public service.

Having found that Issue 24, as worded by OPC, should not be included, I do note that Commission staff's proposed rewording of the issue as a rate issue is appropriate. As noted in the Southern States case cited above, it appears that the appropriate place to address "affordability" is in the rate structure portion of the issues. Once revenue requirements have been established, the rate structure is determined. Therefore, proposed Issue 24 is stricken, and an issue concerning affordability shall be added. The issue concerning affordability is a rate structure issue and shall be numbered as Issue 31A and worded as follows:

Are the resulting rates affordable within the meaning of fair, just and reasonable pursuant to Sections 367.081 and 367.121, Florida Statutes?"

Despite this ruling and the wording of the issue, it appears from OPC's (and the other intervenors) position statement and the conclusion of its argument that OPC's basic request is, because OPC believes the rates contained in the PAA Order are "unaffordable," the Commission should make OPC's recommended adjustments and reduce AUF's revenues by \$2.3 million. Staff believes that the ruling of the Prehearing Officer was correct and accurately stated the appropriate case law. Further, staff believes OPC's position on Issue 31A is simply an attempt at making Issue 31A fit its original Issue 24, which was appropriately stricken. Staff believes OPC is advocating for a method of reducing expenses on the back end without providing any legal, procedural, or even practical justification for the as yet undescribed process.

Section 367.081(2)(a)1., F.S., sets forth the Commission's responsibility in rate setting, and states in pertinent part:

The commission shall, either upon request or upon its own motion, fix rates which are just, reasonable, compensatory, and not unfairly discriminatory. In every such proceeding, the commission shall consider the value and quality of the service and the cost of providing the service, which shall include, but not be limited to, debt interest; the requirements of the utility for working capital; maintenance, depreciation, tax, and operating expenses incurred in the operation of all property used and useful in the public service; and a fair return on the investment of the utility in property used and useful in the public service

(Emphasis added.)

Chapter 367, F.S., does not include a definition of "just," "reasonable," "compensatory," or "unfairly discriminatory." However, the courts have always read these terms broadly, and have recognized the Commission has broad discretion when setting rates. Also, Chapter 367, F.S., does not contain the term "affordable." However, provisions in the statute do require that the Commission consider the cost of providing service which includes operating expenses incurred in the operation of all property used and useful in the public service, as well as a fair return on the investment of the utility in property used and useful in the public service.

In Issue 17, OPC contended that AUF's operating expenses were too high when compared to other Class C utilities. In that issue, staff discussed why making an adjustment based on that comparison was improper. Now, in this issue, based in large part on a comparison of rates, OPC is requesting that the revenue requirement be reduced by \$2.3 million. Based on essentially the same rationale expressed in Issue 17, staff believes that making this adjustment would represent a departure from sound regulatory philosophy and be contrary to Commission practice and case law. Furthermore, the Commission rejected a similar adjustment by an OPC witness in 1992 for a wastewater utility in Lee County, wherein the Commission found that it was inappropriate to make a reduction when the record did not support an argument that any specific [affiliate] charge is unreasonable.¹⁵³

Florida courts have made it clear that it would be improper to rely solely on OPC's comparative analysis to reduce the revenue requirement. In Sunshine Utilities of Central Florida v. Florida Public Service Commission, 624 So. 2d 306 (Fla. 1st DCA 1993), the First DCA held that a comparative analysis of the salaries of other utility executives did not constitute competent, substantial evidence to support a downward adjustment to the utility president's salary in a rate case. The First DCA stated that: "[i]n determining whether an executive's salary is reasonably compared to salaries paid to other company executives, the comparison must, at the minimum, be based on a showing of similar duties, activities, and responsibilities in the person receiving the salary."¹⁵⁴ Similarly, OPC's rates comparison does not address the costs, expenses, investment, and specific problems of each of AUF's individual systems. Staff believes that to reduce the revenue requirement based on these rate comparisons would ignore the actual costs incurred by AUF and violate fundamental principles of cost-of-service regulation.

In all cases, the Commission is charged with the responsibility to balance the interests of ratepayers and shareholders. Rates should be established to allow a utility the opportunity to recover its prudently incurred expenses and to earn a fair return on its investments, not to guarantee that it will do so.¹⁵⁵ In determining a utility's rates by use of a prudent investments theory or original cost basis, the Commission must consider whether rates are confiscatory and deprive a utility of a fair return.¹⁵⁶ In rate cases, the Commission is free to follow such methods as it may choose so long as the "end result" of such methods is the establishment of just and reasonable rates, and so long as such methods do not go so far astray that they violate Florida Statutes or run afoul of constitutional guarantees.¹⁵⁷

¹⁵³ See Order No. PSC-93-1288-FOF-SU, issued September 9, 1993, in Docket No. 920808-SU, In re: Application for Rate Increase by South Fort Myers Division of Florida Cities Water Company in Lee County.

¹⁵⁴ In reaching its decision, the First DCA cited Metropolitan Dade County Water & Wastewater Bd. v. Community Utilities Corp., 200 So. 2d 831, 833 (Fla. 3d DCA 1967).

¹⁵⁵ See United Telephone Co. v. Mayo, 403 So. 2d 962, 966 (Fla. 1981); and Keystone Water Co. v. Bevis, 278 So. 2d 606 (Fla. 1973). (The Court held that the rate base upon which a utility should be afforded an opportunity to earn return is not every dollar of investment made but only that investment in assets devoted to public service at the time rate base is quantified.)

¹⁵⁶ See Westwood Lake, Inc. v. Dade County, 264 So. 2d 7 (Fla. 1972).

¹⁵⁷ See General Telephone Company of Florida v. Carter, 115 So. 2d 554, 559 (Fla. 1959).

To this point, the U.S. Supreme Court (Court) has addressed utility claims of unconstitutional takings in the rate of return regulation environment on several occasions.¹⁵⁸ The Court has held in those cases that rates set so low as to deny an adequate rate of return are confiscatory. The statutory principles for determining the appropriate rate of return for a regulated utility are set forth by the U.S. Supreme Court in its Bluefield decision.¹⁵⁹ This decision defines the fair and reasonable standards for determining a rate of return for regulated enterprises. Namely, this decision holds that the authorized return for a public utility should be commensurate with returns on investments in other companies of comparable risk, sufficient to maintain the financial integrity of the company, and sufficient to maintain its ability to attract capital under reasonable terms. Moreover, the Florida Supreme Court held that a regulated public utility is entitled to earn a fair rate of return on capital investment and failure to allow a fair rate of return is a violation of due process rights.¹⁶⁰ Further, the Florida Supreme Court held that a utility is entitled to a fair rate of return on property used or useful in public service, and rates which do not yield a fair rate of return are unjust, unreasonable, and confiscatory and their enforcement deprives a utility of due process.¹⁶¹

Staff is unable to determine any previous docket in which the Commission has taken the approach recommended by OPC (or the Intervenors). Also, when staff asked in OPC witness Vandiver's deposition about this concept of affordable rates, she was unable to offer a methodology or a process in order to implement this request. (EXH 201, p. 105) Therefore, staff believes that OPC has failed to suggest any mechanism by which the Commission could use the concept of "affordability" of rates to retroactively reduce costs or expenses previously determined to be reasonable and prudent. Staff believes such action would result in rates that were by definition unjust and unreasonable, in that they would be noncompensatory, a term defined by case law in the water and wastewater rate setting context.

Given that the accepted practice for determining rates is to first determine a revenue requirement, then rates are developed to meet that requirement, staff is at a loss as to how to legally implement OPC's request. Once the Commission has determined the reasonableness and prudence of an individual cost or expense, it is not clear by what method the Commission could subsequently reduce that cost or expense to lower the overall revenue requirement by some arbitrary amount to achieve a desired rate level without violating due process requirements and accepted ratemaking practice and procedure.

OPC's analogy between a rate case and the state's budget is fundamentally flawed, in that when formulating the state budget, the legislature has the ability to reduce or eliminate discretionary spending. While the Commission clearly has the ability to reduce discretionary costs of a utility, a utility must be given an opportunity to recover its legitimate and prudent expenses, and a fair rate of return on its investment that is used and useful in the public service.

¹⁵⁸ See, e.g., Chicago, Milwaukee & St. Paul Railway Co. v. Minnesota, 134 U.S. 418, 10 S. Ct. 462, 33 L.Ed. 970 (1890); Wilcox v. Consolidated Gas Co., 212 U.S. 19, 29 S.Ct. 192, 53 L.Ed. 382 (1909); Board of Public Utility Commissioners v. New York Telephone Co., 271 U.S. 23, 46 S.Ct. 363, 70 L.Ed. 808 (1926).

¹⁵⁹ See Bluefield Co. v. Public Service Commission, 262 U.S. 679, 43 S.Ct. 675, 67 L.Ed. 1176 (1923).

¹⁶⁰ See Gulf Power Co. v. Bevis, 289 So. 2d 401 (Fla. 1974)

¹⁶¹ See Keystone Water Co. v. Bevis, 278 So. 2d 606 (Fla. 1973).

Nowhere does Florida law provide the Commission with discretion to reduce or deny prudently incurred costs in order to reduce the resulting revenue requirement and thus the rate increase.¹⁶²

OPC's argument regarding the use of comparative rates is of interest, but provides no legal basis to grant the relief requested by OPC, that is, a post hoc reduction of costs or expenses to reduce an overall revenue requirement determined to be reasonable and prudent. While the record does support OPC's contention that AUF's rates are higher than the rates of most other water and wastewater utilities, staff does not believe the record supports the unprecedented departure from recognized ratemaking theory suggested by OPC. OPC has not demonstrated that based on the record before it, the Commission should determine the reasonableness and prudence of costs in individual issues, but then consider the resulting revenue requirement with an eye towards some arbitrary reduction simply because the result is "unaffordable." It is through the rate structure that the Commission balances the ideas of the appropriate level of subsidies versus the appropriate rate cap. Staff believes that although the term "affordability" was used in AUF's last rate case, it was used in the context of what is the appropriate rate cap. When talking about affordability, staff believes that the real issue is what is the appropriate rate cap (and appropriate degree of subsidization).

Staff is not unsympathetic to the record evidence adduced through customer testimony and the 10 service hearings, and 9 customer meetings. However, staff believes the Commission is bound by the requirements of law as set forth in Chapter 367, F.S., and established by legal precedent. As staff witness Stallcup testified, staff believes that the proposed rates are as affordable as they can be given the requirements of Section 367.081, F.S., that rates be compensatory. (TR 1392-1393) Witness Stallcup testified that the Capband Rate Consolidation methodology was designed to help restrain excessively high stand-alone customer bills and make them more affordable. (TR 1393) Further, using the Capband Rate Structure as opposed to the stand-alone rates that existed prior to the May 24, 2011, Commission Agenda Conference, witness Stallcup noted that Breeze Hill water customers would have their bills reduced from \$95.03 to \$65.00, and wastewater customers of the old Rate Band 3 would have their bills reduced from \$204.66 to \$91.55. (TR 1393) Finally, witness Stallcup stated that use of the inclining block rate structure recommended by staff would enable customers to have lower total customer bills for all usage less than 12,000 gallons per month. (TR 1393)

¹⁶² Staff notes that OPC (and the intervenors) are requesting that AUF's ROE be reduced by 100 basis points for unsatisfactory quality of service. However, at the same time, it appears that OPC is requesting that some of the costs or investments incurred by AUF above a certain level should not be allowed because the rates will become unaffordable. Staff believes that this could put AUF in a "catch 22" position. AUF may need to incur additional costs or make further investments to improve quality of service, but these additional costs or investment might not be allowed because the rates are deemed unaffordable.

CONCLUSION

There is no “affordability” test for setting a utility’s revenue requirement under Chapter 367, F.S. Therefore, based on the stipulated subsidy limit of \$12.50, staff’s recommended rate cap thresholds, rate structures, rate consolidation and repression adjustments in prior issues, the resulting rates are as affordable as possible. Finally, this is a rate structure issue, and staff believes it is not appropriate to use this issue to justify any decrease in the revenue requirement.

OTHER ISSUES

Issue 32: What are the appropriate allowance for funds prudently invested charges for the Utility's Breeze Hill wastewater treatment plant?

Recommendation: Consistent with the recommended non-used and useful plant, depreciation expense and property taxes, as well as the return on equity and overall cost of capital, the appropriate AFPI charges for Breeze Hills' wastewater treatment plant are set forth in Table 32-1 of the Staff Analysis section below. (Fletcher)

Position of the Parties

AUF: This is a fall out calculation issue subject to the resolution of the other protested issues in this rate case.

OPC: No Position.

YES: Yes defers to the position of the OPC on this issue.

Pasco County: Pasco County adopts and incorporates by reference the position statement of the Office of Public Counsel for this issue.

AG: No position.

Staff Analysis: In the instant case, the Utility has requested AFPI charges for its Breeze Hill wastewater treatment plant. This issue is a fall-out issue based on decisions related to non-used and useful plant, depreciation expense and property taxes, as well as the return on equity and overall cost of capital.

An AFPI charge is a mechanism designed to allow a utility to earn a fair rate of return on prudently constructed plant held for future use from the future customers that will be served by that plant, in the form of a charge paid by those customers. This charge allows the recovery of carrying costs on the non-used and useful plant. Future customers bear their equitable share of the carrying costs related to the facilities being constructed. This one-time connection charge is based on the number of ERCs and is applicable to all future customers who have not already prepaid a connection charge, CIAC charge, or customer advance. The charge is based on the date the future customers make some such prepayment or on the date the customer connects to the system, whichever comes first.

Staff believes it is prudent for AUF to seek collection of AFPI charges from future customers. Therefore, consistent with staff's recommended non-used and useful plant, depreciation expense and property taxes, as well as the return on equity and overall cost of capital, the calculated AFPI charges for the Breeze Hills wastewater treatment plant are shown in the table below.

Table 32-1

Breeze Hill Wastewater Treatment Plant APFI Charges					
Allowance for Funds Prudently Invested					
Calculation of Carrying Cost Per ERC Per Month:					
Month	2011	2012	2013	2014	2015
January	1.20	15.65	31.04	47.42	64.86
February	2.40	16.93	32.40	48.87	66.40
March	3.59	18.20	33.75	50.31	67.94
April	4.79	19.48	35.11	51.76	69.48
May	5.99	20.75	36.47	53.20	71.02
June	7.19	22.03	37.83	54.65	72.56
July	8.39	23.30	39.19	56.09	74.10
August	9.59	24.58	40.55	57.54	75.64
September	10.78	25.85	41.90	58.98	77.18
October	11.98	27.13	43.26	60.43	78.72
November	13.18	28.40	44.62	61.87	80.26
December	14.38	29.68	45.98	63.32	81.80

Issue 33: What are the appropriate customer deposits for the Utility?

Recommendation: The appropriate customer deposits should be the actual average two months bills of the Commission-approved rate structure and rates in this case. The Utility should submit revised tariff sheets to include a provision for customer deposits. Staff should be given authority to administratively approve these tariff sheets upon verification they are consistent with the Commission's decision. The revised tariff sheets should be implemented on or after the stamped approval date on the revised tariff sheet, if no protest is filed and once the proposed customer notice has been approved by staff as adequate, and the customers have received the approved notice. The notice may be combined with the notice for the approved service rates. (Fletcher)

Position of the Parties

AUF: This is a fall out calculation issue subject to the resolution of the other protested issues in this rate case. The customer deposits should be established based on an average two month billing consistent with past Commission practice.

OPC: No Position.

YES: Yes defers to the position of the OPC on this issue.

Pasco County: Pasco County adopts and incorporates by reference the position statement of the Office of Public Counsel for this issue.

AG: No position.

Staff Analysis: As a result of its requested uniform rates, AUF has requested uniform customer deposits for its rate bands and stand-alone systems as well. Some of the Utility's stand-alone systems do not presently have any customer deposits authorized in their tariffs. The discussion below addresses initial customer deposits and new or additional customer deposits.

Initial Customer Deposits

The purpose of initial customer deposits is to establish credit with the utility. Rule 25-30.311(1), F.A.C., sets out the criteria for establishment of credit for customers. The criteria include: (a) furnishing a satisfactory guarantor, (b) paying a cash deposit, or (c) furnishing an irrevocable letter of credit from a bank or a surety bond. Specifically, Rule 25-30.311(1), F.A.C., states:

Each company's tariff shall contain their specific criteria for determining the amount of initial deposit. Each utility may require an applicant for service to satisfactorily establish credit, but such establishment of credit shall not relieve the customer from complying with the utilities' rules for prompt payment of bills.

Further, Rule 25-30.311, F.A.C., also provides guidelines for collecting, administering, and refunding customer deposits. Pursuant to Rule 25-30.311(5), F.A.C.:

After a customer has established a satisfactory payment record and has had continuous service for a period of 23 months, the utility shall refund the residential customer's deposits . . . , providing the customer has not, in the preceding 12 months, (a) made more than one late payment of a bill (after the expiration of 20 days from the date of mailing or delivery by the utility), (b) paid with check refused by a bank, (c) been disconnected for nonpayment, or at any time, (d) tampered with the meter, or (e) used service in a fraudulent or unauthorized manner.

In addition, the utility is required to pay interest on all customer deposits pursuant to Rule 25-30.311(4), F.A.C.

The Commission has recognized that customer deposits may be required to encourage payment of bills or recovery of past due amounts. Customer deposits are designed to minimize the exposure of bad debt expense for the utility, and ultimately the general body of ratepayers. Historically, the Commission has set customer deposits equal to two month's bills based on average consumption. For the initial deposit, the amount is based on the average consumption per residential customer, calculated on the total residential usage divided by the number of residential bills. Therefore, the deposits are calculated specifically by the customer class.

The reason the deposit is based on a two-month average is that at the point in time the water meter is actually read by a meter reader, typically a full month of consumption has already passed. Consumption-based charges are based on past consumption. The consumption period is referred to as the service period, or the period of time from the previous meter reading to the current meter reading. Typically, this period of time is approximately thirty days, if the utility has a monthly billing cycle. However, the cycle time may vary between 27 to 33 days.

Once the meter is read, a bill is prepared and rendered. The time between the meter read and the bill preparation varies among utilities, but is usually between five to seven days. Payment is due twenty days from the date the bill has been mailed or presented, consistent with Rule 25-30.335(4), F.A.C. Therefore, the actual payment is due approximately two months after the service is actually rendered.

If payment is not received by the twentieth day, it is considered delinquent pursuant to Rule 25-30.335(4), F.A.C. At that point in time, the utility may begin disconnection of services. Pursuant to Rule 25-30.320(2)(g), F.A.C., a utility may discontinue service for nonpayment of bills, provided the customer has been provided "at least 5 working days' written notice," and there has been a diligent attempt to have the customer comply. Thus, the service cannot be disconnected until well after two months subsequent to the bill being rendered. Also, an additional month of usage has already been provided to the delinquent customer, and presumably another month's bill has been issued by the time service can be disconnected.

Not only is collecting a customer deposit to recover this two-month period of service consistent with past Commission practice, it is also consistent with one of the fundamental

principals of ratemaking-ensuring that the cost of providing service is recovered from the cost causer.¹⁶³

The methodology addressed above for calculating initial customer deposits is also consistent with the methodologies for natural gas utilities pursuant to Rule 25-7.083, F.A.C. and electric utilities pursuant to Rule 25-6.097, F.A.C.

New or Additional Deposits

In the Utility's application, AUF requested approval of new or additional customer deposits in its water and wastewater rate bands. Pursuant to Rule 25-30.311(7), F.A.C.:

A utility may require, upon reasonable written notice of not less than 30 days, such request or notice being separate and apart from any bill for service, a new deposit, where previously waived or returned, or an additional deposit, in order to secure payment of current bills; provided, however, that the total amount of the required deposit should not exceed an amount equal to the average actual charge for water and/or wastewater service for two billing periods for the 12-month period immediately prior to the date of notice. In the event the customer has had service less than 12 months, then the utility shall base its new or additional deposit upon the average monthly billing available.

Although subsection 7 does not provide specific guidance as to when a utility collects a new or additional deposit, historically, utilities have applied this rule to current customers who would not qualify for a refund of a deposit pursuant to Rule 25-30.311(5), F.A.C.

Staff agrees with this industry-wide application and believes the utility may request a new or additional deposit when a current customer, in the preceding 12 months: (a) made more than one late payment of a bill (after expiration of 20 days from the date of mailing or delivery by the utility), (b) paid with a check refused by a bank, (c) has been disconnected for nonpayment, (d) at any time tampered with the meter, or (e) used service in a fraudulent or unauthorized manner. Therefore, current customers will not be charged a new or additional deposit unless they come under one of the preceding categories. If the utility decides to require a deposit from current customers, it must do so consistent with the conditions spelled out in its tariff. This new or additional deposit shall be calculated using the specific average actual water and/or wastewater charges for two billing periods for the individual customer. Because the utility has this billing information specifically for its customers, the new or additional deposit should be based on the customer's actual usage over the preceding 12-month period. In comparison, the initial deposits requested by the utility are based on the average consumption of the rate class, since there is no billing history for new customers.

The methodology of basing new or additional deposits on the actual average of two months is also consistent with the methodologies for determining customer deposits for natural

¹⁶³ See Order No. PSC-96-1147-FOF-WS, issued September 12, 1996, in Docket No. 951258-WS, In re: Application for rate increase in Brevard County by Florida Cities Water Company (Barefoot Bay Division).

gas utilities (Rule 25-7.083, F.A.C.), and electric utilities (Rule 25-6.097, F.A.C.). In response to a complaint over customer deposits between Sears/K-Mart and FPL, staff initiated a Review of Customer Deposit Procedures for the five investor-owned electric utilities which was completed in March 2007.¹⁶⁴ The purpose was to determine whether utilities were complying with Commission rules and whether the internal procedures were fair and non-discriminatory with respect to customer deposits. It also included an evaluation of new and additional deposits. The electric utilities use similar procedures in the determination of whether new or additional deposits are necessary. This methodology is also consistent with other regulated water and wastewater utilities throughout the State of Florida.

CONCLUSION

In light of the above, staff recommends that the appropriate customer deposits should be the actual average two months bills of the Commission-approved rate structure and rates in this case. The Utility should submit revised tariff sheets to include a provision for customer deposits, as discussed in staff's analysis above. Staff should be given authority to administratively approve these tariff sheets upon verification they are consistent with the Commission's decision. The revised tariff sheets should be implemented on or after the stamped approval date on the revised tariff sheet, if no protest is filed and once the proposed customer notice has been approved by staff as adequate, and the customers have received the approved notice. The notice may be combined with the notice for the approved service rates.

¹⁶⁴ See Order No. PSC-07-0813-TRF-WU, issued October 10, 2007, in Docket No. 070366-WU, In re: Application to amend water tariff to allow collection of customer deposits by O&S Water Company, Inc., p. 5.

Issue 34: What is the appropriate four-year rate case expense reduction for Docket No. 080121-WS?

Recommendation: The appropriate reductions for rate case expense approved in Docket No. 080121-WS are shown in the tables in the Staff Analysis section below. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The Utility should be required to file revised tariffs and proposed customer notices for each system setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. The rates should not be implemented until staff has approved the proposed customer notice, and the notice has been received by the customers. The Utility should provide proof of the date notices were given within ten days of the date the notices were sent. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease, and for the reduction in the rates due to the amortized rate case expense. (Fletcher)

Position of the Parties

AUF: This is a fall out calculation issue subject to the resolution of the other protested issues in this rate case.

OPC: The appropriate four-year rate case expense reduction for Docket No. 080121-WS should be as ordered in PSC-09-0385-FOF-WS.

YES: Yes defers to the position of the OPC on this issue.

Pasco County: Pasco County adopts and incorporates by reference the position statement of the Office of Public Counsel for this issue.

AG: The appropriate four-year rate case expense reduction for Docket No. 080121-WS should be as ordered in PSC-09-0385-FOF-WS.

Staff Analysis: Section 367.0816, F.S., requires rates to be reduced immediately following the expiration of the four-year amortization period by the amount of the rate case expense previously included in the rates. In Docket No. 080121-WS, the Commission approved rate case expense for the current water and wastewater rate bands, as well as the rate reduction to occur pursuant to Section 367.0816, F.S. The rates became effective April 1, 2009, and the four-year rate case expense reduction will not occur until March 31, 2013. As such, the previously-approved rate case expense for the current rate bands are embedded in the recommended revenue requirements. Because staff is recommending consolidation of the current rate bands and the stand-alone systems into three water and three wastewater rate bands, staff believes it necessitates a recalculation of the four-year rate reduction. Also, staff believes the across-the-board rate decrease should be calculated by taking the grossed-up rate case expense approved in the last case divided by the corresponding recommended revenue requirement in this instant case, as illustrated in Table 34-1 below.

Table 34-1

Calculation Four-Year Rate Case Expense (RCE) Reduction for Docket No. 080121-WS						
		Annual RCE Amort.	RAF Factor	Grossed-up RCE	Recommended Revenue Req.	Across-the-Board Decrease
New Water Band 1	Old Water Band 1	\$86,810	0.955	\$90,901	\$2,590,500	3.51%
New Water Band 2	Old Water Band 2	\$38,944	0.955	\$40,779	\$1,498,764	
	Old Water Band 3	24,214	0.955	25,355	916,643	
		\$63,158		\$66,134	\$2,415,407	1.69%
New Water Band 3	Old Water Band 4	\$10,183	0.955	\$10,663	\$110,748	9.63%
New Wastewater Band 1	Old Wastewater Band 1	\$11,172	0.955	\$11,698	\$467,059	2.50%
New Wastewater Band 2	Old Wastewater Band 2	\$43,690	0.955	\$45,749		
	Old Wastewater Band 3	1,364	0.955	1,428		
		\$45,054		\$47,177	\$4,529,734	1.04%
New Wastewater Band 3	Old Wastewater Band 4	\$1,492	0.955	\$1,562	\$503,598	0.31%

Based on the above recommended across-the-board decreases, the recommended rate reductions effective as of March 31, 2013, for the rate case expense approved in Docket No. 080121-WS, for water and wastewater are shown on Tables 34-2 and 34-3, respectively.

Table 34-2

WATER	New Rate Band One (1)	080121-WS 4-Yr Reduction	New Rate Band Two (2)	080121-WS 4-Yr Reduction	New Rate Band Two (3)	080121-WS 4-Yr Reduction
<u>RS, GS, Multi, Irrig</u>	BFC		BFC		BFC	
5/8" x 3/4"	\$18.84	\$0.66	\$22.87	\$0.39	\$17.39	\$1.67
3/4"	\$28.26	\$0.99	\$34.31	\$0.58	\$26.09	\$2.51
1"	\$47.10	\$1.65	\$57.18	\$0.97	\$43.48	\$4.19
1 1/2"	\$94.20	\$3.31	\$114.35	\$1.93	\$86.95	\$8.37
2"	\$150.72	\$5.29	\$182.96	\$3.09	\$139.12	\$13.39
3"	\$301.44	\$10.58	\$365.92	\$6.18	\$278.24	\$26.79
4"	\$471.00	\$16.53	\$571.75	\$9.65	\$434.75	\$41.86
6"	\$942.00	\$33.05	\$1,143.50	\$19.31	\$869.50	\$83.72
8"	\$1,507.20	\$52.89	\$1,829.60	\$30.89	\$1,391.20	\$133.94
10"	\$2,166.60	\$76.03	\$2,630.05	\$44.40	\$1,999.85	\$192.55
<u>Residential kgal chgs:</u>						
0-6 kgals	\$3.37	\$0.12	\$6.06	\$0.10	\$7.00	\$0.67
6.001 - 12 kgals	\$5.99	\$0.21	\$9.09	\$0.15	\$10.50	\$1.01
12.001 +	\$8.98	\$0.32	\$12.12	\$0.20	\$14.00	\$1.35
Gen. Service kgal chg:	\$4.72	\$0.17	\$7.00	\$0.12	\$7.69	\$0.74
<u>Private Fire Protection</u>						
BFC by Meter Size						
2"	\$12.56	\$0.44	\$15.25	\$0.26	\$11.59	\$1.12
3"	\$25.12	\$0.88	\$30.49	\$0.51	\$23.19	\$2.23
4"	\$39.25	\$1.38	\$47.65	\$0.80	\$36.23	\$3.49
6"	\$78.50	\$2.75	\$95.29	\$1.61	\$72.46	\$6.98
8"	\$125.60	\$4.41	\$152.47	\$2.57	\$115.93	\$11.16
10"	\$180.55	\$6.34	\$219.17	\$3.70	\$166.65	\$16.05
<u>Typical Residential Bills</u>						
3,000 gallons	\$28.95	\$1.02	\$41.05	\$0.69	\$38.39	\$3.70
5,000 gallons	\$35.69	\$1.25	\$53.17	\$0.90	\$52.39	\$5.04
10,000 gallons	\$63.02	\$2.21	\$95.59	\$1.61	\$101.39	\$9.76
(1) Rate Band 1 includes Old Rate Band 1 and Fairways.						
(2) Rate Band 2 includes Old Rate Band 3.						
(3) Rate Band 3 includes Old Rate Band 2, Old Rate Band 4, Breeze Hill, and Peace River.						

Table 34-3

WASTEWATER	New Rate Band One (1)	080121-WS 4-Yr Reduction	New Rate Band Two (2)	080121-WS 4-Yr Reduction	New Rate Band Three (3)	080121-WS 4-Yr Reduction
<u>Residential</u>						
BFC - All Meter Sizes	\$23.32	\$0.58	\$34.87	\$0.36	\$79.12	\$0.25
Kgal Charge - 6,000 Cap	\$7.88	\$0.20	\$8.99	\$0.09	\$7.96	\$0.02
<u>General Service</u>						
5/8" x 3/4"	\$23.32	\$0.58	\$34.87	\$0.36	\$79.12	\$0.25
3/4"	\$34.98	\$0.88	\$52.31	\$0.54	\$118.68	\$0.37
1"	\$58.30	\$1.46	\$87.18	\$0.91	\$197.80	\$0.61
1 1/2"	\$116.60	\$2.92	\$174.35	\$1.82	\$395.60	\$1.23
2"	\$186.56	\$4.67	\$278.96	\$2.91	\$632.96	\$1.96
3"	\$373.12	\$9.35	\$557.92	\$5.81	\$1,265.92	\$3.93
4"	\$583.00	\$14.60	\$871.75	\$9.08	\$1,978.00	\$6.14
6"	\$1,166.00	\$29.20	\$1,743.50	\$18.16	\$3,956.00	\$12.27
8"	\$1,865.60	\$46.73	\$2,789.60	\$29.05	\$6,329.60	\$19.64
10"	\$2,681.80	\$67.17	\$2,789.60	\$29.05	\$9,098.80	\$28.23
Kgal Charge	\$9.46	\$0.24	\$10.79	\$0.11	\$9.55	\$0.03
<u>Flat Rate Residential</u>						
Valencia Terrace	\$40.46	\$1.01	N/A	N/A	N/A	N/A
Sunny Hills	N/A	N/A	\$60.01	\$0.63	N/A	N/A
Zephyr Shores	N/A	N/A	\$50.00	\$0.52	N/A	N/A
Jungle Den	N/A	N/A	\$86.07	\$0.90	N/A	N/A
Lake Gibson Estates	N/A	N/A	\$180.52	\$1.88	N/A	N/A
Reuse per Sprinkler Head	N/A	N/A	N/A	N/A	\$0.49	\$0.00
<u>Typical Residential Bills</u>						
3,000 gallons	\$46.96	\$1.18	\$61.84	\$0.64	\$103.00	\$0.32
5,000 gallons	\$62.72	\$1.57	\$79.82	\$0.83	\$118.92	\$0.37
10,000 gallons (Wastewater Gallonage Cap - 6,000 gallons)	\$70.60	\$1.77	\$88.81	\$0.92	\$126.88	\$0.39
(1) Rate Band 1 consists of Old Rate Band 1 only.						
(2) Rate Band 2 consists of Old Rate Bands 2 and 3, and the Breeze Hill, Faiways, and Peace River Systems.						
(3) Rate Band 3 consists of Old Rate Band 4 (GS Only).						

AUF should be required to file revised tariff sheets for each system to reflect the Commission-approved rates no later than one month prior to the actual date of the required rate

reduction. The Utility should also be required to file a proposed customer notice for each system setting forth the lower rates and the reason for the reduction with the revised tariffs. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice, and the notice has been received by the customers. The Utility should provide proof of the date notices were given within ten days of the date the notices were sent.

If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease, and for the reduction in the rates due to the amortized rate case expense. The appropriate reduction was calculated by taking the annual amount of rate case expense and the return on the provision included in working capital allowance by system, as well as grossed-up for regulatory assessment fees.

Issue 35: In determining whether any portion of the interim increase granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any?

Recommendation: The proper refund amount should be calculated by using the same data used to establish final rates, excluding rate case expense not in effect during the interim period. The revised revenue requirements for the interim collection period should be compared to the amount of interim revenue requirement granted. Based on this calculation, the required interim refunds are set forth in the Staff Analysis section below. (Fletcher)

Position of the Parties

AUF: This is a fall out calculation issue subject to the resolution of the other protested issues in this rate case.

OPC: No Position.

YES: Yes defers to the position of the OPC on this issue.

Pasco County: Pasco County adopts and incorporates by reference the position statement of the Office of Public Counsel for this issue.

AG: No position.

Staff Analysis: By Order No. PSC-10-0707-FOF-WS, the Commission approved interim water and wastewater rates subject to refund, pursuant to Section 367.082, F.S. In this proceeding, the test period for establishment of interim rates was the historical 13-month average period ended April 30, 2010. The approved interim rates did not include any provisions for pro forma operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs, and the floor of the last authorized range for equity earnings.

Consistent with Section 367.082(4), F.S., any refund must be calculated to reduce the rate of return of the Utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in the rate case test period that do not relate to the period that interim rates are in effect shall be removed. To establish the proper refund amount, staff calculated a revised revenue requirement for the interim period using the same data used to establish final rates. Rate case expense was excluded because it was not an actual expense during the interim collection period. Applying the requirements of the interim statute, staff recommends that interim refunds are required for certain rate bands and stand-alone systems because the calculated interim period revenue requirement was less than the interim revenue requirement approved in Order No. PSC-10-0707-FOF-WS. Staff's calculations for its recommended interim refunds are shown in the table below.

Table 35-1

Interim Refund Calculations						
	RAF	Interim	Interim			
Band/System	Recom. Rev. Req.	Grossed RCE	Interim Rev. Req.	Interim Rev. Req. Per Order	Interim Excess	Refund %
Water Band 1	\$2,590,500	\$177,124	\$2,413,376	\$2,559,477	\$146,101	6.05%
Wastewater Band 1	1,498,764	80,152	1,418,612	1,432,357	13,745	0.97%
Water Band 2	916,643	49,361	867,282	930,090	62,808	7.24%
Wastewater Band 2	4,862,872	217,338	4,645,534	3,816,182	(829,352)	No Refund
Water Band 3	467,059	32,663	434,395	473,692	39,297	9.05%
Wastewater Band 3	3,619,729	139,812	3,479,918	3,546,600	66,682	1.92%
Water Band 4	910,005	17,860	892,145	484,040	(408,105)	No Refund
Wastewater Band 4	503,598	4,477	499,121	533,651	34,530	6.92%
Breeze Hill Water	63,618	1,922	61,696	53,069	(8,627)	No Refund
Breeze Hill Wastewater	63,829	1,898	61,931	73,949	12,018	19.41%
Fairways Water	179,995	7,098	172,898	189,399	16,501	9.54%
Fairways Wastewater	183,441	3,627	179,814	181,739	1,925	1.07%
Peace River Water	110,748	1,483	109,265	82,317	(26,948)	No Refund
Peace River Wastewater	96,464	1,413	95,051	97,667	2,616	2.75%
TOTAL	\$16,067,267	\$736,230	\$15,331,037	\$14,454,229	\$14,454,229	

Issue 36: In determining whether any portion of the implemented PAA rates should be refunded, how should the refund be calculated, and what is the amount of the refund, if any?

Recommendation: The proper refund amount should be calculated by using the same data used to establish final rates, excluding the incremental rate case expense above that which was embedded in PAA rates during this period. The revised revenue requirement for this collection period should be compared to the amount of PAA revenue requirement implemented. Based on this calculation, the required PAA rate refunds are as set forth in the Staff Analysis section below. (Fletcher)

Position of the Parties

AUF: This is a fall out calculation issue subject to the resolution of the other protested issues in this rate case. (Rendell)

OPC: No Position.

YES: Yes defers to the position of the OPC on this issue.

Pasco County: Pasco County adopts and incorporates by reference the position statement of the Office of Public Counsel for this issue.

AG: No position.

Staff Analysis: By Order No. PSC-11-0336-PCO-WS, the Commission approved the implementation of PAA water and wastewater rates subject to refund, pursuant to Section 367.081(8), F.S. Consistent with Section 367.082(4), F.S., any refund must be calculated to reduce the rate of return of the Utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in this period that do not relate to the period that PAA rates are in effect shall be removed. To establish the proper refund amount, staff calculated a revised revenue requirement for this period using the same data used to establish final rates. The incremental rate case expense above that which was embedded in PAA rates was excluded because it was not an actual expense during the collection period. Applying the requirements of the interim statute, staff recommends that PAA rate refunds are required for certain rate bands and stand-alone systems because the calculated period revenue requirement was less than the PAA revenue requirement approved in Order No. PSC-11-0336-PCO-WS. Staff's calculations for its recommended PAA rate refunds are shown in the table below.

Table 36-1

PAA Rate Refund Calculations								
Band/System	PAA Revenue Requirement	Staff Recomm. Rev. Req.	Incremental Rate Case Expense	Gross-Up Factor	Grossed-Up Rate Case Expense	PAA Period Rev. Req.	PAA Excess	Refund Percentage
Water Band 1	\$2,583,658	\$2,590,500	\$82,874	0.955	\$86,779	\$2,503,721	\$79,937	3.19%
Wastewater Band 1	480,026	1,498,764	14,736	0.955	15,430	451,629	28,397	6.29%
Water Band 2	1,475,934	916,643	36,857	0.955	38,593	1,460,171	15,763	1.08%
Wastewater Band 2	3,677,914	4,862,872	67,570	0.955	70,754	3,548,975	128,939	3.63%
Water Band 3	916,643	467,059	22,512	0.955	23,572	893,071	23,572	2.64%
Wastewater Band 3	910,394	3,619,729	8,309	0.955	8,700	901,305	9,089	1.01%
Water Band 4	4,815,858	910,005	102,403	0.955	107,228	4,755,644	60,214	1.27%
Wastewater Band 4	496,555	503,598	4,119	0.955	4,313	499,285	(2,730)	No Refund
Breeze Hill Water	63,157	63,618	1,740	0.955	1,822	61,796	1,361	2.20%
Breeze Hill Wastewater	65,943	63,829	1,740	0.955	1,822	62,007	3,936	6.35%
Fairways Water	178,157	179,995	6,356	0.955	6,655	173,340	4,817	2.78%
Fairways Wastewater	181,504	183,441	3,267	0.955	3,421	180,021	1,483	0.82%
Peace River Water	100,722	110,748	1,349	0.955	1,413	109,335	(8,613)	No Refund
Peace River Wastewater	97,982	96,464	1,278	0.955	1,338	95,126	2,856	3.00%
Total	\$16,044,446	\$16,067,267	\$355,108		\$371,841	\$15,695,425	\$349,021	

Issue 37: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense for the instant case as required by Section 367.0816, F.S.?

Recommendation: The rates should be reduced as shown on Schedules 5-A and 5-B to remove the revenue impact of rate case expense for water and wastewater, respectively. This amount was calculated by taking the annual amount of rate case expense and the return on the provision included in working capital allowance by system, as well as the gross-up for regulatory assessment fees, which is \$301,653 for water and \$132,352 for wastewater.

The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The Utility should be required to file revised tariffs and proposed customer notices setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. The rates should not be implemented until staff has approved the proposed customer notice, and the notice has been received by the customers. The Utility should provide proof of the date notices were given within ten days of the date the notices were sent. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease, and for the reduction in the rates due to the amortized rate case expense. (Fletcher, Jaeger)

Position of the Parties

AUF: This is a fall out calculation issue subject to the resolution of the other protested issues in this rate case.

OPC: Rate Case expense should not be amortized in the current case until the rate case expense in the prior case has been fully amortized. Four years after the initiation of the amortization of the rate case expense in the current case, the rates should be adjusted to remove the \$404,638 in rate case expense.

YES: Yes defers to the position of the OPC on this issue.

Pasco County: Pasco County adopts and incorporates by reference the position statement of the Office of Public Counsel for this issue.

AG: The AG adopts the position of the OPC.

Staff Analysis: Section 367.0816, F.S., requires rates to be reduced immediately following the expiration of the four-year amortization period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of total company revenues of \$301,653 for water and \$132,352 for wastewater associated with the amortization of rate case expense and the return on the provision included in working capital, as well as the gross-up for regulatory assessment fees. The reduction in revenues will result in the rate reduction recommended by staff on Schedules 5-A and 5-B.

OPC has requested that amortization of the rate case expense incurred in the instant case not begin until after the amortization of the rate case expense from the 2008 case has been fully recovered. As noted in Issue 34, this will occur after March 31, 2013. However, OPC was unable to identify any statutory or rule support for this treatment. While staff is sympathetic to the parties' concerns over the "pancaking" of rate case expense, there is no justification or legal basis to implement OPC's recommended treatment.

AUF should be required to file revised tariff sheets to reflect the Commission-approved rates no later than one month prior to the actual date of the required rate reduction. The Utility should also be required to file a proposed customer notice setting forth the lower rates and the reason for the reduction with the revised tariffs. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice, and the notice has been received by the customers. The Utility should provide proof of the date notices were given within ten days of the date the notices were sent.

If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease, and for the reduction in the rates due to the amortized rate case expense. The appropriate reduction was calculated by taking the annual amount of rate case expense and the return on the provision included in working capital allowance, as well as grossed-up for RAFs.

Issue 38: In accordance with Order No. PSC-10-0707-FOF-WS, what is the amount and who would have to pay the regulatory asset (or deferred interim revenues), if it is ultimately determined by the Commission that the Utility was entitled to those revenues when it first applied for interim rates?

Recommendation: Consistent with the recommended interim refunds discussed in Issue 35, the recommended rate bands and stand-alone systems addressed in previous issues, and an estimated cessation date for the interim collection period of three weeks after the final order is issued in this case, the total regulatory assets for water and wastewater are \$680,222 and \$370,331, respectively. Accordingly, the total annual amortization amount is \$228,294 and \$124,289 for water and wastewater, respectively. Staff recommends that each rate band or stand-alone system that generated the regulatory assets receive the reduction in annual amortization of their respective regulatory assets. Upon the expiration of the two-year amortization period, the respective band or systems' rates should be reduced across-the-board to remove the respective grossed-up annual amortization of the regulatory assets. The Utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than 30 days prior to the actual date of the required rate reduction. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. AUF should provide proof of the date notice was given within 10 days of the date the notice was sent. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease, and for the reduction in the rates due to the amortized regulatory asset. (Fletcher)

Position of the Parties

AUF: Using the August 1, 2011, effective date of the implemented PAA rates, a 245-day period is appropriate for the calculation of any regulatory asset. However, the amount of any regulatory asset is subject to the resolution of the other issues. (Tr. 495)

OPC: No Position.

YES: Yes defers to the position of the OPC on this issue.

Pasco County: Pasco County adopts and incorporates by reference the position statement of the Office of Public Counsel for this issue.

AG: No position.

Staff Analysis: In order to minimize the impact of the interim increase on its customers, AUF proposed to defer recovery of a portion of its entitled interim rate relief. By Order No. PSC-10-0707-FOF-WS, the Commission approved AUF's request to recognize the difference between capped and uncapped interim rates over the interim collection period as a regulatory asset to be recovered over a two-year period once final rates are determined. A regulatory asset typically involves a cost incurred by a regulated utility that would normally be expensed currently but for an action by the regulator or legislature to defer the cost as an asset on the balance sheet. This

allows a utility to amortize the regulatory asset over a period greater than one year. Further, the Utility stated that it would neither seek to recover interest on this deferred recovery, nor have this amount included in working capital.¹⁶⁵

Consistent with the recommended interim refunds discussed in Issue 35, the recommended rate bands and stand alone systems addressed in previous issues, and an estimated cessation date for the interim collection period of three weeks after the final rate order is issued in this case, staff recommends that total regulatory assets for water and wastewater are \$680,222 and \$370,331, respectively. Accordingly, the total annual amortization amount for water and wastewater is \$228,294 and \$124,289, respectively. Staff's recommendation is consistent with the Commission's decision in the Utility's last case regarding regulatory assets generated from the deferral of interim revenues the Utility was entitled to collect but elected to defer.¹⁶⁶ Staff recommends that each rate band or stand alone system that generated the regulatory assets receive the reduction in annual amortization of their respective regulatory assets. Annual amortization for the applicable systems are reflected on the respective Schedule 4-C. Finally, staff recommends that, upon the expiration of the two-year amortization period, the respective systems' rates should be reduced across-the-board to remove the respective grossed-up annual amortization of the regulatory assets.

The Utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than 30 days prior to the actual date of the required rate reduction. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. AUF should provide proof of the date notice was given within 10 days of the date the notice were sent.

If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease, and for the reduction in the rates due to the amortized regulatory asset.

¹⁶⁵ See Order No. PSC-10-0707-FOF-WS, p. 4.

¹⁶⁶ See Order No. PSC-09-0385-FOF-WS, pp. 153-155.

Issue 39: Should this docket be closed?

Recommendation: If the Commission's final order is not appealed, this docket should be closed upon staff's approval of the tariffs, verification of the required refunds, and the expiration of the time for filing an appeal. (Jaeger, Fletcher)

Position of the Parties

AUF: Yes. AUF has demonstrated that its quality of service is satisfactory, that it has made significant improvements, and that further monitoring should not be required.

OPC: The docket should remain open to continue monitoring AUF's quality of service.

YES: Yes defers to the position of the OPC on this issue.

Pasco County: The docket should remain open to continue the monitoring of AUFs quality of service.

AG: The AG adopts the position of the OPC.

Staff Analysis: If the Commission agrees with staff's recommendation in Issue 2 and the Commission's final order is not appealed, this docket should be closed upon staff's approval of the tariffs, verification of the required refunds, and the expiration of the time for filing an appeal.

Appendix

A. Issues Not in Dispute Deemed Stipulated Pursuant to S. 120.80(13)(b), Florida Statutes

(The issues are numbered as designated in the staff proposed agency action recommendation dated May 12, 2011, and approved by the Commission at the May 24, 2011 Commission Conference – See Order No. PSC-11-0256-PAA-WS).

RATE BASE

PAA ISSUE 2: Should the audit adjustments to rate base and operating expenses to which the Utility agrees, be made?

STIPULATION: Based on audit adjustments agreed to by the Utility, land and working capital be increased by \$160,093 and \$79,006, respectively, and operation & maintenance (O&M) expenses shall be decreased by \$255,390. Specifically, the following adjustments to rate base and O&M expenses shall be made.

		Working	O&M
Rate Band/System	Land	Capital	Expense
Water Band 1	\$0	\$0	(\$47,877)
Wastewater Band 1	0	0	(6,382)
Water Band 2	0	0	(25,905)
Wastewater Band 2	160,093	79,006	(84,541)
Water Band 3	0	0	(14,060)
Wastewater Band 3	0	0	(21,043)
Water Band 4	0	0	(52,994)
Wastewater Band 4	0	0	988
Breeze Hill - Water	0	0	(942)
Breeze Hill - Wastewater	0	0	(298)
Fairways - Water	0	0	(515)
Fairways - Wastewater	0	0	(1,314)
Peace River - Water	0	0	(436)
Peace River - Wastewater	0	0	(72)
Total Adjustments	\$160,093	\$79,006	(\$255,390)

PAA ISSUE 3: Should adjustments be made to the Utility's pro forma plant additions?

STIPULATION: The Utility's requested PAA pro forma plant additions should be decreased by \$137,060 for water and by \$565,288 for wastewater. Accordingly, accumulated depreciation should be increased by \$102,867 for water and \$85,016 for wastewater, and depreciation expense should be decreased by \$21,698 for water and \$36,524 for wastewater. Moreover,

the Utility's property taxes should be decreased by \$6,399 for water and \$11,972 for wastewater. The specific rate band and system adjustments are set forth below.

Trucks			
Rate Band/System	MFR Amount	Documented Amount	Adjustment
Water Band 1	\$47,081	\$41,840	(\$5,241)
Wastewater Band 1	8,830	7,811	(1,019)
Water Band 2	21,475	19,027	(2,448)
Wastewater Band 2	36,735	32,621	(4,114)
Water Band 3	13,241	11,773	(1,468)
Wastewater Band 3	4,760	4,227	(533)
Water Band 4	57,657	51,207	(6,450)
Wastewater Band 4	800	674	(126)
Breeze Hill-Water	1,064	939	(125)
Breeze Hill-Wastewater	1,039	939	(100)
Fairways- Water	3,977	1,792	(2,185)
Fairways- Wastewater	2,027	2,378	351
Peace River- Water	817	705	(112)
Peace River- Wastewater	775	734	(41)
Total Adjustments	\$200,278	\$176,667	(\$23,611)

Allocated Corporate IT			
Rate Band/System	MFR Amount	Documented Amount	Adjustment
Water Band 1	\$62,197	\$40,957	(\$21,240)
Wastewater Band 1	11,666	7,646	(4,020)
Water Band 2	28,371	18,625	(9,746)
Wastewater Band 2	48,529	31,932	(16,597)
Water Band 3	17,493	11,525	(5,968)
Wastewater Band 3	6,288	4,138	(2,150)
Water Band 4	76,169	50,126	(26,043)
Wastewater Band 4	1,057	660	(397)
Breeze Hill-Water	1,406	919	(487)
Breeze Hill-Wastewater	1,372	919	(453)
Fairways- Water	5,253	1,754	(3,499)
Fairways- Wastewater	2,677	2,328	(349)
Peace River- Water	1,080	690	(390)
Peace River- Wastewater	1,024	718	(306)
Total Adjustments	\$264,582	\$172,938	(\$91,644)

Projects Requested in the MFRs			
System	Pro Forma Plant Improvement	Utility Requested Amount	Documented Amount
Arredondo Farms & Estates /The Woods	Hydro Tank Replacement	\$32,866	\$73,287
Arredondo Farms	WWTP Upgrade	240,000	414,240
48 Estates/ Ravenswood	Hydro Tank Replacement	25,506	42,691
Jasmine Lakes	Disinfection Contact Time	180,000	9,250
Jasmine Lakes	Generator for Lift Station #5	50,000	46,905
Jasmine Lakes	weir and walkways	65,000	0
Jasmine Lakes	WWTP Security Upgrades	10,754	10,300
Jungle Den	I&I Study and Improvements	60,000	0
Lake Gibson/Piney Woods	Hydro Tank Replacement	67,623	86,790
Lake Suzy	Fire Flow Upgrades	65,000	9,675
Lake Suzy	New Air Headers and Surge Tank	35,200	135,028
Leisure Lakes	Water Chlorine Conversion	30,000	24,840
Ocala Oaks/Rosalie Oaks	Hydro Tank Replacement	77,801	59,391
Park Manor	I&I Study and Improvements	40,000	0
Rosalie Oaks	Lift Station Relocation to Plant Site	80,000	0
Silver Lake Estates	Water Chlorine Conversion	42,969	36,880
Skycrest	Water Well #1 Pump Replacement	2,769	0
South Seas	Replacement of Reject Tank	334,906	323,395
South Seas	Wet Weather Storage	350,000	0
South Seas	WWTP Upgrades and New Diffusers	9,982	0
Summit Chase	Water Sand Strainer Project	20,000	13,073
Sunny Hills	Connect Wells 1&4 to Storage Tanks	50,000	34,500
Tangerine	Water Hardness Sequestering	9,500	5,859
Tangerine	Looping Project on Scott St.	90,000	103,429
The Woods	Wastewater Perc Pond Rehab	10,733	21,935
Tomoka/Twin Rivers	Chloramine Project	13,610	14,283
Tomoka/Twin Rivers	Water Main Relocation	3,367	13,578
Valencia Terrace	WWTP Improvements	82,071	79,830
Village Water	Effluent Reuse Solution	250,000	33,645
Western Shores	Water Chlorine Conversion	21,069	20,746
Zephyr Shores	Water Quality Project	36,217	33,209
	Total:	\$2,386,943	\$1,646,759

Additional Projects not in the MFRs		
System	Pro Forma Plant Improvement	Documented Amt.
East Lake Harris	Chlorine Conversion	\$18,254
Haines Creek	Hydropneumatic Tank Replacement	13,800
Jungle Den	WWTP upgrades	11,900
Imperial Mobile Terrace	Stormwater project	23,698
Lake Gibson Estates	Replacement of lift station pump #2	6,035
Tomoka/Twin Rivers	Water Flushing Upgrades	32,560
Valencia Terrace	Chlorine Conversion	46,847
	Total:	\$153,094

Summary of Pro Forma Plant Adjustments					
Rate Band/System	Plant	Retirements	Accumulated Depreciation	Depreciation Expense	Property Taxes
Water Band 1	(\$212,265)	(\$27,607)	(\$24,174)	(\$13,756)	(\$4,275)
Wastewater Band 1	(7,280)	(1,944)	(12,936)	(1,074)	(174)
Water Band 2	38,319	(21,725)	46,180	(424)	(855)
Wastewater Band 2	(215,484)	(144,056)	125,161	(19,609)	(6,171)
Water Band 3	9,749	(7,839)	4,947	(973)	(261)
Wastewater Band 3	(124,748)	0	(8,097)	(3,585)	(2,021)
Water Band 4	\$33,934	(62,985)	79,314	(5,413)	(1,008)
Wastewater Band 4	(216,878)	0	(16,290)	(12,106)	(3,606)
Breeze Hill-Water	(612)	0	(721)	(101)	0
Breeze Hill-Wastewater	(553)	0	(712)	(92)	0
Fairways- Water	(5,684)	0	(2,130)	(948)	0
Fairways- Wastewater	2	0	(1,568)	0	0
Peace River- Water	(501)	0	(549)	(83)	0
Peace River- Wastewater	(347)	0	(542)	(58)	0
Total Adjustments	(\$702,348)	(\$266,157)	187,885	(\$58,222)	(18,369)

PAA ISSUE 4: Do any water systems have excessive unaccounted for water, and, if so, what adjustments are necessary?

STIPULATION: The percentages for excessive unaccounted for water (EUW) for each water rate band and stand-alone system are shown below.

Rate Band/System	Composite EUW %
Rate Band 1	1.05
Rate Band 2	2.10
Rate Band 3	0.09
Rate Band 4	2.94
Breeze Hill	6.09
Peace River	11.47

The adjustment to Purchased Power, Chemicals, and Purchased Water expenses for Rate Band 4 is \$96.

PAA ISSUE 5: What are the appropriate used and useful percentages for water treatment and related facilities of each water system?

STIPULATION: The following table reflects the U&U percentages for the stipulated water treatment and related facilities of each system listed below:

System	WTP%
48 Estates	100
Fairways	100
Gibsonia	61
Grand Terrace	100
Haines Creek	100
Harmony Homes	100
Hermits Cove/St. Johns Highlands	31
Imperial Mobile	100
Jasmine Lakes	100
Kings Cove	100
Lake Gibson Estates	100
Leisure Lakes	100
Morningview	100
Ocala Oaks	100
Orange Hill/Sugar Creek	100
Palm Port	100
Palms MHP	100
Peace River	100
Piney Woods	100
Pomona Park	100
Quail Ridge	100
Ravenswood	100
River Grove	100
Silver Lake Oaks	100
Skycrest	100
Stone Mountain	100
Summit Chase	100
Sunny Hills	91
Tangerine	100
The Woods	100
Valencia Terrace	100
Wootens	100

PAA ISSUE 6: What are the appropriate used and useful percentages for the storage tanks?

STIPULATION: All of the AUF storage tanks shall be considered 100 percent U&U.

PAA ISSUE 7: What are the appropriate used and useful percentages for water distribution systems?

STIPULATION: The following table reflects the U&U percentages for the stipulated water distribution of each system list below:

System	W Dist. System %
Arredondo Farms	88
48 Estates	85
Carlton Village	47
East Lake Harris/Friendly Center	100
Fairways	100
Fern Terrace	100
Grand Terrace	100
Haines Creek	100
Harmony Homes	100
Hermits Cove/St. Johns Highlands	80
Hobby Hills	100
Holiday Haven	76
Imperial Mobile	100
Jasmine Lakes	100
Jungle Den	100
Kings Cove	100
Lake Gibson Estates	100
Lake Josephine/Sebring Lakes	55
Lake Osborne	100
Lake Suzy	100
Leisure Lakes	84
Morningview	100
Ocala Oaks	100
Palm Terrace	100
Picciola Island	80
Pomona Park	51
Quail Ridge	100
Summit Chase	100
Tangerine	60
Tomoka View	100
Valencia Terrace	100
Zephyr Shores	100

PAA ISSUE 8: Do any wastewater systems have excessive infiltration and inflow and, if so, what adjustments are necessary?

STIPULATION: The appropriate percentages for excessive Infiltration and Inflow (I&I) for each wastewater rate band and stand-alone system are shown below:

Rate Band/System	Composite Excessive I&I %
Rate Band 1	0.00
Rate Band 2	2.18
Rate Band 3	25.72
Rate Band 4	4.53
Breeze Hill	65.40
Peace River	19.73

The adjustments to Purchased Power, Chemicals, and Purchased Wastewater expenses for Rate Band 2, Rate Band 3, and Breeze Hill are (\$994), (\$22,606), and (\$5,098), respectively.

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

STIPULATION: The following table reflects the U&U percentages for the stipulated wastewater treatment and related facilities of each system listed below:

System	WWTP %
Jasmine Lakes	100
Lake Suzy	100
Palm Terrace	100
Park Manor	100

PAA ISSUE 10: What are the appropriate used and useful percentages for wastewater collection systems?

STIPULATION: The following table reflects the U&U percentages for the stipulated wastewater collection of each system listed below:

System	WW Coll. System %
Arredondo Farms	100
Florida Central Commerce Park	100
Jasmine Lakes	100
Kings Cove	100
Lake Gibson Estates	100
Lake Suzy	100
Leisure Lakes	85
Morningview	100
Palm Port	91
Palm Terrace	100
Park Manor	100
South Seas	100
Summit Chase	100
Valencia Terrace	100
Venetian Village	100
Zephyr Shores	100

PAA ISSUE 11: Should any further adjustment be made to Other Deferred Debits?

STIPULATION: Other Deferred Debits shall be increased further by \$14,042 for the jurisdictional systems to reflect the appropriate 13-month average balance as shown in the table below:

Band	Adjustment
Band 1 - Water	\$3,326
Band 1 - Wastewater	621
Band 2 - Water	1,512
Band 2 - Wastewater	2,592
Band 3 - Water	936
Band 3 - Wastewater	336
Band 4 - Water	4,070
Band 4 - Wastewater	54
Breeze - Water	75
Breeze - Wastewater	75
Fairways - Water	142
Fairways - Wastewater	189
Peace - Water	56
Peace - Wastewater	58
Total:	\$14,042

PAA ISSUE 12: Should any adjustments be made to Accrued Taxes?

STIPULATION: Consistent with the Commission's decision in the Utility's last rate case, Accrued Taxes shall be reduced by \$1,917,134 on a total company basis to normalize the test year Accrued Tax balance for purposes of setting rates. The reduction of \$1,917,134 represents the total for AUF. The Commission only has jurisdiction over 60.17 percent of the total AUF systems. This represents a reduction of \$1,153,548 for the jurisdictional systems as shown in table below:

Band	Adjustment
Band 1 - Water	(\$273,194)
Band 1 - Wastewater	(51,002)
Band 2 - Water	(124,236)
Band 2 - Wastewater	(212,998)
Band 3 - Water	(76,875)
Band 3 - Wastewater	(27,600)
Band 4 - Water	(334,355)
Band 4 - Wastewater	(4,403)
Breeze - Water	(6,130)
Breeze - Wastewater	(6,130)
Fairways - Water	(11,701)
Fairways - Wastewater	(15,527)
Peace - Water	(4,606)
Peace - Wastewater	(4,792)
Total:	(\$1,153,548)

COST OF CAPITAL

PAA ISSUE 16: What is the appropriate capital structure to use for rate setting purposes?

STIPULATION: The appropriate capital structure to use for rate setting purposes is based on the capital structure of AUF.

PAA ISSUE 18: What are the appropriate cost rates for short and long-term debt for the test year?

STIPULATION: There is no short-term debt in AUF's capital structure. The appropriate cost rate for long-term debt for the test year is 5.10 percent.

PAA ISSUE 19: What is the appropriate return on equity (ROE) for the test year?

STIPULATION: The appropriate ROE should be as set out in the Commission-approved leverage formula.

NET OPERATING INCOME

PAA ISSUE 21: Should any adjustments be made to disallow fines and penalties assessed to the Utility?

STIPULATION: O&M expenses shall be reduced by \$12,767 to remove expenses related to fines and penalties. The specific adjustments to each rate band and system are shown in the table below:

Rate Band/System	O&M Expense
Water Band 1	(\$2,136)
Wastewater Band 1	(10)
Water Band 2	(25)
Wastewater Band 2	(139)
Water Band 3	(15)
Wastewater Band 3	(5)
Water Band 4	(10,426)
Wastewater Band 4	(1)
Breeze Hill - Water	(1)
Breeze Hill - Wastewater	(1)
Fairways - Water	(2)
Fairways - Wastewater	(3)
Peace River - Water	(1)
Peace River - Wastewater	(1)
Total Adjustments	(\$12,767)

PAA ISSUE 23: Should any adjustments be made to Sludge Hauling, Contractual Services – Accounting, and Contractual Services - Legal expenses?

STIPULATION: O&M expenses shall be reduced by \$29,949 to reflect the appropriate Sludge Hauling, Contractual Services – Accounting, and Contractual Services – Legal expenses. The specific adjustments to each rate band and system are shown in the table below:

System	Sludge	Accounting	Legal
Water Band 1	N/A	(\$713)	(\$3,794)
Water Band 2	N/A	(133)	(708)
Water Band 3	N/A	(324)	(1,725)
Water Band 4	N/A	(556)	(2,958)
Wastewater Band 1	(985)	(201)	(1,068)
Wastewater Band 2	(8,313)	(72)	(383)
Wastewater Band 3	(102)	(872)	(4,644)
Wastewater Band 4	(744)	(12)	(61)
Breeze Hill - Water	N/A	(16)	(85)
Breeze Hill - Wastewater	(59)	(16)	(85)
Fairways - Water	N/A	(41)	(216)
Fairways - Wastewater	(534)	(31)	(162)
Peace River - Water	N/A	(13)	(67)
Peace River - Wastewater	(183)	(12)	(64)
Total			
	(\$10,919)	(\$3,009)	(\$16,021)

PAA ISSUE 25: Should any adjustments be made for Director and Officers Liability insurance?

STIPULATION: Consistent with Commission practice, O&M expenses shall be reduced by \$5,289 for its jurisdictional systems to reflect a sharing of the cost of Director and Officers Liability (DOL) insurance between ratepayers and the Utility, as shown in the table below:

Rate Bands/Systems	O&M Exp.
Water Rate Band 1	(\$1,253)
Water Rate Band 2	(234)
Water Rate Band 3	(570)
Water Rate Band 4	(977)
Wastewater Rate Band 1	(352)
Wastewater Rate Band 2	(127)
Wastewater Rate Band 3	(1,533)
Wastewater Rate Band 4	(20)
Breeze Hill - Water	(28)
Breeze Hill - Wastewater	(28)
Fairways - Water	(71)
Fairways - Wastewater	(54)
Peace River - Water	(22)
Peace River - Wastewater	(21)
	(\$5,289)

PAA ISSUE 29: Should an adjustment be made to the Utility's normalization adjustments?

STIPULATION: O&M expenses shall be decreased by \$33,748 for water and increased by \$1,768 for wastewater. The specific adjustments for each rate band and stand-alone system are shown in table below:

System	Health Insurance	Purchased Water	Sludge Hauling
Water Rate Band 1	\$2,185	\$0	N/A
Water Rate Band 2	791	0	N/A
Water Rate Band 3	442	0	N/A
Water Rate Band 4	2,867	(40,121)	N/A
Wastewater Rate Band 1	236	N/A	0
Wastewater Rate Band 2	2,325	N/A	0
Wastewater Rate Band 3	203	N/A	0
Wastewater Rate Band 4	615	N/A	0
Breeze Hill - Water	22	0	N/A
Breeze Hill - Wastewater	30	N/A	(1,688)
Fairways - Water	48	0	N/A
Fairways - Wastewater	33	N/A	0
Peace River - Water	19	0	N/A
Peace River - Wastewater	14	N/A	0
Total	\$9,831	(\$40,121)	(\$1,688)

PAA ISSUE 30:

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

STIPULATION:

O&M expenses shall be increased by \$83,790 for water and decreased by \$431 for wastewater, as shown in the table below. In addition, AUF shall file a report with the Commission detailing the outcome of the dispute with the City of Lake Worth Utilities, within 30 days of the resolution of the dispute

	Health	Purchased	Insurance		
System	Insurance	Water	Vehicle	Other	Total
Water Rate Band 1	\$219	\$0	(\$280)	(\$386)	(\$447)
Water Rate Band 2	79	0	(128)	(176)	(225)
Water Rate Band 3	44	125,329	(79)	(109)	125,186
Water Rate Band 4	287	(40,121)	(343)	(473)	(40,650)
Wastewater Rate Band 1	24	N/A	(53)	(72)	(101)
Wastewater Rate Band 2	232	N/A	(218)	(301)	(287)
Wastewater Rate Band 3	20	N/A	(28)	(39)	(47)
Wastewater Rate Band 4	62	N/A	(5)	(7)	51
Breeze Hill - Water	2	0	(6)	(9)	(13)
Breeze Hill - Wastewater	3	N/A	(6)	(9)	(11)
Fairways - Water	5	0	(24)	(33)	(51)
Fairways - Wastewater	3	N/A	(12)	(17)	(25)
Peace River - Water	2	0	(5)	(7)	(10)
Peace River - Wastewater	1	N/A	(5)	(6)	(10)
Total	\$983	\$85,208	(\$1,191)	(\$1,642)	\$83,359

PAA ISSUE 31: Should an adjustment be made to O&M expense to remove the additional cost of mailing multiple bills to the same customers who have more than one class of service?

STIPULATION: The costs of mailing 2,892 duplicate bills in the amount of \$14,142 shall be removed from O&M expense for the Fairways water system.

PAA ISSUE 34: What, if any, limit should be imposed on the subsidies that could result if the Utility's rate bands and stand-alone systems are partially or fully consolidated?

STIPULATION: The appropriate subsidy limit for the water systems and the wastewater systems should be \$12.50. This subsidy limit is applicable only to the residential class, and is based upon usage levels of 7 kgals per month for the water systems and 6 kgals per month for the wastewater systems.

PAA ISSUE 41: Should the Utility be authorized to revise its miscellaneous service charges, and, if so, what are the appropriate charges?

STIPULATION: AUF shall be authorized to revise the Miscellaneous Service Charges for its Breeze Hill and Fairway systems. The appropriate charges are reflected below.

	Water		Wastewater	
	Normal Hrs	After Hrs	Normal Hrs	After Hrs
Initial Connection	\$22	\$33	\$22	\$33
Normal Reconnection	\$22	\$33	\$22	\$33
Violation Reconnection	\$35	\$55	Actual Cost	Actual Cost
Premises Visit	\$22	\$33	\$22	\$33
Late Payment Fees	\$5	N/A	\$5	N/A

PAA ISSUE 42: What are the appropriate service availability charges and allowance for funds prudently invested charges for the Utility?

STIPULATION: The Utility’s previously-approved uniform meter installation, service installation, main extension, and plant capacity charges are appropriate for AUF’s Breeze Hill, Fairways, and Peace River stand-alone systems. AUF’s proposed uniform engineering fees are cost-based and appropriate. However, the Utility’s proposed uniform field inspection fees shall be denied for lack of support documentation in accordance with Section 367.091(6), F.S.

PAA ISSUE 48: Should the Utility be required to provide proof that it has adjusted its books for all Commission approved adjustments?

STIPULATION: To ensure that the Utility adjusts its books in accordance with the Commission’s decision, AUF shall provide proof, within 90 days of the final order in this docket, that the adjustments for all the applicable National Association of Regulatory Utility Commissioners Uniform System of Accounts primary accounts have been made.

B. Type B Stipulations Are Issues to Which AUF and Staff Agree and the Intervenors Take No Position

ISSUE 12: What is the appropriate Commission-approved leverage formula to use in the case?

STIPULATION: AUF and staff agree that the appropriate leverage formula to use is the leverage formula in effect when the Commission makes its final decision.

Water Treatment Plant U&U																	
	FRC (gpm or gpd)		Peak Day (gpm or gpd)		EUW (gpm or gpd)		FF (gpm or gpd)		Growth		U&U Percentages				Staff Rec.	Comments	
	AUF	OPC	AUF	OPC	AUF	OPC	AUF	OPC	AUF	OPC	DKT 080121	PAA/AUF	AUF calc.	OPC calc.			
1 Jasmine Lakes																100	Stipulation
Kings Cove																100	Stipulation
Ocala Oaks																100	Stipulation
Picciola Island	150	150	79	79	0.00	0.00	0	0	1.06	1.06	75.00	75.00	52.73	56.00	75	Prior Order; Growth	
Silver Lake Est/Western Sh	1,944,000	1,944,000	1,440,000	1,440,100	0	0	60,000	0	1.00	1.00	93.71	94.00	77.16	74.00	94	Prior Order; AUF FF	
Tangerine																100	Stipulation
Band 1																	
Composite U&U%												97.59				97.55	
2 Carlton Village	200	200	153	153	0.00	0.00	0	0	1.19	1.19	95.00	95.00	76.72	91.00	95	Prior Order; Growth	
Fern Terrace	0	180	122	122	0	0	0	0	1.00	1.00	100.00	100.00	0.00	68.00	100	One well system	
Grand Terrace																100	Stipulation
Lake Gibson Estates																100	Stipulation
Piney Woods																100	Stipulation
Sunny Hills																91	Stipulation
Valencia Terrace																100	Stipulation
Band 2																	
Composite U&U%												97.31				97.31	
3 48 Estates																100	Stipulation
Gibsonia Estates																61	Stipulation
Interlachen/Pk Manor	172,800	172,800	131,770	131,764	136	136	0	0	1.00	1.00	100.00	100.00	76.26	76.00	100	Prior Order	
Lake Osborne Estates																NA	Purchased water
Orange Hill/Sugar Crk																100	Stipulation
Quail Ridge																100	Stipulation
Ravenswood																100	Stipulation
Venetian Village	100	100	58	58	0.00	0.00	0	0	1.08	1.08	74.00	74.00	57.72	63.00	74	Prior Order; Growth	
Band 3																	
Composite U&U%												89.22				89.16	

		Water Treatment Plant U&U															
		FRC (gpm or gpd)		Peak Day (gpm or gpd)		EUW (gpm or gpd)		FF (gpm or gpd)		Growth		U&U Percentages				Staff Rec.	Comments
		AUF	OPC	AUF	OPC	AUF	OPC	AUF	OPC	AUF	OPC	DKT 080121	PAA/AUF	AUF calc.	OPC calc.		
4	Arredondo Estates	490	120	97	96	1.53	1.50	0	0	1.00	1.00	100.00	100.00	19.81	80.00	100	Prior Order; OPC capacity
	Arredondo Farms	250	250	151	151	0.00	0.00	0	0	1.00	1.00	100.00	100.00	60.56	61.00	100	Prior Order
	Beecher's Point															NA	Purchased Water
	East Lake Harris/Friendly Ctr	0	100	41	41	0.00	0.00	0	0	1.00	1.00	100.00	100.00	0.00	41.00	100	Prior Order; Built out
	Haines Creek															100	Stipulation
	Harmony Homes															100	Stipulation
	Hermits Cove/St. Johns High															31	Stipulation
	Hobby Hills	150	150	62	62	0.00	0.00	41.67	0	1.00	1.00	100.00	100.00	41.12	41.00	100	Prior Order; Built out
	Holiday Haven															NA	Purchased Water
	Imperial Mobile															100	Stipulation
	Jungle Den															NA	Purchased Water
	Kingswood															NA	Purchased Water
	Lake Josephine/Sebring Lakes	1,180,800	1,564,800	398,760	398,760	0	0	0	0	1.00	1.00	92/45	85.00	35.97	25.00	85	Prior Order Weighted Average
	Lake Suzy															NA	Purchased Water
	Leisure Lakes															100	Stipulation
	Momingview															100	Stipulation
	Oakwood															NA	Purchased Water
	Palm Port															100	Stipulation
	Palm Terrace															NA	Purchased Water
	Palms Mobile Home Park															100	Stipulation
	Pomona Park															100	Stipulation
	River Grove															100	Stipulation
	Rosalie Oaks	250	177	22	22	0.01	0	41.67	0	1.00	1.00	100.00	100.00	0.00	12.00	100	One well system
	Silver Lake Oaks															100	Stipulation
	Skycrest															100	Stipulation
	Stone Mountain															100	Stipulation
	Summit Chase															100	Stipulation
	The Woods															100	Stipulation
	Tomoka	264,000	257,280	113,100	113,100	2,160	2,160	0	0	1.00	1.00	100.00	100.00	42.02	43.00	100	Prior Order
	Twin Rivers	0	257,280	61,131	61,131	442	669		0	1.00	1.00	100.00	100.00	0.00	24.00	100	One well system
	Village Water															NA	Purchased Water
	Welaka	72,960	72,960	49,940	49,940	0	0	0	0	1.08	1.08	79.72	80.00	73.78	74.00	80	Prior Order; Growth
	Woolens															100	Stipulation
	Zephyr Shores	530	500	131	130	1.16	1.2	0	0	1.00	1.00	100.00	100.00	26.16	26.00	100	Prior Order; Built out; OPC capacity
	Band 4																
	Composite U&U%												94.43			93.02	
	Breeze Hill	0	177	46	46	0.48	0.50	0	0	1.00	1.00	NA	100.00	0.00	26.00	100	One well system
	Fairways															100	Stipulation
	Peace River															100	Stipulation

Water Distribution

		Customers	Lots with lines	Growth	U&U Percentages				Staff Rec.	Comments
					Dkt 080121	PAA /AUF	AUF calc.	OPC calc.		
1	Jasmine Lakes	1,511							100	Stipulation
	Kings Cove	204							100	Stipulation
	Ocala Oaks	1,785							100	Stipulation
	Picciola Island	160							80	Stipulation
	Silver Lake Est/Western Sh	1,596	1,764	1.00	100.00	100.00	90.50	88.00	100	Prior Order
	Tangerine	289							60	Stipulation
	Total Customers Band 1	5,545								
	Composite U&U%					97.46			97.34	
2	Carlton Village	283							47	Stipulation
	Fern Terrace	123							100	Stipulation
	Grand Terrace	111							100	Stipulation
	Lake Gibson Estates	826							100	Stipulation
	Piney Woods	180	213	1.00	100.00	100.00	84.50	89.00	100	Prior Order
	Sunny Hills	578	6,384	1.14	13.00	13.00	10.30	11.00	10	AUF Calculation
	Valencia Terrace	359							100	Stipulation
	Total Customers Band 2	2,460								
	Composite U&U%					73.46			72.76	
3	48 Estates	87							85	Stipulation
	Gibsonia Estates	202	206	1.00	100.00	100.00	98.10	84.00	100	Prior Order
	Interlachen/Pk Manor	292	375	1.00	83.00	83.00	77.90	79.00	78	AUF Calculation
	Lake Osborne Estates	461							100	Stipulation
	Orange Hill/Sugar Crk	246	273	1.00	100.00	100.00	90.10	94.00	100	Prior Order
	Quail Ridge	94							100	Stipulation
	Ravenswood	46	54	1.00	100.00	100.00	85.20	88.00	100	Prior Order
	Venetian Village	172	219	1.08	72.63	85.00	84.80	81.00	85	AUF Calculation
	Total Customers Band 3	1,600								
	Composite U&U%					94.59			93.56	

Water Distribution										
		Customers	Lots with lines	Growth	Dkt 080121	U&U Percentages		OPC calc.	Staff Rec.	Comments
						PAA /AUF	AUF calc.			
4	Arredondo Estates	252	538	1.00	100.00	100.00	46.80	90.00	100	Prior Order; AUF customers
	Arredondo Farms	352							88	Stipulation
	Beecher's Point	52	93	1.00	100.00	100.00	55.90	58.00	100	Prior Order
	East Lake Harris/Friendly Ctr	200							100	Stipulation
	Haines Creek	108							100	Stipulation
	Harmony Homes	60							100	Stipulation
	Hermits Cove/St. Johns High	284							80	Stipulation
	Hobby Hills	96							100	Stipulation
	Holiday Haven	125							76	Stipulation
	Imperial Mobile	247							100	Stipulation
	Jungle Den	114							100	Stipulation
	Kingswood	66	66	1.00	100.00	100.00	100.00	98.00	100	Prior Order
	Lake Josephine/Sebring Lake	561							55	Stipulation
	Lake Suzy	566							100	Stipulation
	Leisure Lakes	281							84	Stipulation
	Morningview	40							100	Stipulation
	Oakwood	281	262	1.00	97.00	100.00	83.90	98.00	100	Built out
	Palm Port	109	120	1.00	100.00	100.00	90.80	94.00	100	Prior Order
	Palm Terrace	1,194							100	Stipulation
	Palms Mobile Home Park	64	79	1.00	88.00	88.00	81.00	79.00	88	Prior Order
	Pomona Park	159							51	Stipulation
	River Grove	113	114	1.00	100.00	100.00	99.10	99.00	100	Prior Order
	Rosalie Oaks	100	125	1.00	100.00	100.00	80.00	80.00	100	Prior Order
	Silver Lake Oaks	46	53	1.00	68.00	87.00	86.80	83.00	87	AUF Calculation
	Skycrest	122	135	1.00	100.00	100.00	90.40	93.00	100	Prior Order
	Stone Mountain	10	22	1.00	54.00	54.00	45.50	48.00	46	AUF Calculation
	Summit Chase	215							100	Stipulation
	The Woods	80	106	1.00	46.00	76.00	75.50	70.00	76	AUF Calculation
	Tomoka	196							100	Stipulation
	Twin Rivers	78	80	1.00	100.00	100.00	97.50	98.00	100	Prior Order
	Village Water	190	220	1.00	100.00	100.00	86.40	68.00	100	Prior Order
	Welaka	164	343	1.08	49.00	52.00	51.50	51.00	52	AUF Calculation
	Wootens	23	54	1.00	66.00	66.00	42.60	43.00	66	Prior Order
	Zephyr Shores	525							100	Stipulation
	Total Customers Band 4	7,073								
	Composite U&U%					91.10			91.10	
	Breeze Hill	128	132	1.00	NA	100.00	97.00	92.00	100	Prior Order
	Fairways	241							100	Stipulation
	Peace River	107	131	1.00	NA	100.00	81.70	79.00	100	Built out
	Total Customers	17,154								

Wastewater Treatment Plant Used and Useful															
Rate	System	Capacity		Demand		E / I		Growth		U&U Percentages				Staff Rec.	Comments
Band		AUF	OPC	AUF	OPC	AUF	OPC	AUF	OPC	Dkt 080121	PAA/AUF	AUF calc.	OPC calc.		
	Kings Cove	55,000	55,000	25,880	25,500	0	0	1.00	1.00	100.00	100	47.05	46.00	100	Prior Order
	Leisure Lakes	50,000	50,000	16,129	16,117	0	0	1.00	1.00	39.00	39	32.26	32.00	38	Prior Order
	Summit Chase	54,000	54,000	19,695	19,333	0	0	1.00	1.00	100.00	100	36.47	36.00	100	Prior Order
	Valencia Terrace	80,000	80,000	30,852	30,333	0	0	1.06	1.06	100.00	100	41.03	40.00	100	Prior Order; Growth
	Total Customers Band 1														
	Composite										83.35			83.23	
2	Arredondo Farms	60,000	60,000	40,485	39,667	0	0	1.00	1.00	100.00	100	67.47	66.00	100	Prior Order
	Holiday Haven	25,000	25,000	19,758	19,758	4,227	4,227	1.00	1.00	75.00	75	62.12	62.00	62	AUF/OPC Calculation
	Jasmine Lakes													100	Stipulation
	Lake Suzy													100	Stipulation
	Morningview	20,000	20,000	5,808	5,750	0	0	1.14	1.15	100.00	100	32.97	33.00	100	Prior Order; Growth
	Palm Port	30,000	30,000	17,586	17,333	2,085	2,054	1.00	1.00	58.00	58	58.62	51.00	58	Prior Order
	Palm Terrace													100	Stipulation
	Park Manor													100	Stipulation
	Silver Lake Oaks	15,000	12,000	4,528	4,417	348	340	1.00	1.00	42.00	42	27.87	34.00	42	Prior Order; OPC capacity
	South Seas	264,000	264,000	103,728	104,917	0	0	1.00	1.00	100.00	100	39.29	40.00	100	Prior Order
	Sunny Hills	50,000	50,000	11,622	11,583	0	0	1.00	1.00	49.00	49	23.24	23.00	49	Prior Order
	The Woods	15,000	15,000	12,000	10,000	753	911	1.00	1.00	100.00	100	74.98	61.00	100	Prior Order
	Venetian Village	36,000	36,000	29,039	28,667	11,193	11,051	1.00	1.00	100.00	100	49.57	49.00	100	Prior Order
	Zephyr Shores													NA	Purchased wastewater
	Total Customers Band 2														
	Composite										95.38			94.58	
3	Beecher's Point													NA	Purchased wastewater
	Jungle Den	21,000	21,000	15,153	15,083	0	7,391	1.00	1.00	100.00	100	72.16	37.00	100	Prior Order
	Lake Gibson Estates													NA	Purchased wastewater
	Rosalie Oaks	15,000	15,000	11,969	11,333	3,460	3,770	1.00	1.00	100.00	100	56.72	50.00	100	Prior Order
	Total Customers Band 3														
	Composite										100.00			100.00	
4	Florida Central Comm Pk	95,000	95,000	44,416	41,917	3,154	3,154	1.00	1.00	100.00	100	43.43	41.00	100	Prior Order
	Village Water	75,000	75,000	55,828	45,667	0	0	1.06	1.06	45.00	79	78.93	64.00	79	AUF calculation
	Total Customers Band 4														
	Composite										92.40			93.12	
	Breeze Hill	40,000	40,000	38,344	27,417	17,912	17,931	1.00	1.00	NA	56	95.86	24.00	56	Prior Order
	Fairways	75,000	75,000	29,959	31,500	0	0	1.00	1.00	NA	100	39.95	42.00	100	Built out
	Peace River	40,000	40,000	27,367	34,333	5,595	6,773	1.00	1.00	NA	100	54.43	56.00	100	Built out; OPC demand

Wastewater Collection										
		Customers	Lots with lines	Growth	Dkt 080121	U&U Percentages			Staff Rec.	Comments
						PAA/AUF	AUF calc.	OPC calc.		
1	Kings Cove	195							100	Stipulation
	Leisure Lakes	283							85	Stipulation
	Summit Chase	213							100	Stipulation
	Valencia Terrace	355							100	Stipulation
	Total Customers Band 1	1,046								
	Composite U&U%					95.91			95.91	
2	Arredondo Farms	344							100	Stipulation
	Holiday Haven	111	162	1.00	75.00	75.00	68.50	69.00	69	Prior Order
	Jasmine Lakes	1,503							100	Stipulation
	Lake Suzy	264							100	Stipulation
	Morningview	36							100	Stipulation
	Palm Port	109							91	Stipulation
	Palm Terrace	993							100	Stipulation
	Park Manor	28							100	Stipulation
	Silver Lake Oaks	46	53	1.00	66.00	87.00	86.80	83.00	87	
	South Seas	78							100	Stipulation
	Sunny Hills	186	517	1.00	38.00	55.00	55.30	36.00	55	AUF customers
	The Woods	73	103	1.00	60.00	71.00	70.90	61.00	71	
	Venetian Village	94							100	Stipulation
	Zephyr Shores	526							100	Stipulation
	Total Customers Band 2	4,391								
	Composite U&U%					96.93			96.47	
3	Beecher's Point	17	46	1.00	100.00	100.00	37.00	45.00	100	Prior Order
	Jungle Den	143	102	1.00	100.00	100.00	140.20	87.00	100	Prior Order
	Lake Gibson Estates	316							100	Stipulation
	Rosalie Oaks	99	125	1.00	100.00	100.00	79.20	93.00	100	Prior Order
	Total Customers Band 3	575								
	Composite U&U%					100.00			100.00	
4	Florida Central Comm Pk	78							100	Stipulation
	Village Water	38	70	1.06	47.00	58.00	57.60	42.00	58	
	Total Customers Band 4	116								
	Composite U&U%					84.81			86.24	
	Breeze Hill	127	132	1.00	100.00	100.00	96.20	94.00	100	
	Fairways	240	244	1.00	NA	100.00	98.40	99.00	100	
	Peace River	100	125	1.00	NA	100.00	80.00	79.00	100	

Aqua Utilities Florida, Inc.							Schedule No. 1		
Capital Structure- 13-Month Average							Docket No. 100330-WS		
Test Year Ended 4/30/10									
Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost	
Per Utility									
1	Long-term Debt	\$26,952,309	\$0	\$26,952,309	(\$13,447,035)	\$13,505,274	37.16%	5.10%	1.89%
2	Short-term Debt	0	0	0	0	\$0	0.00%	0.00%	0.00%
3	Preferred Stock	0	0	0	0	\$0	0.00%	0.00%	0.00%
4	Common Equity	42,549,814	0	42,549,814	(21,228,937)	\$21,320,877	58.66%	9.76%	5.73%
5	Customer Deposits	84,294	0	84,294	(33,594)	\$50,700	0.14%	6.00%	0.01%
6	Deferred Income Taxes	<u>1,456,472</u>	<u>0</u>	<u>1,456,472</u>	<u>14,449</u>	<u>\$1,470,921</u>	<u>4.05%</u>	0.00%	<u>0.00%</u>
7	Total Capital	<u>\$71,042,890</u>	<u>\$0</u>	<u>\$71,042,890</u>	<u>(\$34,695,117)</u>	<u>\$36,347,773</u>	<u>100.00%</u>		<u>7.63%</u>
Per Staff									
8	Long-term Debt	\$26,952,309	\$0	\$26,952,309	(\$14,265,840)	\$12,686,469	36.27%	5.10%	1.85%
9	Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%
11	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
11	Common Equity	42,549,814	160,093	42,709,907	(22,606,327)	20,103,580	57.48%	9.76%	5.61%
12	Customer Deposits	84,294	(33,594)	50,700	0	50,700	0.14%	6.00%	0.01%
13	Deferred Income Taxes	<u>1,456,472</u>	<u>677,431</u>	<u>2,133,903</u>	<u>0</u>	<u>2,133,903</u>	<u>6.10%</u>	0.00%	<u>0.00%</u>
14	Total Capital	<u>\$71,042,889</u>	<u>\$803,930</u>	<u>\$71,846,819</u>	<u>(\$36,872,166)</u>	<u>\$34,974,653</u>	<u>100.00%</u>		<u>7.47%</u>
							LOW	HIGH	
RETURN ON EQUITY							8.76%	10.76%	
OVERALL RATE OF RETURN							6.89%	8.04%	

Aqua Utilities Florida, Inc.								Schedule No. 2
								Docket No. 100330-WS
SUMMARY OF OPERATING REVENUES BY RATE BAND & SYSTEM	Test Year Per Utility	Utility Requested \$ Increase	Utility Requested % Increase	Utility Requested Rev. Req.	Staff Adjusted Test Year	Staff Recomm. \$ Increase	Staff Recomm. % Increase	Staff Recomm. Rev. Req.
Water Rate Band 1	\$2,275,576	\$590,657	25.96%	\$2,866,233	\$2,199,070	\$391,430	17.80%	\$2,590,500
Water Rate Band 2	1,219,629	400,459	32.83%	\$1,620,088	1,200,915	297,849	24.80%	1,498,764
Water Rate Band 3	910,056	6,587	0.72%	\$916,643	907,847	8,796	0.97%	916,643
Water Rate Band 4	3,618,129	1,454,330	40.20%	\$5,072,459	3,816,247	1,046,625	27.43%	4,862,872
Breeze Hill - Water	30,232	36,525	120.82%	66,757	30,953	32,665	105.53%	63,618
Fairways - Water	136,226	73,075	53.64%	209,301	134,652	45,343	33.67%	179,995
Peace River - Water	<u>65,818</u>	<u>45,228</u>	<u>68.72%</u>	<u>111,046</u>	<u>67,825</u>	<u>42,923</u>	<u>63.29%</u>	<u>110,748</u>
TOTAL WATER	<u>\$8,255,666</u>	<u>\$2,606,861</u>	<u>31.58%</u>	<u>\$10,862,527</u>	<u>\$8,357,510</u>	<u>\$1,865,632</u>	<u>22.32%</u>	<u>\$10,223,141</u>
Wastewater Rate Band 1	\$375,720	\$151,076	40.21%	\$526,796	\$377,734	\$89,325	23.65%	\$467,059
Wastewater Rate Band 2	3,360,115	556,647	16.57%	\$3,916,762	3,404,103	215,626	6.33%	3,619,729
Wastewater Rate Band 3	401,648	523,730	130.40%	\$925,378	420,068	489,937	116.63%	910,005
Wastewater Rate Band 4	490,352	70,073	14.29%	\$560,425	510,420	(6,822)	(1.34%)	503,598
Breeze Hill - Sewer	35,049	60,183	171.71%	95,232	36,088	27,742	76.87%	63,829
Fairways - Sewer	79,634	115,633	145.21%	195,267	80,439	103,002	128.05%	183,441
Peace River - Sewer	<u>82,013</u>	<u>21,614</u>	<u>26.35%</u>	<u>103,627</u>	<u>79,287</u>	<u>17,177</u>	<u>21.66%</u>	<u>96,464</u>
TOTAL WASTEWATER	<u>\$4,824,531</u>	<u>\$1,498,956</u>	<u>31.07%</u>	<u>\$6,323,487</u>	<u>\$4,908,138</u>	<u>\$935,988</u>	<u>19.07%</u>	<u>\$5,844,126</u>
TOTAL WATER AND WASTEWATER	<u>\$13,080,197</u>	<u>\$4,105,817</u>	<u>31.39%</u>	<u>\$17,186,014</u>	<u>\$13,265,648</u>	<u>\$2,801,619</u>	<u>21.12%</u>	<u>\$16,067,267</u>

Aqua Utilities Florida, Inc. - Water Band 1				Schedule No. 3-A	
Schedule of Water Rate Base				Docket No. 100330-WS	
Test Year Ended 4/30/10					
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$8,198,647	\$955,509	\$9,154,156	(\$259,305)	\$8,894,851
2 Land and Land Rights	133,696	0	133,696	0	133,696
3 Non-used and Useful Components	0	(74,835)	(74,835)	1,356	(73,479)
4 Accumulated Depreciation	(2,745,485)	(139,641)	(2,885,126)	9,306	(2,875,820)
5 CIAC	(1,889,160)	0	(1,889,160)	0	(1,889,160)
6 Amortization of CIAC	1,144,561	1,742	1,146,303	0	1,146,303
7 Working Capital Allowance	<u>0</u>	<u>752,658</u>	<u>752,658</u>	<u>(123,934)</u>	<u>628,724</u>
8 Rate Base	<u>\$4,842,259</u>	<u>\$1,495,433</u>	<u>\$6,337,692</u>	<u>(\$372,577)</u>	<u>\$5,965,115</u>

Aqua Utilities Florida, Inc. - Wastewater Band 1			Schedule No. 3-B		
Schedule of Wastewater Rate Base			Docket No. 100330-WS		
Test Year Ended 4/30/10					
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$1,484,256	\$193,113	\$1,677,369	(\$17,418)	\$1,659,951
2 Land and Land Rights	108,974	0	108,974	0	108,974
3 Non-used and Useful Components	0	(53,635)	(53,635)	(7,748)	(61,383)
4 Accumulated Depreciation	(910,328)	(45,039)	(955,367)	(6,353)	(961,720)
5 CIAC	(619,088)	0	(619,088)	0	(619,088)
6 Amortization of CIAC	436,809	0	436,809	0	436,809
7 Working Capital Allowance	<u>0</u>	<u>155,468</u>	<u>155,468</u>	<u>(23,436)</u>	<u>132,032</u>
8 Rate Base	<u>\$500,623</u>	<u>\$249,907</u>	<u>\$750,530</u>	<u>(\$54,954)</u>	<u>\$695,576</u>

Aqua Utilities Florida, Inc. - Band 1 for Water and Wastewater Adjustments to Rate Base Test Year Ended 4/30/10		Schedule No. 3-C Docket No. 100330-WS	
Explanation	Water	Wastewater	
<u>Plant In Service</u>			
1 Type A Approved Sitpulations.	(\$239,872)	(\$9,224)	
2 Reflect the appropriate amount of pro forma projects. (Issue 3)	0	0	
3 Appropriate affiliate-allocation plant costs. (Issue 18)	<u>(19,433)</u>	<u>(8,194)</u>	
Total	<u>(\$259,305)</u>	<u>(\$17,418)</u>	
<u>Non-used and Useful</u>			
To reflect net non-used and useful adjustment. (Issues 4-7)	<u>\$1,356</u>	<u>(\$7,748)</u>	
<u>Accumulated Depreciation</u>			
1 Type A Approved Sitpulations.	(\$24,174)	(\$12,936)	
2 Reflect the appropriate amount of pro forma projects. (Issue 3)	0	0	
3 Appropriate affiliate-allocation plant costs. (Issue 18)	<u>33,480</u>	<u>6,583</u>	
Total	<u>\$9,306</u>	<u>(\$6,353)</u>	
<u>Working Capital</u>			
1 Type A Approved Sitpulations.	(\$269,868)	(\$50,381)	
2 To amortize Phase I Monitoring Plan Costs. (Issue 1)	14,047	2,497	
3 Reflect appropriate deferred rate case expense. (Issue 8)	<u>131,887</u>	<u>24,448</u>	
Total	<u>(\$123,934)</u>	<u>(\$23,436)</u>	

Aqua Utilities Florida, Inc. - Water Band 1						Schedule No. 4-A	
Statement of Water Operations						Docket No. 100330-WS	
Test Year Ended 4/30/10							
<u>Description</u>	<u>Test Year Per Utility</u>	<u>Utility Adjustments</u>	<u>Adjusted Test Year Per Utility</u>	<u>Staff Adjustments</u>	<u>Staff Adjusted Test Year</u>	<u>Revenue Increase</u>	<u>Revenue Requirement</u>
1 Operating Revenues:	<u>\$2,275,576</u>	<u>\$590,657</u>	<u>\$2,866,233</u>	<u>(\$667,163)</u>	<u>\$2,199,070</u>	<u>\$391,430</u> 17.80%	<u>\$2,590,500</u>
Operating Expenses							
2 Operation & Maintenance	\$1,302,923	\$244,702	\$1,547,625	(\$153,371)	\$1,394,254		\$1,394,254
3 Depreciation	269,400	103,592	372,992	(46,910)	326,082		326,082
4 Amortization	0	10,667	10,667	0	10,667		10,667
5 Taxes Other Than Income	228,179	3,370	231,549	(36,869)	194,680	17,614	212,294
6 Income Taxes	183,260	41,636	224,896	(163,741)	61,155	140,667	201,822
7 Total Operating Expense	<u>1,983,762</u>	<u>403,967</u>	<u>2,387,729</u>	<u>(400,891)</u>	<u>1,986,838</u>	<u>158,281</u>	<u>2,145,119</u>
8 Operating Income	<u>\$291,814</u>	<u>\$186,690</u>	<u>\$478,504</u>	<u>(\$266,272)</u>	<u>\$212,232</u>	<u>\$233,149</u>	<u>\$445,381</u>
9 Rate Base	<u>\$4,842,259</u>		<u>\$6,337,692</u>		<u>\$5,965,115</u>		<u>\$5,965,115</u>
10 Rate of Return	<u>6.03%</u>		<u>7.55%</u>		<u>3.56%</u>		<u>7.47%</u>

Docket No. 100330-WS

Date: February 2, 2012

Aqua Utilities Florida, Inc. - Wastewater Band 1						Schedule No. 4-B	
Statement of Wastewater Operations						Docket No. 100330-WS	
Test Year Ended 4/30/10							
<u>Description</u>	<u>Test Year Per Utility</u>	<u>Utility Adjustments</u>	<u>Adjusted Test Year Per Utility</u>	<u>Staff Adjustments</u>	<u>Staff Adjusted Test Year</u>	<u>Revenue Increase</u>	<u>Revenue Requirement</u>
1 Operating Revenues:	<u>\$375,720</u>	<u>\$151,076</u>	<u>\$526,796</u>	<u>(\$149,062)</u>	<u>\$377,734</u>	<u>\$89,325</u> 23.65%	<u>\$467,059</u>
Operating Expenses							
2 Operation & Maintenance	<u>\$329,918</u>	<u>\$45,771</u>	<u>\$375,689</u>	<u>(\$41,066)</u>	<u>\$334,623</u>		<u>\$334,623</u>
3 Depreciation	<u>5,577</u>	<u>20,252</u>	<u>25,829</u>	<u>(7,887)</u>	<u>17,942</u>		<u>17,942</u>
4 Amortization	<u>0</u>	<u>3,423</u>	<u>3,423</u>	<u>0</u>	<u>3,423</u>		<u>3,423</u>
5 Taxes Other Than Income	<u>23,402</u>	<u>15,504</u>	<u>38,906</u>	<u>(7,323)</u>	<u>31,583</u>	<u>4,020</u>	<u>35,603</u>
6 Income Taxes	<u>6,490</u>	<u>20,015</u>	<u>26,505</u>	<u>(35,072)</u>	<u>(8,567)</u>	<u>32,101</u>	<u>23,534</u>
7 Total Operating Expense	<u>365,387</u>	<u>104,965</u>	<u>470,352</u>	<u>(91,348)</u>	<u>379,004</u>	<u>36,120</u>	<u>415,124</u>
8 Operating Income	<u>\$10,333</u>	<u>\$46,111</u>	<u>\$56,444</u>	<u>(\$57,715)</u>	<u>(\$1,271)</u>	<u>\$53,205</u>	<u>\$51,935</u>
9 Rate Base	<u>\$500,623</u>		<u>\$750,530</u>		<u>\$695,576</u>		<u>\$695,576</u>
10 Rate of Return	<u>2.06%</u>		<u>7.52%</u>		<u>-0.18%</u>		<u>7.47%</u>

Aqua Utilities Florida, Inc. - Band 1 for Water and Wastewater Adjustment to Operating Income Test Year Ended 4/30/10		Schedule No. 4-C Docket No. 100330-WS	
Explanation	Water	Wastewater	
<u>Operating Revenues</u>			
1 Remove requested final revenue increase.	(\$567,301)	(\$151,605)	
2 Reflect appropriate amount of annualized revenues. (Issue 15)	<u>(99,862)</u>	<u>2,543</u>	
Total	<u>(\$667,163)</u>	<u>(\$149,062)</u>	
<u>Operation and Maintenance Expense</u>			
1 Type A Approved Sitpulations.	(\$54,035)	(\$8,863)	
2 To amortize Phase I Monitoring Plan Costs. (Issue 1)	(14,047)	(2,497)	
3 Reflect effect of additional AAI customers. (Issue 16)	(6,970)	(1,251)	
4 Reflect appropriate affiliate-allocation expenses. (Issue 17)	(66,459)	(25,992)	
5 Remove executive incentive compensation. (Issue 19)	(10,771)	(2,011)	
6 Reflect amount of salaries & wages. (Issue 20)	(27,998)	(5,564)	
7 Reflect appropriate amount of bad debt expense. (Issue 21)	(18,134)	(2,900)	
8 Reflect appropriate amount of rate case expense. (Issue 22)	<u>45,044</u>	<u>8,012</u>	
Total	<u>(\$153,371)</u>	<u>(\$41,066)</u>	
<u>Depreciation Expense - Net</u>			
1 Type A Approved Sitpulations.	(\$13,756)	(\$1,074)	
2 Reflect the appropriate amount of pro forma projects. (Issue 3)	0	0	
3 Reflect appropriate non-U&U depreciation expense. (Issues 4-7)	326	(231)	
4 Appropriate affiliate-allocation plant costs. (Issue 18)	<u>(33,480)</u>	<u>(6,583)</u>	
Total	<u>(\$46,910)</u>	<u>(\$7,887)</u>	
<u>Amotization-Other Expense</u>			
Appropriate Regulatory Asset. (Issue 38)	<u>\$0</u>	<u>\$0</u>	
<u>Taxes Other Than Income</u>			
1 RAFs on revenue adjustments above.	(\$30,022)	(\$6,708)	
2 Type A Approved Sitpulations.	(4,275)	(174)	
3 Reflect the appropriate amount of pro forma projects. (Issue 3)	0	0	
4 Reflect appropriate non-U&U property taxes. (Issues 4-7)	(430)	(15)	
5 Reflect corresponding payroll taxes on salaries & wages adjustment. (Issue 20)	<u>(2,142)</u>	<u>0</u>	
Total	<u>(\$36,869)</u>	<u>(\$6,897)</u>	

Aqua Utilities Florida, Inc. - Water Band 1 Water Monthly Service Rates Test Year Ended 4/30/10					Schedule No. 5-A Docket No. 100330-WS	
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Staff Recomm. Final	2-year Rate Reduction	4-year Rate Reduction
<u>Residential, General Service and Multi-Family</u>						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	\$14.13	\$15.64	\$17.66	\$18.84	N/A	\$0.74
3/4"	\$21.19	\$23.45	\$26.48	\$28.26	N/A	\$1.10
1"	\$35.31	\$39.08	\$44.14	\$47.10	N/A	\$1.84
1-1/2"	\$70.63	\$78.16	\$88.28	\$94.20	N/A	\$3.68
2"	\$113.01	\$125.06	\$141.24	\$150.72	N/A	\$5.89
3"	\$226.03	\$250.14	\$282.49	\$301.44	N/A	\$11.79
4"	\$353.17	\$390.84	\$441.39	\$471.00	N/A	\$18.41
6"	\$706.33	\$781.67	\$882.78	\$942.00	N/A	\$36.83
8"	\$1,130.13	\$1,250.68	\$1,412.44	\$1,507.20	N/A	\$58.93
10"	\$1,624.57	\$1,797.86	\$2,030.39	\$2,166.60	N/A	\$84.71
Gallage Charge RS Tier One	\$2.00	\$2.21	\$6.49	\$3.37	N/A	\$0.13
Gallage Charge RS Tier Two	\$2.51	\$2.78	\$9.73	\$5.99	N/A	\$0.23
Gallage Charge RS Tier Three	\$6.01	\$6.65	\$12.98	\$8.98	N/A	\$0.35
Gallage Charge GS	\$3.34	\$3.70	\$6.98	\$4.72	N/A	\$0.18
<u>Irrigation</u>						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	\$0.00	\$0.00	\$17.66	\$18.84	N/A	\$0.74
3/4"	\$0.00	\$0.00	\$26.48	\$28.26	N/A	\$1.10
1"	\$0.00	\$0.00	\$44.14	\$47.10	N/A	\$1.84
1-1/2"	\$0.00	\$0.00	\$88.28	\$94.20	N/A	\$3.68
2"	\$0.00	\$0.00	\$141.24	\$150.72	N/A	\$5.89
3"	\$0.00	\$0.00	\$282.49	\$301.44	N/A	\$11.79
4"	\$0.00	\$0.00	\$441.39	\$471.00	N/A	\$18.41
Gallage Charge Tier one	\$0.00	\$0.00	\$6.49	\$3.37	N/A	\$0.13
Gallage Charge Tier two	\$0.00	\$0.00	\$9.73	\$5.99	N/A	\$0.23
Gallage Charge Tier three	\$0.00	\$0.00	\$12.98	\$8.98	N/A	\$0.35
<u>Private Fire Protection</u>						
Base Facility Charge by Meter Size:						
2"	\$9.42	\$10.42	\$11.77	\$12.56	N/A	\$0.49
3"	\$18.84	\$20.85	\$23.54	\$25.12	N/A	\$0.98
4"	\$29.44	\$32.58	\$36.78	\$39.25	N/A	\$1.53
6"	\$58.86	\$65.14	\$73.57	\$78.50	N/A	\$3.07
8"	\$94.18	\$104.23	\$117.70	\$125.60	N/A	\$4.91
10"	\$135.38	\$149.82	\$169.20	\$180.55	N/A	\$7.06
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>						
3,000 Gallons	\$20.13	\$22.27	\$37.13	\$28.95		
5,000 Gallons	\$24.13	\$26.69	\$50.11	\$35.69		
10,000 Gallons	\$36.68	\$40.59	\$95.52	\$63.02		

Aqua Utilities Florida, Inc. - Wastewater Band 1					Schedule No. 5-B	
Wastewater Monthly Service Rates					Docket No. 100330-WS	
Test Year Ended 4/30/10						
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Staff Recomm. Final	2-year Rate Reduction	4-year Rate Reduction
<u>Residential</u>						
Base Facility Charge All Meter Sizes:	\$17.13	\$21.50	\$37.87	\$23.32	N/A	\$0.90
Gallage Charge - Per 1,000 gallons (6,000 gallon cap)	\$4.75	\$5.96	\$9.53	\$7.88	N/A	\$0.30
<u>General Service</u>						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	\$17.13	\$21.50	\$37.87	\$23.32	N/A	\$0.90
3/4"	\$25.70	\$32.25	\$56.81	\$34.98	N/A	\$1.35
1"	\$42.84	\$53.76	\$94.68	\$58.30	N/A	\$2.25
1-1/2"	\$85.66	\$107.49	\$189.36	\$116.60	N/A	\$4.50
2"	\$137.07	\$172.01	\$302.97	\$186.56	N/A	\$7.19
3"	\$274.12	\$343.99	\$605.94	\$373.12	N/A	\$14.39
4"	\$428.00	\$537.48	\$946.78	\$583.00	N/A	\$22.48
6"	\$856.63	\$1,074.98	\$1,893.57	\$1,166.00	N/A	\$44.96
8"	\$1,370.61	\$1,719.97	\$3,029.70	\$1,865.60	N/A	\$71.93
10"	\$1,970.24	\$2,472.44	\$4,355.20	\$2,681.80	N/A	\$103.40
Gallage Charge, per 1,000 Gallons	\$5.69	\$7.14	\$11.43	\$9.46	N/A	\$0.36
<u>Flat Rate Residential</u>						
Valencia Terrace	\$32.72	\$32.72	\$0.00	\$40.46	N/A	\$1.56
Flat Rate Residential	N/A	N/A	\$73.91	N/A	N/A	N/A
Flat Rate General Service	N/A	N/A	\$475.78	N/A	N/A	N/A
Reuse per Sprinkler Head	N/A	N/A	\$0.50	N/A	N/A	N/A
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>						
3,000 Gallons	\$31.38	\$39.38	\$66.46	\$46.96		
5,000 Gallons	\$40.88	\$51.30	\$85.52	\$62.72		
10,000 Gallons	\$45.63	\$57.26	\$95.05	\$70.60		
(Wastewater Gallage Cap - 6,000 Gallons)						

Aqua Utilities Florida, Inc. - Water Band 2 Schedule of Water Rate Base Test Year Ended 4/30/10				Schedule No. 1-A Docket No. 100330-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$6,627,158	\$507,678	\$7,134,836	\$23,352	\$7,158,188
2 Land and Land Rights	55,132	0	55,132	0	55,132
3 Non-used and Useful Components	0	(616,233)	(616,233)	(45,682)	(661,915)
4 Accumulated Depreciation	(1,932,975)	(57,867)	(1,990,842)	61,717	(1,929,125)
5 CIAC	(1,231,111)	0	(1,231,111)	0	(1,231,111)
6 Amortization of CIAC	324,656	0	324,656	0	324,656
7 Working Capital Allowance	<u>0</u>	<u>375,622</u>	<u>375,622</u>	<u>(56,857)</u>	<u>318,765</u>
8 Rate Base	<u>\$3,842,860</u>	<u>\$209,200</u>	<u>\$4,052,060</u>	<u>(\$17,470)</u>	<u>\$4,034,590</u>

Aqua Utilities Florida, Inc. - Wastewater Band 2			Schedule No. 3-A		
Schedule of Wastewater Rate Base			Docket No. 100330-WS		
Test Year Ended 4/30/10					
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$13,928,482	\$1,528,184	\$15,456,666	(\$358,486)	\$15,098,180
2 Land and Land Rights	490,698	(105,812)	384,886	160,093	544,979
3 Non-used and Useful Components	0	(173,991)	(173,991)	(128,717)	(302,708)
4 Accumulated Depreciation	(6,540,493)	40,349	(6,500,144)	150,203	(6,349,941)
5 CIAC	(2,878,828)	0	(2,878,828)	0	(2,878,828)
6 Amortization of CIAC	1,910,455	0	1,910,455	0	1,910,455
7 Working Capital Allowance	0	607,703	607,703	(59,852)	547,851
8 Rate Base	<u>\$6,910,314</u>	<u>\$1,896,433</u>	<u>\$8,806,747</u>	<u>(\$236,759)</u>	<u>\$8,569,988</u>

Aqua Utilities Florida, Inc. - Band 2 for Water and Wastewater Adjustments to Rate Base Test Year Ended 4/30/10		Schedule No. 3-C Docket No. 100330-WS	
Explanation	Water	Wastewater	
<u>Plant In Service</u>			
1 Type A Approved Sitpulations.	\$16,594	(\$359,540)	
2 Reflect the appropriate amount of pro forma projects. (Issue 3)	21,004	0	
3 Appropriate affiliate-allocation plant costs. (Issue 18)	<u>(14,247)</u>	<u>1,054</u>	
Total	<u>\$23,352</u>	<u>(\$358,486)</u>	
<u>Land</u>			
Type A Approved Sitpulations.	<u>\$0</u>	<u>\$160,093</u>	
<u>Non-used and Useful</u>			
To reflect net non-used and useful adjustment. (Issues 4-7)	<u>(\$45,682)</u>	<u>(\$128,717)</u>	
<u>Accumulated Depreciation</u>			
1 Type A Approved Sitpulations.	\$46,180	\$125,161	
2 Reflect the appropriate amount of pro forma projects. (Issue 3)	(93)	0	
3 Appropriate affiliate-allocation plant costs. (Issue 18)	<u>15,630</u>	<u>25,042</u>	
Total	<u>\$61,717</u>	<u>\$150,203</u>	
<u>Working Capital</u>			
1 Type A Approved Sitpulations.	(\$122,724)	(\$131,400)	
2 To amortize Phase I Monitoring Plan Costs. (Issue 1)	6,244	11,452	
3 Reflect appropriate deferred rate case expense. (Issue 8)	<u>59,622</u>	<u>60,096</u>	
Total	<u>(\$56,857)</u>	<u>(\$59,852)</u>	

Aqua Utilities Florida, Inc. - Water Band 2						Schedule No. 4-A	
Statement of Water Operations						Docket No. 100330-WS	
Test Year Ended 4/30/10							
Description	Test Year Per Utility	Utility Adjustments	Adjusted Test Year Per Utility	Staff Adjustments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$1,219,629</u>	<u>\$400,459</u>	<u>\$1,620,088</u>	<u>(\$419,173)</u>	<u>\$1,200,915</u>	<u>\$297,849</u> 24.80%	<u>\$1,498,764</u>
Operating Expenses							
2 Operation & Maintenance	\$693,596	\$115,399	\$808,995	(\$78,885)	\$730,110		\$730,110
3 Depreciation	142,446	32,326	174,772	(17,305)	157,467		157,467
4 Amortization	0	9,125	9,125	0	9,125		9,125
5 Taxes Other Than Income	210,070	(32,147)	177,923	(27,010)	150,913	13,403	164,317
6 Income Taxes	<u>66,934</u>	<u>76,751</u>	<u>143,685</u>	<u>(114,217)</u>	<u>29,468</u>	<u>107,037</u>	<u>136,505</u>
7 Total Operating Expense	<u>1,113,046</u>	<u>201,454</u>	<u>1,314,500</u>	<u>(237,416)</u>	<u>1,077,084</u>	<u>120,440</u>	<u>1,197,524</u>
8 Operating Income	<u>\$106,583</u>	<u>\$199,005</u>	<u>\$305,588</u>	<u>(\$181,757)</u>	<u>\$123,831</u>	<u>\$177,409</u>	<u>\$301,240</u>
9 Rate Base	<u>\$3,842,860</u>		<u>\$4,052,060</u>		<u>\$4,034,590</u>		<u>\$4,034,590</u>
10 Rate of Return	<u>2.77%</u>		<u>7.54%</u>		<u>3.07%</u>		<u>7.47%</u>

Aqua Utilities Florida, Inc. - Wastewater Band 2						Schedule No. 4-A	
Statement of Wastewater Operations						Docket No. 100330-WS	
Test Year Ended 4/30/10							
Description	Test Year Per Utility	Utility Adjustments	Adjusted Test Year Per Utility	Staff Adjustments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$3,360,115</u>	<u>\$556,647</u>	<u>\$3,916,762</u>	<u>(\$512,659)</u>	<u>\$3,404,103</u>	<u>\$215,626</u> 6.33%	<u>\$3,619,729</u>
Operating Expenses							
2 Operation & Maintenance	\$1,836,745	\$184,348	\$2,021,093	(\$165,371)	\$1,855,722		\$1,855,722
3 Depreciation	439,738	119,387	559,125	(55,199)	503,926		503,926
4 Amortization	0	11,604	11,604	0	11,604		11,604
5 Taxes Other Than Income	225,313	117,092	342,405	(33,458)	308,947	9,703	318,651
6 Income Taxes	<u>331,096</u>	<u>(16,813)</u>	<u>314,283</u>	<u>(101,817)</u>	<u>212,466</u>	<u>77,489</u>	<u>289,955</u>
7 Total Operating Expense	<u>2,832,892</u>	<u>415,618</u>	<u>3,248,510</u>	<u>(355,845)</u>	<u>2,892,665</u>	<u>87,192</u>	<u>2,979,857</u>
8 Operating Income	<u>\$527,223</u>	<u>\$141,029</u>	<u>\$668,252</u>	<u>(\$156,814)</u>	<u>\$511,438</u>	<u>\$128,434</u>	<u>\$639,872</u>
9 Rate Base	<u>\$6,910,314</u>		<u>\$8,806,747</u>		<u>\$8,569,988</u>		<u>\$8,569,988</u>
10 Rate of Return	<u>7.63%</u>		<u>7.59%</u>		<u>5.97%</u>		<u>7.47%</u>

Aqua Utilities Florida, Inc. - Band 2 for Water and Wastewater		Schedule No. 4-C	
Adjustment to Operating Income		Docket No. 100330-WS	
Test Year Ended 4/30/10			
Explanation	Water	Wastewater	
<u>Operating Revenues</u>			
1 Remove requested final revenue increase.	(\$394,294)	(\$393,645)	
2 Reflect appropriate amount of annualized revenues. (Issue 15)	<u>(24,879)</u>	<u>(119,014)</u>	
Total	<u>(\$419,173)</u>	<u>(\$512,659)</u>	
<u>Operation and Maintenance Expense</u>			
1 Type A Approved Sitpulations.	(\$26,439)	(\$92,531)	
2 To amortize Phase I Monitoring Plan Costs. (Issue 1)	(6,244)	(11,452)	
3 Reflect effect of additional AAI customers. (Issue 16)	(3,113)	(5,632)	
4 Reflect appropriate affiliate-allocation expenses. (Issue 17)	(20,179)	(75,518)	
5 Remove executive incentive compensation. (Issue 19)	(4,898)	(8,397)	
6 Reflect amount of salaries & wages. (Issue 20)	(16,025)	(25,173)	
7 Reflect appropriate amount of bad debt expense. (Issue 21)	(22,027)	16,602	
8 Reflect appropriate amount of rate case expense. (Issue 22)	<u>20,040</u>	<u>36,729</u>	
Total	<u>(\$78,885)</u>	<u>(\$165,371)</u>	
<u>Depreciation Expense - Net</u>			
1 Type A Approved Sitpulations.	(\$424)	(\$19,609)	
2 Reflect the appropriate amount of pro forma projects. (Issue 3)	93	0	
3 Reflect appropriate non-U&U depreciation expense. (Issues 4-7)	(1,343)	(10,548)	
4 Appropriate affiliate-allocation plant costs. (Issue 18)	<u>(15,630)</u>	<u>(25,042)</u>	
Total	<u>(\$17,305)</u>	<u>(\$55,199)</u>	
<u>Amotization-Other Expense</u>			
Appropriate Regulatory Asset. (Issue 38)	<u>\$0</u>	<u>(\$14,715)</u>	
<u>Taxes Other Than Income</u>			
1 RAFs on revenue adjustments above.	(\$18,863)	(\$23,070)	
2 Type A Approved Sitpulations.	(855)	(6,171)	
3 Reflect the appropriate amount of pro forma projects. (Issue 3)	671	0	
4 Reflect appropriate non-U&U property taxes. (Issues 4-7)	(6,737)	(2,291)	
5 Reflect corresponding payroll taxes on salaries & wages adjustment. (Issue 20)	<u>(1,226)</u>	<u>0</u>	
Total	<u>(\$27,010)</u>	<u>(\$31,532)</u>	

**Aqua Utilities Florida, Inc. - Water Band 2
 Water Monthly Service Rates
 Test Year Ended 4/30/10**

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Staff Recomm. Final	2-year Rate Reduction	4-year Rate Reduction
<u>Residential, General Service and Multi-Family</u>						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	\$16.29	\$18.91	\$17.66	\$22.87	N/A	\$0.69
3/4"	\$24.44	\$28.37	\$26.48	\$34.31	N/A	\$1.03
1"	\$40.73	\$47.29	\$44.14	\$57.18	N/A	\$1.72
1-1/2"	\$81.46	\$94.57	\$88.28	\$114.35	N/A	\$3.44
2"	\$130.34	\$151.32	\$141.24	\$182.96	N/A	\$5.50
3"	\$260.69	\$302.66	\$282.49	\$365.92	N/A	\$11.00
4"	\$407.31	\$472.88	\$441.39	\$571.75	N/A	\$17.18
6"	\$814.63	\$945.77	\$882.78	\$1,143.50	N/A	\$34.37
8"	\$1,303.41	\$1,513.24	\$1,412.44	\$1,829.60	N/A	\$54.99
10"	\$1,873.65	\$2,175.27	\$2,030.39	\$2,630.05	N/A	\$79.04
Gallonge Charge RS Tier One	\$3.82	\$4.43	\$6.49	\$6.06	N/A	\$0.18
Gallonge Charge RS Tier Two	\$4.77	\$5.54	\$9.73	\$9.09	N/A	\$0.27
Gallonge Charge RS Tier Three	\$11.46	\$13.30	\$12.98	\$12.12	N/A	\$0.36
Gallonge Charge GS	\$5.33	\$6.19	\$6.98	\$7.00	N/A	\$0.21
<u>Irrigation</u>						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	\$0.00	\$0.00	\$17.66	\$22.87	N/A	\$0.69
3/4"	\$0.00	\$0.00	\$26.48	\$34.31	N/A	\$1.03
1"	\$0.00	\$0.00	\$44.14	\$57.18	N/A	\$1.72
1-1/2"	\$0.00	\$0.00	\$88.28	\$114.35	N/A	\$3.44
2"	\$0.00	\$0.00	\$141.24	\$182.96	N/A	\$5.50
3"	\$0.00	\$0.00	\$282.49	\$365.92	N/A	\$11.00
4"	\$0.00	\$0.00	\$441.39	\$571.75	N/A	\$17.18
Gallonge Charge Tier one	\$0.00	\$0.00	\$6.49	\$6.06	N/A	\$0.18
Gallonge Charge Tier two	\$0.00	\$0.00	\$9.73	\$9.09	N/A	\$0.27
Gallonge Charge Tier three	\$0.00	\$0.00	\$12.98	\$12.12	N/A	\$0.36
<u>Private Fire Protection</u>						
Base Facility Charge by Meter Size:						
2"	\$10.86	\$12.61	\$11.77	\$15.25	N/A	\$0.46
3"	\$21.72	\$25.22	\$23.54	\$30.49	N/A	\$0.92
4"	\$33.94	\$39.41	\$36.78	\$47.65	N/A	\$1.43
6"	\$67.89	\$78.81	\$73.57	\$95.29	N/A	\$2.86
8"	\$108.61	\$126.09	\$117.70	\$152.47	N/A	\$4.58
10"	\$156.14	\$181.27	\$169.20	\$219.17	N/A	\$6.59
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>						
3,000 Gallons	\$27.75	\$32.20	\$37.13	\$41.05		
5,000 Gallons	\$35.39	\$41.06	\$50.11	\$53.17		
10,000 Gallons	\$59.24	\$68.76	\$95.52	\$95.59		

Aqua Utilities Florida, Inc. - Wastewater Band 2					Schedule No. 5-B	
Wastewater Monthly Service Rates					Docket No. 100330-WS	
Test Year Ended 4/30/10						
	Rates Prior to Filing	Commissior Approved Interim	Utility Requested Final	Staff Recomm. Final	2-year Rate Reduction	4-year Rate Reduction
<u>Residential</u>						
Base Facility Charge All Meter Sizes:	\$35.44	\$35.44	\$37.87	\$34.87	N/A	\$0.80
Gallonge Charge - Per 1,000 gallons (6,000 gallon cap)	\$7.11	\$7.11	\$9.53	\$8.99	N/A	\$0.21
<u>General Service</u>						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	\$35.44	\$35.44	\$37.87	\$34.87	N/A	\$0.80
3/4"	\$53.16	\$53.16	\$56.81	\$52.31	N/A	\$1.19
1"	\$88.60	\$88.60	\$94.68	\$87.18	N/A	\$1.99
1-1/2"	\$177.19	\$177.19	\$189.36	\$174.35	N/A	\$3.98
2"	\$283.52	\$283.52	\$302.97	\$278.96	N/A	\$6.36
3"	\$567.03	\$567.03	\$605.94	\$557.92	N/A	\$12.73
4"	\$885.99	\$885.99	\$946.78	\$871.75	N/A	\$19.89
6"	\$1,771.89	\$1,771.89	\$1,893.57	\$1,743.50	N/A	\$39.78
8"	\$2,835.19	\$2,835.19	\$3,029.70	\$2,789.60	N/A	\$63.64
10"	\$4,075.58	\$4,075.58	\$4,355.20	\$4,010.05	N/A	\$91.49
Gallonge Charge, per 1,000 Gallons	\$8.53	\$8.53	\$11.43	\$10.79	N/A	\$0.25
<u>Flat Rate Residential</u>						
Sunny Hills	\$56.44	\$56.44	\$0.00	\$60.01	N/A	\$1.37
Zephyr Shores	\$47.02	\$47.02	\$0.00	\$50.00	N/A	\$1.14
Flat Rate Residential	N/A	N/A	\$73.91	N/A	N/A	N/A
Flat Rate General Service	N/A	N/A	\$475.78	N/A	N/A	N/A
Reuse per Sprinkler Head	N/A	N/A	\$0.50	N/A	N/A	N/A
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>						
3,000 Gallons	\$56.77	\$56.77	\$66.46	\$61.84		
5,000 Gallons	\$70.99	\$70.99	\$85.52	\$79.82		
10,000 Gallons	\$78.10	\$78.10	\$95.05	\$88.81		
(Wastewater Gallonge Cap - 6,000 Gallons)						

Aqua Utilities Florida, Inc. - Water Band 3 Schedule of Water Rate Base Test Year Ended 4/30/10				Schedule No. 3-A Docket No. 100330-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$1,796,771	\$189,991	\$1,986,762	(\$8,062)	\$1,978,700
2 Land and Land Rights	32,752	0	32,752	0	32,752
3 Non-used and Useful Components	0	(38,983)	(38,983)	(403)	(39,386)
4 Accumulated Depreciation	(552,604)	(54,170)	(606,774)	14,663	(592,111)
5 CIAC	(436,206)	0	(436,206)	0	(436,206)
6 Amortization of CIAC	211,746	0	211,746	0	211,746
7 Working Capital Allowance	<u>0</u>	<u>225,478</u>	<u>225,478</u>	<u>(35,177)</u>	<u>190,301</u>
8 Rate Base	<u>\$1,052,459</u>	<u>\$322,316</u>	<u>\$1,374,775</u>	<u>(\$28,979)</u>	<u>\$1,345,796</u>

Aqua Utilities Florida, Inc. - Wastewater Band 3				Schedule No. 3-B	
Schedule of Wastewater Rate Base				Docket No. 100330-WS	
Test Year Ended 4/30/10					
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$3,677,330	\$199,857	\$3,877,187	(\$127,183)	\$3,750,004
2 Land and Land Rights	155,033	0	155,033	0	155,033
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(1,089,003)	(25,821)	(1,114,824)	(4,681)	(1,119,505)
5 CIAC	(422,578)	0	(422,578)	0	(422,578)
6 Amortization of CIAC	207,858	0	207,858	0	207,858
7 Working Capital Allowance	<u>0</u>	<u>72,153</u>	<u>72,153</u>	<u>27,881</u>	<u>100,034</u>
8 Rate Base	<u>\$2,528,640</u>	<u>\$246,189</u>	<u>\$2,774,829</u>	<u>(\$103,983)</u>	<u>\$2,670,846</u>

Aqua Utilities Florida, Inc. - Band 3 for Water and Wastewater Adjustments to Rate Base Test Year Ended 4/30/10		Schedule No. 3-C Docket No. 100330-WS	
Explanation	Water	Wastewater	
<u>Plant In Service</u>			
1 Type A Approved Sitpulations.	\$1,910	(\$124,748)	
2 Reflect the appropriate amount of pro forma projects. (Issue 3)	0	0	
3 Appropriate affiliate-allocation plant costs. (Issue 18)	<u>(9,972)</u>	<u>(2,435)</u>	
Total	<u>(\$8,062)</u>	<u>(\$127,183)</u>	
<u>Non-used and Useful</u>			
To reflect net non-used and useful adjustment. (Issues 4-7)	<u>(\$403)</u>	<u>\$0</u>	
<u>Accumulated Depreciation</u>			
1 Type A Approved Sitpulations.	\$4,947	(\$8,097)	
2 Reflect the appropriate amount of pro forma projects. (Issue 3)	0	0	
3 Appropriate affiliate-allocation plant costs. (Issue 18)	<u>9,716</u>	<u>3,416</u>	
Total	<u>\$14,663</u>	<u>(\$4,681)</u>	
<u>Working Capital</u>			
1 Type A Approved Sitpulations.	(\$75,939)	(\$27,264)	
2 To amortize Phase I Monitoring Plan Costs. (Issue 1)	3,814	1,406	
3 Reflect appropriate deferred rate case expense. (Issue 8)	<u>36,948</u>	<u>53,739</u>	
Total	<u>(\$35,177)</u>	<u>\$27,881</u>	

Aqua Utilities Florida, Inc. - Water Band 3 Statement of Water Operations Test Year Ended 4/30/10						Schedule No. 4-A Docket No. 100330-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$910,056</u>	<u>\$6,587</u>	<u>\$916,643</u>	<u>(\$8,796)</u>	<u>\$907,847</u>	<u>\$8,796</u> 0.97%	<u>\$916,643</u>
Operating Expenses							
2 Operation & Maintenance	\$565,731	\$65,967	\$631,698	\$68,352	\$700,050		\$700,050
3 Depreciation	36,515	27,206	63,721	(10,482)	53,239		53,239
4 Amortization	0	2,275	2,275	0	2,275		2,275
5 Taxes Other Than Income	65,436	428	65,864	(1,265)	64,599	396	64,995
6 Income Taxes	<u>93,496</u>	<u>(44,565)</u>	<u>48,931</u>	<u>(25,348)</u>	<u>23,583</u>	<u>3,161</u>	<u>26,744</u>
7 Total Operating Expense	<u>761,178</u>	<u>51,311</u>	<u>812,489</u>	<u>31,257</u>	<u>843,746</u>	<u>3,557</u>	<u>847,302</u>
8 Operating Income	<u>\$148,878</u>	<u>(\$44,724)</u>	<u>\$104,154</u>	<u>(\$40,052)</u>	<u>\$64,102</u>	<u>\$5,239</u>	<u>\$69,341</u>
9 Rate Base	<u>\$1,052,459</u>		<u>\$1,374,775</u>		<u>\$1,345,796</u>		<u>\$1,345,796</u>
10 Rate of Return	<u>14.15%</u>		<u>7.58%</u>		<u>4.76%</u>		<u>5.15%</u>

Aqua Utilities Florida, Inc. - Wastewater Band 3						Schedule No. 4-B	
Statement of Wastewater Operations						Docket No. 100330-WS	
Test Year Ended 4/30/10							
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$401,648</u>	<u>\$523,730</u>	<u>\$925,378</u>	<u>(\$505,310)</u>	<u>\$420,068</u>	<u>\$489,937</u> 116.63%	<u>\$910,005</u>
Operating Expenses							
2 Operation & Maintenance	\$365,583	\$11,692	\$377,275	(\$113,485)	\$263,790		\$263,790
3 Depreciation	124,914	14,149	139,063	(7,001)	132,062		132,062
4 Amortization	0	871	871	124,289	125,160		125,160
5 Taxes Other Than Income	21,394	81,175	102,569	(25,405)	77,164	22,047	99,212
6 Income Taxes	<u>(42,526)</u>	<u>140,310</u>	<u>97,784</u>	<u>(183,486)</u>	<u>(85,702)</u>	<u>176,067</u>	<u>90,365</u>
7 Total Operating Expense	<u>469,365</u>	<u>248,197</u>	<u>717,562</u>	<u>(205,088)</u>	<u>512,474</u>	<u>198,114</u>	<u>710,588</u>
8 Operating Income	<u>(\$67,717)</u>	<u>\$275,533</u>	<u>\$207,816</u>	<u>(\$300,222)</u>	<u>(\$92,406)</u>	<u>\$291,823</u>	<u>\$199,417</u>
9 Rate Base	<u>\$2,528,640</u>		<u>\$2,774,829</u>		<u>\$2,670,846</u>		<u>\$2,670,846</u>
10 Rate of Return	<u>-2.68%</u>		<u>7.49%</u>		<u>-3.46%</u>		<u>7.47%</u>

Aqua Utilities Florida, Inc. - Band 3 for Water and Wastewater Adjustment to Operating Income Test Year Ended 4/30/10		Schedule No. 4-C Docket No. 100330-WS	
Explanation	Water	Wastewater	
<u>Operating Revenues</u>			
1 Remove requested final revenue increase.	\$6,525	(\$506,211)	
2 Reflect appropriate amount of annualized revenues. (Issue 15)	<u>(15,321)</u>	<u>901</u>	
Total	<u>(\$8,796)</u>	<u>(\$505,310)</u>	
<u>Operation and Maintenance Expense</u>			
1 Type A Approved Sitpulations.	\$108,934	(\$50,649)	
2 To amortize Phase I Monitoring Plan Costs. (Issue 1)	(3,814)	(1,406)	
3 Reflect effect of additional AAI customers. (Issue 16)	(1,906)	(699)	
4 Reflect appropriate affiliate-allocation expenses. (Issue 17)	(12,999)	(44,686)	
5 Remove executive incentive compensation. (Issue 19)	(3,031)	(1,088)	
6 Reflect amount of salaries & wages. (Issue 20)	(8,085)	(8,427)	
7 Reflect appropriate amount of bad debt expense. (Issue 21)	(22,987)	(11,052)	
8 Reflect appropriate amount of rate case expense. (Issue 22)	<u>12,240</u>	<u>4,523</u>	
Total	<u>\$68,352</u>	<u>(\$113,485)</u>	
<u>Depreciation Expense - Net</u>			
1 Type A Approved Sitpulations.	(\$973)	(\$3,585)	
2 Reflect the appropriate amount of pro forma projects. (Issue 3)	0	0	
3 Reflect appropriate non-U&U depreciation expense. (Issues 4-7)	207	0	
4 Appropriate affiliate-allocation plant costs. (Issue 18)	<u>(9,716)</u>	<u>(3,416)</u>	
Total	<u>(\$10,482)</u>	<u>(\$7,001)</u>	
<u>Amotization-Other Expense</u>			
Appropriate Regulatory Asset. (Issue 38)	<u>\$0</u>	<u>\$124,289</u>	
<u>Taxes Other Than Income</u>			
1 RAFs on revenue adjustments above.	(\$396)	(\$22,739)	
2 Type A Approved Sitpulations.	(261)	(2,021)	
3 Reflect the appropriate amount of pro forma projects. (Issue 3)	0	0	
4 Reflect appropriate non-U&U property taxes. (Issues 4-7)	10	0	
5 Reflect corresponding payroll taxes on salaries & wages adjustment. (Issue 20)	<u>(618)</u>	<u>0</u>	
Total	<u>(\$1,265)</u>	<u>(\$24,760)</u>	

Aqua Utilities Florida, Inc. - Water Band 3 Water Monthly Service Rates Test Year Ended 4/30/10					Schedule 5-A Docket No. 100330-WS	
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Staff Recomm. Final	2-year Rate Reduction	4-year Rate Reduction
<u>Residential, General Service and Multi-Family</u>						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	\$16.68	\$16.68	\$17.66	\$22.87	N/A	\$0.69
3/4"	\$25.02	\$25.02	\$26.48	\$34.31	N/A	\$1.03
1"	\$41.71	\$41.71	\$44.14	\$57.18	N/A	\$1.72
1-1/2"	\$83.42	\$83.42	\$88.28	\$114.35	N/A	\$3.43
2"	\$133.47	\$133.47	\$141.24	\$182.96	N/A	\$5.49
3"	\$266.92	\$266.92	\$282.49	\$365.92	N/A	\$10.98
4"	\$417.07	\$417.07	\$441.39	\$571.75	N/A	\$17.16
6"	\$834.14	\$834.14	\$882.78	\$1,143.50	N/A	\$34.32
8"	\$1,334.62	\$1,334.62	\$1,412.44	\$1,829.60	N/A	\$54.91
10"	\$1,918.52	\$1,918.52	\$2,030.39	\$2,630.05	N/A	\$78.94
Gallage Charge Tier one	\$5.01	\$5.01	\$6.49	\$6.06	N/A	\$0.18
Gallage Charge Tier two	\$6.26	\$6.26	\$9.73	\$9.09	N/A	\$0.27
Gallage Charge Tier three	\$15.03	\$15.03	\$12.98	\$12.12	N/A	\$0.36
Gallage Charge GS	\$6.14	\$6.14	\$6.98	\$7.00	N/A	\$0.21
<u>Irrigation</u>						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	\$0.00	\$0.00	\$17.66	\$22.87	N/A	\$0.69
3/4"	\$0.00	\$0.00	\$26.48	\$34.31	N/A	\$1.03
1"	\$0.00	\$0.00	\$44.14	\$57.18	N/A	\$1.72
1-1/2"	\$0.00	\$0.00	\$88.28	\$114.35	N/A	\$3.43
2"	\$0.00	\$0.00	\$141.24	\$182.96	N/A	\$5.49
3"	\$0.00	\$0.00	\$282.49	\$365.92	N/A	\$10.98
4"	\$0.00	\$0.00	\$441.39	\$571.75	N/A	\$17.16
Gallage Charge Tier one	\$0.00	\$0.00	\$6.49	\$6.06	N/A	\$0.18
Gallage Charge Tier two	\$0.00	\$0.00	\$9.73	\$9.09	N/A	\$0.27
Gallage Charge Tier three	\$0.00	\$0.00	\$12.98	\$12.12	N/A	\$0.36
<u>Private Fire Protection</u>						
Base Facility Charge by Meter Size:						
2"	\$11.12	\$11.12	\$11.77	\$15.25	N/A	\$0.46
3"	\$22.24	\$22.24	\$23.54	\$30.49	N/A	\$0.92
4"	\$34.76	\$34.76	\$36.78	\$47.65	N/A	\$1.43
6"	\$69.51	\$69.51	\$73.57	\$95.29	N/A	\$2.86
8"	\$111.22	\$111.22	\$117.70	\$152.47	N/A	\$4.58
10"	\$159.88	\$159.88	\$169.20	\$219.17	N/A	\$6.58
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>						
3,000 Gallons	\$31.71	\$31.71	\$37.13	\$61.58		
5,000 Gallons	\$41.73	\$41.73	\$50.11	\$79.76		
10,000 Gallons	\$73.03	\$73.03	\$95.52	\$95.59		

Aqua Utilities Florida, Inc. - Wastewater Band 3					Schedule 5-B	
Wastewater Monthly Service Rates					Docket No. 100330-WS	
Test Year Ended 4/30/10						
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Staff Recomm. Final	2-year Rate Reduction	4-year Rate Reduction
<u>Residential</u>						
Base Facility Charge All Meter Sizes:	\$29.41	\$33.82	\$37.87	\$34.87	\$4.99	\$0.39
Gallage Charge - Per 1,000 gallons (6,000 gallon cap)	\$8.99	\$10.34	\$9.53	\$8.99	\$1.29	\$0.10
<u>General Service</u>						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	\$29.41	\$33.82	\$37.87	\$34.87	\$4.99	\$0.39
3/4"	\$44.12	\$50.74	\$56.81	\$52.31	\$7.48	\$0.58
1"	\$73.53	\$84.57	\$94.68	\$87.18	\$12.47	\$0.97
1-1/2"	\$147.07	\$169.14	\$189.36	\$174.35	\$24.93	\$1.95
2"	\$235.31	\$270.63	\$302.97	\$278.96	\$39.90	\$3.11
3"	\$470.63	\$541.26	\$605.94	\$557.92	\$79.79	\$6.23
4"	\$735.35	\$845.71	\$946.78	\$871.75	\$124.67	\$9.73
6"	\$1,470.70	\$1,691.42	\$1,893.57	\$1,743.50	\$249.35	\$19.45
8"	\$2,353.13	\$2,706.29	\$3,029.70	\$2,789.60	\$398.96	\$31.13
10"	\$3,382.61	\$3,890.27	\$4,355.20	\$4,010.05	\$573.50	\$44.75
Gallage Charge, per 1,000 Gallons	\$10.78	\$12.40	\$11.43	\$10.79	\$1.54	\$0.12
<u>Flat Rate Residential</u>						
Jungle Den	\$39.73	\$45.69	N/A	\$86.07	N/A	\$0.96
Lake Gibson Estates	\$83.33	\$95.84	N/A	\$180.52	N/A	\$2.01
<u>Flat Rate General Service</u>						
Lake Gibson Estates	\$518.69	\$596.54	\$0.00	N/A	N/A	N/A
Flat Rate Residential	N/A	N/A	\$73.91	N/A	N/A	N/A
Flat Rate General Service	N/A	N/A	\$475.78	N/A	N/A	N/A
Reuse per Sprinkler Head	N/A	N/A	\$0.50	N/A	N/A	N/A
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>						
3,000 Gallons	\$56.38	\$64.84	\$66.46	\$61.84		
5,000 Gallons	\$74.36	\$85.52	\$85.52	\$79.82		
10,000 Gallons	\$83.35	\$95.86	\$95.05	\$88.81		
(Wastewater Gallage Cap - 6,000 Gallons)						

Aqua Utilities Florida, Inc. - Water Band 4 Schedule of Water Rate Base Test Year Ended 4/30/10				Schedule No. 3-A Docket No. 100330-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$10,516,464	\$1,260,629	\$11,777,093	(\$71,779)	\$11,705,314
2 Land and Land Rights	127,298	0	127,298	0	127,298
3 Non-used and Useful Components	0	(203,268)	(203,268)	(115,072)	(318,340)
4 Accumulated Depreciation	(2,356,969)	(143,751)	(2,500,720)	120,172	(2,380,548)
5 CIAC	(2,303,726)	36,394	(2,267,332)	0	(2,267,332)
6 Amortization of CIAC	1,229,588	(4,104)	1,225,484	0	1,225,484
7 Working Capital Allowance	<u>0</u>	<u>1,060,448</u>	<u>1,060,448</u>	<u>(154,257)</u>	<u>906,191</u>
8 Rate Base	<u>\$7,212,655</u>	<u>\$2,006,348</u>	<u>\$9,219,003</u>	<u>(\$220,936)</u>	<u>\$8,998,067</u>

Aqua Utilities Florida, Inc. - Wastewater Band 4				Schedule No. 1-B	
Schedule of Wastewater Rate Base				Docket No. 100330-WS	
Test Year Ended 4/30/10					
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$2,683,843	\$260,253	\$2,944,096	(\$202,102)	\$2,741,994
2 Land and Land Rights	149,000	0	149,000	0	149,000
3 Non-used and Useful Components	0	(113,923)	(113,923)	(46,155)	(160,078)
4 Accumulated Depreciation	(1,174,028)	(17,559)	(1,191,587)	(16,728)	(1,208,315)
5 CIAC	(620,692)	0	(620,692)	0	(620,692)
6 Amortization of CIAC	382,728	0	382,728	0	382,728
7 Working Capital Allowance	<u>0</u>	<u>68,270</u>	<u>68,270</u>	<u>(1,385)</u>	<u>66,885</u>
8 Rate Base	<u>\$1,420,851</u>	<u>\$197,041</u>	<u>\$1,617,892</u>	<u>(\$266,370)</u>	<u>\$1,351,522</u>

Aqua Utilities Florida, Inc. - Band 4 for Water and Wastewater Adjustments to Rate Base Test Year Ended 4/30/10		Schedule No. 3-C Docket No. 100330-WS	
Explanation	Water	Wastewater	
<u>Plant In Service</u>			
1 Type A Approved Sitpulations.	(\$29,051)	(\$216,878)	
2 Reflect the appropriate amount of pro forma projects. (Issue 3)	(23,922)	0	
3 Appropriate affiliate-allocation plant costs. (Issue 18)	<u>(18,806)</u>	<u>14,776</u>	
Total	<u>(\$71,779)</u>	<u>(\$202,102)</u>	
<u>Non-used and Useful</u>			
To reflect net non-used and useful adjustment. (Issues 4- 7)	<u>(\$115,072)</u>	<u>(\$46,155)</u>	
<u>Accumulated Depreciation</u>			
1 Type A Approved Sitpulations.	\$79,314	(\$16,290)	
2 Reflect the appropriate amount of pro forma projects. (Issue 3)	190	0	
3 Appropriate affiliate-allocation plant costs. (Issue 18)	<u>40,668</u>	<u>(438)</u>	
Total	<u>\$120,172</u>	<u>(\$16,728)</u>	
<u>Working Capital</u>			
1 Type A Approved Sitpulations.	(\$330,285)	(\$4,349)	
2 To amortize Phase I Monitoring Plan Costs. (Issue 1)	17,354	697	
3 Reflect appropriate deferred rate case expense. (Issue 8)	<u>158,674</u>	<u>2,267</u>	
Total	<u>(\$154,257)</u>	<u>(\$1,385)</u>	

Aqua Utilities Florida, Inc. - Water Band 4 Statement of Water Operations Test Year Ended 4/30/10						Schedule No. 4-A Docket No. 100330-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$3,618,129</u>	<u>\$1,454,330</u>	<u>\$5,072,459</u>	<u>(\$1,256,212)</u>	<u>\$3,816,247</u>	<u>\$1,046,625</u> 27.43%	<u>\$4,862,872</u>
Operating Expenses							
2 Operation & Maintenance	\$2,888,518	\$360,534	\$3,249,052	(\$298,580)	\$2,950,472		\$2,950,472
3 Depreciation	201,621	140,536	342,157	(50,464)	291,693		291,693
4 Amortization	0	22,937	22,937	220,733	243,670		243,670
5 Taxes Other Than Income	404,493	23,586	428,079	(74,413)	353,666	47,098	400,764
6 Income Taxes	<u>47,639</u>	<u>281,807</u>	<u>329,446</u>	<u>(401,130)</u>	<u>(71,684)</u>	<u>376,122</u>	<u>304,438</u>
7 Total Operating Expense	<u>3,542,271</u>	<u>829,400</u>	<u>4,371,671</u>	<u>(603,853)</u>	<u>3,767,818</u>	<u>423,220</u>	<u>4,191,038</u>
8 Operating Income	<u>\$75,858</u>	<u>\$624,930</u>	<u>\$700,788</u>	<u>(\$652,359)</u>	<u>\$48,429</u>	<u>\$623,405</u>	<u>\$671,834</u>
9 Rate Base	<u>\$7,212,655</u>		<u>\$9,219,003</u>		<u>\$8,998,067</u>		<u>\$8,998,067</u>
10 Rate of Return	<u>1.05%</u>		<u>7.60%</u>		<u>0.54%</u>		<u>7.47%</u>

Aqua Utilities Florida, Inc. - Wastewater Band 4						Schedule No. 3-A	
Statement of Wastewater Operations						Docket No. 100330-WS	
Test Year Ended 4/30/10							
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$490,352</u>	<u>\$70,073</u>	<u>\$560,425</u>	<u>(\$50,005)</u>	<u>\$510,420</u>	<u>(\$6,822)</u> -1.34%	<u>\$503,598</u>
Operating Expenses							
2 Operation & Maintenance	\$268,984	\$6,979	\$275,963	(\$5,325)	\$270,638		\$270,638
3 Depreciation	25,126	10,878	36,004	(11,357)	24,647		24,647
4 Amortization	0	817	817	0	817		817
5 Taxes Other Than Income	48,154	19,329	67,483	(6,317)	61,166	(307)	60,859
6 Income Taxes	<u>57,125</u>	<u>531</u>	<u>57,656</u>	<u>(9,477)</u>	<u>48,179</u>	<u>(2,452)</u>	<u>45,727</u>
7 Total Operating Expense	<u>399,389</u>	<u>38,534</u>	<u>437,923</u>	<u>(32,477)</u>	<u>405,446</u>	<u>(2,759)</u>	<u>402,687</u>
8 Operating Income	<u>\$90,963</u>	<u>\$31,539</u>	<u>\$122,502</u>	<u>(\$17,528)</u>	<u>\$104,974</u>	<u>(\$4,064)</u>	<u>\$100,910</u>
9 Rate Base	<u>\$1,420,851</u>		<u>\$1,617,892</u>		<u>\$1,351,522</u>		<u>\$1,351,522</u>
10 Rate of Return	<u>6.40%</u>		<u>7.57%</u>		<u>7.77%</u>		<u>7.47%</u>

Aqua Utilities Florida, Inc. - Band 4 for Water and Wastewater Adjustment to Operating Income Test Year Ended 4/30/10		Schedule No. 4-C Docket No. 100330-WS	
Explanation	Water	Wastewater	
<u>Operating Revenues</u>			
1 Remove requested final revenue increase.	(\$1,368,020)	(\$26,887)	
2 Reflect appropriate amount of annualized revenues. (Issue 15)	<u>111,808</u>	<u>(23,118)</u>	
Total	<u>(\$1,256,212)</u>	<u>(\$50,005)</u>	
<u>Operation and Maintenance Expense</u>			
1 Type A Approved Sitpulations.	(\$145,719)	\$816	
2 To amortize Phase I Monitoring Plan Costs. (Issue 1)	(17,354)	(697)	
3 Reflect effect of additional AAI customers. (Issue 16)	(8,594)	(298)	
4 Reflect appropriate affiliate-allocation expenses. (Issue 17)	(20,765)	(2,844)	
5 Remove executive incentive compensation. (Issue 19)	(13,182)	(174)	
6 Reflect amount of salaries & wages. (Issue 20)	(40,070)	(5,111)	
7 Reflect appropriate amount of bad debt expense. (Issue 21)	(108,563)	740	
8 Reflect appropriate amount of rate case expense. (Issue 22)	<u>55,667</u>	<u>2,242</u>	
Total	<u>(\$298,580)</u>	<u>(\$5,325)</u>	
<u>Depreciation Expense - Net</u>			
1 Type A Approved Sitpulations.	(\$5,413)	(\$12,106)	
2 Reflect the appropriate amount of pro forma projects. (Issue 3)	(190)	0	
3 Reflect appropriate non-U&U depreciation expense. (Issues 4-7)	(4,193)	311	
4 Appropriate affiliate-allocation plant costs. (Issue 18)	<u>(40,668)</u>	<u>438</u>	
Total	<u>(\$50,464)</u>	<u>(\$11,357)</u>	
<u>Amotization-Other Expense</u>			
Appropriate Regulatory Asset. (Issue 38)	<u>\$220,733</u>	<u>\$0</u>	
<u>Taxes Other Than Income</u>			
1 RAFs on revenue adjustments above.	(\$56,530)	(\$2,250)	
2 Type A Approved Sitpulations.	(1,008)	(3,606)	
3 Reflect the appropriate amount of pro forma projects. (Issue 3)	(9,658)	0	
4 Reflect appropriate non-U&U property taxes. (Issues 4-7)	(4,152)	(70)	
5 Reflect corresponding payroll taxes on salaries & wages adjustment. (Issue 20)	<u>(3,065)</u>	<u>0</u>	
Total	<u>(\$74,413)</u>	<u>(\$5,926)</u>	

Aqua Utilities Florida, Inc. - Water Band 4 Water Monthly Service Rates Test Year Ended 4/30/10					Schedule No. 5-A Docket No. 100330-WS	
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Staff Recomm. Final	2-year Rate Reduction	4-year Rate Reduction
<u>Residential, General Service and Multi-Family</u>						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	\$15.71	\$15.71	\$17.66	\$17.39	\$0.83	\$0.45
3/4"	\$23.58	\$23.58	\$26.48	\$26.09	\$1.24	\$0.67
1"	\$39.29	\$39.29	\$44.14	\$43.48	\$2.07	\$1.12
1-1/2"	\$78.58	\$78.58	\$88.28	\$86.95	\$4.13	\$2.24
2"	\$125.73	\$125.73	\$141.24	\$139.12	\$6.61	\$3.58
3"	\$251.46	\$251.46	\$282.49	\$278.24	\$13.22	\$7.16
4"	\$392.91	\$392.91	\$441.39	\$434.75	\$20.66	\$11.19
6"	\$785.82	\$785.82	\$882.78	\$869.50	\$41.33	\$22.38
8"	\$1,257.32	\$1,257.32	\$1,412.44	\$1,391.20	\$66.12	\$35.81
10"	\$1,807.40	\$1,807.40	\$2,030.39	\$1,999.85	\$95.05	\$51.47
Gallage Charge Tier one	\$7.31	\$7.31	\$6.49	\$7.00	\$0.33	\$0.18
Gallage Charge Tier two	\$8.98	\$8.98	\$9.73	\$10.50	\$0.50	\$0.27
Gallage Charge Tier three	\$20.67	\$20.67	\$12.98	\$14.00	\$0.67	\$0.36
Gallage Charge GS	\$8.42	\$8.42	\$6.98	\$7.69	\$0.37	\$0.20
<u>Irrigation</u>						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	\$0.00	\$0.00	\$17.66	\$17.39	\$0.83	\$0.45
3/4"	\$0.00	\$0.00	\$26.48	\$26.09	\$1.24	\$0.67
1"	\$0.00	\$0.00	\$44.14	\$43.48	\$2.07	\$1.12
1-1/2"	\$0.00	\$0.00	\$88.28	\$86.95	\$4.13	\$2.24
2"	\$0.00	\$0.00	\$141.24	\$139.12	\$6.61	\$3.58
3"	\$0.00	\$0.00	\$282.49	\$278.24	\$13.22	\$7.16
4"	\$0.00	\$0.00	\$441.39	\$434.75	\$20.66	\$11.19
Gallage Charge Tier one	\$0.00	\$0.00	\$6.49	\$7.00	\$0.33	\$0.18
Gallage Charge Tier two	\$0.00	\$0.00	\$9.73	\$10.50	\$0.50	\$0.27
Gallage Charge Tier three	\$0.00	\$0.00	\$12.98	\$14.00	\$0.67	\$0.36
<u>Private Fire Protection</u>						
Base Facility Charge by Meter Size:						
2"	\$10.48	\$10.48	\$11.77	\$11.59	\$0.55	\$0.30
3"	\$20.96	\$20.96	\$23.54	\$23.19	\$1.10	\$0.60
4"	\$32.74	\$32.74	\$36.78	\$36.23	\$1.72	\$0.93
6"	\$65.48	\$65.48	\$73.57	\$72.46	\$3.44	\$1.86
8"	\$104.77	\$104.77	\$117.70	\$115.93	\$5.51	\$2.98
10"	\$150.61	\$150.61	\$169.20	\$166.65	\$7.92	\$4.29
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>						
3,000 Gallons	\$37.64	\$37.64	\$37.13	\$57.59		
5,000 Gallons	\$52.26	\$52.26	\$50.11	\$78.59		
10,000 Gallons	\$97.16	\$97.16	\$98.76	\$101.39		

Aqua Utilities Florida, Inc. - Wastewater Band 4					Schedule No. 5-B	
Wastewater Monthly Service Rates					Docket No. 100330-WS	
Test Year Ended 4/30/10						
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Staff Recomm. Final	2-year Rate Reduction	4-year Rate Reduction
<u>Residential</u>						
Base Facility Charge All Meter Sizes:	\$75.47	\$75.47	\$37.87	\$79.12	N/A	\$0.79
Gallonge Charge - Per 1,000 gallons (6,000 gallon cap)	\$9.37	\$9.37	\$9.53	\$7.96	N/A	\$0.08
<u>General Service</u>						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	\$75.47	\$75.47	\$37.87	\$79.12	N/A	\$0.79
3/4"	\$113.22	\$113.22	\$56.81	\$118.68	N/A	\$1.19
1"	\$188.69	\$188.69	\$94.68	\$197.80	N/A	\$1.98
1-1/2"	\$377.39	\$377.39	\$189.36	\$395.60	N/A	\$3.95
2"	\$603.82	\$603.82	\$302.97	\$632.96	N/A	\$6.33
3"	\$1,207.65	\$1,207.65	\$605.94	\$1,265.92	N/A	\$12.65
4"	\$1,886.95	\$1,886.95	\$946.78	\$1,978.00	N/A	\$19.77
6"	\$3,773.89	\$3,773.89	\$1,893.57	\$3,956.00	N/A	\$39.54
8"	\$6,038.22	\$6,038.22	\$3,029.70	\$6,329.60	N/A	\$63.27
10"	\$8,679.95	\$8,679.95	\$4,355.20	\$9,098.80	N/A	\$90.95
Gallonge Charge, per 1,000 Gallons	\$11.25	\$11.25	\$11.43	\$9.55	N/A	\$0.10
<u>General Service Wastewater Only</u>						
Flat Rate Residential	N/A	N/A	N/A	N/A	N/A	N/A
Flat Rate General Service	N/A	N/A	N/A	N/A	N/A	N/A
Sprinkler Heads	\$0.10	\$0.10	\$0.50	\$0.49	N/A	\$0.00
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>						
3,000 Gallons	\$103.58	\$103.58	\$66.46	\$103.00		
5,000 Gallons	\$122.32	\$122.32	\$85.52	\$118.92		
10,000 Gallons	\$131.69	\$131.69	\$95.05	\$126.88		
(Wastewater Gallonge Cap - 6,000 Gallons)						

Aqua Utilities Florida, Inc. - Breeze Hill			Schedule No. 3-A		
Schedule of Water Rate Base			Docket No. 100330-WS		
Test Year Ended 4/30/10					
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$43,489	\$136,550	\$180,039	(\$1,780)	\$178,259
2 Land and Land Rights	0	2,997	2,997	0	2,997
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(1,599)	(85,750)	(87,349)	84	(87,265)
5 CIAC	(681)	(32,023)	(32,704)	0	(32,704)
6 Amortization of CIAC	33	32,023	32,056	0	32,056
7 Working Capital Allowance	0	<u>15,184</u>	<u>15,184</u>	<u>(4,399)</u>	<u>10,785</u>
8 Rate Base	<u>\$41,242</u>	<u>\$68,981</u>	<u>\$110,223</u>	<u>(\$6,095)</u>	<u>\$104,128</u>

Aqua Utilities Florida, Inc. - Breeze Hill			Schedule No. 3-B		
Schedule of Wastewater Rate Base			Docket No. 100330-WS		
Test Year Ended 4/30/10					
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$15,169	\$367,187	\$382,356	(\$23,294)	\$359,062
2 Land and Land Rights	0	18,519	18,519	0	18,519
3 Non-used and Useful Components	0	(310)	(310)	(46,205)	(46,515)
4 Accumulated Depreciation	(530)	(248,771)	(249,301)	544	(248,757)
5 CIAC	(692)	(118,503)	(119,195)	0	(119,195)
6 Amortization of CIAC	39	118,503	118,542	0	118,542
7 Working Capital Allowance	<u>0</u>	<u>0</u>	<u>0</u>	<u>(6,055)</u>	<u>(6,055)</u>
8 Rate Base	<u>\$13,986</u>	<u>\$136,625</u>	<u>\$150,611</u>	<u>(\$75,011)</u>	<u>\$75,600</u>

Aqua Utilities Florida, Inc. - Breeze Hill		Schedule No. 3-C	
Adjustments to Rate Base		Docket No. 100330-WS	
Test Year Ended 4/30/10			
Explanation	Water	Wastewater	
<u>Plant In Service</u>			
1 Type A Approved Sitpulations.	(\$612)	(\$553)	
2 Reflect the appropriate amount of pro forma projects. (Issue 3)	0	(21,835)	
3 Appropriate affiliate-allocation plant costs. (Issue 18)	<u>(1,168)</u>	<u>(906)</u>	
Total	<u>(\$1,780)</u>	<u>(\$23,294)</u>	
<u>Non-used and Useful</u>			
To reflect net non-used and useful adjustment. (Issues 4 through 7)	<u>\$0</u>	<u>(\$46,205)</u>	
<u>Accumulated Depreciation</u>			
1 Type A Approved Sitpulations.	(\$721)	(\$712)	
2 Reflect the appropriate amount of pro forma projects. (Issue 3)	0	485	
3 Appropriate affiliate-allocation plant costs. (Issue 18)	<u>805</u>	<u>771</u>	
Total	<u>\$84</u>	<u>\$544</u>	
<u>Working Capital</u>			
1 Type A Approved Sitpulations.	(\$6,055)	(\$6,055)	
2 To amortize Phase I Monitoring Plan Costs. (Issue 1)	295	295	
3 Reflect appropriate deferred rate case expense. (Issue 8)	<u>1,360</u>	<u>1,318</u>	
Total	<u>(\$4,399)</u>	<u>(\$4,441)</u>	

Aqua Utilities Florida, Inc. - Breeze Hill						Schedule No. 4-A	
Statement of Water Operations						Docket No. 100330-WS	
Test Year Ended 4/30/10							
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$30,232</u>	<u>\$36,525</u>	<u>\$66,757</u>	<u>(\$35,804)</u>	<u>\$30,953</u>	<u>\$32,665</u> 105.53%	<u>\$63,618</u>
Operating Expenses							
2 Operation & Maintenance	28,149	3,867	32,016	(\$3,308)	28,708		28,708
3 Depreciation	1,876	12,839	14,715	(906)	13,809		13,809
4 Amortization	0	0	0	2,724	2,724		2,724
5 Taxes Other Than Income	6,628	642	7,270	(1,660)	5,610	1,470	7,080
6 Income Taxes	<u>(2,477)</u>	<u>6,555</u>	<u>4,078</u>	<u>(12,294)</u>	<u>(8,216)</u>	<u>11,739</u>	<u>3,523</u>
7 Total Operating Expense	<u>34,176</u>	<u>23,903</u>	<u>58,079</u>	<u>(15,444)</u>	<u>42,635</u>	<u>13,209</u>	<u>55,843</u>
8 Operating Income	<u>(\$3,944)</u>	<u>\$12,622</u>	<u>\$8,678</u>	<u>(\$20,360)</u>	<u>(\$11,682)</u>	<u>\$19,456</u>	<u>\$7,775</u>
9 Rate Base	<u>\$41,242</u>		<u>\$110,223</u>		<u>\$104,128</u>		<u>\$104,128</u>
10 Rate of Return	<u>-9.56%</u>		<u>7.87%</u>		<u>-11.22%</u>		<u>7.47%</u>

Aqua Utilities Florida, Inc. - Breeze Hill						Schedule No. 4-B	
Statement of Wastewater Operations						Docket No. 100330-WS	
Test Year Ended 4/30/10							
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$35,049</u>	<u>\$60,183</u>	<u>\$95,232</u>	<u>(\$59,144)</u>	<u>\$36,088</u>	<u>\$27,742</u> 76.87%	<u>\$63,829</u>
Operating Expenses							
2 Operation & Maintenance	\$45,222	\$6,367	\$51,589	(\$10,253)	\$41,336		\$41,336
3 Depreciation	596	15,415	16,011	(5,940)	10,071		10,071
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	2,762	5,740	8,502	(5,530)	2,972	1,248	4,221
6 Income Taxes	<u>(5,219)</u>	<u>11,336</u>	<u>6,117</u>	<u>(13,529)</u>	<u>(7,412)</u>	<u>9,969</u>	<u>2,558</u>
7 Total Operating Expense	<u>43,361</u>	<u>38,858</u>	<u>82,219</u>	<u>(35,252)</u>	<u>46,967</u>	<u>11,218</u>	<u>58,185</u>
8 Operating Income	<u>(\$8,312)</u>	<u>\$21,325</u>	<u>\$13,013</u>	<u>(\$23,892)</u>	<u>(\$10,879)</u>	<u>\$16,524</u>	<u>\$5,645</u>
9 Rate Base	<u>\$13,986</u>		<u>\$150,611</u>		<u>\$75,600</u>		<u>\$75,600</u>
10 Rate of Return	<u>-59.43%</u>		<u>8.64%</u>		<u>-14.39%</u>		<u>7.47%</u>

Aqua Utilities Florida, Inc. - Breeze Hill Adjustment to Operating Income Test Year Ended 4/30/10		Schedule No. 4-C Docket No. 100330-WS	
Explanation	Water	Wastewater	
<u>Operating Revenues</u>			
1 Remove requested final revenue increase.	(\$36,321)	(\$59,746)	
2 Reflect appropriate amount of annualized revenues. (Issue 15)	517	602	
Total	<u>(\$35,804)</u>	<u>(\$59,144)</u>	
<u>Operation and Maintenance Expense</u>			
1 Type A Approved Sitpulations.	(\$1,063)	(\$7,254)	
2 To amortize Phase I Monitoring Plan Costs. (Issue 1)	(295)	(295)	
3 Reflect effect of additional AAI customers. (Issue 16)	(149)	(149)	
4 Reflect appropriate affiliate-allocation expenses. (Issue 17)	(1,403)	(1,381)	
5 Remove executive incentive compensation. (Issue 19)	(242)	(242)	
6 Reflect amount of salaries & wages. (Issue 20)	(642)	(1,107)	
7 Reflect appropriate amount of bad debt expense. (Issue 21)	(458)	(769)	
8 Reflect appropriate amount of rate case expense. (Issue 22)	944	944	
Total	<u>(\$3,308)</u>	<u>(\$10,253)</u>	
<u>Depreciation Expense - Net</u>			
1 Type A Approved Sitpulations.	(\$101)	(\$92)	
2 Reflect the appropriate amount of pro forma projects. (Issue 3)	0	(485)	
3 To remove net depreciation on non-U&U adjustment above. (Issues 4 through 7)	0	(4,593)	
4 Appropriate affiliate-allocation plant costs. (Issue 18)	(805)	(771)	
Total	<u>(\$906)</u>	<u>(\$5,940)</u>	
<u>Amotization-Other Expense</u>			
Appropriate Regulatory Asset. (Issue 38)	<u>\$2,724</u>	<u>\$0</u>	
<u>Taxes Other Than Income</u>			
1 RAFs on revenue adjustments above.	(\$1,611)	(\$2,661)	
2 Reflect the appropriate amount of pro forma projects. (Issue 3)	0	(2,136)	
3 Reflect appropriate non-U&U property taxes. (Issues 4 through 7)	0	(647)	
4 Reflect corresponding payroll taxes on salaries & wages adjustment. (Issue 20)	(49)	(85)	
Total	<u>(\$1,660)</u>	<u>(\$5,530)</u>	

**Aqua Utilities Florida, Inc. - Breeze Hill
Water Monthly Service Rates
Test Year Ended 4/30/10**

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Staff Recomm. Final	2-year Rate Reduction	4-year Rate Reduction
<u>Residential, General Service and Multi-Family</u>						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	\$15.51	\$26.79	\$17.66	\$17.39	\$0.78	\$0.58
3/4"	\$23.27	\$40.20	\$26.48	\$26.09	\$1.17	\$0.87
1"	\$38.77	\$66.97	\$44.14	\$43.48	\$1.95	\$1.45
1-1/2"	\$77.53	\$133.92	\$88.28	\$86.95	\$3.90	\$2.91
2"	\$124.06	\$214.29	\$141.24	\$139.12	\$6.24	\$4.65
3"	\$248.11	\$428.57	\$282.49	\$278.24	\$12.47	\$9.30
4"	\$387.68	\$669.65	\$441.39	\$434.75	\$19.49	\$14.53
6"	\$775.37	\$1,339.32	\$882.78	\$869.50	\$38.98	\$29.06
8"	\$0.00	\$0.00	\$1,412.44	\$1,391.20	\$62.37	\$46.50
10"	\$0.00	\$0.00	\$2,030.39	\$1,999.85	\$89.66	\$66.85
Gallage Charge RS Tier One	\$2.70	\$4.66	\$6.49	\$7.00	\$0.31	\$0.23
Gallage Charge RS Tier Two	\$2.70	\$4.66	\$9.73	\$10.50	\$0.47	\$0.35
Gallage Charge RS Tier Three	\$2.70	\$4.66	\$12.98	\$14.00	\$0.63	\$0.47
Gallage Charge GS	\$2.70	\$4.66	\$6.98	\$7.69	\$0.34	\$0.26
<u>Irrigation</u>						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	\$15.51	\$26.79	\$17.66	\$17.39	\$0.78	\$0.58
3/4"	\$15.51	\$26.79	\$26.48	\$26.09	\$1.17	\$0.87
1"	\$15.51	\$26.79	\$44.14	\$43.48	\$1.95	\$1.45
1-1/2"	\$15.51	\$26.79	\$88.28	\$86.95	\$3.90	\$2.91
2"	\$15.51	\$26.79	\$141.24	\$139.12	\$6.24	\$4.65
3"	\$15.51	\$26.79	\$282.49	\$278.24	\$12.47	\$9.30
4"	\$15.51	\$26.79	\$441.39	\$434.75	\$19.49	\$14.53
Gallage Charge Tier one	\$2.70	\$4.66	\$6.49	\$7.00	\$0.31	\$0.23
Gallage Charge Tier two	\$2.70	\$4.66	\$9.73	\$10.50	\$0.47	\$0.35
Gallage Charge Tier three	\$2.70	\$4.66	\$12.98	\$14.00	\$0.63	\$0.47
<u>Private Fire Protection</u>						
Base Facility Charge by Meter Size:						
2"	\$0.00	\$0.00	\$11.77	\$11.59	\$0.52	\$0.39
3"	\$0.00	\$0.00	\$23.54	\$23.19	\$1.04	\$0.78
4"	\$0.00	\$0.00	\$36.78	\$36.23	\$1.62	\$1.21
6"	\$0.00	\$0.00	\$73.57	\$72.46	\$3.25	\$2.42
8"	\$0.00	\$0.00	\$117.70	\$115.93	\$5.20	\$3.88
10"	\$0.00	\$0.00	\$169.20	\$166.65	\$7.47	\$5.57
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>						
3,000 Gallons	\$23.61	\$40.77	\$37.13	\$38.39		
5,000 Gallons	\$29.01	\$50.09	\$50.11	\$52.39		
10,000 Gallons	\$42.51	\$73.39	\$95.52	\$101.39		

Aqua Utilities Florida, Inc. - Breeze Hill Wastewater Monthly Service Rates Test Year Ended 4/30/10					Schedule No. 5-B Docket No. 100330-WS	
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Staff Recomm. Final	2-year Rate Reduction	4-year Rate Reduction
Residential						
Base Facility Charge All Meter Sizes:	\$19.04	\$39.02	\$37.87	\$34.87	N/A	\$1.16
Gallage Charge - Per 1,000 gallons (6,000 gallon cap)	\$3.39	\$6.95	\$9.53	\$8.99	N/A	\$0.30
General Service						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	\$19.04	\$39.02	\$37.87	\$34.87	N/A	\$1.16
3/4"	\$28.57	\$58.55	\$56.81	\$52.31	N/A	\$1.74
1"	\$47.59	\$97.52	\$94.68	\$87.18	N/A	\$2.90
1-1/2"	\$95.21	\$195.10	\$189.36	\$174.35	N/A	\$5.81
2"	\$152.34	\$312.17	\$302.97	\$278.96	N/A	\$9.29
3"	\$304.70	\$624.39	\$605.94	\$557.92	N/A	\$18.59
4"	\$476.02	\$975.46	\$946.78	\$871.75	N/A	\$29.04
6"	\$952.05	\$1,950.94	\$1,893.57	\$1,743.50	N/A	\$58.08
8"	\$0.00	\$0.00	\$3,029.70	\$2,789.60	N/A	\$92.93
10"	\$0.00	\$0.00	\$4,355.20	\$4,010.05	N/A	\$133.59
Gallage Charge, per 1,000 Gallons	\$4.05	\$8.30	\$11.43	\$10.79	N/A	\$0.36
Flat Rate Residential						
Flat Rate Residential	N/A	N/A	\$73.91	N/A	N/A	N/A
Flat Rate General Service	N/A	N/A	\$475.78	N/A	N/A	N/A
Reuse per Sprinkler Head	N/A	N/A	\$0.50	N/A	N/A	N/A
Typical Residential Bills 5/8" x 3/4" Meter						
3,000 Gallons	\$29.21	\$59.87	\$66.46	\$61.84		
5,000 Gallons	\$35.99	\$73.77	\$85.52	\$79.82		
10,000 Gallons (Wastewater Gallage Cap - 6,000 Gallons)	\$39.38	\$80.72	\$95.05	\$88.81		

Aqua Utilities Florida, Inc. - Fairways		Schedule No. 3-A			
Schedule of Water Rate Base		Docket No. 100330-WS			
Test Year Ended 4/30/10					
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$748,337	\$50,006	\$798,343	(\$10,888)	\$787,455
2 Land and Land Rights	27,737	0	27,737	0	27,737
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(89,576)	(18,230)	(107,806)	935	(106,871)
5 CIAC	(562,950)	0	(562,950)	0	(562,950)
6 Amortization of CIAC	134,937	0	134,937	0	134,937
7 Working Capital Allowance	<u>0</u>	<u>58,822</u>	<u>58,822</u>	<u>(5,457)</u>	<u>53,365</u>
8 Rate Base	<u>\$258,485</u>	<u>\$90,598</u>	<u>\$349,083</u>	<u>(\$15,410)</u>	<u>\$333,673</u>

Aqua Utilities Florida, Inc. - Fairways			Schedule No. 3-B		
Schedule of Wastewater Rate Base			Docket No. 100330-WS		
Test Year Ended 4/30/10					
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$2,170,983	\$25,485	\$2,196,468	(\$2,424)	\$2,194,044
2 Land and Land Rights	24,904	0	24,904	0	24,904
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(683,191)	(9,290)	(692,481)	(21)	(692,502)
5 CIAC	(1,531,656)	(9,290)	(1,540,946)	0	(1,540,946)
6 Amortization of CIAC	379,919	0	379,919	0	379,919
7 Working Capital Allowance	<u>0</u>	<u>28,150</u>	<u>28,150</u>	<u>(12,200)</u>	<u>15,950</u>
8 Rate Base	<u>\$360,959</u>	<u>\$35,055</u>	<u>\$396,014</u>	<u>(\$14,645)</u>	<u>\$381,369</u>

Aqua Utilities Florida, Inc. - Fairways		Schedule No. 3-C	
Adjustments to Rate Base		Docket No. 100330-WS	
Test Year Ended 4/30/10			
Explanation	Water	Wastewater	
<u>Plant In Service</u>			
1 Type A Approved Sitpulations.	(\$5,684)	\$2	
2 Reflect the appropriate amount of pro forma projects. (Issue 3)	0	0	
3 Appropriate affiliate-allocation plant costs. (Issue 18)	<u>(5,204)</u>	<u>(2,426)</u>	
Total	<u>(\$10,888)</u>	<u>(\$2,424)</u>	
<u>Non-used and Useful</u>			
To reflect net non-used and useful adjustment. (Issues 4-7)	<u>\$0</u>	<u>\$0</u>	
<u>Accumulated Depreciation</u>			
1 Type A Approved Sitpulations.	(\$2,130)	(\$1,568)	
2 Reflect the appropriate amount of pro forma projects. (Issue 3)	0	0	
3 Appropriate affiliate-allocation plant costs. (Issue 18)	<u>3,065</u>	<u>1,547</u>	
Total	<u>\$935</u>	<u>(\$21)</u>	
<u>Working Capital</u>			
1 Type A Approved Sitpulations.	(\$11,559)	(\$15,338)	
2 To amortize Phase I Monitoring Plan Costs. (Issue 1)	\$1,078	\$556	
3 Reflect appropriate deferred rate case expense. (Issue 8)	<u>5,023</u>	<u>2,581</u>	
Total	<u>(\$5,457)</u>	<u>(\$12,200)</u>	

Aqua Utilities Florida, Inc. - Fairways						Schedule No. 4-A	
Statement of Water Operations						Docket No. 100330-WS	
Test Year Ended 4/30/10							
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$136,226</u>	<u>\$73,075</u>	<u>\$209,301</u>	<u>(\$74,649)</u>	<u>\$134,652</u>	<u>\$45,343</u> 33.67%	<u>\$179,995</u>
Operating Expenses							
2 Operation & Maintenance	\$83,654	\$13,759	\$97,413	(\$20,915)	\$76,498		\$76,498
3 Depreciation	5,982	8,479	14,461	(4,013)	10,448		10,448
4 Amortization	3,340	0	3,340	0	3,340		3,340
5 Taxes Other Than Income	51,630	3,376	55,006	(3,539)	51,467	2,040	53,507
6 Income Taxes	<u>(3,232)</u>	<u>15,726</u>	<u>12,494</u>	<u>(17,499)</u>	<u>(5,005)</u>	<u>16,295</u>	<u>11,289</u>
7 Total Operating Expense	<u>141,374</u>	<u>41,340</u>	<u>182,714</u>	<u>(45,967)</u>	<u>136,747</u>	<u>18,335</u>	<u>155,082</u>
8 Operating Income	<u>(\$5,148)</u>	<u>\$31,735</u>	<u>\$26,587</u>	<u>(\$28,682)</u>	<u>(\$2,095)</u>	<u>\$27,008</u>	<u>\$24,913</u>
9 Rate Base	<u>\$258,485</u>		<u>\$349,083</u>		<u>\$333,673</u>		<u>\$333,673</u>
10 Rate of Return	<u>-1.99%</u>		<u>7.62%</u>		<u>-0.63%</u>		<u>7.47%</u>

Aqua Utilities Florida, Inc. - Fairways						Schedule No. 4-B	
Statement of Wastewater Operations						Docket No. 100330-WS	
Test Year Ended 4/30/10							
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	\$79,634	\$115,633	\$195,267	(\$114,828)	\$80,439	\$103,002	\$183,441
						128.05%	
Operating Expenses							
2 Operation & Maintenance	\$87,349	\$7,768	\$95,117	(\$7,617)	\$87,500		\$87,500
3 Depreciation	33,898	4,321	38,219	(1,547)	36,672		36,672
4 Amortization	7,820	0	7,820	0	7,820		7,820
5 Taxes Other Than Income	4,706	5,987	10,693	(5,256)	5,437	4,635	10,072
6 Income Taxes	(20,885)	34,764	13,879	(37,991)	(24,112)	37,016	12,903
7 Total Operating Expense	<u>112,888</u>	<u>52,840</u>	<u>165,728</u>	<u>(52,412)</u>	<u>113,316</u>	<u>41,651</u>	<u>154,966</u>
8 Operating Income	<u>(\$33,254)</u>	<u>\$62,793</u>	<u>\$29,539</u>	<u>(\$62,416)</u>	<u>(\$32,877)</u>	<u>\$61,352</u>	<u>\$28,475</u>
9 Rate Base	<u>\$360,959</u>		<u>\$396,014</u>		<u>\$381,369</u>		<u>\$381,369</u>
10 Rate of Return	<u>(9.21%)</u>		<u>7.46%</u>		<u>(8.62%)</u>		<u>7.47%</u>

Aqua Utilities Florida, Inc. - Fairways Adjustment to Operating Income Test Year Ended 4/30/10		Schedule No. 4-C Docket No. 100330-WS	
Explanation	Water	Wastewater	
<u>Operating Revenues</u>			
1 Remove requested final revenue increase.	(\$75,455)	(\$115,345)	
2 Reflect appropriate amount of annualized revenues. (Issue 15)	806	517	
Total	<u>(\$74,649)</u>	<u>(\$114,828)</u>	
<u>Operation and Maintenance Expense</u>			
1 Type A Approved Sitpulations.	(\$14,990)	(\$2,090)	
2 To amortize Phase I Monitoring Plan Costs. (Issue 1)	(1,078)	(556)	
3 Reflect effect of additional AAI customers. (Issue 16)	(507)	(281)	
4 Reflect appropriate affiliate-allocation expenses. (Issue 17)	(4,822)	(2,757)	
5 Remove executive incentive compensation. (Issue 19)	(461)	(612)	
6 Reflect amount of salaries & wages. (Issue 20)	(2,354)	(1,164)	
7 Reflect appropriate amount of bad debt expense. (Issue 21)	(154)	(1,925)	
8 Reflect appropriate amount of rate case expense. (Issue 22)	3,451	1,768	
Total	<u>(\$20,915)</u>	<u>(\$7,617)</u>	
<u>Depreciation Expense - Net</u>			
1 Type A Approved Sitpulations.	(\$948)	\$0	
2 Reflect the appropriate amount of pro forma projects. (Issue 3)	0	0	
3 To remove net depreciation on non-U&U adjustment above. (Issues 4-7)	0	0	
4 Appropriate affiliate-allocation plant costs. (Issue 18)	<u>(3,065)</u>	<u>(1,547)</u>	
Total	<u>(\$4,013)</u>	<u>(\$1,547)</u>	
<u>Amotization-Other Expense</u>			
Appropriate Regulatory Asset. (Issue 38)	\$0	\$0	
<u>Taxes Other Than Income</u>			
1 RAFs on revenue adjustments above.	(\$3,359)	(\$5,167)	
2 Reflect the appropriate amount of pro forma projects. (Issue 3)	0	0	
3 Reflect appropriate non-U&U property taxes. (Issues 4 through 7)	0	0	
4 Reflect corresponding payroll taxes on salaries & wages adjustment. (Issue 20)	<u>(180)</u>	<u>(89)</u>	
Total	<u>(\$3,539)</u>	<u>(\$5,256)</u>	

Aqua Utilities Florida, Inc. - Fairways Water Monthly Service Rates Test Year Ended 4/30/10					Schedule No. 5-A Docket No. 100330-WS	
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Staff Recomm. Final	2-year Rate Reduction	4-year Rate Reduction
<u>Residential, General Service and Multi-Family</u>						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	\$7.59	\$10.68	\$17.66	\$18.84	N/A	\$0.63
3/4"	\$7.59	\$10.68	\$17.66	\$28.26	N/A	\$0.94
1"	\$7.59	\$10.68	\$26.48	\$47.10	N/A	\$1.57
1-1/2"	\$7.59	\$10.68	\$44.14	\$94.20	N/A	\$3.15
2"	\$7.59	\$10.68	\$88.28	\$150.72	N/A	\$5.03
3"	\$7.59	\$10.68	\$141.24	\$301.44	N/A	\$10.07
4"	\$7.59	\$10.68	\$282.49	\$471.00	N/A	\$15.73
6"	\$7.59	\$10.68	\$882.78	\$942.00	N/A	\$31.46
8"	\$7.59	\$10.68	\$1,412.44	\$1,507.20	N/A	\$50.34
10"	\$7.59	\$10.68	\$2,030.39	\$2,166.60	N/A	\$72.36
Gallonge Charge RS Tier One	\$1.77	\$2.49	\$6.49	\$3.37	N/A	\$0.11
Gallonge Charge RS Tier Two	\$1.77	\$2.49	\$9.73	\$5.99	N/A	\$0.20
Gallonge Charge RS Tier Three	\$1.77	\$2.49	\$12.98	\$8.98	N/A	\$0.30
Gallonge Charge GS	\$1.77	\$2.49	\$6.98	\$4.72	N/A	\$0.16
<u>Irrigation</u>						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	\$7.59	\$10.68	\$26.48	\$18.84	N/A	\$0.63
3/4"	\$26.48	\$10.68	\$39.72	\$28.26	N/A	\$0.94
1"	\$44.14	\$10.68	\$44.14	\$47.10	N/A	\$1.57
1-1/2"	\$88.28	\$10.68	\$88.28	\$94.20	N/A	\$3.15
2"	\$141.24	\$10.68	\$141.24	\$150.72	N/A	\$5.03
3"	\$282.49	\$10.68	\$282.49	\$301.44	N/A	\$10.07
4"	\$441.39	\$10.68	\$441.39	\$471.00	N/A	\$15.73
Gallonge Charge Tier one	\$1.77	\$2.49	\$6.49	\$3.37	N/A	\$0.11
Gallonge Charge Tier two	\$2.02	\$2.84	\$9.73	\$5.99	N/A	\$0.20
Gallonge Charge Tier three	\$2.53	\$3.56	\$12.98	\$8.98	N/A	\$0.30
Gallonge Charge Tier four	\$3.03	\$4.28	\$0.00	N/A	N/A	N/A
<u>Private Fire Protection</u>						
Base Facility Charge by Meter Size:						
2"	\$0.00	\$0.00	\$11.77	\$12.56	N/A	\$0.42
3"	\$0.00	\$0.00	\$23.54	\$25.12	N/A	\$0.84
4"	\$0.00	\$0.00	\$36.78	\$39.25	N/A	\$1.31
6"	\$0.00	\$0.00	\$73.57	\$78.50	N/A	\$2.62
8"	\$0.00	\$0.00	\$117.70	\$125.60	N/A	\$4.20
10"	\$0.00	\$0.00	\$169.20	\$180.55	N/A	\$6.03
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>						
3,000 Gallons	\$12.90	\$18.15	\$56.60	\$28.95		
5,000 Gallons	\$16.44	\$23.13	\$82.56	\$35.69		
10,000 Gallons	\$25.29	\$35.58	\$95.52	\$63.02		

Aqua Utilities Florida, Inc. - Fairways Wastewater Monthly Service Rates Test Year Ended 4/30/10					Schedule No. 5-B Docket No. 100330-WS	
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Staff Recomm. Final	2-year Rate Reduction	Four-year Rate Reduction
Residential						
Base Facility Charge All Meter Sizes:	\$12.65	\$28.58	\$37.87	\$34.87	N/A	\$1.16
Gallage Charge - Per 1,000 gallons (6,000 gallon cap)	\$3.80	\$8.59	\$9.53	\$8.99	N/A	\$0.30
General Service						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	\$12.65	\$28.58	\$37.87	\$34.87	N/A	\$1.16
3/4"	\$12.65	\$28.58	\$56.81	\$52.31	N/A	\$1.75
1"	\$12.65	\$28.58	\$94.68	\$87.18	N/A	\$2.91
1-1/2"	\$12.65	\$28.58	\$189.36	\$174.35	N/A	\$5.82
2"	\$12.65	\$28.58	\$302.97	\$278.96	N/A	\$9.32
3"	\$12.65	\$28.58	\$605.94	\$557.92	N/A	\$18.63
4"	\$12.65	\$28.58	\$946.78	\$871.75	N/A	\$29.12
6"	\$12.65	\$28.58	\$1,893.57	\$1,743.50	N/A	\$58.23
8"	\$12.65	\$28.58	\$3,029.70	\$2,789.60	N/A	\$93.17
10"	\$12.65	\$28.58	\$4,355.20	\$4,010.05	N/A	\$133.94
Gallage Charge, per 1,000 Gallons	\$3.80	\$8.59	\$11.43	\$10.79	N/A	\$0.36
Flat Rate Residential						
Flat Rate Residential	N/A	N/A	\$73.91	N/A	N/A	N/A
Flat Rate General Service	N/A	N/A	\$475.78	N/A	N/A	N/A
Reuse per Sprinkler Head	N/A	N/A	\$0.50	N/A	N/A	N/A
Typical Residential Bills 5/8" x 3/4" Meter						
3,000 Gallons	\$24.05	\$54.35	\$66.46	\$61.84		
5,000 Gallons	\$31.65	\$71.53	\$85.52	\$79.82		
10,000 Gallons (Wastewater Gallage Cap - 6,000 Gallons)	\$35.45	\$80.12	\$95.05	\$88.81		

Aqua Utilities Florida, Inc. - Peace River				Schedule No. 3-A	
Schedule of Water Rate Base				Docket No. 100330-WS	
Test Year Ended 4/30/10					
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$112,225	\$60,279	\$172,504	\$25,769	\$198,273
2 Land and Land Rights	30,900	0	30,900	0	30,900
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(5,787)	(6,022)	(11,809)	(1,164)	(12,973)
5 CIAC	(2,192)	0	(2,192)	0	(2,192)
6 Amortization of CIAC	19	0	19	0	19
7 Working Capital Allowance	<u>0</u>	<u>18,909</u>	<u>18,909</u>	<u>(3,255)</u>	<u>15,654</u>
8 Rate Base	<u>\$135,165</u>	<u>\$73,166</u>	<u>\$208,331</u>	<u>\$21,350</u>	<u>\$229,681</u>

Aqua Utilities Florida, Inc. - Peace River				Schedule No. 3-B	
Schedule of Wastewater Rate Base				Docket No. 100330-WS	
Test Year Ended 4/30/10					
Description	Test Year Per Utility	Utility Adjustments	Adjusted Test Year Per Utility	Staff Adjustments	Staff Adjusted Test Year
1 Plant in Service	\$210,236	\$9,745	\$219,981	(\$1,227)	\$218,754
2 Land and Land Rights	18,634	0	18,634	0	18,634
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(21,519)	(3,552)	(25,071)	46	(25,025)
5 CIAC	(1,817)	0	(1,817)	0	(1,817)
6 Amortization of CIAC	39	0	39	0	39
7 Working Capital Allowance	<u>0</u>	<u>11,657</u>	<u>11,657</u>	<u>(3,538)</u>	<u>8,119</u>
8 Rate Base	<u>\$205,573</u>	<u>\$17,850</u>	<u>\$223,423</u>	<u>(\$4,719)</u>	<u>\$218,704</u>

Aqua Utilities Florida, Inc. - Peace River Adjustments to Rate Base Test Year Ended 4/30/10		Schedule No. 3-C Docket No. 100330-WS	
Explanation	Water	Wastewater	
<u>Plant In Service</u>			
1 Type A Approved Sitpulations.	(\$501)	(\$347)	
2 Reflect the appropriate amount of pro forma projects. (Issue 3)	27,099	0	
3 Appropriate affiliate-allocation plant costs. (Issue 18)	<u>(829)</u>	<u>(880)</u>	
Total	<u>\$25,769</u>	<u>(\$1,227)</u>	
<u>Non-used and Useful</u>			
To reflect net non-used and useful adjustment. (Issues 4-7)	<u>\$0</u>	<u>\$0</u>	
<u>Accumulated Depreciation</u>			
1 Type A Approved Sitpulations.	(\$549)	(\$542)	
2 Reflect the appropriate amount of pro forma projects. (Issue 3)	(1,230)	0	
3 Appropriate affiliate-allocation plant costs. (Issue 18)	<u>614</u>	<u>588</u>	
Total	<u>(\$1,164)</u>	<u>\$46</u>	
<u>Working Capital</u>			
1 Type A Approved Sitpulations.	(\$4,550)	(\$4,734)	
2 To amortize Phase I Monitoring Plan Costs. (Issue 1)	229	214	
3 Reflect appropriate deferred rate case expense. (Issue 8)	<u>1,066</u>	<u>982</u>	
Total	<u>(\$3,255)</u>	<u>(\$3,538)</u>	

Aqua Utilities Florida, Inc. - Peace River						Schedule No. 4-A	
Statement of Water Operations						Docket No. 100330-WS	
Test Year Ended 4/30/10							
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$65,818</u>	<u>\$45,228</u>	<u>\$111,046</u>	<u>(\$43,221)</u>	<u>\$67,825</u>	<u>\$42,923</u> 63.29%	<u>\$110,748</u>
Operating Expenses							
2 Operation & Maintenance	\$66,863	\$3,033	\$69,896	(\$7,372)	\$62,524		\$62,524
3 Depreciation	5,099	4,018	9,117	532	9,649		9,649
4 Amortization	0	0	0	4,837	4,837		4,837
5 Taxes Other Than Income	7,191	1,264	8,455	(1,568)	6,887	1,932	8,818
6 Income Taxes	<u>(5,144)</u>	<u>12,687</u>	<u>7,543</u>	<u>(15,197)</u>	<u>(7,654)</u>	<u>15,425</u>	<u>7,771</u>
7 Total Operating Expense	<u>74,009</u>	<u>21,002</u>	<u>95,011</u>	<u>(18,769)</u>	<u>76,242</u>	<u>17,357</u>	<u>93,599</u>
8 Operating Income	<u>(\$8,191)</u>	<u>\$24,226</u>	<u>\$16,035</u>	<u>(\$24,453)</u>	<u>(\$8,418)</u>	<u>\$25,567</u>	<u>\$17,149</u>
9 Rate Base	<u>\$135,165</u>		<u>\$208,331</u>		<u>\$229,681</u>		<u>\$229,681</u>
10 Rate of Return	<u>(6.06%)</u>		<u>7.70%</u>		<u>(3.66%)</u>		<u>7.47%</u>

Aqua Utilities Florida, Inc. - Peace River						Schedule No. 4-B	
Statement of Wastewater Operations						Docket No. 100330-WS	
Test Year Ended 4/30/10							
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$82,013</u>	<u>\$21,614</u>	<u>\$103,627</u>	<u>(\$24,340)</u>	<u>\$79,287</u>	<u>\$17,177</u> 21.66%	<u>\$96,464</u>
Operating Expenses							
2 Operation & Maintenance	\$57,949	\$1,076	\$59,025	(\$4,574)	\$54,451		\$54,451
3 Depreciation	8,750	1,652	10,402	(646)	9,756		9,756
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	2,712	6,199	8,911	(1,155)	7,756	773	8,529
6 Income Taxes	<u>4,861</u>	<u>3,228</u>	<u>8,089</u>	<u>(6,862)</u>	<u>1,227</u>	<u>6,173</u>	<u>7,400</u>
7 Total Operating Expense	<u>74,272</u>	<u>12,155</u>	<u>86,427</u>	<u>(13,238)</u>	<u>73,189</u>	<u>6,946</u>	<u>80,135</u>
8 Operating Income	<u>\$7,741</u>	<u>\$9,459</u>	<u>\$17,200</u>	<u>(\$11,102)</u>	<u>\$6,098</u>	<u>\$10,231</u>	<u>\$16,329</u>
9 Rate Base	<u>\$205,573</u>		<u>\$223,423</u>		<u>\$218,704</u>		<u>\$218,704</u>
10 Rate of Return	<u>3.77%</u>		<u>7.70%</u>		<u>2.79%</u>		<u>7.47%</u>

Aqua Utilities Florida, Inc. - Peace River Adjustment to Operating Income Test Year Ended 4/30/10		Schedule No. 4-C Docket No. 100330-WS	
Explanation	Water	Wastewater	
<u>Operating Revenues</u>			
1 Remove requested final revenue increase.	(\$43,625)	(\$20,118)	
2 Reflect appropriate amount of annualized revenues. (Issue 15)	404	(4,222)	
Total	<u>(\$43,221)</u>	<u>(\$24,340)</u>	
<u>Operation and Maintenance Expense</u>			
1 Type A Approved Sitpulations.	(\$530)	(\$349)	
2 To amortize Phase I Monitoring Plan Costs. (Issue 1)	(229)	(214)	
3 Reflect effect of additional AAI customers. (Issue 16)	(115)	(109)	
4 Reflect appropriate affiliate-allocation expenses. (Issue 17)	(1,093)	(1,055)	
5 Remove executive incentive compensation. (Issue 19)	(182)	(189)	
6 Reflect amount of salaries & wages. (Issue 20)	(790)	(779)	
7 Reflect appropriate amount of bad debt expense. (Issue 21)	(5,165)	(2,581)	
8 Reflect appropriate amount of rate case expense. (Issue 22)	733	702	
Total	<u>(\$7,372)</u>	<u>(\$4,574)</u>	
<u>Depreciation Expense - Net</u>			
1 Type A Approved Sitpulations.	(\$83)	(\$58)	
2 Reflect the appropriate amount of pro forma projects. (Issue 3)	1,230	0	
3 To remove net depreciation on non-U&U adjustment above. (Issues 4-7)	0	0	
4 Appropriate affiliate-allocation plant costs. (Issue 18)	(614)	(588)	
Total	<u>\$532</u>	<u>(\$646)</u>	
<u>Amotization-Other Expense</u>			
Appropriate Regulatory Asset. (Issue 38)	<u>\$4,837</u>	<u>\$0</u>	
<u>Taxes Other Than Income</u>			
1 RAFs on revenue adjustments above.	(\$1,945)	(\$1,095)	
2 Reflect the appropriate amount of pro forma projects. (Issue 3)	437	0	
3 Reflect appropriate non-U&U property taxes. (Issues 4 through 7)	0	0	
4 Reflect corresponding payroll taxes on salaries & wages adjustment. (Issue 20)	(60)	(60)	
Total	<u>(\$1,568)</u>	<u>(\$1,155)</u>	

Aqua Utilities Florida, Inc. - Peace River Water Monthly Service Rates Test Year Ended 4/30/10					Schedule No. 5-A Docket No. 100330-WS	
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Staff Recomm. Final	2-Year Rate Reduction	4-Year Rate Reduction
<u>Residential, General Service and Multi-Family</u>						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	\$16.44	\$20.02	\$17.66	\$17.39	\$0.80	\$0.26
3/4"	\$24.66	\$30.04	\$26.48	\$26.09	\$1.19	\$0.39
1"	\$41.10	\$50.06	\$44.14	\$43.48	\$1.99	\$0.65
1-1/2"	\$82.20	\$100.12	\$88.28	\$86.95	\$3.98	\$1.29
2"	\$131.52	\$160.20	\$141.24	\$139.12	\$6.36	\$2.07
3"	\$263.03	\$320.38	\$282.49	\$278.24	\$12.72	\$4.14
4"	\$410.99	\$500.60	\$441.39	\$434.75	\$19.88	\$6.47
6"	\$821.97	\$1,001.19	\$882.78	\$869.50	\$39.76	\$12.95
8"	\$1,315.16	\$1,601.91	\$1,412.44	\$1,391.20	\$63.62	\$20.72
10"	\$1,890.54	\$2,302.75	\$2,030.39	\$1,999.85	\$91.45	\$29.78
<u>Gallage Charge, per 1,000 Gallons</u>						
Gallage Charge RS Tier One	\$4.94	\$6.02	\$6.49	\$7.00	\$0.32	\$0.10
Gallage Charge RS Tier Two	\$6.17	\$7.52	\$9.73	\$10.50	\$0.48	\$0.16
Gallage Charge RS Tier Three	\$14.81	\$18.04	\$12.98	\$14.00	\$0.64	\$0.21
Gallage Charge, GS	\$6.05	\$7.37	\$6.98	\$7.69	\$0.35	\$0.11
<u>Irrigation</u>						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	\$0.00	\$0.00	\$17.66	\$17.39	\$0.80	\$0.26
3/4"	\$0.00	\$0.00	\$26.48	\$26.09	\$1.19	\$0.39
1"	\$0.00	\$0.00	\$44.14	\$43.48	\$1.99	\$0.65
1-1/2"	\$0.00	\$0.00	\$88.28	\$86.95	\$3.98	\$1.29
2"	\$0.00	\$0.00	\$141.24	\$139.12	\$6.36	\$2.07
3"	\$0.00	\$0.00	\$282.49	\$278.24	\$12.72	\$4.14
4"	\$0.00	\$0.00	\$441.39	\$434.75	\$19.88	\$6.47
Gallage Charge Tier one	\$0.00	\$0.00	\$6.49	\$7.00	\$0.32	\$0.10
Gallage Charge Tier two	\$0.00	\$0.00	\$9.73	\$10.50	\$0.48	\$0.16
Gallage Charge Tier three	\$0.00	\$0.00	\$12.98	\$14.00	\$0.64	\$0.21
<u>Private Fire Protection</u>						
Base Facility Charge by Meter Size:						
2"	\$10.96	\$13.35	\$11.77	\$11.59	\$0.53	\$0.17
3"	\$21.92	\$26.70	\$23.54	\$23.19	\$1.06	\$0.35
4"	\$34.25	\$41.72	\$36.78	\$36.23	\$1.66	\$0.54
6"	\$68.50	\$83.44	\$73.57	\$72.46	\$3.31	\$1.08
8"	\$109.60	\$133.50	\$117.70	\$115.93	\$5.30	\$1.73
10"	\$157.55	\$191.90	\$169.20	\$166.65	\$7.62	\$2.48
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>						
3,000 Gallons	\$34.59	\$42.13	\$38.60	\$38.39		
5,000 Gallons	\$46.69	\$56.87	\$52.56	\$52.39		
10,000 Gallons	\$71.99	\$87.72	\$95.52	\$101.39		

Aqua Utilities Florida, Inc. - Peace River Wastewater Monthly Service Rates Test Year Ended 4/30/10					Schedule No. 5-B Docket No. 100330-WS	
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Staff Recomm. Final	2-Year Rate Reduction	4-Year Rate Reduction
Residential						
Base Facility Charge All Meter Sizes:	\$29.03	\$33.04	\$37.87	\$34.87	N/A	\$0.56
Gallage Charge - Per 1,000 gallons (6,000 gallon cap)	\$8.87	\$10.09	\$9.53	\$8.99	N/A	\$0.15
General Service						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	\$29.03	\$33.04	\$37.87	\$34.87	N/A	\$0.56
3/4"	\$43.55	\$49.56	\$56.81	\$52.31	N/A	\$0.85
1"	\$72.58	\$82.60	\$94.68	\$87.18	N/A	\$1.41
1-1/2"	\$145.17	\$165.20	\$189.36	\$174.35	N/A	\$2.82
2"	\$232.27	\$264.32	\$302.97	\$278.96	N/A	\$4.52
3"	\$464.54	\$528.64	\$605.94	\$557.92	N/A	\$9.04
4"	\$725.84	\$826.00	\$946.78	\$871.75	N/A	\$14.12
6"	\$1,451.68	\$1,651.99	\$1,893.57	\$1,743.50	N/A	\$28.24
8"	\$2,322.70	\$2,643.20	\$3,029.70	\$2,789.60	N/A	\$45.18
10"	\$3,338.87	\$3,799.59	\$4,355.20	\$4,010.05	N/A	\$64.94
Gallage Charge, per 1,000 Gallons	\$10.64	\$12.11	\$11.43	\$10.79	N/A	\$0.17
Flat Rate Residential						
Flat Rate Residential	N/A	N/A	\$73.91	N/A	N/A	N/A
Flat Rate General Service	N/A	N/A	\$475.78	N/A	N/A	N/A
Reuse per Sprinkler Head	N/A	N/A	\$0.50	N/A	N/A	N/A
Typical Residential Bills 5/8" x 3/4" Meter						
3,000 Gallons	\$55.64	\$63.31	\$66.46	\$61.84		
5,000 Gallons	\$73.38	\$83.49	\$85.52	\$79.82		
10,000 Gallons (Wastewater Gallage Cap - 6,000 Gallons)	\$82.25	\$93.58	\$95.05	\$88.81		