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August 10, 2011

Via Hand Delivery

Ms. Ann Cole, Director
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Betty Easley Conference Center, Room 110
Tallahassee, FL 32399-0850

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

Dear Ms. Cole:

Enclosed for filing on behalf of Aqua Utilities Florida, Inc. ("AUF") are the original and fifteen (15) copies each of the testimony and exhibits of the following AUF witnesses:

1. Stan Szczygiel;
2. Preston Luitweiler;
3. Susan Chambers; and
4. William T. Rendell (with the exception of Confidential Exhibit TR-3 which is being filed under a separate confidential cover along with a request for confidential classification).

COM 5
APA 1
ECR 6
GCL 2
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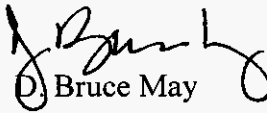
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Ann Cole
August 10, 2011
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For our records, please acknowledge your receipt of this filing on the enclosed copy of this letter. Thank you for your consideration.

Sincerely,

HOLLAND & KNIGHT LLP


D. Bruce May

DBM:kjg

Enclosures

cc: Ralph Jaeger, Esq. (via Hand-Delivery)
Caroline Klancke, Esq. (via Hand-Delivery)
J.R. Kelly, Esq. (via Hand-Delivery)
Patricia Christensen, Esq. (via Hand-Delivery)
Kenneth Curtin (via Overnight-Delivery)
Kelly Sullivan (via Overnight-Delivery)
Troy Rendell (via Hand-Delivery)
Kim Joyce (via Overnight-Delivery)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for increase in water and)
wastewater rates in Alachua, Brevard, DeSoto,)
Hardee, Highlands, Lake, Lee, Marion, Orange,)
Palm Beach, Pasco, Polk, Putnam,)
Seminole, Sumter, Volusia, and Washington)
Counties by Aqua Utilities Florida, Inc.)
_____)

DOCKET NO. 100330-WS

Dated: August 10, 2011

DIRECT TESTIMONY

OF

STAN F. SZCZYGIEL

on behalf of

Aqua Utilities Florida, Inc.

COM 5
APA 1
ECR 6
GCL 2
RAD
SSC
ADM
OPC
CLK CFRPR

DOCUMENT NUMBER-DATE

05648 AUG 10 =

FPSC-COMMISSION CLERK

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **AQUA UTILITIES FLORIDA, INC.**

3 **DIRECT TESTIMONY OF STAN F. SZCZYGIEL**

4 **DOCKET NO. 100330-WS**

5

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

7 A. My name is Stan F. Szczygiel. My business address is 762 West Lancaster Avenue,
8 Bryn Mawr, Pennsylvania 19010-3489.

9

10 **Q. By whom are you employed and what is your position?**

11 A. I am employed by Aqua Services, Inc. as Manager of Rates and Planning for the
12 Southern and Midwest region. Aqua Services, Inc. is a service company subsidiary of
13 Aqua America, Inc.

14

15 **Q. Please describe your duties and responsibilities in that position.**

16 A. I am responsible for all financial, rate, and business planning functions performed in
17 Aqua America's Midwest and Southern regions, which includes all operations in
18 Florida, Texas, North Carolina, Virginia, Ohio, Indiana and Illinois.

19

20 **Q. Please describe your educational background and professional experience.**

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

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

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

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

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

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

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

3
4 **Q. Are you sponsoring any exhibits in this case?**

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

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

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

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

12
13 **Q. Were these exhibits prepared by you or under your direction and supervision?**

14 A. Yes.

15
16 **Q. Are you the sponsor of any of the MFR schedules which may be in dispute in
17 light of the protests filed by OPC and other parties in this proceeding?**

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

20
21 **Q. Please summarize your testimony.**

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

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

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

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

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

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

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

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

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

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

4
5 **Q. Did the protests filed by the OPC and Ms. Wambsgan cause AUF to reconsider its**
6 **initial decision to accept the findings in the PAA Order?**

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

17
18 **Q. What are the next steps in this PAA rate case?**

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

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

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

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

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

19 *Affiliated Transaction Costs*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2
3 *Allocation of Corporate IT Costs*

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

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

11
12 **Q. Please describe the Corporate IT software and support services that AUF
13 received from AAI.**

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

20
21 **Q. Have any Corporate IT costs previously allocated to other operating affiliates
22 been reallocated to AUF?**

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

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

3
4 **Q. Please explain.**

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

17
18 For the foregoing reasons, AUF does not agree with the Commission’s proposal to
19 reduce the amount of allocated Corporate IT costs, accumulated depreciation, and
20 depreciation expense by \$50,058, \$20,461, and \$8,343, respectively. The Corporate
21 IT allocations set forth in the MFRs should be restored. I would also point out that
22 AUF does not disagree with the Commission’s proposal to change in the depreciation
23 life for Corporate IT assets from six to ten years.

Incentive Compensation

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

A. Yes.

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

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

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

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

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

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

8
9 **Q. Can you be more specific on how AAI's incentive compensation plan benefits**
10 **AUF's customers?**

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

18
19 **Q. What action are you requesting the Commission to take with respect to the**
20 **executive bonus and dividend incentive compensation included in AUF's MFRs?**

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

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

10
11 *Rate Case Expense*

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

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

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

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

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

17 ***Billing Determinants***

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

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

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

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

Q. Does this conclude your direct testimony?

A. Yes.



Corporate Charges Allocations Manual



Summary

Aqua Services Inc. (the "Service Company") was formed on 1/1/2004. The Service Company consists of officers and employees ("employees") who are familiar with the water and wastewater utility business and have experience and expertise in management, financing, accounting, customer services, legal affairs, engineering, rates and regulatory matters and the operation of water and wastewater utilities. The employees of the Service Company are qualified to aid, assist and advise the Water and Wastewater Companies in their business. Service Company employees provide corporate management services. Cost related to these services are collected and allocated to the appropriate subsidiaries of Aqua America Inc. through an allocation process to be described in this document.

The employees of the Service Company track and report the hours worked on a subsidiary entity on their payroll timesheet. The employee's payroll timesheet is processed through our payroll center with the appropriate hours recorded into our payroll subsidiary database. This database contains appropriate tables to calculate and process our service billings to the appropriate entity.

The expenses of the Service Company are classified into two main categories under which a bill is produced. The expenses are classified as either a service expense or a sundry expense. Service expense is defined as labor and overheads of employees of Aqua America Inc. Labor is defined as actual base pay of employees of the Service Company. Overhead is defined as costs incurred by the company, in order to obtain the services of said employees. They include, but are not limited to, healthcare, employer payroll taxes, retirement benefits, office rent, and employee incentive compensation. These overhead costs exclude any "employee" related contributions.

The employees of Aqua Services Inc. can be categorized into the following types of services:

- Accounting & Financial
- Administration
- Customer Service
- Communications
- Corporate Secretarial
- Engineering
- Human Resources
- Information Services
- Legal
- Purchasing
- Rates & Regulatory
- Water Quality

All service related expenses are billed to the subsidiaries of Aqua America Inc. at cost, by using an employee specific billing rate. The billing rate for an employee is calculated by dividing total annual labor and overhead expenses by that employee's annual billable hours.

Sundry expenses are departmental costs associated with the normal operations of Aqua Services Inc. and can also be categorized as listed above.

Employees are instructed to charge time directly to an entity or group of entities for whom they are performing a service. Employees of the Service Company can allocate their billing hours as a direct allocation or as an indirect allocation. The employee makes this determination based upon the work they are performing and records this information on their bi-weekly timesheets. Entity and allocation codes have been developed to allow the employee to determine the most appropriate billing of their time. Allocation codes are created for groups of entities with a common factor.

Direct allocations are charged 100% to the entity identified on the employee's timesheet through the entity code. Indirect allocations are identified on the employee's timesheet by the appropriate allocation code. The billing time associated with these allocation codes are allocated to the group of entities identified by the allocation code. The methodology method to determine appropriate allocation of these indirect allocations is customer

count. The customer count is calculated by using year end customer totals of each subsidiary, as defined by Aqua America, Inc.'s customer count policy, for the year immediately proceeding the current year. Customer counts are not adjusted throughout the year unless there is a substantial acquisition during the year, at which time all allocations will be updated with the most current quarter end customer counts.

I. Service billing

Billable hours

Calculated by taking the employee's annual billable hours less paid time off.

Billable Hours Calculation Example:

- *Based on a 40 hour work week and 52 weeks the total annual paid time for an employee is 2,080 hours.*
- *Employees actually work less time than 2,080 and this time is broken down into the following components:*
 - *Vacation(VAC)*
 - *Holiday(HOL)*
 - *Personal(PER)*
 - *Sick(SIC)*
- *Using an example to calculate worked time for each year , let's assume an employee has two weeks vacation(10 days or 80 hours) ,*
- *In addition, he/she:*
 - *Averages 1.5 sick days or 12 hours(the company average),*
 - *Is entitled to 9 company paid holidays (72 hours)*
 - *Is entitled to 4 personal days (32 hours)*
- *Based on the above information, the employee "worked hours" are computed as follows:*

Paid Hours	2,080
less: Vacation	(80)
less: Sick	(12)
less: Holiday	(72)

less: Personal	<u>(32)</u>
Worked Hours	1,884

This billable hour for each employee of the Service Company is estimated at the beginning of each year based upon anticipated paid time-off (vacation, holidays, sick-time and personal days). By year's end, the employee will have billed out actual time worked. Adjustments are made for paid time off at the end of each year in order to reconcile the difference by employee for actual paid time off versus estimated paid time off. All billable hours are recorded on an employee's timesheet. Employees are instructed to charge time directly to an entity or group of entities for which they are performing a service. Employees record an entity or allocation codes on their timesheets to represent the desired billing of their time. An activity is also selected in conjunction with each accounting unit. The activity represents the types of service that the employee is providing to the state(s).

Billable Dollars

As mentioned above, labor costs and overhead expense represent billable costs. Labor cost is defined as actual base pay of employees calculated into an hourly pay rate. Overhead expenses are additional employee compensation. As part of the budget process, these costs are identified by employee. Once the budget is final, the overhead costs for each employee are calculated by type of cost and loaded into payroll as a payroll additive to the employee's hourly rate. This payroll additive is calculated into the hourly rate based on the budget or best available information. They are recorded to the general ledger through the payroll system.

The following is an example of how employee deduction codes are calculated.

			HRS			
		Annual Salary		50,000.00		
		Base rate		24.03846		
		Holidays	9	72		
		Personal	4	32		
		Sick	1.5	12		
		Vacation	10	80		
		Billable Hours		1,884		
		Burden rate		1.104034		
F4	F6		F8	Amount Per	Burden	Base Amt
Company	EE#	EE Name	Ded Code	Pay By Ded Code	Rate	per pay
11	123	Smith, Jane	DENR	33.12	1.104	30.00
11	123	Smith, Jane	HLTR	458.60	1.104	415.38
11	123	Smith, Jane	RENR	212.31	1.104	192.31
11	123	Smith, Jane	OPTR	127.39	1.104	115.38
11	123	Smith, Jane	VHPR	81.66	1.104	73.96
11	123	Smith, Jane	HOLR	73.49	1.104	66.57
11	123	Smith, Jane	PSHR	42.46	1.104	38.46
11	123	Smith, Jane	BNSR	42.46	1.104	38.46
11	123	Smith, Jane	PERR	32.66	1.104	29.59
11	123	Smith, Jane	LTDR	20.38	1.104	18.46
11	123	Smith, Jane	SICR	12.25	1.104	11.09
11	123	Smith, Jane	LIFR	6.11	1.104	5.54
				1,923.08	80 hours of pay	
				3,065.99		
				38.32		

In the example, the employee is paid \$50,000 per year and has estimated billable hours of 1,884. In order to ensure that all overhead costs are billed out, it is necessary to calculate a burden rate to be applied to each deduction code. The burden rate is calculated by dividing actual paid hours by actual hours worked. In this example $2,080/1,884$ produces a burden rate of 1.104034. This rate is applied to all deduction codes for this employee. Each deduction code represents a specific type of overhead expense. In the example DENR is used to record employer costs for Dental expense. The annual amount is divided over 26 pays and the burden rate of 1.104034 is applied to the cost in order to compensate for paid time off. Deduction codes are also used to record the overhead costs associated with paid time off. The paid time off deduction codes are SICR, PERR, HOLR and VHPR. These employer paid deductions then follow the distribution of direct payroll costs, and billable hours for each employee when payroll is processed.

Employees choose how to allocate their time from a drop-down menu on their timesheet which contains accounting codes (“accounting units”). Accounting units represent various types of allocations. Employees must also select an activity or “type of service” when allocating their time. In continuing with the example above if the employee selected 40 hours to accounting unit 1111 and activity AC and 40 hours to accounting unit 1125 and activity M91226 (which represents a NJ Rate Case Expenses) the cost listed above would be split equally between accounting unit 1125 and 1111. If more accounting units were selected the direct and indirect payroll charges would be allocated to accounting units based on the percentage of hours charged to each. As overhead deduction codes post to the general ledger the result produces a debit to expense and a credit to an accrued account, by type of deduction code.

When an employee uses their paid time off, it is charged to an administrative accounting unit on their timesheet and posted against the accrued paid time off account by type of deduction code. There are four different accrued accounts setup to track paid time off. This process of building up accrued paid time off through deduction codes, allows the company to bill the subsidiaries for this overhead component as time is actually spent on individual projects or types of services.

Once payroll has been processed the worked, billable dollars, direct payroll expense and employer deductions are automatically interfaced from the payroll system into the general ledger. Payroll dollars and employer deductions are mapped to general ledger accounts for earnings codes and employer deduction codes. This payroll is then interfaced into the General Ledger. This process occurs for the two or three payrolls that are processed for the month. Once each payroll is run, it is interfaced into the General Ledger.

Allocations

After the closing and posting of payroll for the month is done, all service related costs will be appropriately distributed to the subsidiaries of Aqua America. These allocations are an automated process whereby costs are pooled by accounting units, and distributed to the states based on predetermined allocation methods setup within the general ledger.

Accounting units that represent service related expenses are setup in the general ledger as four digits. The Accounting Unit is linked to a table in the General Ledger that contains customer counts for the year immediately proceeding the current year and builds the portion to charge to each state. The allocations have been setup to pull only four digit accounting units with the company. Other tables (like account ranges used) are maintained by Corporate Accounting and used in the process. These ranges of accounts are setup specifically for service related expenses. Methods and customer counts are adjusted from year to year as needed.

Once the payrolls are posted, allocations are processed, and costs are distributed to each state. To preserve the integrity of the payroll costs, a revenue account is credited to offset all service related expenses within the company. This leaves costs in the proper accounts where they can be further analyzed and reviewed.

Further, a control sheet is used by Corporate Accounting to ensure that all charges relating to four digit accounting units within Aqua Services Inc. are equal to all charges allocated to the state's clearing accounts. Each state has an accounting unit which is charged in conjunction with their clearing accounts. Reports provide backup support for the charges which are allocated to the states. These reports tie into the amounts charged to the clearing account at the state level. They contain total costs by employee, by

type of service, and for the amount of hours charged. It is the responsibility of the state to record capital and rate case related expenses to their proper general ledger accounts based on the backup provided to them by Corporate Accounting. The remaining costs should be posted directly to the management fee line on their general ledger. Reports can be generated to provide additional backup as requested by Management.

Reconciliations

In addition to the reconciliation of the charges allocated to the states, processes have been put in place to true-up actual expenses by type. As expenses change from budget or employees use more or less paid time off than budgeted, adjustments for these cost will need to be generated. Unless significant changes to expense from budget occur, adjustments to expense will be done on a yearly basis. All adjustments to expense will need to be recorded through payroll. Reports are generated based on expenses that are posted through the payroll system, so in order to have a report tie into the allocations, all service related expenses are posted through payroll. Access queries have been created to allocate adjustments back at the employee level. These queries will take the overall amount of expense to be trued up, by deduction code, and allocate it back based on how time was charged for the year. For example, if we need to change dental expense for the year by \$10,000, the reports will allocate that costs by percentage, at an employee level, to deduction code DENR. The \$10,000 will be charged to accounting units and activities based on historical time charged.

II. Sundry billing

Sundry charges include all other costs which are not included in the service allocations. They post to the general ledger under three digit accounting units and are typically departmental expenses created through accounts payable. Sundry costs, like service costs, can be classified as direct or indirect charges. Activity codes are created to identify entity or group of entities allocations. Activities are attached to each sundry expense and are used to determine how costs should be allocated to the state. In this methodology, activities determine whether costs are to be directly charged to a state or allocated to a group of states. All sundry related expenses must have activities assigned to them. A report can be run to determine if a charge has been recorded without the required activity. Journal entries are created

to correct sundry expenses without activities. Once this is done all three digit accounting units for the month are downloaded from our financial reporting system into an excel spreadsheet. This spreadsheet is used to allocate the direct and indirect cost for these accounting units. A journal entry is prepared to debit a clearing account at the state level and credit a revenue account within the Service Company in our FIS system. Backup support is provided to the states within the excel document. The support indicates where the charges reside on the company books, the vendor paid, the allocation method (activity) and the amount charged to the state. The backup may contain balance sheet charges and it is the responsibility of the state to review the backup and properly record expense on their books.

III. Aqua Customer Operations (“ACO”) Billings

Aqua Customer Operations (“ACO”) is a department of Aqua Services, Inc. ACO expenses, both labor and non-labor, are allocated to all subsidiaries receiving services based upon customer count.

In general, ACO employees do not track their time. There may be instances that an employee may charge directly to a subsidiary or a group of subsidiaries for a service specific only to that subsidiary or group of subsidiaries, but in general, ACO employees do not track their time and the labor costs and related benefit costs are included in the allocation charged as common costs to all subsidiaries and non-affiliated entities receiving these services.

For Customer Service and Billing Services provided to the Aqua America Utility Companies and non-affiliated entities (“Third Party Clients”) utilizing the Customer Service Billing System employed by the Service Company to provide these Services, which Services cannot be identified and related exclusively to a particular Utility Company or Third Party Client, the cost for such Customer Service and Billing Services will first be allocated between the Third Party Clients and the Utility Companies based on the relative proportion of Third Party Client and Utility Companies revenues budgeted to be generated from the Customer Service Billing System for the current year to the total budgeted revenues to be generated from the Customer Service Billing System for the current year for all Third Party Clients and Utility Companies combined.

The portion of the costs for such common Customer Service and Billing Services allocated to the Utility Companies or a group of Utility Companies will be further allocated to each Utility Company or group of Utility Companies, including Aqua, based on the ratio of the number of customers served by each Utility Company or the group of Utility Companies at the most recent fiscal year end to the number of customers served by all Utility Companies, subject to adjustment during any year for a substantial change in the number of customers at any Utility Company or among the Utility Companies since the previous year-end in accordance with the Service Company's accounting policies.

Affiliate Charges to Aqua Utilities Florida, Inc.

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

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

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

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

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

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

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

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

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

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

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

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

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

Aqua Utilities Florida
Comparison of average hourly rates to market rates in Florida

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

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

1.
 Engineering

2 firms were contacted that AUF has used in the past

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

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

2.

Legal

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

	Average
Billing Rate	\$ 247

3.

Accountant

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

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

4.

Management Consultant

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

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

5.

Customer Service Cost per Account

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

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

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

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

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

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

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

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

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

Total Service and Sundry Charges
Rate per hour ASI charges AUF

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

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

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

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

	Accounting Services	Engineering Services	Legal Services	Management Professionals	Total
Total Services Charges	5,468,462.71	1,436,012.78	1,992,142.94	17,771,648.09	26,668,266.52
Less Excludable:					
Contract Services	540,802.73		986,532.85	2,049,149.35	3,576,484.93
Travel Expenses	43,368.56	359.14	5,786.16	367,420.46	416,934.32
Computer Hardware/Software	2,998.08		1,282.31	830,052.00	834,332.39
Net Service Charges	<u>4,881,293.34</u>	<u>1,435,653.64</u>	<u>988,541.62</u>	<u>14,525,026.28</u>	<u>21,840,514.88</u>
Total Hours	<u>85,909.94</u>	<u>17,555.10</u>	<u>7,132.04</u>	<u>113,891.86</u>	<u>224,488.94</u>
Average Hourly Rate	<u>56.82</u>	<u>81.78</u>	<u>140.01</u>	<u>127.53</u>	<u>97.29</u>

Contract Services, Travel Expenses, and Computer Hardware/Software charges not included in Service Charge Hourly Rate:

Contract Services - charges that have already been assigned to outside professionals

Travel Expenses - charges would be billed separately and in addition to an outside contractor's hourly wage

Computer Hardware/Software - charges would be billed separately and in addition to an outside contractor's hourly wage

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

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

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

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

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

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

-I used November because that is the latest available data

Aqua Utilities Florida, Inc. BAD DEBT EXPENSE	May 07 - Apr 08	May 08 - Apr 09	May 09 - Apr 10	Nov. 09 - Oct. 10	3-Year
	Total	Total	Total/Test Year	Total Recent 12-Mos.	Average
Florida Rate Band 1W	\$28,304	\$55,319	\$56,446	\$56,303	\$56,023
Florida Rate Band 2W	\$9,849	\$24,593	\$41,527	\$38,711	\$34,944
Florida Rate Band 3W	\$4,824	\$14,788	\$44,431	\$42,180	\$33,800
Florida Rate Band 4W	\$50,668	\$107,919	\$211,832	\$207,863	\$175,871
Florida Rate Band 5W (Breeze Hill)	\$643	(\$262)	\$74	(\$2)	(\$63)
Florida Rate Band 10W (Fairways)	\$5,663	\$2,383	\$2,583	\$1,874	\$2,280
Florida Rate Band 12W (Peace River)	\$737	\$2,210	\$8,255	\$9,453	\$6,639
Florida Rate Band 1WW	\$2,531	\$1,670	\$3,092	\$3,247	\$2,670
Florida Rate Band 2WW	\$27,929	\$172,880	\$8,746	\$10,501	\$64,043
Florida Rate Band 3WW	\$1,627	\$2,526	\$7,441	\$4,790	\$4,919
Florida Rate Band 4WW	\$4,136	(\$4,639)	(\$1,957)	\$1,572	(\$1,675)
Florida Rate Band 5WW (Breeze Hill)	\$273	\$185	\$60	(\$9)	\$79
Florida Rate Band 7WW (Fairways)	\$635	\$2,087	\$1,694	\$1,552	\$1,778
Florida Rate Band 10WW (Peace River)	\$385	\$3,156	\$5,197	\$6,391	\$4,915
	\$138,205	\$384,816	\$389,420	\$384,426	\$386,221