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**Subject:** 100330-WS - Electronic Filing  
**Attachments:** 100330-WS - AUF Prehearing Statement.pdf

a. Person responsible for this electronic filing:

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b. Docket number and title for electronic filing are: Docket No. 100330-WS - 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.

c. The name of the party on whose behalf the document is filed: Aqua Utilities Florida, Inc. ("AUF").

d. Total number of pages: 30

e. Brief description of filing: AUF's PREHEARING STATEMENT

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**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

FILED: October 31, 2011

**AQUA UTILITIES FLORIDA, INC.'S  
PREHEARING STATEMENT**

Aqua Utilities Florida, Inc. ("AUF"), pursuant to Order No. PSC-11-0309-PCO-WS, as modified by Orders Nos. PSC-11-0384-PCO-WS and No. PSC-11-0504-PCO-WS, and Florida Administrative Code Rule 28-106.209, files its Prehearing Statement in the above-captioned docket, and states:

**(1) AUF Witnesses**

AUF intends to call the following witnesses:

<b>Witness Name/Title</b>	<b>Subject</b>	<b>Issues</b>
Preston Luitweiler Vice President and Chief Environmental Officer of Aqua Services, Inc.	Quality of Service, Pro Forma Plant Items; Customer Service Hearings	1, 2, 3, 10 and 39
Susan Chambers National Customer Service Manager of Aqua America	Quality of Service; Customer Service Hearings	1, 2 and 39
Frank Seidman President of Management and Regulatory Consultants, Inc.	Used and Useful Analysis	4, 5, 6 and 7
William Troy Rendell	Used and Useful, Leverage Formula, Salary Expense,	4, 5, 6, 7, 12, 13, 19, 20, 24 (objected), 26, 27, 28, 29, 30, 31,

DOCUMENT NUMBER-DATE

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<b>Witness Name/Title</b>	<b>Subject</b>	<b>Issues</b>
Rates Manager of Aqua Utilities Florida, Inc.	Incentive Compensation, Rate Structure, Affordability, Customer Service Hearings	32, 33, 34, 35, 36, 37 and 38
Stan F. Szczygiel Manager of Rates and Planning for the Southern and Midwest region of Aqua Services, Inc.	General Overview; Operations and Maintenance ("O&M") Expenses; Bad Debt Expense, Rate Case Expense, Affiliate Allocations, Affiliate Charges to AUF, Affordability	8, 9, 10, 11, 14, 15, 16, 17, 18, 19, 21, 22, 23, 24 (objected) and 25

AUF reserves the right to present additional witnesses, to address issues which have not been previously raised by the parties, the Commission Staff, or the Commission.

(2) **Exhibits**

AUF will sponsor as exhibits the original "Application for increase in water and wastewater rates" with all attachments thereto including, but not limited to, the Minimum Filing Requirements ("MFRs"), along with all exhibits prefiled with its direct and rebuttal testimony.

A listing of all known exhibits that AUF intends to sponsor at this time are:

<b>Witness</b>	<b>Exhibit</b>	<b>Description</b>
Preston Luitweiler	PL-1	List of W&W systems included in this case
Preston Luitweiler	PL-2	Final Phase II QSM Report
Preston Luitweiler	PL-3	Pro forma support for Lake Josephine and Sebring Lakes Project
Preston Luitweiler	PL-4	Pro forma support for Breeze Hill Project
Preston Luitweiler	PL-5	Pro forma support for Tomoka Twin Rivers Project

<b>Witness</b>	<b>Exhibit</b>	<b>Description</b>
Preston Luitweiler	PL-6	Pro forma support for Leisure Lakes Project
Preston Luitweiler	PL-7	Pro forma support for Peace River Heights Project
Preston Luitweiler	PL-8	Pro forma support for Sunny Hills Project
Preston Luitweiler	PL-9	Additional support for Lake Josephine and Sebring Lakes Project
Preston Luitweiler	PL-10	Additional support for Lake Josephine and Sebring Lakes Project
Preston Luitweiler	PL-11	Additional support for Sunny Hills Project
Preston Luitweiler	PL-12	Additional support for the Peace River Heights Project
Preston Luitweiler	PL-13	Additional support for the Leisure Lakes Project
Preston Luitweiler	PL-14	Cost projections for Village Water/Wastewater "Solutions"
Preston Luitweiler	PL-15	South Seas Compliance
Susan Chambers	SC-1	Compilation of AUF actions/customer comments
Susan Chambers	SC-2	AUF responses/issues from Arredondo Farms System customers
Susan Chambers	SC-3	Final Phase II QSM Report
Susan Chambers	SC-4	AUF's report on complaints to Commission - 2011

<b>Witness</b>	<b>Exhibit</b>	<b>Description</b>
Susan Chambers	SC-5	AUF's report on complaints to Commission - 2009-2010
Susan Chambers	SC-6	July 12, 2010 Letter and attachments
Frank Seidman	FS-1	Frank Seidman Curriculum Vitae
William Troy Rendell	TR-1	Composite Schedule of U&U percentages approved by Commission
William Troy Rendell	TR-2	Schedule comparing U&U percentages
William Troy Rendell	TR-3	Confidential-- Updated marked-based salary study
William Troy Rendell	TR-4	U&U Water Treatment, Distribution, and Collection
William Troy Rendell	TR-5	Staff Recommendation on Water U&U
William Troy Rendell	TR-6	Senate Presentation on Florida Foreclosures
Stan F. Szczygiel	SS-1	AAI Corporate Charges Allocations Manual
Stan F. Szczygiel	SS-2	Florida-Specific Analysis
Stan F. Szczygiel	SS-3	AUF 3-year average calculation bad debt expense
Stan F. Szczygiel	SS-4	Affiliate Costs
Stan F. Szczygiel	SS-5	Updated Florida Analysis
Stan F. Szczygiel	SS-6	Ms. Dismukes' analysis -- Corrected
Stan F. Szczygiel	SS-7	Customer Service Cost Schedules

<b>Witness</b>	<b>Exhibit</b>	<b>Description</b>
Stan F. Szczygiel	SS-8	AUF's 2 <sup>nd</sup> Supplemental Response to OPC Areas of Concern
Stan F. Szczygiel	SS-9	Rate "Peer Group" Deficiencies
Stan F. Szczygiel	SS-10	Average consumption per customer
Stan F. Szczygiel	SS-11	Rate Case Expense

AUF will be filing additional supplemental testimony relating to the customer service hearings on November 3, 2011 and, at that time, may file other exhibits. In addition, AUF may utilize other documents as exhibits at the time of hearing, either during cross examination or as further impeachment or rebuttal exhibits, and the precise identification of such documents cannot be determined at this time.

**(3) AUF's Statement of Basic Position**

AUF currently operates 60 jurisdictional water utility systems and 27 jurisdictional wastewater systems in the following Florida counties: Alachua, Brevard, DeSoto, Hardee, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington. Since rates were last established in 080121-WS, AUF has invested over 11 million dollars in capital to enhance its quality of service and to comply with Commission directives and applicable federal, state and local regulations.

Despite ongoing efforts to control and reduce expenses, AUF has continued to experience declining rates of return. The decision to seek rate relief was not an easy one to make, but was required in order for AUF to be able to continue to provide adequate and efficient service to its customers. Moreover, rate relief is needed to maintain AUF's financial integrity, which makes

the provision of quality service, at to have reasonable rates possible. The rate relief requested is not excessive; rather, it is the minimum required to enable AUF to provide adequate and efficient service and an opportunity to earn a fair rate of return on its investment as required by the law.

Although AUF is not opposed to the implementation of the cap-band rate structure set forth in the PAA Order, the Commission may want to consider a state-wide uniform rate 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.

#### **(4) Issues & AUF's Positions**

The following are issues identified by AUF and its positions on these issues.

### **QUALITY OF SERVICE**

**ISSUE 1:** What is AUF's quality of service?

**POSITION:** The quality of service provided by AUF is good and no further action should be taken by the Commission. (Luitweiler, Chambers, Rendell)

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

**POSITION:** The quality of service provided by AUF is good and no further action should be taken by the Commission. (Luitweiler, Chambers, Rendell)

### **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; and Sunny Hills Water System Water Tank Replacement Project?

**POSITION:** 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 Twin Rivers



Water Treatment Plant Tank Lining Project; Sunny Hills Water System Water Tank Replacement Project are set forth below:

Funding Project Description	Pro Forma Additions	Depr Exp	Prop Tax Exp Incrs
I & I study & improvmt, collection system - Breeze Hill	78,165	1,737	1,239
New tank liners - Tomoka & Twin Rivers	48,066	1,375	1,095
Secondary water treat - Sebring Lakes - Lake Josephine	373,354	16,988	5,703
Secondary water quality - Leisure Lakes	105,799	4,814	1,616
Gross alpha treatment - Peace River	235,392	10,710	4,076
Additional Storage - Sunny Hills W	267,885	7,662	4,487
Protested Pro Forma Plant Total	<u>1,108,661</u>	<u>43,285</u>	<u>18,216</u>

(Luitweiler)

**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 Arrendondo Estates, Arrendondo Farms, Breeze Hill, Carlton Village, East Lake Harris/Friendly Center, Fairways, 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?

**POSITION:** The appropriate used and useful percentages and the associated composite used and useful percentages for the following specific protested water treatment and related facilities are as follows:

Arrendondo Estates	100.00
Arrendondo Farms	100.00
Breeze Hill	100.00
Carlton Village	95.00
East Lake Harris/Friendly Center	100.00
Fairways	100.00
Fern Terrace	100.00
Hobby Hills	100.00
Interlachen/Park Manor	100.00
Lake Josephine/Sebring Lakes	85.00
Picciola Island	75.00
Rosalie Oaks	100.00
Silver Lake Estates/Western Shores	94.00
Tomoka View	100.00
Twin Rivers	100.00

Venetian Village	74.00
Welaka	80.00
Zephyr Shores	100.00

(Rendell, Seidman)

**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 Arrendondo Estates, Arrendondo Farms, Beecher's Point, Breeze Hill, Fairways, Gibsonia Estates, Interlachen/Park Manor, Kingswood, Lake Josephine/Sebring Lakes, 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, Tomoka View, Twin Rivers, Valencia Terrace, Venetian Village, Village Water, Welaka, Wootens, and Zephyr Shores.

**POSITION:** The appropriate used and useful percentages and the associated composite used and useful percentages for the following specific protested water distribution systems are as follows:

Arrendondo Estates	100.00
Arrendondo Farms	88.00
Beecher's Point	100.00
Breeze Hill	100.00
Gibsonia Estates	100.00
Interlachen/Park Manor	83.00
Kingswood	100.00
Oakwood	100.00
Orange Hill/Sugar Creek	100.00
Palm Port	100.00
Palms Mobile Home Park	88.00
Peace River	100.00
Piney Woods	100.00
Ravenswood	100.00
River Grove	100.00
Rosalie Oaks	100.00
Silver Lake Estates/Western Shores	100.00
Silver Lake Oaks	87.00
Skycrest	100.00
Stone Mountain	54.00
Sunny Hills	13.00
The Woods	76.00
Twin Rivers	100.00
Venetian Village	85.00
Village Water	100.00

Welaka	52.00
Wootens	66.00

(Rendell, Seidman)

**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 Arrendondo 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?

**POSITION:** The appropriate used and useful percentages and the associated composite used and useful percentages for the following specific protested wastewater treatment and related facilities are as follows:

Arrendondo Farms	100.00
Breeze Hill	56.00
Fairways	100.00
Florida Central Commerce Park	100.00
Holiday Haven	75.00
Jungle Den	100.00
Kings Cove	100.00
Leisure Lakes	39.00
Morningview	100.00
Palm Port	58.00
Peace River	100.00
Rosalie Oaks	100.00
Silver Lake Oaks	42.00
South Seas	100.00
Summit Chase	100.00
Sunny Hills	49.00
The Woods	100.00
Valencia Terrace	100.00
Venetian Village	100.00
Village Water	79.00

(Rendell, Seidman)

**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, Florida Central Commerce Park, Holiday Haven, Jungle Den, Peace River, Rosalie Oaks, Silver Lake Oaks, Sunny Hills, The Woods, Village Water, and Zephyr Shores?

**POSITION:** The appropriate used and useful percentages and the associated composite used and useful percentages for the following specific protested wastewater collection systems are as follows:

Beecher's Point	100.00
Breeze Hill	100.00
Fairways	100.00
Holiday Haven	75.00
Jungle Den	100.00
Peace River	100.00
Rosalie Oaks	100.00
Silver Lake Oaks	87.00
Sunny Hills	55.00
The Woods	71.00
Village Water	58.00

(Rendell, Seidman)

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

**POSITION:** 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. (Szczygiel)

**Issue 9:** What is the appropriate Working Capital allowance? (Fallout Issue)

**POSITION:** This is a fall out calculation issue subject to the resolution of the other protested issues in this proceeding. (Szczygiel)

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

**POSITION:** This is a fall out calculation issue subject to the resolution of the other protested issues in this proceeding. (Szczygiel, Luitweiler)

#### **COST OF CAPITAL**

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

**POSITION:** This is a fall out calculation issue subject to the resolution of the other protested issues in this proceeding. (Szczygiel)

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

**POSITION:** The leverage formula in effect at the time of the Commission's final vote in the case should be used to establish AUF's rate of return on equity. See R. 25-30.433(11), F.A.C. ("The equity return established shall be based on the equity leverage order in effect at the time the Commission decides the case.") (Rendell)

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

**POSITION:** This is a fall out calculation issue subject to the resolution of the other protested issues in this case. (Rendell)

### **NET OPERATING INCOME**

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

**POSITION:** The appropriate test year billing determinants to be used are those contained in the MFRs and billing analysis filed in this rate case. Thus, no adjustments to annualized test year revenues are appropriate. (Szczygiel)

**Issue 15:** What is the appropriate amount of test year revenues? (Fallout Issue)

**POSITION:** 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. (Szczygiel)

**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?

**POSITION:** 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. In this case, AUF uses the same allocation methodology that was thoroughly analyzed, reviewed, and approved by the Commission in AUF's last rate case in Docket No. 080121-WS. Furthermore, no witness appears to have challenged AUF's allocation methodology in this case. (Szczygiel)

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

**POSITION:** No. No adjustments should be made to affiliate revenues, costs and charges allocated to AUF's systems. AUF's affiliated charges are reasonable and fully supported by the evidence in the record. OPC has not provided any credible evidence to support its recommended adjustments. In addition, the comparative analysis OPC advocates the Commission should use to set rates is impermissible under Florida law. Furthermore, OPC's comparative analysis is fundamentally flawed from an analytical perspective. (Szczygiel)

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

**POSITION:** The appropriate amount of Corporate IT charges allocated to AUF by its parent, Aqua America, Inc. are \$2,053,657, as appropriately reflected in the MFRs. (Szczygiel)

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

**POSITION:** No. No adjustments should be made to Incentive Compensation. The appropriate incentive compensation amount is set forth in the MFRs and reflects a pay-for-performance compensation structure that drives quality and efficiency thus benefiting customers. Moreover, AUF's pay-for-performance compensation structure is consistent with past Commission precedent. (Rendell)

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

**POSITION:** No adjustments should be made to salary and wages. The appropriate salary expense amount is contained in the MFRs and is consistent with past Commission precedent. (Rendell)

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

**POSITION:** Yes. To be consistent with Commission precedent, AUF agrees that an adjustment of \$3,199 should be made to reflect the appropriate three year average for AUF's bad debt expense. OPC has not provided any credible evidence to support its recommended adjustments. OPC's attempts at using a comparative analysis to set rates are impermissible under Florida law. Furthermore, OPC's comparative analysis is fundamentally flawed from an analytical perspective. (Szczygiel)

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

**POSITION:** The appropriate amount of rate case expense is \$1,422,607 (Szczygiel)

**Issue 23:** What is the test year pre-repression water and wastewater operating income or loss before any revenue increase? (Fallout Issue)

**POSITION:** This is a fall out calculation issue subject to the resolution of the protested issues in this case. (Szczygiel)

**Issue 24:** 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?

**POSITION:** AUF objects to the inclusion of this issue in this rate case. OPC improperly seeks to introduce a new rate setting criteria - "affordability" - as a backdoor attempt to reduce AUF's revenue requirement. This novel criteria is found nowhere in relevant statutes or the rules, and is

not supported by Commission precedent. The courts have made it clear that this issue has no place in setting a water or wastewater utility's revenue requirement.

### **REVENUE REQUIREMENT**

**Issue 25:** What is the appropriate pre-repression revenue requirement for the April 30, 2010, test year? (Fallout Issue)

**POSITION:** The appropriate pre-repression revenue requirement for the test year is a fall-out calculation issue subject to the resolution of the other protested issues in this case. (Szczygiel)

### **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?

**POSITION:** 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.

**Issue 27:** What are the appropriate rate structures for the Utility's water and wastewater systems? (Fallout Issue)

**POSITION:** AUF is not opposed to the implementation of the cap band 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. (Rendell)

**Issue 28:** What is the appropriate level of rate consolidation for the water systems in this case? (Fallout Issue)

**POSITION:** AUF is not opposed to the implementation of the cap band 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. (Rendell)

**Issue 29:** What is the appropriate level of rate consolidation for the wastewater systems in this case? (Fallout Issue)

**POSITION:** AUF is not opposed to the implementation of the cap band 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. (Rendell)

**Issue 30:** What are the appropriate resulting repression adjustments for this Utility? (Fallout Issue)

**POSITION:** This is a fall out calculation issue subject to the resolution of the other protested issues in this rate case. (Rendell)

**Issue 31:** What are the appropriate monthly rates for the water and wastewater systems for the Utility? (Fallout Issue)

**POSITION:** This is a fall out calculation issue subject to the resolution of the other protested issues in this rate case. (Rendell)

### **OTHER ISSUES**

**Issue 32:** What are the appropriate allowance for funds prudently invested charges for the Utility's Breeze Hill wastewater treatment plant? (Fallout Issue)

**POSITION:** This is a fall out calculation issue subject to the resolution of the other protested issues in this rate case. (Rendell)

**Issue 33:** What are the appropriate customer deposits for the Utility? (Fallout Issue)

**POSITION:** 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. (Rendell)

**Issue 34:** What is the appropriate four-year rate case expense reduction for Docket No. 080121-WS? (Fallout Issue)

**POSITION:** This is a fall out calculation issue subject to the resolution of the other protested issues in this rate case. (Rendell)

**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? (Fallout Issue)

**POSITION:** This is a fall out calculation issue subject to the resolution of the other protested issues in this rate case. (Rendell)

**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? (Fallout Issue)



**POSITION:** This is a fall out calculation issue subject to the resolution of the other protested issues in this rate case. (Rendell)

**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.? (Fallout Issue)

**POSITION:** This is a fall out calculation issue subject to the resolution of the other protested issues in this rate case. (Rendell)

**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?

**POSITION:** The appropriate amount of total Regulatory Assets for water and wastewater should be \$464,042 and \$252,637, respectively. The total annual amortization amount is \$232,021 for water and \$126,318 for wastewater. The recovery should be applied to each rate band or stand-alone system that generated the regulatory assets. (Rendell)

**Issue 39:** Should this docket be closed?

**POSITION:** Yes. This Docket should be closed. AUF's has demonstrated that its quality of service is satisfactory, that it has made significant improvements, and no further monitoring should be required. Furthermore, additional monitoring would not be cost effective or productive. (Chambers, Luitweiler)

(5) **Stipulated Issues**

**Issues Deemed Stipulated Pursuant to Section 120.80(13)(b), Florida Statutes**

**RATE BASE**

**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
<u>Rate Band/System</u>	<u>Land</u>	<u>Capital</u>	<u>Expense</u>

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	<u>\$160,093</u>	<u>\$79,006</u>	<u>(\$255,390)</u>

**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			
<u>Rate Band/System</u>	<u>MFR Amount</u>	<u>Documented Amount</u>	<u>Adjustment</u>
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	<u>\$200,278</u>	<u>\$176,667</u>	<u>(\$23,611)</u>

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

*NOTE: Although AUF believes that the parties may be able to stipulate as to certain pro forma plant addition adjustments, AUF cannot stipulate to the following table ("Summary of Pro Forma Plan Adjustments") at this time. AUF has notified Commission Staff and the other parties of this issue and hopes to receive additional back up information on the table prior to the Prehearing Conference, particularly with respect to Water Band 4.*

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
<b>Total Adjustments</b>	<b>(\$702,348)</b>	<b>(\$266,157)</b>	<b>187,885</b>	<b>(\$58,222)</b>	<b>(18,369)</b>

**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.

**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
Lake Josephine/Sebring Lakes	55
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
Tomoka View	100
Valencia Terrace	100
Wootens	100
Zephyr Shores	100

**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.

**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:

<b>System</b>	<b>W Dist. System %</b>
48 Estates	85
Carlton Village	47
East Lake Harris/Friendly Center	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 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

**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:

<b>Rate Band/System</b>	<b>Composite Excessive I&amp;I %</b>
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, Rand Band 3, and Breeze Hill are (\$994), (\$22,606), and (\$5,098), respectively.

**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

**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
South Seas	100
Summit Chase	100
Valencia Terrace	100
Venetian Village	100
Zephyr Shores	100

**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:



<u>Band</u>	<u>Adjustment</u>
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:	<u>\$14,042</u>

**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:

<u>Band</u>	<u>Adjustment</u>
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:	<u>(\$1,153,548)</u>

### COST OF CAPITAL

**Issue 11:** What is the appropriate Commission-approved leverage formula to use in this case?

**Stipulation:** The leverage formula in effect at the time of the Commission's final vote in the case should be used to establish AUF's rate of return on equity. See R. 25-30.433(11), F.A.C. ("The equity return established shall be based on the equity leverage order in effect at the time the Commission decides the case.")

**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.

**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.

### NET OPERATING INCOME

**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:

<u>Rate Band/System</u>	<u>O&amp;M Expense</u>
Water Band 1	(\$2,1360)
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)

**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 1	N/A	(\$713)	(\$3,794)
Water 2	N/A	(133)	(708)
Water 3	N/A	(324)	(1,725)
Water 4	N/A	(556)	(2,958)
Wastewater 1	(985)	(201)	(1,068)
Wastewater 2	(8,313)	(72)	(383)
Wastewater 3	(102)	(872)	(4,644)
Wastewater 4	(744)	(12)	(61)
Breeze W	N/A	(16)	(85)
Breeze WW	(59)	(16)	(85)
Fairways W	N/A	(41)	(216)
Fairways WW	(534)	(31)	(162)
Peace W	N/A	(13)	(67)
Peace WW	(183)	(12)	(64)
Total	(\$10,919)	(\$3,009)	(\$16,021)

**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)
	<u>(\$5,289)</u>

**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 1	\$2,185	\$0	N/A
Water 2	791	0	N/A
Water 3	442	0	N/A
Water 4	2,867	(40,121)	N/A
Wastewater 1	236	N/A	0
Wastewater 2	2,325	N/A	0
Wastewater 3	203	N/A	0
Wastewater 4	615	N/A	0
Breeze W	22	0	N/A
Breeze WW	30	N/A	(1,688)
Fairways W	48	0	N/A
Fairways WW	33	N/A	0
Peace W	19	0	N/A
Peace WW	14	N/A	0
Total	<u>\$9,831</u>	<u>(\$40,121)</u>	<u>(\$1,688)</u>

**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.

System	Health Insurance	Purchased Water	Insurance Vehicle	Other	Total
Water 1	\$219	\$0	(\$280)	(\$386)	(\$447)
Water 2	79	0	(128)	(176)	(225)
Water 3	44	125,329	(79)	(109)	125,186
Water 4	287	(40,121)	(343)	(473)	(40,650)
Wastewater 1	24	N/A	(53)	(72)	(101)
Wastewater 2	232	N/A	(218)	(301)	(287)
Wastewater 3	20	N/A	(28)	(39)	(47)
Wastewater 4	62	N/A	(5)	(7)	51
Breeze Water	2	0	(6)	(9)	(13)
Breeze Wastewater	3	N/A	(6)	(9)	(11)
Fairways Water	5	0	(24)	(33)	(51)
Fairways Wastewater	3	N/A	(12)	(17)	(25)
Peace Water	2	0	(5)	(7)	(10)
Peace Wastewater	1	N/A	(5)	(6)	(10)
Total	\$983	\$85,208	(\$1,191)	(\$1,642)	\$83,359

**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.

**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

**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.

**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.

**(6) Pending Motions and Other Matters**

None other than OPC’s and Intervenors’ Motion to Move Brief Filing Date.

**(7) Pending Requests or Claims for Confidentiality**

None at this time.

**(8) Objections to Qualifications of Witnesses as Experts**

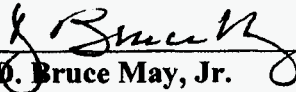
As stated above, AUF objects to the inclusion of Issue 24 whereby OPC seeks to have the Commission adopt a new, unprecedented criteria of “affordability” to reduce AUF’s revenue requirement. AUF objects to OPC witness Earl Poucher’s qualifications as an expert on “affordability.”

**(9) Requirements of Order Establishing Procedure that AUF Cannot Comply With**

None known at this time.

Respectfully submitted this 31st day of October, 2011.

**HOLLAND & KNIGHT LLP**



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**CERTIFICATE OF SERVICE**

I hereby certify that a true and correct copy of the foregoing was furnished by e-mail and

U.S. Mail this 31st day of October, 2011 to:

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