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MARCO RUBIO
Speaker of the House of
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August 7, 2007

Ms. Ann Cole, Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0870

RECEIVED-FPSC
07 AUG -7 PM 4: 16
COMMISSION
CLERK

RE: Docket No. 060368-WS
Application for increase in water and wastewater rates in Alachua,
Brevard, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk,
Putnam, Seminole, Sumter, Volusia and Washington Counties by Aqua
Utilities Florida, Inc.

Dear Ms. Cole:

Enclosed, for filing, on behalf of the Citizens of the State of Florida, are the
original and 15 copies of the Testimony and Schedules of Kimberly H. Dismukes, 06846-07
Testimony and Schedules of James A. Rothschild and Testimony and Exhibits of Andrew 06847-07
T. Woodcock. ← 06850-07 ↑ 06849-07 (Table of contents)
06848-97 (Exhibit)

Please indicate the time and date of receipt on the enclosed duplicate of this letter
and return it to our office.

- CMP _____
- COM 5
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- ECR _____
- GCL 3
- OPC _____
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- SCR _____
- SGA _____
- SEC _____
- OTH _____

Enclosures
SCR:ppg
cc: Parties of Record

Sincerely,

Stephen C. Reilly
Associate Public Counsel

DOCUMENT NUMBER-DATE

06846 AUG-7 5

FPSC-COMMISSION CLERK

CERTIFICATE OF SERVICE
DOCKET NO. 060368-WS

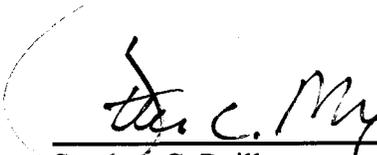
I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by U.S. Mail to the following parties this 7th day of August, 2007:

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Stephen C. Reilly
Associate Public Counsel

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

Docket No: 060368-EI
Filed: August 7, 2007

ORIGINAL

TESTIMONY AND SCHEDULES

OF

KIMBERLY H. DISMUKES

On Behalf of the Citizens of the State of Florida

Respectfully submitted,

Charles J. Beck
Interim Public Counsel

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Attorney for the Citizens
of the State of Florida

DOCUMENT NUMBER-DATE

06846 AUG-7 5

FPSC-COMMISSION CLERK

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

ORIGINAL

In re: Application for increase
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Alachua, Brevard, Highlands, Lake,
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Attorney for the Citizens
of the State of Florida

DOCUMENT NUMBER-DATE

06846 AUG-7 07

FPSC-COMMISSION CLERK

TESTIMONY
OF
KIMBERLY H. DISMUKES

On Behalf of the
Florida Office of the Public Counsel

Before the
Florida Public Service Commission

Docket No. 060368-WS

1 Q. **WHAT IS YOUR NAME AND ADDRESS?**

2 A. Kimberly H. Dismukes, 6455 Overton Street, Baton Rouge, Louisiana 70808.

3 Q. **BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?**

4 A. I am a partner in the firm of Acadian Consulting Group, which specializes in the
5 field of public utility regulation. I have been retained by the Office of the Public
6 Counsel ("OPC") on behalf of the Citizens of the State of Florida to analyze the
7 application of Aqua Utilities Florida, Inc. ("AUF" or the "Company") for
8 increased rates and increased service availability charges for its water and
9 wastewater systems in fifteen Florida counties.

10 Q. **DO YOU HAVE AN APPENDIX THAT DESCRIBES YOUR**
11 **QUALIFICATIONS IN REGULATION?**

12 A. Yes. Appendix I, attached to my testimony, was prepared for this purpose.

13 Q. **DO YOU HAVE AN EXHIBIT IN SUPPORT OF YOUR TESTIMONY?**

14 A. Yes. Exhibit KHD-1 contains 14 schedules that support my testimony.

15 Q. **HOW IS YOUR TESTIMONY ORGANIZED?**

16 A. My testimony is organized into eight sections. In the first section I give a brief

1 background of the instant proceeding. In the second section, I discuss significant
2 deficiencies in the Company's customer service and quality of service. In this
3 section I also recommend that because of these deficiencies the Commission
4 should reduce the Company's allowed return on equity by at least 150 basis
5 points, and also reduce the salaries and benefits of the Company's president and
6 vice president by 50% and the parent company's president by 50%. In the third
7 section I address billing errors and the unreliability of the Company's MFRs. I
8 recommend that the Commission reject the Company's rate filing on the basis that
9 the information supplied by the Company is erroneous and can not used to set
10 rates. In the alternative, I recommend that the Commission adjust the Company's
11 cost of equity to account for its poor quality of service, its poor customer service,
12 and for the other errors and omissions of the Company.

13 In the fourth section, I address the Company's revenue projections and my
14 recommendations concerning them. In the fifth section, I address relationships
15 between AUF and its affiliates. In this section I also discuss adjustments that I
16 recommend concerning transactions between AUF and its affiliates. Sixth, I
17 discuss the Company's expense projections and explain that the Commission
18 should reject the Company's 2006 and 2007 expenses for purposes of setting
19 rates. In the seventh section I present my recommendations concerning rate base
20 adjustments. Finally, in the eighth section, I combine the recommendations of
21 OPC witnesses to present a revenue requirement which removes the components
22 of the Company's case which have not been justified. This estimate is considered
23 preliminary because it is the intention of the OPC to file supplemental testimony.

1 **Q. WHO ARE THE WITNESSES FOR THE OPC IN THIS PROCEEDING?**

2 A. OPC is sponsoring three witnesses. I am testifying on revenue requirement issues,
3 including but not limited to test year projections and related accounting matters.
4 Mr. Andrew Woodcock is testifying on engineering issues. Mr. Rothschild is
5 testifying on the appropriate capital structure and cost of equity that should be
6 utilized in this proceeding.

7 **Q. WHAT IS THE OVERALL REVENUE RECOMMENDATION OF THE**
8 **OPC?**

9 A. OPC does not recommend an increase, but instead strongly recommends the
10 Commission dismiss AUF's case and require a full refund of the entire interim
11 increase. I have, however, compiled Schedule 14, which shows the effect of
12 removing from the Company's filing the components found unjustified by OPC
13 witnesses up to this point. OPC's examination is continuing, and any further
14 changes will be reported. Removing those unjustified components of AUF's filing
15 leaves a combined revenue decrease for all water systems of \$67,975 and for all
16 wastewater systems an increase of \$237,722. This compares to the Company's
17 request of \$4,249,359 for water and \$3,048,935 for wastewater. Schedule 14
18 presents a comparison of these amounts by system.

19 **Q. YOUR RECOMMENDATION USES DATA FROM DIFFERENT TIME**
20 **PERIODS. WOULD YOU PLEASE EXPLAIN WHY THIS IS**
21 **APPROPRIATE GIVEN THE CIRCUMSTANCES OF THIS CASE?**

22 A. Yes. The Commission approved a projected test year ending December 31, 2007
23 for this rate proceeding. The Company has failed to justify the revenue, expenses,

1 and plant in service associated with that projected test year. Due to the serious
2 flaws in the Company's filing, I was forced to utilize data from different years to
3 develop a supportable and verifiable revenue requirement for this Company.
4 Specifically, I used projected 2007 revenue consistent with the Commission's
5 approved projected 2007 test year.

6 For plant in service, I utilized actual 2005 plant in service. Projected
7 additions for 2006 and 2007 were rejected because they were unsupported and
8 were not verified by Mr. Woodcock. Even if the Company had provided the
9 required documentation, there is a fundamental and serious problem with the
10 Company's budgeting process and its impact on different systems. There is no
11 way the Commission can be assured that the amounts budgeted for 2007 will be
12 spent for the systems to which they were originally assigned.

13 For operation and maintenance expenses I used actual 2005 expenses. This
14 was necessitated by the Company's own admission, just 18 days before OPC's
15 testimony was due, that there were serious errors in the projected 2006 and 2007
16 operations and maintenance expense data utilized in the Company's MFRs. There
17 was simply no way OPC could evaluate this new information. Consequently, the
18 only operation and maintenance expenses that I could use were the historical 2005
19 expenses.

20 **Q. YOUR USE OF THESE DIFFERENT TIME PERIODS VIOLATES THE**
21 **"MATCHING PRINCIPLE." HOW DO YOU RESPOND TO THIS?**

22 **A.** The different time periods that I have used do violate the "matching principle"
23 used by accountants. This principle essentially states that a company is to match

1 expenses with related revenues in order to report a company's profitability during
2 a specified time interval. This principle is typically used in rate cases as well.
3 Unfortunately, I was not able to adhere to this principle, due to the deficiencies in
4 the Company's filing and discovery responses. In addition, the Commission's
5 approval of a 2007 projected test year exacerbates the problem. Using the best
6 available information consistent with the projected 2007 test year required that I
7 use 2007 revenue, 2005 O&M expenses, and 2005 plant in service.

8 **Q. DO YOU HAVE AN OPINION ON HOW THE COMMISSION COULD**
9 **SOLVE THE PROBLEMS THAT HAVE BEEN ENCOUNTERED IN THIS**
10 **CASE?**

11 A. Yes. The Commission should dismiss the case. If the Company chooses to refile
12 its rate application, the Commission should direct it to utilize a historic test year.
13 This would overcome the many problems that have been encountered in this case.

14 This case is very reminiscent of the Southern States case, Docket No.
15 900329, where Southern States attempted to utilize budgets to develop a projected
16 test year. In that case, the utility used a projected test year ending December 31,
17 1991, based on the historical year ended December 31, 1989. The Commission
18 ultimately dismissed the case because the underlying data was unreliable.

19 AUF has over 80 individual systems, each of which is unique and
20 different. It is difficult to project expenses, revenues, and plant additions for each
21 of these systems to yield accurate and specific results. If all of these systems were
22 fully integrated using the same facilities and personnel, use of a projected year
23 would be more feasible. However, they are not. Therefore, I recommend that the

1 Commission dismiss the case and direct the Company to use a historical test year
2 in its next rate application.

3 **I. Background**

4 **Q. WOULD YOU PLEASE PROVIDE SOME BACKGROUND TO THIS**
5 **PROCEEDING?**

6 A. Aqua Utilities Florida, Inc. is a wholly-owned subsidiary of Aqua America, Inc.
7 (“Aqua America”), a publicly traded corporation providing water and wastewater
8 utility service to more than 800,000 customers in thirteen states at year end 2006.
9 Aqua America, then Philadelphia Suburban Corporation, first acquired water and
10 wastewater facilities in Florida when it acquired AquaSource Utility, Inc.
11 (AquaSource) and its five regulated Florida subsidiaries in 2003.

12 In 2004, Aqua Utilities Florida, Inc., one of the subsidiaries of
13 AquaSource, purchased the water and wastewater systems of Florida Water
14 Services Corporation (FWSC) located in 10 Florida Counties.

15 Following a corporate reorganization in 2006, all of Aqua America’s
16 Florida water and wastewater systems that were under the jurisdiction of the
17 Florida Public Service Commission were organized as part of AUF, which was
18 made a direct subsidiary of Aqua America. On December 1, 2006, AUF filed an
19 application to increase rates and service availability charges for its systems in
20 Alachua, Brevard, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco,
21 Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties. It also
22 sought approval for allowance for funds prudently invested (AFPI) charges for
23 certain of its systems in Highlands, Lake, Polk, Putnam, Seminole, Sumter, and

1 Washington Counties. In addition, AUF sought authority to collect interim rates
2 until the effective date of the Commission's Final Order regarding its application
3 for an increase in rates. This authority, with adjustments to the Company's
4 interim rate request, was granted in Order No. PSC-07-0325-FOF-WS issued
5 April 16, 2007.

6 In the instant proceeding, AUF originally requested an annual increase of
7 \$4,249,359 for 56 water systems and \$3,048,935 for 24 wastewater systems.
8 However, as explained in greater detail below, the Company has substantially
9 revised its MFRs through its response to OPC's Request for Production of
10 Document ("POD") 124 and the amount of its rate request has changed and is
11 unknown.

12 **Q. DO YOU HAVE A SCHEDULE WHICH SUMMARIZES THE**
13 **COMPANY'S RATE REQUEST?**

14 **A.** Yes. Schedule 1 of my exhibit shows the Company's current revenue, the interim
15 revenue allowed by the Commission and the percent increase, and the Company's
16 requested revenue and the percent increase over current rates. As shown on this
17 schedule, the Company is requesting an increase in rates of 94% when all systems
18 are combined. This is a substantial increase regardless of the number of years
19 since the Company's systems last sought an increase in rates.

20 For many systems, the Company's proposed rate increase is staggering.
21 The five largest proposed increases are: 726% for the Sebring Lakes water
22 system, 588% for the Wootens water system, 468% for the Lake Gibson Estates
23 wastewater system, 414% for the Rosalie Oaks wastewater system, and 403%

1 for the Beecher's Point wastewater system. AUF proposes an increase in rates of
2 100% or more for 49 systems, or approximately 60% of the 80 systems that are
3 part of the current rate request. There are only three of the 80 systems where the
4 Company's proposed increase is less than 25%.

5 **II. Customer and Quality of Service**

6 **Customer Service**

7 **Q. WOULD YOU PLEASE DESCRIBE WHAT YOU MEAN BY THE TERM**
8 **"CUSTOMER SERVICE?"**

9 A. I use the term Customer Service in the most commonly understood way to mean
10 the service the Company provides to customers who have issues, questions, or
11 concerns with any aspect of the customer's water or wastewater service or
12 billing. Customer Service encompasses all ways in which the Company
13 communicates with customers, the speed and courtesy of the response to customer
14 queries, the satisfaction level of customers with the service personnel they speak
15 with and their satisfaction with the Company resolution of the issue that prompted
16 the call or letter to the Company. Customer Service includes all interactions
17 between the Company and its customers regarding all facets of the service and
18 products customers are purchasing.

19 **Q. WHAT RESOURCES HAVE YOU CONSULTED IN ANALYZING THE**
20 **LEVEL AND QUALITY OF CUSTOMER SERVICE PROVIDED BY THE**
21 **COMPANY?**

22 A. I utilized the customer testimony from the Commission's Service Hearings.
23 Customer Service Hearings were held throughout May and June by the

1 Commission in Captiva, Green Acres, Chipley, Palatka, Gainesville, Lakeland,
2 Sebring, New Port Richey, Oviedo, and Mount Dora. Only at Captiva did no
3 customers attend the hearing. Over 150 water and wastewater customers of AUF
4 testified at the hearings in the other locations, resulting in over 1,000 pages of
5 transcripts. Several of the people appearing at the hearings also brought petitions
6 and letters signed by their neighbors, representing more than 1,300 additional
7 customers.

8 In addition, customers have mailed and emailed comments and complaints
9 to the PSC as part of this docket, and in many instances, prior to the opening of
10 this docket. I have reviewed both the written complaints and the testimony of
11 AUF customers at the customer service hearings.

12 **Q. WOULD YOU PLEASE DESCRIBE THE COMPANY'S CUSTOMER**
13 **SERVICE OPERATIONS?**

14 A. Yes. As explained by Mr. Lihvarcik in his testimony, the Company has four
15 customer service specialists (CSS) who answer phones calls from Florida
16 customers regarding billing, water quality, transfer of service and new service.
17 These employees work in a call center in Cary, North Carolina. Any overflow of
18 calls is routed to call centers in Pennsylvania and Illinois.

19 **Q. ARE THESE CUSTOMER SERVICE SPECIALISTS AVAILABLE 24**
20 **HOURS 7 DAYS A WEEK?**

21 A. That does not appear to be the case. The bills I have examined have a toll-free
22 number for Aqua Utilities, but when I called it in the evening I reached a
23 recording saying that normal business hours were 7:30 AM to 5:00 PM, Monday

1 through Friday. I was then asked to provide my account number, and not having
2 one, I followed the alternate direction to provide my zip code. After providing a
3 Florida zip code in an area served by AUF, and having selected the number for
4 reporting an emergency, my call was directed to a telephone answering service
5 located in Sarasota, Florida. The answering service representative explained that
6 all Florida calls made outside of normal business hours are routed to the
7 answering service. As a non-affiliated third party hired by AUF to field calls, the
8 answering service representative explained that she takes information regarding
9 an emergency and then goes through a list of contacts to find one in the area of
10 the customer, and pages these contacts until one answers. She has no further
11 interaction with the AUF customer or AUF field employees, no way of knowing if
12 the employee responded immediately or not at all, and no way of knowing if the
13 problem was resolved to the customer's satisfaction.

14 The Company provided no information in its testimony or application
15 regarding the number of calls to their service center, the issues customers most
16 often call about, the average time it takes to resolve different issues, or the
17 incidence of repeat calls from the same customer regarding the same problem. I
18 have, however, seen considerable evidence from AUF customers regarding
19 problems with the call service center, and the resolution of customer complaints.

20 **Q. WOULD YOU DISCUSS THE TYPES OF PROBLEMS CUSTOMERS**
21 **HAVE HAD WITH AUF'S CUSTOMER SERVICE?**

1 A. The first problem many customers addressed was the difficulty of reaching
2 customer service by telephone, and when contacting AUF by mail, the lack of any
3 reply from the Company acknowledging their letter.

4 If callers do get through to a customer service center, they often report that
5 the employee they spoke with was rude, unhelpful, unknowledgeable, or simply
6 unable to provide the needed information or assistance. Some customers have
7 found themselves questioning the employees' veracity while other customers have
8 decided calling customer service is a waste of their time and energy.

9 In addition to problems with the customer service center, customers report
10 problems receiving boil water notifications from the Company. They report
11 returning home to find their water shut off with no warning. Leaks and breaks
12 that are reported to the Company are not repaired, meters do not appear to be
13 read, or not read correctly, and billing problems are constant. Customers report
14 billed usage fluctuates wildly from month to month for no apparent reason, billed
15 usage is identified as "actual" when the meter appears to have not been read in
16 months, and residential customer bills have been received for amounts that are
17 obviously impossible, reaching into tens of thousands of dollars.

18 **Q. WOULD YOU FIRST DISCUSS THE CUSTOMERS' PROBLEMS WITH**
19 **THE CUSTOMER CALL CENTER?**

20 A. Many of AUF's customers reported that they could not get through to the call
21 center, or if they did get through to the call center the employees were rude and
22 unhelpful.

23 For example:

1 As far as directly with Aqua Utilities, interacting with the company
2 itself, no disrespect, but we've called them numerous times, very
3 bad customer service. Actually they were quite rude on the phone,
4 and actually treat the customers as a nuisance if we have questions
5 or concerns. (Transcript of Chipley Service Hearing, p. 30.)
6

7 But you call the office, if you're lucky to get a live person and you
8 ask too many questions, they hang up on you. You can't get any
9 response. If you leave your name and number, no one calls you
10 back. (Transcript of Gainesville Service Hearing, p. 39.)
11

12 We walk and we find roadway faucets leaking. We phoned to
13 report it using the phone in the Sunny Hills paper. We are
14 informed that the number is no longer in service. (Transcript of
15 Chipley Service Hearing, p. 42.)
16

17 I have a lot of complaints, but the main one is, oh, that customer
18 service. Get on the telephone and try to get something straight with
19 the company. It is a lost cause. (Transcript of New Port Richey
20 AM Service Hearing, p.28.)
21

22 A customer who had very high bills because of a leak reported that he was
23 given a credit for the leak. However, his interaction with the customer service
24 department was less than desirable.

25 And they did give me a \$206.58 credit towards those exorbitant
26 bills that I had. But I called the company and I said -- I thought
27 possibly they might allow me something near what my average bill
28 was. And he said, "Sir, we don't have to give you anything, just
29 consider yourself lucky that you got any credit at all and don't
30 complain." (Transcript of Palatka Service Hearing, p.82.)
31

32 Considering the number of customer complaints regarding the monthly
33 fluctuations in billed usage, which I discuss below, I would be interested in
34 learning how the customer service department determined the amount to credit
35 this customer.

36 One customer, after recounting a long history of phone calls not returned,
37 faxes and letters not replied to, and leaking and broken pipes not fixed stated:

1 My only concern is when somebody calls and has got a problem,
2 somebody should return the call if you are paying for the service or
3 what have you, and say, hey, we won't be there until seven days
4 from now. It gives you relief that you know somebody is coming.
5 (Transcript of Palatka Service Hearing, p. 33.)
6

7 Some customers simply gave up calling customer service, as the customer
8 who stated: "For a long time I allowed high bills. I agreed to pay them, because I
9 felt that it would be a waste of time, of my energy to continue, you know, with the
10 complaints." (Transcript of Oviedo Service Hearing, p. 219.)

11 **Q. WHAT ABOUT OTHER COMMUNICATIONS WITH THE COMPANY?**
12 **DID CUSTOMERS HAVE PROBLEMS WITH THE COMPANY'S BOIL**
13 **WATER NOTIFICATIONS?**

14 **A.** Yes, unfortunately, many of them did. Several customers testified or mailed
15 complaints to the Commission stating that boil water notices had not been posted,
16 or if they had, the signs were inadequate in number, in placement, and in design.

17 One customer stated:

18 The signs cannot be read and understood in a moving vehicle, and
19 to the general public the signs appear to be on the order of a garage
20 sale sign created by youthful people. They do not lend themselves
21 to the attention of the average person and certainly do not indicate
22 that there is an alert of conditions important, information regarding
23 the life, health, safety and welfare to members of the community.
24 (Transcript of Green Acres Service Hearing, p. 38.)
25

26 The customer quoted above took it upon himself to contact his county
27 commissioner about the situation, and the commissioner then contacted AUF. In
28 response, the customer stated:

29 They supplied us with an example of a boil water notification sign
30 that is very brightly done, professionally done, and should work
31 just fine. I've also received an email explaining what the lifting of

1 the boil water notification sign would look like, and I'm sure that
2 would be acceptable as well. So they're very -- they're trying hard
3 to work with us on that matter, but still some issues need to be
4 resolved. (Ibid.)

5
6 While I think it commendable that this customer has taken it upon himself
7 to ensure his community is properly notified of boil water notices, I do not think it
8 is his responsibility to see that the Company complies with required boil water
9 notices. The Commission should require the Company to demonstrate that it has
10 taken appropriate action on this matter in its other systems.

11 Another customer in this same community testified at the service hearing
12 that he had never seen a boil water notification sign.

13 Never once have I received a boil water notice since I've lived
14 there, seen a sign, anything. Never once have I known that there's
15 been any kind of problem with the water, except that later down
16 the road I found out that there was one but now it's been lifted, and
17 it's been way too late for me or anyone in my household that's
18 staying with me or my animals I'm giving that water to do anything
19 about [it]. (Ibid., p.48.)
20

21 Customers of other systems have testified that when they do get boil water
22 notices, the notices are received too late to be of use. For example:

23 . . . we have gotten a couple of letters in our time, not recently, but
24 we have received letters that said don't drink the water, there is a
25 problem with it. The problem is we get the letter after the date said
26 not to drink it. And then by the time we get the letter that it is safe,
27 well, you know, we are drinking bottled water anyway. So the
28 notifications are not reliable. And we really never know what is
29 wrong with the water. (Transcript of Palatka Service Hearings, p.
30 95.)

31
32 Other customers state that AUF never notified them of boil water
33 conditions, but rather they learned of the problem on the television news.

1 After the hurricanes, we didn't have water for weeks at a time. We
2 got the notice about boiling the water when it came back on from
3 television, not from Aqua. (Transcript of Gainesville Service
4 Hearing, p. 62.)

5
6 And some customers state that the lack of notification is not limited to boil
7 water notices.

8 We never get notifications about anything. If they are going to turn
9 off the water, we do not get notified. If they are going to turn the
10 water back on, we do not get notified. We don't know if we need to
11 boil our water or not. We get no notice at all. (Ibid.)

12
13 **Q. ARE THERE OTHER PROBLEMS THAT CUSTOMERS HAVE HAD IN**
14 **COMMUNICATING WITH THE COMPANY?**

15 **A.** Yes, some customers reported payments not being received by the Company
16 because they had been given the wrong mailing address, and others because the
17 Company had changed their account numbers and they had not included the new
18 account number on the check they sent in payment. (Transcript of Oviedo Service
19 Hearing, pp. 55-56, and 202-203.)

20 In addition, there are no sites in Florida for bill payments. Customers
21 cannot pay their bills at a regional office or other location. Customers who do
22 not pay by mail by sending a check to the New Jersey payment address must pay
23 by phone with a credit card, for which the Company charges a handling fee of
24 \$2.95. (Ibid., p. 59.) Or, they may pay via "check-by-phone," giving their bank
25 routing number and checking account number to a customer service agent. The
26 fee for this service is \$4.25. Or they may pay on-line, for which another,
27 unspecified fee, appears to be charged. (<http://www.aquaamerica.com/Folder>
28 [ID/897/SessionID/%7BD3A2794F-0A90-49B3-86DE-](http://www.aquaamerica.com/FolderID/897/SessionID/%7BD3A2794F-0A90-49B3-86DE-)

1 AC5B1C989708%7D/PageVars/Library/Info Manage/Guide.htm.) They cannot,
2 however, pay at a site in their area.

3 **Q. WHAT ABOUT METER READING? ARE THERE PROBLEMS THERE**
4 **AS WELL?**

5 A. There appear to be significant problems with the Company's meter reading and
6 the usage reported on customer bills.

7 Many of the customers filing complaints with the Commission and
8 testifying at the Service Hearings stated that their meters were not read, and that
9 the usage for which they were billed was repeatedly estimated. As one customer
10 stated:

11 For the last year and a half at least, I personally have not seen a
12 meter reader there. . . . I have had overcharged water bills for a
13 year and a half. (Transcript of Gainesville Service Hearing, p.48.)

14
15 Another customer explained:

16 In my correspondence with Florida Water, Aqua Utilities, over the
17 years, I got nowhere. So in the last year or so, I have been parking
18 a vehicle over the water meter, anticipating that they would send
19 me a letter saying they could not read the meter. Well, if you come
20 to my home you will see there is a car parked there and it has been
21 there for months. The grass is dead. (Transcript of Palatka Service
22 Hearing, p. 58.)

23
24 The billed usage, whether reported as actual or estimated on customer
25 bills, varies widely from month to month, with no reason that the customers can
26 explain. A customer of the Chuluota water system testified:

27 . . . every time we called Aqua Utilities, they would say, well,
28 your water consumption is about the same as it was last year at this
29 time. And I said the house was empty last year at this time. How is
30 that possible? Now there are four people living in this house. . .
31 (Transcript of Oviedo Service Hearing, p. 198.)

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A customer with the Lake Gibson Estates water system testified:

And then I have a personal issue that I had with Aqua Utilities earlier this year. On the, on the 13th of February I received a bill for, saying I used 6,000 gallons of water a month for that month. On the 20th of February I received another bill saying I used 174,600 gallons. And when I finally got through to the people, they said they had been estimating the meter readings for a period of time, and their last reading was February 13th and that's when they come up with 174,000-gallon usage. Well, the last actual reading they said was September of '06. Well, there again was about 250 days from September '06 to when they read it in March. That still is way out of line for the usage. (Transcript of Lakeland Service Hearing, pp. 33-34.)

Wide fluctuations in water usage can be seen on a number of customer bills on which the graphs showing daily average usage during the month resemble roller coasters. My Schedule 3 contains many examples of customer bills as part of the customer correspondence with the Commission. Pages 61-62, 99-105, 108, 110, 187, 211, 265, 279-80, 669, 721-22 669 of this schedule all contain graphs showing usage from one month to the next.

The Company has been replacing meters in some of its water systems, but rather than correcting meter reading problems, in many instances the new meters have added to the billing confusion. The following exchange between a customer of the Chuluota water system and Commissioner Argenziano highlights the types of billing problems customers have been faced with.

They estimated on May 23rd, you got a copy of that one, they estimated that my bill was 21,600 gallons. How could I use that if they just changed my meter? Well, I called them. They say, no, that is estimated. Why don't you just wait to read it? Oh, because we estimated. You will get credit on the next one. Okay. I hang up. Two or three days later in the mail I get a new bill. If you could please read that for me for the audience?

1 Commissioner Argenziano: Well, the bill was – this is astounding.
2 The average daily use is 205,634 gallons, and the total for the
3 month was 9,664,800, and the bill was \$51,704. (Transcript of
4 Oviedo Service Hearing, p. 204.)
5

6 Obviously, in addition to meter reading problems, the Company also has a
7 billing systems problem if a bill of that magnitude can be sent to a residential
8 customer without some program controls being triggered.

9 The new meters being installed by the Company appear to have
10 operational problems of their own. As one customer reported:

11 . . . they are an RFID meter, so they're supposed to be able to read
12 them from the road. The problem is they were not given the
13 transmitters, so all they did was place the meters, but they do not
14 have the use of the transmitter, so they still have to physically read
15 the meters. (Transcript of Gainesville Service Hearing, p. 74.)
16

17 The variety of customer complaints regarding billing problems can be seen
18 on my Schedule which summarizes customer billing complaints made at the
19 Service Hearings in May and June.

20 **Q. ARE THERE OTHER PROBLEMS WITH THE COMPANY'S BILLING?**

21 A, Yes, there are. First, many water customers have complained that the bills no
22 longer show a breakdown between base facility charges and usage charges. Many
23 of the bills which I have examined do not show breakdown of charges. The usage
24 for the billing period is shown, with meter readings, and a notation of whether the
25 readings are actual or estimated. Under billing detail, the bill lists current charges
26 as current water charges, current sewer charges, utility tax and amount due.
27 Nowhere are the base facility charges and the usage charges shown.

1 In addition, the bills show a very large variety of billing periods. I have
2 seen bills for as short a period as 17 days, and as long a period as 50 days. Such
3 widely varying billing periods do not help families trying to budget their monthly
4 expenditures. I also question whether or not they are in accordance with Florida
5 Administrative Code §25-10.111(1) which states bills shall be rendered at regular
6 intervals. This provision of the code also states: "When there is good reason for
7 doing so, estimated bills may be submitted." The Commission should seriously
8 explore the apparent use of estimated bills beyond what is absolutely necessary.

9 **Q. HAVE ANY CUSTOMERS REPORTED WATER SHUT-OFFS WITHOUT**
10 **PRIOR NOTIFICATION?**

11 A. Yes, several customers testified that they had their water shut off for reasons
12 beyond their control and without having received any advance notice from the
13 Company. When this has happened it has not always been easy to have the water
14 turned on again. As one customer in Arredondo Estates in Alachua County
15 testified:

16 They came out in error and cut off my water. I called them. Oh, if
17 it's before 2:00 o'clock, we'll have it back on before 5:00. At 5:00
18 o'clock, I'm calling them at five minutes to 5:00. I got the last guy,
19 he told me he was on his way out the door, but it would be cut
20 back on. The next day in the afternoon is when they showed back
21 up. (Transcript of Gainesville Service Hearings, p. 84.)

22
23 **Q. GIVEN THE NUMBER AND VARIETY OF PROBLEMS YOU HAVE**
24 **DISCUSSED, WHAT IS YOUR OPINION OF THE COMPANY'S**
25 **CUSTOMER SERVICE?**

1 A. Based upon the evidence I have seen, I can only find the Company's Customer
2 Service is unsatisfactory. I recommend that the Commission direct the Company
3 to make the following changes in its Customer Service:

4 1) All meter readings on customer bills should reflect actual readings unless
5 there is a documented reason that an estimate is used.

6 2) To the extent not already developed, the Company should develop a plan
7 for testing and calibrating its meters and where necessary replace faulty
8 meters.

9 3) The Company should study the feasibility of redesigning customer bills to
10 show base facility charges and gallonage charges, if it has not already.

11 4) The Company should design its boil water signs and door hangers to
12 ensure that they are instructive, readable and authoritative. They should
13 be submitted to the Commission Staff for approval.

14 5) The Company should maintain monthly logs of all customer service calls
15 from AUF customers showing customer name and address, water and/or
16 wastewater system, time of call, subject of call, how the problem was
17 resolved and when the problem was resolved. These logs should be
18 retained for a period of 5 years or for the period of time between rate
19 cases, whichever is longer.

20 **Quality of Service**

21
22 **Q. WHAT RULES MUST THE COMMISSION FOLLOW REGARDING A**
23 **UTILITY'S QUALITY OF SERVICE?**

24 A. According to PSC Rule 25-30.433(I), Florida Administrative Code:

1 The commission in every rate case shall make a determination of
2 the quality of service provided by the utility. This shall be derived
3 from an evaluation of three separate components of water and
4 wastewater utility operation: quality of utility's product (water and
5 wastewater); operational conditions of utility's plant and facilities;
6 and the utility's attempt to address customer satisfaction. Sanitary
7 surveys, outstanding citations, violations and consent orders on file
8 with the Department of Environmental protection (DEP) and
9 county health departments or lack thereof over the preceding 3
10 year period shall also be considered. DEP and county health
11 department officials' testimony concerning quality of service as
12 well as the testimony of utility's customers shall be considered.
13

14 I address customers' testimony on service quality presented at the Service
15 Hearings held around the state, and in letters and emails sent directly to the
16 Commission.

17 **Q. IN YOUR OPINION, IS THE WATER CUSTOMERS RECEIVE FROM**
18 **AUF OF A SATISFACTORY QUALITY?**

19 A. Not based upon the testimony of the Company's customers. In hearing after
20 hearing, customers presented testimony regarding a large number of service
21 quality problems. These included low water pressure, water odor, sediment and
22 other particulate matter in the water, unpleasant taste, and DEP water quality
23 reports showing excessive amounts of various chemicals. Customers testified
24 regarding health concerns. Customers testified regarding corroded pipes and the
25 frequent replacement of filters and appliances. Overwhelmingly, the customers of
26 AUF said they did not drink the water provided, and those that do drink it usually
27 do so only after filtration and boiling. Only at the Service Hearing held in Mount
28 Dora did two customers state that the water quality was good. These customers
29 both live in Putman County in the St. John's Highlands and Silver Lakes Oaks
30 water systems.

1 The quality, they come out once a year and show the quality of the water.
2 And the water is good, there's no problem with that. (Transcript of
3 Mount Dora AM Service Hearing, pp. 26-27.)
4

5 The water quality is great. I drink our water. I love the water. The
6 water tastes great. They put a new meter in, and I think it's digital
7 or something, I'm not quite sure. But, no, I think it's fine now, I can
8 see that. (Ibid., p. 46.)
9

10 Their praise of the water, was the exception, not the rule at the Service
11 Hearings.

12 My Schedule 3 presents recent correspondence between the Commission
13 and AUF customers. A large percentage of the correspondence reproduced in this
14 exhibit refers to water quality issues as well as billing and other problems.

15 **Q. WHAT WERE THE MOST COMMON CUSTOMER COMPLAINTS**
16 **REGARDING WATER QUALITY?**

17 A. One of the most commonly made complaints was the lack of water pressure.
18 Many customers complained of insufficient pressure to use water dispensers on
19 their refrigerators, or to fill a washing machine in a reasonable amount of time.

20 For example:

21 Every couple of months my water pressure seems to drop to a
22 dribble. It's hard to get any water out of the tap. (Transcript of
23 Chipley Service Hearing, p. 26.)
24

25 . . . we keep losing water pressure. . . (Ibid., p. 31.)
26

27 You have about 20 pounds of water pressure. I hired a plumber to
28 come look at mine. At the best you have 40 pounds, and that is not
29 acceptable. And 20 is like having nothing. It takes 25 minutes to
30 fill a washing machine so that you can wash a load of clothes.
31 (Transcript of Gainesville Service Hearing, p. 65.)
32

33 Sometimes you get water pressure, sometimes you don't. It's tough
34 if you live in Arredondo to go to Lowe's and buy a sprinkler for
35 your yard, because they require a certain amount of pressure. And

1 when you get home, the sprinkler may not work, because we don't
2 have enough pressure. (Ibid., p. 61.)
3

4 **Q. DID CUSTOMERS ALSO COMPLAIN ABOUT THE LACK OF WATER**
5 **PRESSURE AT FIRE HYDRANTS IN AUF'S TERRITORIES?**

6 A. Yes. The president of the Lake Osborne Estates Civic Association testified that
7 he had received a letter from the Palm Beach County Health Department about
8 violations of county rules regarding fire hydrants. Among these violations was a
9 finding that the fire hydrants in the community were not in proper operating
10 condition. One was inoperable and was to be repaired, and others, with pressure
11 of less than 20 psi, were to be repaired to increase pressure to at least 20 psi. All
12 repaired hydrants were then to be retested. (Transcript of Green Acres Service
13 Hearing, p. 42.)

14 Other customers have also expressed concern about the effect of their
15 utility system's low water pressure on the hydrants in their communities. In Lake
16 Gibson Estates a customer explained that the Company was incapable of
17 measuring the pressure at its fire hydrants.

18 They didn't have any, they didn't have any equipment at the Lake
19 Gibson Estates to put on the fire hydrant to tell you what the psi
20 was. And, you know, that's the most important thing for a fireman
21 when he's trying to put out a fire is he's got to have water pressure.
22 (Transcript of Lakeland Service Hearing, p. 84.)
23

24 **Q. IS LOW WATER PRESSURE CUSTOMERS' ONLY CONCERN WITH**
25 **THE FIRE HYDRANTS IN THEIR COMMUNITIES?**

26 A. No, it is not. Unfortunately, in some communities served by AUF, customers
27 report that there are no fire hydrants. A customer in Arredondo Estates testified

1 that "We don't have fire hydrants at Arredondo Estates. . . . We have a fire out
2 there, you have to truck it in, truck the water in." (Transcript of Gainesville
3 Service Hearing, pp. 26-27.) This same lack of hydrants was reported by a
4 customer served by the Lake Josephine system in Highlands County, and by a
5 customer of the Tomoka/Twin Rivers system in Volusia County. (Transcript of
6 Sebring Service Hearing, p. 64; Transcript of Oviedo Service Hearing, p. 124.)

7 Other customers have complained of fire hydrants spaced too far apart,
8 resulting in higher insurance rates for customers located between them. For
9 example, a customer from Lake Gibson Estates in Polk County testified: "Well,
10 the underwriter for my homeowner's insurance company come out and he said I
11 could not raise my limits because I'm further than 1,320 feet from a fire hydrant.
12 There's almost a hundred homes in the Glendale part of the Lake Gibson Estates.
13 Do you know how many fire hydrants we have? One." (Transcript of Lakeland
14 Service Hearing, p. 82.) Another customer in Lakeland emailed the Commission
15 regarding AUF's proposed rate increase and stated "There is no fire hydrant in this
16 area . . . Insurance companies penalize us for no fire hydrant in the area".
17 (Documents file 06349-07.pdf, p. 515.)

18 **Q. WHAT OTHER COMPLAINTS DO CUSTOMERS HAVE REGARDING**
19 **THE QUALITY OF THE WATER PROVIDED BY AUF?**

20 A. In general, customers complained about every facet of their water service,
21 including the water's taste, color, odor, the presence of black flakes and sludge
22 like sediment in the water, and most disturbing, a large number of customers
23 questioned the safety of consuming the water. With the very few exceptions

1 already noted, virtually every customer who appeared in a Service Hearing
2 complained about the quality of the water. The following are only a very few of
3 the comments customers have made regarding their water quality.

4 More often than not my house smells like chlorine several times a
5 month, and other times the water comes through cloudy. Other
6 times my water is nasty and not fit to drink. My wife has put us on
7 bottled water. She doesn't drink the water. We use it to wash
8 dishes, and we use it to take baths when we can, but she doesn't
9 think we should drink the water. (Transcript of Chipley Service
10 Hearing, p. 26.)

11
12 The filters need replacing or whatever you call the strainers. We
13 have found ground up leaves out of the faucets. You took it off to
14 see if it is something in there, and it's not, it's coming from the
15 water. . . And everybody in Sunny Hills, just about, drinks bottled
16 water because they are afraid to drink the water that we pay so
17 very much for. (Transcript of Chipley Service Hearing, p. 42.)

18
19 Now, our water was off last Wednesday, a week ago, all day, and
20 then we had three days where we boiled water. Now, I don't know,
21 maybe having had the water off affected the water quality that
22 much, but we boiled the water in the same pot for three days, and
23 at the end of the three days when we emptied that pot, I looked in it
24 and I was horrified. It had a solid layer of something black in the
25 bottom of the pot. This is the water I have been drinking for three
26 days with a solid layer of something black in the bottom of it.
27 (Transcript of Palatka Service Hearing, p.91.)

28
29 You can't drink the water, forget about that. It's the most horrible
30 thing that you ever want to taste. To cook with it, to make coffee
31 with it, you can't do it. You have to use bottled water. (Transcript
32 of Gainesville Service Hearing, p.39.)

33
34 . . . in the past we have called about the water problems that we
35 have been having down there, the smell of the water, the taste of it
36 which didn't allow you to drink it, content that was in the water,
37 which I have right here and I can show and it has settled to the
38 bottom of the container. (Transcript of Sebring Service Hearing,
39 p.22.)

40
41 . . . people in my neighborhood have tested chlorine levels in our
42 tap water that is as high as what is seen in their pools. You would

1 never want to drink it, but it does taste disgusting. (Documents file
2 06349-07.pdf, p. 55.)

3
4 The water pressure is terrible, the smell is offensive and the taste is
5 sickening and they have failed the water standard tests for the past
6 six quarters. (Ibid., p. 818.)
7

8 **Q. WOULD YOU ADDRESS THE QUESTION OF THE SAFETY OF THE**
9 **WATER?**

10 A. I am not an expert in water quality issues, but it is important to the Commission to
11 understand customer concerns. Repeatedly in the Commission Service Hearings
12 and in the letters and e-mails sent to the Commission, customers voiced their
13 concerns about the affects of AUF water on their health.

14 In addition, I have reviewed the DEP warning letters sent to AUF for
15 violations its water systems, and DEP Consent Orders regarding many of such
16 violations.

17 As shown in the DEP violations filed in the Company's MFRs, various
18 AUF water systems have been in violation of DEP maximum contaminant levels
19 for total trihalomethanes (TTHMs), a byproduct of the chlorine used by AUF to
20 treat its water. One AUF customer testified that he thought the varying amounts
21 of chlorine in his drinking water was attributable to AUF varying the amount of
22 chlorine in its water treatment plant in an attempt to control the level of TTHMs.

23 In his view:

24 So, Aqua Utilities conducted what I think is a one-year experiment
25 in our neighborhood varying the amount of chlorine that they put
26 in and changing it. I believe the measure of this was customer
27 dissatisfaction, which they got a lot of during that period. That
28 people were calling up and saying, you know, my water smells, my
29 water is dirty, I've got all of these things going on, and Aqua

1 Utilities never said a word to us. They never said a word that we
2 are conducting this experiment, and so we didn't know a thing
3 about it until we found out as a result of being the guinea pig for
4 this experiment. And that really - - to use one of my favorite terms,
5 ticked us off. It was just not right to do. (Transcript of Palatka
6 Service Hearing, p. 47.)
7

8 I do not know whether this customer is correct or not in his supposition
9 that Aqua Utilities used his community as guinea pigs for changing chlorine
10 levels to reduce TTHM levels.

11 **Q. DO YOU RECOMMEND THAT THE COMMISSION ADJUST THE**
12 **COMPANY'S ALLOWED RETURN ON EQUITY DUE TO ITS POOR**
13 **CUSTOMER AND QUALITY OF SERVICE?**

14 A. Yes, I do. Section 367.111(2), Florida Statutes states that a public utility must
15 provide:

16 . . . such safe, efficient, and sufficient service as is prescribed by
17 part VI of Chapter 403 and parts I and II of chapter 373, or rules
18 adopted pursuant thereto; but such service shall not be less safe,
19 less efficient, or less sufficient than is consistent with the approved
20 engineering design of the system and the reasonable and proper
21 operation of the utility in the public interest. If the Commission
22 finds that a utility has failed to provide its customers with water or
23 wastewater service that meets the standards promulgated by the
24 Department of Environmental Protection or the water management
25 districts, the commission may reduce the utility's return on equity
26 until the standards are met.

27 I have found little to suggest that AUF operates its systems "in the public
28 interest." Customers are provided water that many will not drink because of its
29 color, odors and levels of contaminants. Water pressure is often low.
30 Communications from the Company regarding boil notices or possible water shut
31 off are often lacking. Meters appear sporadically read, and many readings appear
32 erroneous. Customers are billed for water usage in amounts and for dollars that

1 vary greatly from month to month with no underlying reasons for this variation.
2 Customer Service is difficult to reach, and by most accounts, less than helpful.

3 Florida Statutes Section 367.081(2)(a)1 provides that the Commission will
4 “fix rates which are just, reasonable, compensatory, and not unfairly
5 discriminatory” and in every proceeding will “consider the value and quality of
6 the service and the cost of providing the service.” As I have shown, the quality of
7 the service that AUF customers receive is so poor that many customers purchase
8 bottled water for drinking, cooking, and feeding their pets. They receive bills
9 with errors, have water meters buried in sand that appear to have not been read in
10 some cases in a long while, and are asked to pay rates that are double and triple
11 those of neighboring communities. I therefore recommend that the Commission
12 reduce the return on equity it would authorize in this proceeding by at least 50
13 basis points for its poor customer service, 50 basis points for its customers’
14 dissatisfaction with its water quality, and 50 basis points for its billing error, for a
15 total of 150 basis points. In addition, I recommend that the Commission reduce
16 the salary of the President and CEO of Aqua America by 50%, or
17 ***Confidential \$_____***Confidential and the salaries of the President and Vice
18 President of Aqua Utilities Florida, Inc. by 50%.

19 **Q. IS THERE ANY PRECEDENT FOR REDUCING A UTILITY’S RETURN**
20 **BECAUSE OF POOR CUSTOMER SERVICE?**

21 A. Yes, there is. In Docket No. 010503-WU, the Commission set Aloha Utilities’
22 rate of return at the minimum of its authorized range and also cut both the
23 president and vice president’s salaries by 50%.

1 In that docket the Commission noted:

2 We have set the rates at the minimum of the range of return on
3 equity because of the overwhelming dissatisfaction of Aloha's
4 customers due to the poor quality of the water service and their
5 treatment by the utility in regards to their complaints and inquiries.
6 Our actions are consistent with past decisions in this regard. See
7 Order No. 14931, issued September 11, 1985, in Docket No.
8 840267-WS, Order No. 17760, issued June 28, 1987, in Docket
9 No. 850646-SU, Order No. 24643, issued June 10, 1991, in Docket
10 No. 910276-WS, and Order No. PSC-96-1320-FOF-WS, issued
11 October 30, 1996, in docket No. 950495-WS. (Order No. PSC-02-
12 0593-FOF-WU, April 30, 2002.)
13

14 In Docket No. 840267-WS, Consolidated Utilities Company filed for an
15 increase in its water and wastewater rates in Palm Beach County. The
16 Commission's order in that docket had the following discussion of the utility's
17 quality of service:

18 An informal customer meeting was held on February 21, 1985, in
19 Riviera Beach and was attended by approximately twenty persons.
20 The most common complaint was an apparent lack of concern by
21 the utility for the customer's service problems. The utility neither
22 had the facilities which would permit the customer to establish
23 easy contact nor did it make the best use of what it had -
24 sometimes taking four days to return a call.
25 Further, staff's investigation discloses that the utility is not
26 properly maintaining its books and records which is reflected in its
27 quality of service.
28 On balance, we find that the quality of service is less than
29 satisfactory for which the utility should be penalized one
30 percentage point on its equity return. (Order No. 14931, September
31 11, 1985.)
32

33 In Docket No. 17760, the Ocean Reef Club, Inc. of Monroe County filed
34 for an increase in its sewer rates. The Ocean Reef Club had a history of service
35 quality problems, including a 1985 indictment by the federal government for
36 discharging untreated effluent onto the coral reefs. That case was settled with

1 Ocean Reef Club paying a fine prior to the filing of its rate case. Ocean Reef
2 showed that it had made repairs and replacements in its plant, and of the nine
3 customers who testified at the service hearing, none had any complaints about
4 service quality.

5 Based upon both the recent history of the utility, and its then current
6 status, the Commission ruled as follows:

7 . . . we find that although there have been improvements, quality of
8 service is only marginally satisfactory. We find that given the
9 inadequacies in quality of service, the appropriate return on
10 common equity should be reduced by 50-basis points (.5%).

11 In addition, we find that the utility should be required to file with
12 the Commission a monthly report for a period of twelve months.
13 These reports shall include a summary of each customer complaint
14 received and the action taken by the utility to resolve each
15 complaint. (Order No. 17760, June 28, 1987)

16
17 Still another water and wastewater rate case in which the Commission
18 found the utility's quality of service unacceptable was the 1990 application of
19 Pine Island Utility Corporation of Volusia County. A customer service hearing
20 was held in that docket at which some 45 customers presented comments and
21 complaints. The general complaint was that the water quality was poor, with
22 offensive taste, odors, and excessive chlorine. Customers also complained about
23 the lack of an accessible maintenance person, and the need for meters. At the
24 time, the water system was operating under a DER consent order, but the utility
25 had not made the repairs required by the order. The Commission determined that
26 "the problems experienced by the customers are the result of the utility's violating
27 DER standards." In that docket the Commission ruled:

1 . . . we find that the utility's quality of service for both water and
2 wastewater is unsatisfactory. In other cases in which we have
3 found a utility's quality of service to be unsatisfactory, we have
4 fined the utility a dollar amount equal to a 1% reduction to its
5 return on common equity. We shall impose a fine on PIU for its
6 failure to provide safe, efficient, and sufficient service

7 The dollar amount associated with a 1% reduction in this utility's
8 return on common equity is \$ 314. We believe that in order to
9 properly encourage the utility to satisfy DER requirements in a
10 timely manner a \$ 314 fine is insufficient. We therefore impose a
11 \$ 1,000 fine, or \$ 500 per system, for the utility's unsatisfactory
12 quality of service. However, with the purpose of encouraging
13 compliance with DER's requirements in mind, we hereby suspend
14 this fine for six months, until December 10, 1991, in order to allow
15 the utility time to satisfy DER requirements. If all DER
16 requirements are not satisfied by this date, the fine is hereby
17 reinstated and, thus becomes due and payable. (Order No. 24643,
18 June 10, 1991.)
19

20 In 1996, the Commission issued an order in Southern States Utilities,
21 Inc.'s application for water and wastewater rate increases in 23 counties across
22 Florida. In its order the Commission noted that the regulatory agency witnesses
23 indicated the utility was in compliance with agency standards for water and
24 wastewater quality. However, customers in many of the company's service areas
25 were not satisfied with the quality of the water or the quality of customer service.
26 The majority of the complaints sound very similar to those of many of AUF's
27 customer complaints in the instant proceeding.

28 Customers from several regions in the state complained that the
29 water is not potable. Others shared physical or medical problems
30 that apparently occurred from the water. Customers from
31 numerous service areas complained about the strength or odor
32 from chlorine disinfection. Customers also reported a sulphur or
33 rotten egg odor. Some customers have purchased home purifying
34 systems or filters because of odor, taste, or other reasons. Others
35 stated that they purchase bottled water to drink.

1 A number of customers in numerous service areas complained of
2 water that stained tile and fixtures, and clogged pipes. Others
3 spoke of corrosion and premature replacement of plumbing
4 fixtures, and in some cases complete repiping of homes due to
5 leaks caused by corrosive water. Some customers found the water
6 pressure to be unacceptably low, while others stated that it was too
7 high. A few customers complained of sewage odors, overflows, or
8 backups.

9 Customers expressed concern over the utility's failure to notify its
10 customers of outages, or to notify them of the potential health or
11 safety problems that might result from the outages. There was also
12 general dissatisfaction with the utility's response to service calls or
13 questions. Customers reported that the utility was slow to respond,
14 or did not properly respond to water quality problems such as
15 sedimentation, discoloration, or excessive lead levels. Incidents
16 were reported where the company damaged customers' property
17 and would not repair the damage. The utility took a long time to
18 answer requests to have tests conducted.

19 Customers presented a variety of complaints with billing. Two
20 customers had problems with their meter readings. They either had
21 not seen anyone read their meter, or could not obtain meter reading
22 data from the utility. Others cited billing problems where SSU was
23 not responsive, or gave an answer that did not aid in resolving the
24 problem. . . .

25 . . . We have required remedial measures, quarterly reports and
26 customer education for several specific situations. However, we
27 find that the utility's less than satisfactory customer service also
28 merits an adjustment in the utility's return on equity. Therefore, in
29 addition to the corrective measures imposed upon the utility, we
30 find it appropriate to make an adjustment to reduce the utility's
31 return on equity by 25 basis points. (Order PSC-96-1320-FOF-WS,
32 October 30, 1996.)

33
34 I believe that the customers of AUF have a similar if not greater level of
35 dissatisfaction with the water service, water quality, and customer service they are
36 receiving than customers of all of the above cited utilities. In the above dockets,
37 the Commission reduced the company's return on equity by 25 to 100 basis
38 points. In the first case cited, the Commission also reduced the salaries and
39 benefits of the company president and vice president by 50%.

1 In the case of AUF, given the number of customer complaints, the number
2 and variety of water quality problems reported, the widespread prevalence of
3 billing errors and miscalculations, the lack of any explicit accountability in the
4 customer service department, a reduction to the cost of equity of at least 150
5 basis points and a reduction to the salaries of the top executives should send the
6 proper message to management that a utility service in Florida cannot be run
7 without proper attention to the ratepayers and the quality of the product that is
8 provided them.

9 **III. Other Errors and Omissions**

10 **Q. THE CUSTOMERS OF AUF HAVE PROVIDED CONSIDERABLE**
11 **INFORMATION ABOUT THE INACCURACY OF THE COMPANY'S**
12 **BILLING RECORDS. DID YOU FIND ERRORS IN THESE RECORDS**
13 **ALSO?**

14 **A.** Yes. Schedule 4 of my exhibit summarizes some of the errors that were reflected
15 in the billing records provided by the Company in response to Staff's Document
16 Request 21. Although these billing errors appear to have been corrected, the
17 Commission should be concerned with the magnitude of the errors depicted on
18 this schedule and the errors that were not caught. Also, while this schedule lists
19 numerous errors it shows billing errors for only a handful of the Company's
20 systems. Therefore, while this is reflective of the problem, it does not at all show
21 the totality of the problem.

22 Billing errors for the Chuluota system totaled \$20,744 in 2005. In every
23 month but one there were billing errors. In 2006 the amount of billing errors were

1 worse than in 2005. As shown on this schedule, for the year 2006, the Company
2 made several corrections to several bills in Chuluota. For example, the Company
3 corrected one customer's bill in February in the amount of \$244 because of a
4 meter reading error. It also issued a credit for \$3,316 related to billing error
5 corrections for this system. In November of 2006 it showed an over billing of
6 \$63,123—without an explanation. In total for 2006 the Company issued billing
7 credits of \$69,574.

8 For the Venetian Village system the Company showed billing errors in 8
9 out of 12 months. For the Jasmine Lakes system the Company had billing errors
10 in every month. In the month of December 2006, the Company issued one
11 customer a credit for \$7,578,880. For the Silver Lakes system the Company
12 issued billing adjustments in every month of 2006. As shown on page 12 of this
13 schedule, in May the Company issued a credit of \$13,390 to one customer.
14 Likewise, in October, it issued a credit \$14,513. In total for the year 2006, for this
15 system the Company had billing errors of \$31,386.

16 **Q. ARE THERE ANY OTHER RECORDS THAT YOU HAVE EXAMINED**
17 **THAT SUPPORT THE BILLING ERRORS THAT CUSTOMERS HAVE**
18 **COMPLAINED ABOUT?**

19 A. Yes. The Company's budget variance reports also discussed billing-related issues.
20 For example, the Company's February 2007 variance report states: "Palm
21 Terrace, Gibsonia & Jasmine Lakes account for (\$58,700) of the variance. These
22 systems all had large billings and adjustments in December and there were some
23 remaining adjustments that posted in January." Concerning wastewater variances,

1 the variance report showed that South Seas was over-budget because: "All of their
2 customers are not being properly billed in Banner¹, we are estimating and
3 accruing monthly." Likewise it stated that Sarasota² was over-budget by \$16,100,
4 in part, because the Banner billing system billed multi-family customers for the
5 first time in January. (Response to OPC POD 38.)

6 Below are examples of references to other billing errors in the Company's
7 monthly budget variance reports.

- 8 • Silver Lake Oaks is under budget due to adjustments posted in
9 August for meter reading errors. (August 2005)
- 10
- 11 • Experienced meter reading issues in Dec. (December 2005)
- 12
- 13 • Catch up from meter reading errors Nov/Dec \$20,000. (January
14 2006)
- 15
- 16 • Catch up from meter reading errors \$20,000. (February 2006)
- 17
- 18 • Catch up from meter reading errors \$17,200. Jan-May budget for
19 Sarasota³ MFD is under by \$12,000 due to a billing classification
20 error. (February 2006)
- 21
- 22 • Beecher's Point & Tangerine billing correction from 7/04 to 7/06
23 (\$18,500). (August 2006)
- 24
- 25 • Beecher's Point billing correction from 7/04 to 7/06 (\$19,400).
26 (August 2006)
- 27
- 28 • South Seas has been running higher than budget since the resort
29 opened in May. South Seas was billed one month in arrears
30 through Avatar. Banner (the Company's billing system) billed for
31 60 days in November. (November 2006)
- 32
- 33 • Palm Terrace, Gibsonia & Jasmine Lakes account for (\$49,300) of
34 the variance. These systems all had large billings and adjustments

¹ Banner is the name of the Company's billing system.

² Sarasota is not part of the instant rate proceeding, but this nevertheless demonstrates the pervasive nature of the billing problems.

³ Ibid.

1 in December and there were some remaining adjustments that
2 posted in January. (January 2007)

3
4 The Commission should seriously question the reliability of the data
5 utilized by the Company in this rate proceeding.

6 **Q. DID THE COMPANY RECENTLY FILE A RESPONSE TO DISCOVERY**
7 **THAT EFFECTIVELY CHANGED ITS ENTIRE RATE REQUEST AND**
8 **ADMITS THAT THE DATA UPON WHICH ITS RATE REQUEST IS**
9 **BASED IS FAULTY?**

10 A. Yes, it did. On April 27, 2007, OPC submitted its Second Set of Requests for
11 Production of Documents to Aqua. On July 20, 2007—53 days past the due
12 date for a response—the Company filed its response. Below is the question asked
13 by OPC and the response provided by the Company.

14 **Document Request No. 124.** Provide all documents utilized by the
15 Company to project 2006 and 2007 test year expenses. Please provide
16 data in electronic format.

17 **Response:** During the course of the post-filing analysis, the
18 Company became aware of several unintended results within the filed
19 expense data. These discoveries led to disconnects between the
20 Company's intended and supportable expense trends and results, and
21 the data represented in the MFRs. This resulted in the inability to
22 present to the FLPS (*sic*) Staff Audit team a clear, comprehensible,
23 detailed analysis of expense development in total or by system. The
24 Company responded with any and all available detail regarding the
25 results of actual operations in 2005 and 2006 to assist the auditors in
26 the development of their analysis.

27
28 Concurrently, the Company commenced with preparation a revised
29 and refreshed expense development analysis for the years 2006 and
30 2007 that is presented in the attached excel file in response to the
31 Staff Audit and this document request.

32
33 The Company is providing a "bridge" document which is being
34 submitted to support the rationale behind the revised 2007 expenses
35 and the change in expense as compared to year 2006 actual expenses.
36 Note that the O&M expense analysis and comparison prepared in
37 response to Staff Audit Findings Nos. 22 and 24 is based on Staffs

1 observed 2006 actual O&M expense level of \$7,186,381, which by its
2 nature does not include amortization.

3
4 The Company's response raises several questions that should cause the
5 Commission serious concerns. First, the data submitted by the Company and the
6 revenue requirement requested by the Company is simply WRONG. Unless
7 another party corrects the deficiencies in the Company's filing, the Commission
8 has no choice but to reject the Company's filing.

9 Second, for all intents and purposes, the Company has submitted a new set
10 of MFRs, which should render its current rate request null and void.

11 Third, it is patently unfair of the Company to expect OPC, the Staff, or its
12 customers to evaluate this whole new set of data prior to the filing of testimony.
13 For OPC, the Company filed this response just 18 days before OPC's testimony
14 was due. But, given mailing time and copying and binding time for the testimony,
15 OPC had less than 18 days to review the information. Moreover, this was the
16 critical period of preparing and finalizing OPC's testimony and exhibits.

17 Fourth, the Commission must seriously question the intent of providing
18 this new information in response to discovery. If the Company was aware of a
19 significant error in its MFRs, this should have been brought to the attention of the
20 Commission as soon as the Company became aware of the error. However, the
21 Company waited until OPC filed a Motion to Compel responses to numerous
22 overdue discovery questions, before admitting these errors. Obviously, the
23 Company had not just discovered this error, or it would not have been able to
24 produce the complex document provided in response to OPC's POD 124 in a
25 matter of just one day from the issuance of the Commission's Order resolving

1 OPC's Motion to Compel. The available information strongly suggests that the
2 Company had this information prepared and was not going to submit it until
3 ordered to do so.

4 **Q. PRIOR TO RECEIVING THIS NEWLY CORRECTED DATA FOR THE**
5 **COMPANY'S OPERATIONS AND MAINTENANCE EXPENSES, HAD**
6 **OPC ISSUED DISCOVERY TO EXAMINE THE REASONABLENESS OF**
7 **THE EXPENSES INCLUDED IN THE MFRS?**

8 A. Yes, it had. Schedule 5 attached to my testimony sets forth the interrogatories and
9 PODs propounded by OPC where the Company's response referred to POD 124.
10 Schedule 5 clearly shows that OPC asked very specific and detailed questions
11 about AUF's expense levels to ascertain the reasonableness of the expenses used
12 in the projected test year. These questions apparently caused the Company to take
13 a second look at its expense projections for 2006 and 2007 and abandon them.

14 **Q. DOES THE INFORMATION SUPPLIED IN RESPONSE TO POD 124**
15 **ANSWER THE QUESTIONS ASKED BY OPC?**

16 A. No, it does not. In fact, to ascertain detailed information about expense levels and
17 projections, OPC will be required to reevaluate the Company's data and submit
18 entirely new discovery.

19 **Q. WHAT EXACTLY DID THE COMPANY PROVIDE IN RESPONSE TO**
20 **OPC POD 124?**

21 A. AUF supplied a 628-page Excel spreadsheet containing what appears to be actual
22 2006 expense data and adjustments.

1 Q. DID THE COMPANY EXPLAIN IN ITS RESPONSE HOW THE DATA
2 WAS TO BE UTILIZED WITH RESPECT TO THE ELECTRONIC MFRS
3 THAT IT HAD SUPPLIED IN RESPONSE TO OPC'S POD 1?

4 A. No.

5 Q. EXACTLY HOW MANY QUESTIONS DID OPC ASK WHERE THE
6 COMPANY REFERRED TO ITS RESPONSE TO POD 124?

7 A. Including subparts, OPC asked 112 different Interrogatories and 28 different
8 PODs.

9 Q. YOU HAVE RAISED NUMEROUS AND SERIOUS PROBLEMS, NOT
10 ONLY WITH THE COMPANY'S BILLING DATA, BUT WITH THE
11 RELIABILITY OF ITS MFRS. WHAT DO YOU RECOMMEND?

12 A. I recommend that the Commission dismiss the Company's request for a rate
13 increase and that the interim revenue be refunded to customers. In my opinion,
14 there is simply no way this Commission can properly examine and evaluate the
15 Company's rate request.

16 **IV. Revenue Projections**

17 Q. DID THE COMPANY EXPLAIN HOW IT PROJECTED ITS TEST YEAR
18 2007 REVENUE?

19 A. No, it did not. The only explanation that I could find was one sentence contained
20 in the testimony of witness Jack Schreyer, which stated: "The Company has
21 reflected anticipated customer growth in its revenue projections." (Direct
22 Testimony Witness Schreyer, p. 11.) This sentence was provided in the following
23 question and answer about the Company's proforma revenue claim.

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Q. Please describe the derivation of the Company's pro forma revenue claim.

A. The historical level of revenue was derived from the books and records of the Company for the twelve months ended December 31, 2005. A bill analysis was utilized by witness Guastella for the application of present rates for all of the water and wastewater divisions in this proceeding. The bill analysis referred to is provided per Schedule E-14 sponsored by witness Griffin. The Company has reflected anticipated customer growth in its revenue projections. The derivation of operating revenues both at present and proposed rates are detailed on Schedules E- 1 through E-14. (Ibid.)

I find it astonishing that this is the only explanation provided by the Company in support of its projected test year revenue.

Q. WOULD YOU PLEASE EXPLAIN THE COMPANY'S METHODOLOGY FOR PROJECTING 2006 AND 2007 REVENUE?

A. Yes. To project revenues for 2006 and 2007, the Company first estimated the number of new residential customers that would join each of its systems for the years 2006 and 2007. It then determined the consumption per customer for 2005 and assumed consumption per customer would remain the same in 2006 and 2007 as it was in 2005.

Q. DID YOU FIND ANY PROBLEMS WITH THE COMPANY'S METHODOLOGY TO PROJECT 2006 AND 2007 TEST YEAR REVENUE?

A. Yes. There are several problems with the Company's projections. First, there are numerous inconsistencies in the customer data supplied by the Company that make it difficult to evaluate the reasonableness of its methodology. Second, the

1 Company failed to project customer growth for any meter class other than
2 residential 5/8" by 3/4". Third, the Company's use of 2005 consumption per
3 customer to project 2006 and 2007 revenue is questionable.

4 **Q. WOULD YOU PLEASE DISCUSS YOUR FIRST CONCERN**
5 **REGARDING THE INCONSISTENCIES IN THE DATA SUPPLIED BY**
6 **THE COMPANY?**

7 A. Yes. There were numerous inconsistencies between the data supplied in response
8 to Staff and OPC discovery requests concerning the projected and historical
9 number of customers. In response to Staff's POD 2 the Company provided the
10 projected number of customers it used to project 2006 and 2007 revenue.

11 In OPC POD 179, OPC requested that the Company provide all documents
12 that support the number of customers projected for 2006 and 2007. In response, AUF
13 provided an Excel spreadsheet that shows the systems that the Company considers
14 built-out and the additional number of customers it projects for each system for
15 each of the years 2006 through 2011. When this information is compared with the
16 information provided in the MFRs, there are several inconsistencies for which
17 there are no explanation.

18 For example, the Company's response to OPC's POD 179 showed the
19 Chuluota wastewater system as adding 62 customers in 2006. However, in the
20 MFRs⁴, the Company projects this system will add 53 customers in 2006.
21 Likewise, for the Ocala Oaks water system the Company projected the addition of
22 47 and 45 customers for the system in 2006 and 2007; however, in response to

⁴ The source for the MFR projections is the response to Staff POD 2.

1 OPC's POD 179, the Company projected additional customers of 45 for both
2 years.

3 A comparison of these two responses indicates that there are 18 water and
4 wastewater systems that have inconsistent projections for the additional number
5 of customers for 2006 and one water system with an inconsistent projection for
6 2007. It is difficult to say why the discrepancies exist as I cannot ascertain if the
7 projected data provided in response to OPC POD 179 contains projections for
8 only the 5/8" x 3/4" meter class, or if other meter or customer classes are
9 included, or if these are just updated projections. OPC has discovery requests
10 pending as to the data contained in the Company's response to OPC POD 179.

11 **Q, DID THE COMPANY PROVIDE ANY OTHER DOCUMENTATION IN**
12 **SUPPORT OF ITS CUSTOMER PROJECTIONS?**

13 A. No, it did not. However, it did provide the following explanation for how it
14 developed its projections.

15 In order to determine future growth in the water and wastewater
16 systems in the various County's we solicited input from the system
17 Operators, Field Coordinators, and Area Managers. The first
18 determination was whether the system had the ability to grow, many
19 systems at totally built-out within the existing franchise boundaries. A
20 review of any developer agreements, connection or capacity fees paid
21 from either developers or private home builders to determine
22 committed capacity for either the water or wastewater system. Then
23 we looked at developers who expressed interest in building within our
24 franchise boundaries. We discussed the number of units and their
25 phase in plan for development. Knowing developers they tend to be
26 aggressive on projecting the rate of growth or build-out of their
27 projects. We reviewed their figures and we applied a realistic factor
28 based on the growth for these various systems demanded. A review
29 our past growth was one factor in determining future growth, and the
30 growth the various County's were projecting help validate our
31 decisions. (Response to OPC POD 179.)
32

1 The above response suggests that there may have been other documents
2 that were used in the projection process. However, despite a request to provide
3 any and all documents in the Company's possession, custody or control that support
4 the number of customers projected for 2006 and 2007, the Company only provided a
5 three-page excel spreadsheet, which I have reproduced as Schedule 6.

6 **Q. WERE THERE OTHER INCONSISTENCIES IN THE DATA UTILIZED BY**
7 **THE COMPANY?**

8 A. Yes. The Company provided actual customer data for January 2000 through April
9 2007 in response to Staff POD 21. One would have expected the actual number of
10 customers/bills produced in response to Staff POD 21 to match the actual 2005
11 customer/bill data used to project 2006 and 2007 customers/bills. However, for
12 many systems they did not match. For instance, the 2005 historical number of bills
13 for Arredondo Estates/Farms contained in the response to Staff POD 2 is 6,333 bills;
14 however, the actual billing data provided in response to Staff POD 21 shows it as
15 6,205 bills. Another instance of mismatched amounts is in the Zephyr Shores water
16 system, for which the Company shows the bill count provided in response to Staff
17 POD 2 as 5,920 and the count provided in response to Staff POD 21 as 5,880.

18 **Q. DID YOU COMPARE THE COMPANY'S PROJECTED 2006 AND 2007**
19 **CUSTOMER/BILLS DATA TO THE ACTUAL DATA THAT WAS**
20 **PRODUCED IN RESPONSE TO STAFF POD 21?**

21 A. Yes. However, a valid comparison could not be made. This was due to the
22 inconsistencies between the 2005 data provided in response to Staff POD 21 and the
23 2005 data used in the MFRs (and provided in response to Staff POD 2), which also
24 forms the foundation for the 2006 and 2007 projections.

1 Q. WERE THERE OTHER PROBLEMS WITH THE CUSTOMER
2 PROJECTIONS USED TO DEVELOP PROJECTED REVENUE?

3 A. Yes. The Company only projected customer growth for residential customers with
4 5/8" x 3/4" meters. It did not take into consideration growth in any other
5 residential meter class or customer class—like commercial. In some systems,
6 commercial customers comprise a large portion of the Company's revenues and to
7 ignore the growth of these customers understates the projected level of test year
8 revenue in these systems. For example, the Company MFRs show the South Seas
9 wastewater system as having 384 total commercial bills in both 2005 and 2006;
10 however, the actual billing information provided in response to Staff POD 21
11 shows the system as having 384 bills in 2005 and 280 bills in 2006. This
12 difference in bills is most likely due to the impacts of Hurricane Charley which
13 essentially shut down the resort which is the commercial customer. However, the
14 Company should have made specific adjustments for factors such as this—
15 otherwise, the amount of projected revenue could be severely understated. In fact,
16 as discussed below, we have specifically adjusted revenue for this system.
17 Because commercial customers, when present, can have a much larger impact on
18 revenue, the Company should have specifically analyzed these situations and
19 properly estimated growth of these commercial customers.

20 Q. HAS THE COMPANY USED DIFFERENT CUSTOMER NUMBERS IN
21 DIFFERENT AREAS OF THE MFRS?

22 A. Yes. AUF projected both revenue and CIAC using the projected number of
23 customers for 2006 and 2007. However, the data utilized for the two sets of

1 projections were different. According to the Company, the difference is due to the
2 use of updated information used for CIAC projections that was not available when
3 the billing analysis was completed. (Response to OPC Interrogatory 195.)

4 **Q. DO YOU HAVE ANY CONCERNS ABOUT HOW THE COMPANY**
5 **PROJECTED CONSUMPTION FOR 2006 AND 2007?**

6 A. Yes. As explained above, the Company projected consumption by applying the
7 2005 consumption per customer/bill to the number of projected customers/bills.
8 Therefore, the Company has essentially assumed that the level of customer
9 consumption in 2006 and 2007 will be the same as it was in 2005.

10 **Q. DOES THE COMPANY HAVE ANY DOCUMENTATION SUPPORTING**
11 **ITS ASSUMPTION THAT THE LEVEL OF CONSUMPTION IN 2006**
12 **AND 2007 WILL BE THE SAME AS IT WAS IN 2005?**

13 A. No. In OPC document request 180, the Company was asked: "Please provide any
14 and all documents in your possession, custody or control which support the
15 Company's assumption that consumption per customer for 2006 and 2007 will be the
16 same as 2005." The Company responded: "There are no workpapers to provide."
17 Interestingly, OPC did not request workpapers, it requested all documents supporting
18 its assumption that consumption per customer would be constant in 2005, 2006, and
19 2007. Regardless, it appears evident that the Company has no support for this
20 assumption.

21 **Q. DID THE COMPANY EXAMINE THE IMPACT OF WEATHER OR**
22 **RAINFALL ON CONSUMPTION AND ITS PROJECTIONS?**

1 A. No, it did not. In response to OPC's document request asking for any studies or
2 preliminary assessments performed by the Company that quantified the impact
3 weather had on revenue and expenses, the Company responded that it did "not
4 have any studies or preliminary assessments that quantify the impact weather had
5 on revenues and expenses." (Response to OPC POD 22.) Likewise, the Company
6 had no rainfall data collected at its plant sites that it could provide to OPC.
7 (Response to OPC POD 22.)

8 **Q. HAVE YOU ATTEMPTED TO REMOVE ANY WEATHER-RELATED**
9 **IMPACTS FROM THE 2005 CONSUMPTION DATA UTILIZED BY THE**
10 **COMPANY?**

11 A. Yes. I utilized data for both 2005 and 2006 to develop the revenue projections for
12 2007. I used the same methodology as employed by the Company, however, I
13 averaged the consumption per customer for 2005 and 2006 when projecting 2007
14 revenue. Additionally, the OPC has discovery outstanding on this issue, and it
15 will be necessary for me to supplement my testimony when discovery is provided.

16 **Q. THE COMPANY ONLY PROJECTED A CHANGE IN CONSUMPTION**
17 **AND CUSTOMER GROWTH FOR RESIDENTIAL CUSTOMERS USING**
18 **A 5/8" BY 3/4" METER. DID YOU ATTEMPT TO MAKE**
19 **ADJUSTMENTS FOR OTHER CUSTOMERS AND METER CLASSES?**

20 A. Yes. I tried to do so. However, the data supplied by the Company was
21 inconsistent. Rather than utilize incorrect information, I have not made any
22 adjustments to the other meter and customer classes. OPC has outstanding

1 discovery on this matter, and I will update and supplement my testimony when
2 the Company responds to our discovery.

3 **Q. EARLIER YOU MENTIONED SEVERAL PROBLEMS WITH THE**
4 **COMPANY'S CUSTOMER DATA. WERE YOU ABLE TO UPDATE THE**
5 **REVENUE PROJECTIONS TO UTILIZE ACTUAL 2006 AND 2007**
6 **CUSTOMER DATA?**

7 A. No, I was not. As explained above, the data supplied by the Company in response
8 to Staff's PODs 2 and 21 were inconsistent. I have utilized the same information
9 utilized by the Company for customer projections.

10 I have made a specific adjustment to the South Seas system. This system
11 was severely impacted by Hurricane Charley in August 2004. The South Seas
12 Plantation Resort was closed for approximately 20 months from August 2004
13 until May 2006. Therefore, the use of 2005 data to project the revenue for this
14 system severely understates the 2007 revenue. The Company's budget variance
15 reports are replete with references to the impact of the hurricane on 2005 and
16 2006 consumption. The 2005 Budget Variance Reports make several references to
17 South Seas being below budget due to hurricane damage at the resort. However,
18 in 2006 after the resort reopened, the Budget Variance Reports explain that the
19 system's consumption has been running higher. For example, the July through
20 November variance reports state: "South Seas has been running higher than
21 budget since the resort reopened in May." (Response to OPC POD 38.) To
22 estimate the projected 2007 revenue for this system, I used the consumption for
23 the months of May 2006 through December 2006 and from January 2007 through

1 April 2007. Using this consumption data produces 2007 revenue for this system
2 of \$334,186 compared to the Company's projection of \$258,106.

3 **Q. DO YOU ANTICIPATE FILING SUPPLEMENTAL TESTIMONY ON**
4 **THE SUBJECT OF THE COMPANY'S 2006 AND 2007 REVENUE**
5 **PROJECTIONS?**

6 A. Yes. As discussed earlier, OPC has discovery outstanding on the customer and
7 consumption discrepancies. Therefore, I will supplement my testimony when the
8 Company responds to our discovery.

9 **V. Affiliate Transactions**

10 **Q. WHY IS IT IMPORTANT TO CLOSELY EXAMINE AFFILIATE**
11 **TRANSACTIONS?**

12 A. In a situation involving the provision of services between affiliated companies,
13 the associated transactions and costs do not represent arms-length dealings. Cost
14 allocation techniques and methods of charging affiliates should be frequently
15 reviewed and analyzed to ensure that the company's regulated operations are not
16 subsidizing the non-regulated operations. Because of the affiliation between AUF
17 and the affiliates that contribute to expenses included on the books of AUF, the
18 arms-length bargaining of a normal competitive environment is not present in
19 their transactions. Although each of the affiliated companies is supposedly
20 separate, relationships between AUF and its affiliates are still close; they all
21 belong to one corporate family.

22 In the absence of regulation, there is no assurance that affiliate
23 transactions and allocations will not translate into unnecessarily high charges for

1 AUF's customers. Even when the methodologies for cost allocation and pricing
2 have been explicitly stated, close scrutiny of affiliate relationships is still
3 warranted. Regardless of whether or not Aqua America, Inc., the holding
4 company, explicitly establishes a methodology for the allocation and distribution
5 of affiliate costs, there is an incentive to misallocate or shift costs to regulated
6 companies so that the unregulated companies can reap the benefits.

7 **Q. DOES THE COMMISSION HAVE ANY GUIDELINES WHICH**
8 **CONTROL THE PRICING ARRANGEMENTS BETWEEN UTILITIES**
9 **AND THEIR AFFILIATES?**

10 A. Yes. The Commission has expressed its opinion on affiliate transactions and the
11 precedent that should be followed when examining affiliate transactions.

12 By their very nature, related party transactions require closer
13 scrutiny. Although a transaction between related parties is not per
14 se unreasonable, it is the utility's burden to prove that its costs are
15 reasonable. Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191
16 (Fla. 1982). This burden is even greater when the transaction is
17 between related parties. In GTE Florida, Inc. v. Deason, 642 So.
18 2d 545 (Fla. 1994) (GTE), the Court established that the standard
19 to use in evaluating affiliate transactions is whether those
20 transactions exceed the going market rate or are otherwise
21 inherently unfair. (In re: Investigation of rates of Aloha Utilities,
22 Inc. in Pasco County for possible overearnings for the Aloha
23 Gardens water and wastewater systems and the Seven Springs
24 water system. Order No. PSC-01-1374-PAA-WS; Issued: June 27,
25 2001.)

26
27 **Q. WOULD YOU PLEASE DESCRIBE AUF AND ITS AFFILIATES?**

28 A. Aqua America, Inc., the parent company of AUF, is a publicly traded holding
29 company with both regulated and non-regulated subsidiaries operating in thirteen
30 states. Schedule 7 of my exhibit contains an organizational chart of Aqua America,

1 Inc. and its affiliates. In addition to its regulated subsidiaries, such as AUF, which
2 provide water and wastewater service, Aqua America has several unregulated
3 subsidiaries.

4 In response to OPC Interrogatory 20, AUF identified the following three
5 subsidiaries of Aqua America as unregulated companies.

- 6 1) Aqua Wastewater Management, Inc., a subsidiary of Aqua Resources;
- 7 2) Utility & Municipal Services, which “primarily provides data
8 processing, network and communication support to Aqua Pennsylvania
9 (a regulated water and wastewater utility); and
- 10 3) Suburban Environmental Services, which provides contract
11 operation and maintenance to water and wastewater systems.

12 The Aqua America organizational chart provided in response to OPC POD
13 12, however, also lists the following subsidiaries as unregulated
14 companies:

- 15 1) Aqua Acquisition Corporation and its subsidiary G&E Septic, Inc.;
- 16 2) Aqua Development, Inc.;
- 17 3) Aqua Operations, Inc., an inactive company with no operations;
18 (Response to OPC Interrogatory 103.)
- 19 4) Aqua Resources, Inc. and its unregulated subsidiary, Drexel Hill
20 Corporation, in addition to Aqua Wastewater Management which was
21 identified in response to Interrogatory 20; and
22
23

1 5) Aqua Services, Inc., with whom AUF has a service agreement for
2 the provisioning of numerous managerial, general and administrative,
3 engineering, and operation services.

4 AUF has provided no explanation for the discrepancies between these two
5 documents, nor has it explained the roles of Aqua Acquisition Corporation, G&E
6 Septic, or Aqua Development, Inc.

7 **Q. ARE THERE TRANSACTIONS BETWEEN AUF AND ANY OF ITS**
8 **UNREGULATED AFFILIATES?**

9 A. Yes. AUF has contracted with Aqua Services Inc. for the provisioning of a variety
10 of managerial, operations, and regulatory support. In addition, Aqua America
11 allocates insurance costs to AUF. There are also salaries, pensions and benefits,
12 building rental and miscellaneous expenses allocated to AUF, although it is
13 unclear from the documentation provided by the Company whether Aqua Services
14 or Aqua America is allocating these costs to AUF.

15 For example, using Lake Gibson Estates as a randomly selected utility
16 system, MFR Schedule B-9 Contractual Services for the year ending December
17 31, 2005 identifies \$22,356 in charges paid to Aqua Services, Inc. for
18 management services for the water system, and \$8,639 paid to Aqua Services, Inc.
19 for management services for the wastewater system. In both instances the
20 description of work performed states "Corporate services and sundry charges."
21 MFR Schedule B-12 Allocation of Expenses for the same period of historical
22 expenses, however, identifies \$26,335 in charges for Contractual Services-
23 Management for the water system, and \$9,994 for the wastewater system. It

1 would thus appear that the contractual service charges allocated to Lake Gibson
2 Estates include expenses from a service provider in addition to Aqua Services.
3 Instructions on Schedule B-12 require "a detailed description of the method of
4 allocation." The Company has identified "Customers" as the allocation method,
5 with a footnote stating "These accounts are allocated primarily by Customers
6 count; the amounts shown contain the allocated amount plus some direct
7 charges." Thus the discrepancy between the charges for management services on
8 these two schedules may be due to the inclusion of some direct charges on
9 Schedule B-12.

10 In addition, Schedule B-9 Contractual Services asks for a "complete list of
11 outside services." The management services from Aqua Services are the only
12 ones listed on this schedule for either the water or wastewater system. Schedule
13 B-12 Allocation of Expenses, however, also lists charges to both water and
14 wastewater for Contractual Services-Accounting and Contractual Services-Legal.

15 It is possible these allocations are from Aqua America; however, in
16 response to OPC Interrogatory 32 the Company responded "Aqua America, Inc.
17 does not provide any services or products." It is also possible these allocations
18 are of charges to AUF from non-affiliated third parties, but if so, these companies
19 are not identified on Schedule B-9. Or these could be charges from the AUF
20 headquarters to Lake Gibson Estate systems, but again there is no explanation on
21 the schedule.

22 **Q. HOW ARE COSTS CHARGED BETWEEN AQUA SERVICES AND AUF?**

1 A. Aqua Services charges AUF for employee time used to provide services to AUF.
2 As of August 8, 2006, the services AUF purchases from Aqua Services are
3 governed by a Service Company Agreement. The Service Company Agreement
4 identifies the following services which Aqua Services will furnish to AUF:

- 5 • corporate management
- 6 • accounting
- 7 • administration
- 8 • communication
- 9 • corporate secretarial
- 10 • customer services
- 11 • engineering
- 12 • financial
- 13 • human resources
- 14 • information systems
- 15 • operations
- 16 • rates and regulatory
- 17 • risk management
- 18 • water quality
- 19 • legal
- 20 • purchasing
- 21 • fleet services

22
23 The cost of Aqua Service employees' time billed to AUF and other
24 affiliates is computed from the employee's total labor rate, including base pay,
25 other compensation, payroll taxes, benefits, and an overhead factor. In addition,
26 any direct expenses incurred in connection with services to AUF are charged
27 directly to that affiliate. (Response to OPC POD 9.)

28 If an employee of Aqua Services performs work that is only of benefit to
29 AUF, his time, computed at the labor rate as described above, is charged to AUF.
30 If the project the employee is working on will benefit several subsidiaries, his
31 time is allocated among those subsidiaries based on the subsidiaries respective

1 number of customers. Such charges for employee time related directly to work
2 for one or more affiliates are referred to as "service charges." In addition, the
3 departmental costs associated with the daily operations of Aqua Services are also
4 allocated among the Aqua America affiliates as either direct charges to a specific
5 affiliate, or allocations among a group of affiliates. (Response to OPC POD 10.)

6 The Company has presented no agreement between AUF and Aqua
7 Services prior to August 2006, but Schedule B-12 in the MFRs filed by AUF
8 shows that for the year ended December 31, 2005 historical data was used and the
9 allocation was made using the number of customers. For the year ended
10 December 31, 2006 the schedule shows both historical and projected data was
11 used, again with customers being the allocation method. For the year ended
12 December 31, 2007, projected data is used, with an allocation method using
13 Equivalent Residential Connections ("ERC").

14 OPC asked AUF regarding the development of the ERCs from customer
15 counts and requested copies of all relevant workpapers. In response, the Company
16 directed OPC to the workpaper F5-10.xls provided in response to OPC POD 2 as
17 one of the workpapers used in the compilation of the MFRs. The calculation of
18 ERCs for each system is shown on this workpaper as well. For the years 2001
19 through 2005, the Company divided the total annual gallonage sold to single-
20 family residential (SFR) customers by the average number of SFRs for that year.
21 The resulting gallons per SFR figure was then divided into the total gallons sold
22 to calculate the total annual ERCs. Linear regression was then used to trend the

1 ERCs into the future to the year 2012 to calculate 2007 ERCs used for the
2 proposed permanent rate increases.

3 **Q. DO YOU AGREE WITH THIS ALLOCATION METHOD, USING**
4 **EITHER CUSTOMERS OR ERCS?**

5 A. I believe that when allocating costs between water and wastewater systems, where
6 there are no unregulated businesses, that the use of customers or ERCs for
7 simplicity purposes is generally acceptable.

8 However, there are some problems with the Company methodology. First,
9 a pure customer allocation methodology does not necessarily consider usage
10 and/or volume in the allocation formula. Therefore, a company with several large
11 commercial customers, but few residential customers, may use the same level of
12 services as a company with many residential customers and no commercial
13 customers. Yet, under a strict customer method, the company with the larger
14 number of customers would be allocated more costs, regardless of the benefits
15 received from the services provided.

16 Second, the allocation factors used during the projected test year are based
17 upon ERCs, derived through linear regression trending the increase in ERCs for
18 the five years beyond the test period. Interestingly, this methodology for use in
19 determining future ERCs (which are similar to customers) is substantially
20 different than the method used to projected CIAC and 2007 revenue.

21 In addition, the dollar amounts reported on Schedule B-12 in the MFRs
22 include both allocated expenses and direct expenses. The Company's workpapers
23 provided to OPC in response to its Interrogatories 25, 26 and 27 regarding costs

1 charged to the Company by Aqua Services do not allow one to distinguish
2 between direct assignment of costs and allocated costs at the account specific
3 level of detail requested by OPC. OPC Interrogatory 25 requested:

4 With respect to costs allocated to the Company by Aqua Services,
5 Inc., please provide the following information for 2004, 2005,
6 actual 2006, and as projected for 2006 and 2007: the total dollars
7 by NARUC account number and name to which an allocation
8 factor is applied; the allocation factor applied to each account; the
9 calculation of the allocation factor including the numerator for
10 each company that is allocated a portion of the cost and the
11 denominator of the allocation factor; and a description of the
12 allocation factor. Provide the requested information in electronic
13 spreadsheet format with all formulas and links intact.

14
15 The workpapers provided by the Company in response to this request
16 showed first by NARUC account number, the total dollars, both direct charges
17 and allocated charges summed together, billed annually for the years 2004
18 through 2007 to all subsidiaries from Aqua Services. These workpapers were
19 followed by workpapers showing monthly charges from Aqua Resources (2004)
20 and Aqua Services (2005) broken out between service charges, sundry charges
21 and account/payable direct charges, to each of the statewide affiliates. These
22 workpapers however, do not show these charges at the NARUC account level
23 requested, nor do they show a breakout between allocations and direct charges.

24 OPC Interrogatory 27 requested:

25 With respect to costs directly charged to the Company by Aqua
26 Services, Inc., please provide the following information for 2004,
27 2005, actual 2006, and as projected for 2006 and 2007: the total
28 dollars by NARUC account number and name from which a direct
29 charge is made; Provide the requested information in electronic
30 spreadsheet format with all formulas and links intact.
31

1 In response, the Company provided one workpaper of annual billings to
2 AUF broken out as direct or allocated service charges, and direct or allocated
3 sundry/AP directs. No information was provided at a NARUC account level as
4 requested.

5 Similarly, OPC POD 33 requested:

6 Please provide all workpapers which set forth the methodology
7 used to allocate costs from Aqua Services, Inc., to the Company
8 during the test years (historic, intermediate, and projected), and
9 actual 2006. Please provide the requested information by system, if
10 available, and in electronic spreadsheet format (i.e. Excel
11 spreadsheet) with all formulas and linked files intact.
12

13 The first worksheet in the workpaper provided was titled "Allocations
14 used from January 2004 through March 2006 for Service Billings Access
15 Database." This listed subsidiaries, an unidentified code, an allocation factor with
16 no formula, link, or explanation of how it was calculated, and the effective date of
17 the factor. The second sheet in the workpaper was entitled "Philadelphia
18 Suburban Corporation Activity Intercompany Tracking of Expenses" and listed
19 some of the codes shown on the previous tab, and identification of the companies
20 represented by each code. The third worksheet was titled "2007 Allocations."
21 This showed allocation percentages, by affiliate for each of 39 codes, none of
22 which appear to be a match to the codes on the previous worksheet. The fourth
23 tab in the workpaper was titled "For AP Directs" and contained data labeled
24 Meritage Allocation. No subsidiaries were identified by name on this page, nor
25 was there any explanation of the percentages on the page, or of how they were
26 derived.

1 Therefore, while the Company provided a number of workpapers, it is not
2 always clear how they were used to derive the data filed in the MFRs.

3 **Q. WOULD YOU PLEASE ADDRESS YOUR FIRST CONCERN ABOUT**
4 **THE COMPANY'S SERVICE COST ALLOCATIONS?**

5 A. Yes. My first concern is that the allocation method is solely customer/ERC-based.
6 While there is some appeal in the simplicity of allocating costs using only one
7 statistic, I do not believe it is appropriate when allocating costs between regulated
8 and nonregulated companies. .

9 The benefits received by each affiliate are not necessarily proportional to
10 the size of the company, as measured by customers. For example, the customer-
11 based allocation factor ignores the possibility that relatively new acquisitions
12 might benefit disproportionately from the corporate functions that are provided by
13 Aqua Services, yet a customer allocation factor would not recognize this greater
14 benefit.

15 Also, it is uncertain if the non-regulated affiliates of AUF have more or
16 fewer customers than AUF and the other regulated water and wastewater
17 companies. While OPC asked AUF to identify the hauling services provided by
18 Aqua America affiliates and the companies such services were provided to, the
19 Company's reply stated only:

20 Aqua Wastewater Management, Inc. ("AWM") is the only Aqua
21 America, Inc. affiliate which provides septage hauling services.
22 AWM provides these services to Aqua's regulated subsidiary in
23 Pennsylvania and other non-affiliated companies located in
24 Pennsylvania and New Jersey. (Response to OPC Interrogatory
25 30.)
26

1 When OPC requested the number of customers of all companies acquired
2 by Aqua America from December 2002 through March 2007, no customer counts
3 were provided for the septage hauling and field services acquisitions (Response to
4 OPC POD 106.)

5 In addition, both regulated and non-regulated subsidiaries of Aqua
6 America provide contractual services to a number of unaffiliated water and
7 wastewater systems. However, the customers of these contract companies are not
8 included in calculating allocation factors. Thus, while the contract companies are
9 receiving benefits from other Aqua America subsidiaries, they are not considered
10 in allocating costs to the regulated subsidiaries of Aqua America. OPC requested
11 the customer counts of contract clients, but the Company's response stated the
12 number of customers was unavailable for the majority of such companies.
13 (Response to OPC Interrogatory 112.)

14 **Q. HAVE THE NONREGULATED ACTIVITIES OF AQUA AMERICA**
15 **CHANGED IN RECENT YEARS?**

16 **A.** Yes. In 2005-2006, Aqua America acquired six non-regulated companies that
17 provide septic tank pumping, sludge hauling, and other wastewater related
18 services. Prior to the acquisition of these companies, Aqua America states its
19 non-regulated operations were operated "as part of our regulated operating
20 segments." (2006 Annual Report, page 7.) Revenues from these non-regulated
21 companies, data processing fees, and other non-regulated services grew from \$2.1
22 million in 2004, to \$3.3 million in 2005, and \$7.2 million in 2006. Aqua states that
23 the 2006 increase "was primarily due to the acquisition of several septage businesses

1 during 2006.” The increase in 2005 resulted from “the additional revenues
2 associated with the acquisition of an on-site septic tank pumping business, and
3 increased revenues resulting from new and expanded contract operations. (Ibid., p.
4 8.)

5 **Q. HAVE THE COMPANY’S REGULATED AFFILIATES CHANGED AS**
6 **WELL DURING THIS PERIOD?**

7 A. Yes, they have. Aqua America refers to its business model as a “growth-through-
8 acquisition strategy.” (Ibid., Letter to Shareholders.) In 2004 Aqua America acquired
9 the systems of Florida Water Services Corporation, as well as the water and
10 wastewater systems of Heater Utilities, Inc. (“Heater”) in North Carolina. The
11 Heater systems added over 50,000 customers to Aqua America. In addition, Aqua
12 America completed 27 smaller acquisitions that year. (Ibid., pp. 32-33.) In 2005
13 Aqua America made over 30 acquisitions of both water and wastewater systems in
14 seven of the states in which it was then operating. Its 2005 acquisitions also
15 included the first of its purchases of a sludge and bulk wastewater hauling and septic
16 tank clean-out company (Ibid., Letter to Shareholders.) In 2006, the company
17 acquired 24 water and wastewater systems and four additional non-regulated septage
18 hauling operations.

19 In the first half of 2007, Aqua America has continued to expand. In January
20 the company closed on its purchase of the New York Water Service Company,
21 serving 135,000 residents on Long Island. (Aqua America, Inc., News Release,
22 January 2, 2007.) That same month its subsidiary Aqua Virginia, Inc. acquired the
23 water and wastewater system of Lake Holiday, a private gated community of

1 approximately 2,000 residents. (Aqua America, Inc., News Release, January 9,
2 2007.) In April, Aqua New York, Inc. completed its purchase of Aquarion Water
3 Company of Sea Cliff, Inc., which serves some 13,000 residents. (Aqua America,
4 Inc., News Release, April 30, 2007.) In May Aqua America announced the purchase
5 of three additional systems. In Florida it acquired the water and wastewater systems
6 of Fairways at Mt. Plymouth, providing service to more than 700 residents. In North
7 Carolina it purchased the Lode Beau Water and Sewer Company providing water to
8 some 375 residents and wastewater services to approximately 200 residents. At the
9 same time it announced that its subsidiary Aqua North Carolina closed on 24 new
10 development systems between January and April projected to serve more than 6,700
11 residents. And in Pennsylvania, Aqua purchased the water system serving Garden
12 Hills community with approximately 100 residents. (Aqua America, Inc., News
13 Release, May 1, 2007.)

14 In June Aqua announced the acquisition of the water system of the Village of
15 Manteno, serving some 10,000 residents, by its subsidiary Aqua Illinois. (Aqua
16 America, Inc., News Release, June 18, 2007.) Most recently, early in July it
17 announced acquisitions in Texas, Pennsylvania, and Florida. Aqua Texas, Inc.
18 purchased the water systems of Harper Water Company, serving seven communities
19 with a total of over 2,000 people. (Aqua America, Inc., News Release, July 3,
20 2007.) In Pennsylvania, the company purchased the wastewater system of the
21 Greens at Penn Oaks development, with some 200 residents. And in Florida it
22 purchased the water and wastewater systems serving Breeze Hill, a development

1 with approximately 375 residents. (Aqua America, Inc., News Release, July 5,
2 2007.)

3 **Q. HAS THE COMPANY PROVIDED AN ALLOCATIONS MANUAL**
4 **EXPLAINING HOW ALLOCATIONS FROM AQUA SERVICES ARE**
5 **MADE?**

6 A. Yes, a Corporate Charges Allocations Manual for Aqua Services was provided in
7 response to OPC POD 10. The manual contains much language identical to that
8 found in the Service Agreement between Aqua Services and AUF regarding the
9 types of support provided. It also explains the distinction between the
10 categorization of expenses as either service expenses or sundry expenses. Service
11 expenses are defined as "labor and overhead of employees" expended on work for
12 a specific subsidiary or group of subsidiaries. These employees of Aqua Services
13 are categorized by the following types of services: Accounting & Financial,
14 Administration, Customer Service, Communications, Corporate Secretarial,
15 Engineering, Human Resources, Information Services, Legal, Purchasing, Rates
16 & Regulatory, and Water Quality.

17 Sundry expenses ". . . are departmental costs associated with the normal
18 operations of Aqua Services Inc. and can also be categorized as listed above."
19 (Response to OPC POD 10.)

20 Both the service and the sundry expenses are classified as either direct or
21 indirect. Direct charges are billed to the specific affiliate using a code for that
22 entity; indirect charges are allocated using codes created for groups of affiliates.
23 The basis of the allocations is the year end customer count. In addition, an

1 activity code is assigned to the charge to indicate the type of work performed.
2 The Manual states that a control sheet is used to check that all charges relating to
3 accounting units equal the charges allocated to the various states. In addition,
4 there are reports providing backup support for the charges allocated to each state.
5 According to the Corporate Charges Allocation Manual, these reports contain
6 “total costs by employee, by type of service, and for the amount of hours
7 charged.” (Response to OPC POD 10.) The Company provided these reports for
8 each month of the years 2004, 2005, and 2006. The reports show employee wages
9 allocated to AUF from Aqua Services, or Philadelphia Suburban Corporation,
10 prior to the incorporation of Aqua Services. However, the reports provided show
11 only those allocations and charges made to AUF, and not to each of the other
12 states and unregulated companies. (Response to OPC POD 134.) Sundry charges
13 are also either direct or indirect charges and identified by activity codes. For
14 sundry charges, “[a]ctivity codes are created to identify entity or group of entities
15 allocations. Activities are attached to each sundry expense and are used to
16 determine how costs should be allocated to the state. In this methodology,
17 activities determine whether costs are to be directly charged to a state or allocated
18 to a group of states.” Backup support in the form of an excel spreadsheet is
19 provided to the states for the sundry charges. AUF provided these reports for the
20 months of April through December 2006, but they are not at the level of detail to
21 allow one to determine what activities the charges relate to. (Repose to OPC POD
22 135.) .

1 Q. DID YOU FIND THAT THE ALLOCATION METHODOLOGY
2 EXPLAINED IN THIS MANUAL WAS THAT FOLLOWED BY AQUA
3 SERVICES IN ASSIGNING COSTS TO AUF?

4 A. While the Company provided a number of worksheets in response to queries for
5 supporting documentation, it was not possible to trace specific employees' time to
6 the resulting costs allocated to the various AUF systems in the MFRs. In addition,
7 the labor costs and overhead rates that comprised these costs were not provided.
8 Nor was there any explanation of how building costs included in overhead differ
9 from the building rental expense itemized on Schedule B-12.

10 Q. IS THERE A MANUAL FOR THE ALLOCATIONS FROM AQUA
11 AMERICA TO ITS SUBSIDIARIES?

12 A. The only instructions pertaining to allocations from Aqua America to its subsidiaries
13 provided by the Company is a one page description of the allocation factors used to
14 allocate insurance costs among subsidiaries. The Company provided one page with
15 a description of the factors used in allocating 2005 costs, and a second page
16 describing the factors used in allocating 2006 costs. In addition to the instructions,
17 the Company provided several workpapers showing budgeted insurance allocations.

18 (Response to OPC POD 11.)

19 In another request for all workpapers which set forth the methodology
20 used to allocate costs from Aqua America to AUF, the Company responded with
21 the same two pages of 2005 and 2006 factor descriptions. (Response to OPC POD
22 31.) In addition, the reply to this request included spreadsheets with insurance
23 allocations for each year 2005, 2006, and 2007.

1 I have not, however, seen any explanation in the Company's
2 documentation of how officer salaries, pensions & benefits, rate case amortization
3 and miscellaneous expenses listed on Schedule B-12 have been allocated to the AUF
4 systems.

5 It has been my experience that failure to document the process and
6 procedures for allocating costs or for charging for services between affiliates can
7 lead to errors and confusion and inefficiencies—especially if there is a change in
8 the staff preparing the allocations.

9 The Commission should be very concerned about the Company's inability
10 to support the cost allocation methodology that it used to allocate costs from Aqua
11 America and Aqua Services in the instant proceeding. The Company has the
12 burden of demonstrating that costs charged by an affiliate are reasonable and
13 prudent.

14 **Q. IS THE GROWTH OF AFFILIATES REFLECTED IN THE COSTS AUF**
15 **INCLUDED IN THE PROJECTED TEST YEAR?**

16 **A.** Based upon the evidence provided by the Company in its MFRs and in response to
17 discovery, I do not believe so. The Corporate Charges Allocations Manual
18 governing allocations from Aqua Services states:

19 The customer count is calculated by using year end totals of each
20 subsidiary for the year immediately proceeding (*sic*) the current year.
21 Customer counts are not adjusted throughout the year unless there is
22 a substantial acquisition during the year, at which time all allocations
23 will be updated with the most current quarter end customer counts.
24 (Response to OPC POD 10.)
25

1 The workpapers I have reviewed in the Company's responses to OPC
2 interrogatories and PODs do not show any adjustments having been made in the
3 customer counts. If such adjustments have been made, the Company's
4 documentation is inadequate in describing and explaining them.

5 Q. **WAS THE COMPANY ABLE TO PRODUCE DOCUMENTATION THAT**
6 **WOULD ALLOW YOU TO RECOMPUTE THE ALLOCATIONS FROM**
7 **AQUA AMERICA AND AQUA SERVICES AND TIE THEM TO THE**
8 **MFRS?**

9 A. No. In POD 128, OPC requested workpapers that would allow it to recompute
10 allocation factors and make appropriate adjustments to expenses and rate base.

11 OPC's POD requested:

12 **OPC Document Request 128.** To the extent not previously
13 provided, please provide the workpapers, calculations, and other
14 necessary documents that would allow an individual to recompute
15 the amounts allocated to AUF by each and every affiliate, for each
16 of the test years 2005 and as projected for 2006 and 2007. The
17 information provided should allow one to recompute the allocation
18 factors and redistribute all costs that have been charged to AUF by
19 Aqua Services and any other affiliate that charges costs to AUF.
20 The information provided should allow one to recompute
21 allocations and then carry any associated adjustments, by system,
22 to the expense and rate base items included in the instant rate
23 proceeding. To the extent the Company has provided the requested
24 information, please identify where it have been provided.

25 The Company objected to this POD stating that it did not have the
26 information. The Company's objection is as follows:

27 **Objection:** AUF objects to this request to the extent it requires the
28 Company to prepare information in a particular format or perform
29 calculations, studies or analyses not previously prepared or
30 performed. The information requested is not available in Excel

1 format nor can the Company provide the information to allow one
2 to recompute the allocation factors and redistribute costs off site.

3
4 Given the size of this Company and the magnitude of this proceeding, I
5 find it inexcusable that the Commission is essentially prevented from recomputing
6 the allocation factors used by the Company and making any appropriate
7 adjustments.

8 OPC reads the Company objection as essentially stating that OPC, and for
9 that matter the Commission, are prohibited from recomputing the allocation
10 factors used to allocate costs from Aqua Services to the Company. To the extent
11 that OPC or the Commission disagrees with the methodology employed by the
12 Company or desires to update the data used by AUF for these allocations, it
13 simply can not be done. OPC does not request that AUF or its affiliates perform
14 calculations, studies or analyses not previously prepared or performed. However,
15 AUF bears the burden of demonstrating that its allocations and methodology are
16 reasonable. If the methodology can not be replicated "off site" it is clearly not
17 reasonable. OPC requests that the Commission order the Company to provide the
18 information utilized by the Company in such a format that it can be replicated "off
19 site."

20 **Q. COULD YOU PLEASE SUMMARIZE YOUR CONCERNS ABOUT THE**
21 **ALLOCATION OF COSTS BETWEEN THE COMPANY AND ITS**
22 **AFFILIATED SISTER COMPANIES?**

23 A. Yes. First, Aqua Services performs services for Aqua Resources, its unregulated
24 affiliate. (Response to OPC Interrogatory 22.) I have seen no documentation

1 that shows the development of the factors used to allocate expenses to this
2 affiliate. In addition, OPC specifically asked AUF to identify all services and
3 products provided by Aqua Services to each of its affiliates, subsidiaries,
4 divisions and systems. In response, however, AUF referred only to services
5 provided to AUF. (Response to OPC Interrogatory 33.) It is quite possible that
6 Aqua Services also provides managerial, operations, engineering, and other
7 services to non-regulated affiliates in addition to Aqua Resources, but no
8 requested information was provided on this issue.

9 Second, several of Aqua America's subsidiaries perform contract services
10 for systems that Aqua America does not own. In response to OPC's
11 Interrogatory 21, the Company indicated that neither Aqua America nor Aqua
12 Services allocates costs to these clients. The Company explained: "Contracts
13 entered into with these non-affiliated companies do not require corporate
14 oversight. These contracts are obtained, executed and recorded by the subsidiary
15 company noted in the response to Interrogatory 21." (Response to OPC
16 Interrogatory 112.) While this might be true, this fails to take into consideration
17 the fact that the operations of the affiliates that manage these systems are larger
18 and more complex. Therefore, additional oversight and management costs should
19 be allocated to these systems to recognize these added complexities and size
20 differentials. Failure to take this into consideration, under allocates costs to the
21 systems that generate additional nonregulated revenue for the parent company and
22 over allocates costs to the regulated companies that do not have analogous
23 nonregulated operations.

1 Schedule 8 of my exhibit shows that these contract systems receive a
2 range of services from the AUF affiliates including managerial, accounting,
3 billing, operations, customer service, A&G, sales, and cash collection services.
4 Customer counts are not available for the majority of the systems listed. But
5 having failed to allocate any costs to these contact systems, the Company has over
6 allocated costs to AUF.

7 Third, the Company's allocation factors fail to take into consideration the
8 addition of all new systems to the Aqua America family. The Company's
9 determination of customers for test year allocations appears to be based upon the
10 year-ending December 2005.

11 The current test year is the projected year-ending December 2007.
12 Therefore, any systems purchased by Aqua America during the first half of 2007
13 would not be captured in the allocation process. As discussed previously, AUF
14 has a strategy of purchasing small water and wastewater systems. Its customer
15 base is continually growing. A failure to account for this growth over allocates
16 costs to the existing systems and under allocates costs to the new systems. In fact,
17 during 2006, Aqua America added 24 systems comprising 62,000 customers as
18 well as four non-regulated septage hauling operations. (2006 Annual Report,
19 Letter to Shareholders.) Through June 2007 they have added another 10 systems
20 serving a population of over 160,000.

21 **Q. DID THE COMPANY RECENTLY PROVIDE A RESPONSE TO**
22 **DISCOVERY WHICH CHANGES THE LANDSCAPE OF THIS**

1 **PROCEEDING AND THE AFFILIATE CHARGES INCLUDED IN THE**
2 **PROJECTED TEST YEAR?**

3 A. Yes. In OPC's Interrogatory 26, OPC sought information about the amount of
4 expenses included in the projected 2006 and 2007 test years associated with
5 amounts charged the Company by its affiliate Aqua Services, Inc. The Company
6 responded:

7 The water and wastewater files on CD 08653 include direct,
8 intercompany, intracompany and total O&M expenses (excluding
9 rate case expense) for the year 2005. For years 2006 and 2007,
10 please see response to OPC POD No. 124. All formulas and links
11 are intact in the files. Years 2003 and 2004 cannot be provided at
12 this time.

13
14 The Company's response which refers to POD 124 essentially states that
15 the data the Company supplied in its MFRs is simply wrong! The Company
16 apparently does not know what amount of affiliate charges that are included in its
17 MFRs that form the basis for its requested rate request. Further, the response to
18 POD 124 does not clearly, if at all, break out the affiliate charges as requested.

19 AUF refers OPC to this response to POD 124 in response to many of
20 OPC's Interrogatories and PODs. For example, OPC Interrogatory 31 requested:
21 "For each system, please provide a schedule similar to page 1 of B-6, stating the
22 amount of expense allocated or directly charged to the system by each affiliate for
23 the test years (historic, intermediate, and projected) and the preceding two years."
24 The Company's response was "Please see response to OPC IROG No. 26 for the
25 year 2005 and response to OPC POD No. 124 for years 2006 and 2007."

26 **Q. YOU HAVE IDENTIFIED SEVERAL PROBLEMS WITH THE**

1 **COMPANY'S ALLOCATION METHOD AND THE COMPANY'S**
2 **FAILURE TO PROVIDE NECESSARY INFORMATION SUPPORTING**
3 **ITS COST ALLOCATIONS AND AFFILIATE CHARGES. DO YOU**
4 **HAVE A RECOMMENDATION FOR PURPOSES OF THIS RATE**
5 **PROCEEDING?**

6 A. Yes. I recommend that all costs charged to the Company from Aqua Services and
7 Aqua America be disallowed because of the Company's failure to follow the
8 Commission's rules and the significant deficiencies identified in the allocation
9 process that I have identified. The Company has the burden of proof to
10 demonstrate the reasonableness of charges from its affiliates. Since the Company,
11 in my opinion, has failed to justify the reasonableness of these charges, I believe
12 that the Commission should disallow 100% of these expenses.

13 **Q. IS THERE PRECEDENT FOR DISALLOWING COSTS WHEN A**
14 **UTILITY FAILS TO PROVIDE THE NECESSARY DOCUMENTATION**
15 **TO SUPPORT THE REQUESTED COST?**

16 A. Yes. In Palm Coast Utility Corporation's ("Palm Coast" or "PCUC") most recent
17 rate case, the Commission disallowed costs charged by an affiliate because Palm
18 Coast failed to provide adequate documentation justifying the costs included in
19 the test year. The Commission found:

20 OPC witness Dismukes proposed two adjustments related to
21 affiliate transactions. The first adjustment relates to administrative
22 services provided by PCUC's parent (ITT). Ms. Dismukes testified
23 that the Commission should disallow expenses in the amount of \$
24 21,201. She testified that the utility failed to justify this expense
25 and refused to provide on a timely basis the information needed to
26 evaluate the reasonableness of the charge.

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Ms. Dismukes' second adjustment related to charges from ITT Community Development Corporation. During 1995, ITT Community Development Corporation began providing accounts payable processing services to PCUC. This function was previously provided by the utility. She argued that the utility provided no justification for the change, other than a memo saying that "per agreement between Jim Perry of PCUC and myself there will be [a] monthly fee of \$ 1000 for accounting services provided to PCUC." Further, the utility provided no information concerning how the fee was determined or that it is cost effective for ITT Community Development Corporation to provide this service. She proposed a \$10,564 reduction to expenses, due to the absence of supporting documentation.

Although the utility made several arguments attempting to rebut the recommendations of OPC's witness, the Commission disagreed and found the utility did not provide sufficient support to determine if the charges were reasonable.

We believe that the record does not provide sufficient support to determine what administrative services are provided under the ITT Community Development Corporation agreement and whether those transactions exceeded the market rate.... Further, we do not believe that water and wastewater customers should be required to pay for charges and R&D assessments to ITT headquarters to cover the funding of international research and development and the costs of ITT corporate administrative and commercial services.

The Commission went on to explain that the utility has the burden of proof to prove that its costs are reasonable. The Commission also explained how this case differed from the GTE Florida case where the court established the standard for related party costs and prices.

It is the utility's burden to prove that its costs are reasonable. *Florida Power Corp. v. Cresse*, 413 So.2d 1187, 1191 (1982). This burden is even greater when the purchase is between related parties. In *GTE Florida Inc. v. Deason*, 642 So.2d 545 (Fla. 1994),

1 the Court established that when affiliate transactions occur, that
2 does not mean that "unfair or excessive profits are being generated,
3 without more." The standard established to evaluate affiliate
4 transactions is whether those transactions exceed the going market
5 rate or are otherwise inherently unfair. The evidence in the GTE
6 Florida case indicated that its related party costs were no greater
7 than they would have been had services and supplies been
8 purchased elsewhere.

9 The facts in this case differ from those established in the GTE
10 Florida case. The distinction is that in the GTE Florida case, there
11 was evidence in the record that showed that the utility's cost was
12 equal to or less than what an arms-length transaction would have
13 been. Other than the testimony provided by Mr. Seidman that
14 either of the above charges are reasonable, PCUC did not provide
15 any documentation to support these costs. As such, we find that the
16 utility has essentially failed to prove the prudence of these charges.
17

18 We find that the utility failed to meet its burden to justify its costs.
19 Accordingly, we have reduced affiliate charges by \$ 25,412
20 (\$31,765 less 20% non-used and useful) and then allocated 59.63%
21 to water and 40.37% to wastewater. (Florida Public Service
22 Commission, Order PSC-96-1338-FOF-WS, November 7, 1996.)
23

24 VI. Test Year Expenses

25 Operation and Maintenance (O&M) Expenses

26 **Q. EARLIER IN YOUR TESTIMONY YOU ADDRESSED THE COMPANY'S**
27 **RESPONSE TO OPC'S POD 124 AND THE IMPACT OF THIS**
28 **RESPONSE ON THE COMPANY'S RATE REQUEST. HOW DOES IT**
29 **AFFECT THE PROJECTED TEST YEAR EXPENSES?**

30 **A.** As explained earlier, the effect of the Company's response to OPC's POD 124 is
31 to render its test year expense projections invalid. The Company essentially
32 admitted that its projected 2006 and 2007 expenses are in error. The Company
33 discovered several unintended results with expense data filed in the rate case in the
34 filed expense data. These discoveries led to disconnects between the Company's

1 intended and supportable expense trends and results, and the data represented in the
2 MFRs. Consequently, the Company provided all new expense data for 2006 and 2007
3 in response to this POD.

4 This response was filed on July 20, 2007 – 56 days past its due date. Needless
5 to say, OPC has not been able to evaluate the 628 page spreadsheet provided in this
6 response, let alone ask and have discovery answered. All of OPC's detailed discovery
7 on expenses, which are depicted in Schedule 5, were answered by the Company with
8 reference to POD 124. Unfortunately, POD 124 does not answer any of the questions
9 that were asked by OPC.

10 **Q. GIVEN THAT THE COMPANY DOES NOT HAVE SUPPORTABLE**
11 **EXPENSE DATA FOR 2006 AND 2007, WHAT DO YOU RECOMMEND?**

12 A. I recommend that the Commission reject the 2006 and 2007 O&M expense
13 included in the MFRs and instead use the per books expenses for 2005. Given the
14 Company has admitted that its projected data is erroneous, the only possible data
15 that can be relied upon by the Commission, assuming it does not dismiss the case,
16 are the historic 2005 expenses.

17 **Rate Case Expense**

18 **Q. WOULD YOU PLEASE DISCUSS RATE CASE EXPENSE?**

19 A. Yes. The Company is requesting rate case expenses of \$1,845,725 as set forth in
20 the table below.

Aqua Utilities Florida, Inc. Requested Rate Case Expense				
Aqua Utilities Florida, Inc.			\$ 351,388	Corp. Charges
Aqua Utilities Florida, Inc.			\$ 1,275	Copies
Aqua Utilities Florida, Inc.			\$ 4,385	Postage
Aqua Utilities Florida, Inc.			\$ 68,106	Payroll
Aqua Utilities Florida, Inc.			\$ 648	Temp. Agency

Aqua Utilities Florida, Inc.			\$ 78,770	Legal
Aqua Utilities Florida, Inc.			\$ 856	Travel
Aqua Utilities Florida, Inc.			\$ 182,426	Consulting
Rutledge, Ecenia, Purnell & Hoffman			\$ 8,712	Legal
Abel, Band, Russel			\$ 1,260	Legal
Ward, Mullen, Franceski	Tim Ward, Lee Mullen, Dan Franceski		\$ 370,000	Consulting
FL PSC	FL PSC		\$ 9,000	Filing Fee
Rutledge, Ecenia, Purnell & Hoffman	Ken Hoffman	\$ 275	\$ 242,000	Legal
Printer	Copying, printing, mailing		\$ 75,000	Printing, mailing, copies
Guastella & Assoc.	John F Guastella, John M Guastella, Gary White		\$ 425,000	Consulting, Accounting, Engineering
Notice Requirement			\$ 3,200	Newspaper Notices
Customer Notices - Printing			\$ 3,000	Customer Notification
Customer Notices - Postage & Mailing			\$ 20,700	Customer Notification
Total			\$ 1,845,725	
Source: MFRs, Schedule B-10.				

1

2 **Q. HAVE THERE BEEN PROBLEMS WITH THIS CASE THAT WOULD**
3 **WARRANT DISALLOWANCE OF THE COMPANY'S RATE BASE**
4 **EXPENSE?**

5 A. I recommend that the Commission disallow a substantial amount of the rate case
6 expense requested in this proceeding. The utility has not been able to produce
7 reliable and accurate MFRs. On May 2, 2006, AUF requested test year approval
8 of a test year consisting of the twelve months ending December 31, 2006 in order
9 to file an application for general rate relief for all of its systems. A week later, on
10 May 10, 2006, the Company submitted a request for a revised test year consisting
11 of the twelve months ending December 31, 2007. The Commission approved the

1 December 31, 2007 test year and requested the filing of testimony, MFRs, petition
2 and filing fee by October 10, 2006.

3 September 18, 2006, AUF requested an extension of its filing date to
4 November 13. The extension was granted by the Commission. November 1,
5 2006, AUF requested another extension, this time to December 1, 2006. The
6 Commission replied in a letter dated November 7, 2006, granting the extension
7 but notifying the Company that any later request might be rejected if the projected
8 test year no longer corresponded to company operations.

9 The Company's application, testimony, and MFRs for each of AUF's
10 water and wastewater systems were filed November 30, 2006. On January 2,
11 2007 the Staff notified AUF of substantial deficiencies in its MFRs which it was
12 to rectify by February 2, 2007. This deadline was later extended to February 6,
13 2007.

14 On December 13, 2006 the Commission had notified AUF that Staff
15 would conduct a rate case audit in accordance with Commission audit procedures.
16 On February 15, 2007, Staff notified AUF that there were several overdue
17 document requests in the audit, some as much as three weeks overdue.

18 On February 26, 2007, Staff notified AUF that it still had several
19 deficiencies in its MFRs which the Company was to correct by March 26, 2007.

20 On July 16, 2007, OPC filed a motion to compel AUF to provide answer
21 to all outstanding discovery. At that time, more than half of all OPC
22 interrogatories and requests for production of documents were overdue. OPC
23 noted in its motion that it was dependent upon responses to discovery propounded

1 by Staff, but that AUF was also delinquent in replying to Staff's interrogatories
2 and PODs.

3 As the record in this proceeding indicates, the Company filed numerous
4 revisions to its MFRs. The costs associated with the deficiencies in the
5 Company's MFRs and discovery responses should not be borne by ratepayers.
6 Instead, these costs should be absorbed by the stockholders of Aqua America. As
7 noted earlier in my testimony, Aqua America is the largest publicly held water
8 and wastewater company operating in the United States. The extent of the errors
9 in the MFR filings should not be tolerated by the Commission and the costs
10 should not be borne by ratepayers.

11 **Q. IS THERE PRECEDENT FOR DISALLOWING RATE CASE EXPENSES**
12 **IN FLORIDA?**

13 A. Yes, the Florida Public Service Commission has disallowed rate case expenses on
14 many occasions because it has found them to be imprudent. The Commission's
15 decisions on this issue are set forth in Order No. PSC-02-0593-FOF-WU. In that
16 order, it addressed Order No. PSC-98-1583-FOF-WS, issued November 25, 1998,
17 in Docket No. 971663-WS, where Florida Cities Water Company was seeking
18 recovery of court costs (and the rate case expense associated with the docket
19 filing). In that case the Commission found that the incurrence of rate case expense
20 was imprudent and denied the utility's request for recovery. Also, in Order No.
21 PSC-96-1320-FOF-WS, issued October 30, 1996, in Docket No. 950495-WS, the
22 Commission denied legal rate case expense of \$25,000 incurred for what it
23 deemed an imprudent appeal of an oral decision on interim rates. In addition, in

1 Order No. 18960, issued March 7, 1988, in Docket No. 861338-WS, the
2 Commission determined that expenditures for misspent time were imprudent and
3 reduced the requested rate case expense by \$32,500. Finally, in Order No. PSC-
4 02-0593-FOF-WU, issued April 30, 2002, the Commission found: "As discussed
5 above, it is the utility's burden to prove that its requested costs are reasonable.
6 We find that filing combined water and wastewater rate cases would have resulted
7 in material cost savings, and the customers should not be made to pay because
8 Aloha incurred imprudent rate case expense." (FPSC, Order No. PSC-02-0593-
9 FOF-WU.)

10 **Q. WHAT IS YOUR RECOMMENDATION WITH RESPECT TO THE**
11 **RATE CASE EXPENSE REQUESTED IN THIS PROCEEDING?**

12 A. It is the intention of OPC to provide a recommendation on the subject of rate case
13 expense once complete documentation is submitted by the Company. However,
14 until the Company is able to provide this information, I recommend disallowance
15 of 100% of the Company's request.

16 **VII. Rate Base**

17 **Q. WOULD YOU PLEASE ADDRESS THE COMPANY'S PROPOSED**
18 **CAPITAL ADDITIONS TO PLANT?**

19 A. Yes. Testimony on this subject is presented by AUF's witness Gerard P.
20 Connolly, Jr. Mr. Connolly presents Exhibits GPC-3 and GPC-4, which provide
21 the projects and plant additions for the projected years 2006 and 2007. Exhibit
22 GPC-3 has been reproduced on my Schedule 9. As shown on this schedule, in

1 2006, the Company projected plant additions, net of CIAC, of \$11,652,804, and in
2 2007 it projected plant additions of \$3,687,262.

3 **Q. DO YOU KNOW THE SOURCE OF THE INFORMATION PRESENTED**
4 **ON YOUR SCHEDULE 9 AND MR. CONNOLLY'S EXHIBIT GPC-3?**

5 A. No. The source of this exhibit is not clear. I would have expected the information
6 presented on Mr. Connolly's Exhibit GPC-3 to match either the original or
7 revised budgets for 2006 and 2007. However, neither the original nor the revised
8 budgets match the information presented on this exhibit.

9 In response to OPC POD 38 the Company provided a report which
10 showed its original capital budget with corresponding revisions. I compared the
11 information presented in this response to several of the capital additions, by
12 system, presented on Mr. Connolly's Exhibit GPC-3. My comparison indicates
13 that the information presented on GPC-3 is neither the original nor revised
14 budget.

15 For example, on Exhibit GPC-3, Mr. Connolly shows a capital addition of
16 \$74,000 for the installation of a new water line for the Carlton Village water
17 system. However, in response to OPC POD 38 for this same system, the original
18 budget for the installation of a new water line is shown as \$0, and the revised
19 budget is shown as \$154,000—neither amount matches Mr. Connolly's exhibit.

20 Similarly, with respect to the Chuluota wastewater system, Mr. Connolly's
21 exhibit shows CIAC for 2006 of \$120,900. However, in response to OPC POD
22 38, the original budget showed CIAC of \$234,000, and the revised budget showed
23 \$177,250. GPC-3 showed \$74,930 for collection line replacements. In contrast,

1 the response to POD 38 showed \$75,000 for the original budget and \$0 for the
2 revised budget for this same item. The largest capital addition depicted on Mr.
3 Connolly's Exhibit GPC-3 for Chuluota's wastewater system is \$3,950,000 for
4 the expansion of the wastewater treatment plant. The information provided in
5 response to POD 38 showed \$0 for this item in the original budget and \$3,950,000
6 in the revised budget. For the budget year 2007, the total capital expenditures for
7 the wastewater system, net of CIAC is shown as \$161,500 on GPC-3. The
8 response to POD 38, however, shows total capital additions, net of CIAC of
9 \$261,500 for the original and revised budgets.

10 GPC-3 shows total capital expenditures for the Arredondo Estates water
11 system for 2006 of \$62,992. The original and revised budgets provided in
12 response to POD 38 show total capital expenditures of \$35,125 and \$64,937,
13 respectively. For 2007, Mr. Connolly's Exhibit GPC-3 shows total capital
14 expenditures of \$8,125 for this water system. Response to POD 38 shows total
15 capital expenditures of \$21,250 for both the original and revised budgets.

16 **Q. DO YOU HAVE AN EXHIBIT WHICH COMPARES THE VARIOUS**
17 **CAPITAL BUDGETS FIGURES?**

18 A. Yes. I have prepared Schedule 9 which compares the total budgeted amounts by
19 system depicted on Mr. Connolly's Exhibit GPC-3 to the original and revised
20 budgets provided in response to POD 38. As depicted on this schedule, there are
21 some significant differences between what is portrayed on Mr. Connolly's exhibit
22 and what has been reported by the Company as its original and revised budget.
23 For example, the Imperial Mobile Terrace water system shows a difference of

1 202% between the amount depicted on GPC-3 and the revised budget for 2006.

2 For 2007 there is a difference of 106%.

3 Similarly, the Sunny Hills wastewater system shows a difference of
4 negative 134% between the amount depicted on GPC-3 and the revised budget for
5 2006. However, for 2007 the original and revised budgets are the same.

6 The Lake Josephine water system showed only a difference of 1%
7 between GPC-3 and the revised 2006 budget. However, for 2007, the difference is
8 substantial at 1,336%. The budgeted capital expenditures depicted on GPC-3 are
9 \$30,500; whereas, the amount shown in response to POD 38 for the revised
10 budget is \$438,000 – a difference of \$407,500.

11 **Q. THE TOTAL CAPITAL EXPENDITURE AMOUNT FOR 2006 FOR ALL**
12 **SYSTEMS SHOWN ON GPC-3 AND FOR THE REVISED BUDGET ARE**
13 **SIMILAR. DOESN'T THIS MEAN THE COMMISSION SHOULD NOT**
14 **BE CONCERNED ABOUT THE BUDGETED CAPITAL EXPENDITURES**
15 **USED TO SET RATE BASE?**

16 **A.** No, not at all. The Commission will either set rates by individual system or by
17 county in this rate proceeding. It will not set the same rates for each water and
18 wastewater system of AUF. Therefore, it is the budgeted amounts, per system,
19 that are important. If the Commission sets system specific rates, as opposed to
20 county-wide rates, I would expect that the customers of Chuluota would not be at
21 all happy paying for meter replacements in Lake Gibson, even if the total amount
22 budgeted for all AUF systems were reasonably accurate.

1 Likewise, the customers of Lake Gibson would most likely not be happy
2 paying for meter replacements for Chuluota customers. To the extent that the
3 budgeted amounts by system for 2006 and 2007 are not accurate, even if the total
4 for all systems is close, there could be significant cross subsidies between the
5 different AUF systems.

6 **Q. HOW DO THE COMPANY'S PROJECTED 2006 CAPITAL ADDITIONS**
7 **COMPARE TO THE CWIP CLOSED TO PLANT IN SERVICE IN 2006?**

8 A. There are significant differences between the amounts depicted on GPC-3 and the
9 actual 2006 capital expenditures closed to plant in service. For example, for the
10 Zephyr Shores water system, the Company originally projected spending
11 \$133,400; however, actual expenditures were \$30,735—a difference of negative
12 77%. Thus, if the Commission had set rates based upon the Company's budgeted
13 2006 capital additions, it would overstate the amount of the rate increase needed
14 by this system due to the inaccuracy of the Company's projections.

15 For the Chuluota wastewater system, the Company over-projected 2006
16 capital additions by 90%, or \$3,582,426. If rates had been set on the Company's
17 2006 projections, the rates for this system would be overstated by a wide margin.
18 On a per-system basis, the amounts projected are significantly different from the
19 budgeted amount. In total, the Company's 2006 actual plant balances were \$6.3
20 million less than the projected plant balances included in the MFRs. (Staff Audit,
21 p. 17.)

1 Q. SHOULD THE COMMISSION BE CONCERNED ABOUT THE 2006
2 BUDGETED EXPENDITURES, SINCE THE COMPANY IS USING A 2007
3 PROJECTED TEST YEAR?

4 A. Yes, it should. Normally one would expect that the monies that were not spent in
5 2006 would be spent in 2007. However, while this might be true for the entire
6 AUF group of systems, it is not true for the individual systems. In response to
7 OPC's Interrogatory 178, the Company explained that the dollars not expended in
8 one year are not ear-marked for the same system in the following year. Instead,
9 those unexpended dollars could easily be used for another water or wastewater
10 system. The Company explained:

11 Excess budgeted dollars are traded off from the capital project to the
12 state capital budget reserve. Before the year end, the state president
13 and engineer decide on one or more capital projects to complete with
14 the excess capital budget money.

15
16 The capital projects that replaced a portion of the initially budgeted
17 project may or may not be located in the same water or wastewater
18 system. The Company's trade-off program is state-wide, not system-
19 wide. In that manner, the most important substitutions will be made,
20 regardless of location within the state.

21
22 The same trade-off process is utilized with jobs that go over budget.
23 Dollars need to be found in the capital budget reserve that will be
24 traded off against the job overage. The Company has monthly capital
25 budget to actual reports for managers to track budget overages. In
26 addition, the Company's PowerPlant capital budgeting software sends
27 emails of changing importance to users, supervisors, on up to the state
28 president when capital budget jobs go over budget. (Response to OPC
29 Interrogatory 178.)

30
31 The use of the Company's budgeting process to establish rate base and set
32 rates by system is unacceptable. Given the Company's budgeting process, there is

1 absolutely no way the Commission can have any assurance that the capital dollars
2 budgeted for 2007 will be spent for the systems originally intended.

3 **Q. HAS THE COMPANY BEEN ABLE TO PROVIDE SUPPORT FOR ALL**
4 **OF ITS PROJECTED CAPITAL ADDITIONS?**

5 A. No. There are several instances where OPC requested additional supporting
6 documentation for the 2006 construction budget dollars depicted on GPC-3, and
7 the Company was unable to provide any additional supporting documents. Below
8 are some responses to OPC discovery which depict the Company's inability to
9 provide supporting documentation.

10 **Document Request No. 53.** Please refer to Mr. Connolly's Exhibit
11 GPC-3, 2006 Construction Budget – Plant Less CIAC, Carlton
12 Village Water. Please provide source documents, accounting
13 records, and all workpapers and calculations in electronic
14 spreadsheet format with all formulas and links intact, supporting
15 the amount for lines, "Install new water line-add 40 cust" and
16 "New connections."

17 **Response:** AUF has no responsive documents.
18

19 **Document Request No. 55.** Please refer to Mr. Connolly's Exhibit
20 GPC-3, 2006 Construction Budget – Plant Less CIAC, Chuluota
21 Water. Please provide source documents, accounting records, and
22 all workpapers and calculations in electronic spreadsheet format
23 with all formulas and links intact, supporting the amount for the
24 two identical descriptions "Distribution line replacement."

25 **Response:** AUF has no responsive documents.
26

27 **Document Request No. 58.** Please refer to Mr. Connolly's Exhibit
28 GPC-3, 2006 Construction Budget – Plant Less CIAC, Lake
29 Josephine Water, Leisure Lakes Waste Water, and Leisure Lakes
30 Water. Please provide source documents, accounting records, and
31 all workpapers and calculations in electronic spreadsheet format
32 with all formulas and links intact, supporting the amount for the
33 descriptions "Autodialer C/O."

34 **Response:** AUF has no responsive documents.
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Document Request No. 59. Please refer to Mr. Connolly's Exhibit GPC-3, 2006 Construction Budget – Plant Less CIAC, Lake Josephine Water. Please provide source documents, accounting records, and all workpapers and calculations in electronic spreadsheet format with all formulas and links intact, supporting the amount for the two descriptions "Build new plant WTP (started (sic)" and "Build new WTP -- C/O."

Response: AUF has no responsive documents.

Document Request No. 60. Please refer to Mr. Connolly's Exhibit GPC-3, 2006 Construction Budget – Plant Less CIAC, Palm Terrace Waste Water. Please provide source documents, accounting records, and all workpapers and calculations in electronic spreadsheet format with all formulas and links intact, supporting the amount for the two descriptions "516-Eqpt; Rehab WWTP; Palm Terrace" and "Rehab WWTP C/O."

Response: AUF has no responsive documents.

Document Request No. 61. Please refer to Mr. Connolly's Exhibit GPC-3, 2006 Construction Budget – Plant Less CIAC, South Seas Waste Water. Please provide source documents, accounting records, and all workpapers and calculations in electronic spreadsheet format with all formulas and links intact, supporting the amount for the two descriptions "1&1 Hurricane, South Seas" and "1&1 Study and Improvements."

Response: AUF has no responsive documents.

Document Request No. 62. Please refer to Mr. Connolly's Exhibit GPC-3, 2006 Construction Budget – Plant Less CIAC, Tomoka/Twin Rivers Water. Please provide source documents, accounting records, and all workpapers and calculations in electronic spreadsheet format with all formulas and links intact, supporting the amount for the two identical descriptions "Distribution Line Replacement."

Response: AUF has no responsive documents.

Document Request No. 65. Please refer to Mr. Connolly's Exhibit GPC-3, 2006 Construction Budget – Plant Less CIAC, Zephyr Shores Water. Please provide any cost studies, source documents, and all workpapers and calculations in electronic format, supporting the benefit to constructing a new well at Zephyr Shores Water and eliminating the interconnection from Pasco County.

Response: AUF has no responsive documents.

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Document Request No.66. Please refer to Mr. Connolly's Exhibit GPC-3, 2006 Construction Budget – Plant Less CIAC, Administrative Expenditures. Please provide source documents, accounting records, and all workpapers and calculations in electronic spreadsheet format with all formulas and links intact, supporting the amount for Administrative Expenditures.

Response: AUF has no responsive documents.

Document Request No. 67. Please refer to Mr. Connolly's Exhibit GPC-3, 2007 Construction Budget – Plant Less CIAC, Silver Lake/Western Shores Water. Please provide source documents, accounting records, and all workpapers and calculations in electronic spreadsheet format with all formulas and links intact, supporting the amount for the two identical descriptions "Distribution line replacement."

Response: AUF has no responsive documents.

Document Request No. 68. Please refer to Mr. Connolly's Exhibit GPC-3, 2007 Construction Budget – Plant Less CIAC, Silver Lake/Western Shores Water. Please provide source documents, accounting records, and all workpapers and calculations in electronic spreadsheet format with all formulas and links intact, supporting the amount for the two identical descriptions "Electrical Upgrades."

Response: AUF has no responsive documents.

Document Request No. 69. Please refer to Mr. Connolly's Exhibit GPC-3, 2007 Construction Budget – Plant Less CIAC, Silver Lake/Western Shores Water. Please provide source documents, accounting records, and all workpapers and calculations in electronic spreadsheet format with all formulas and links intact, supporting the amount for the two identical descriptions "Meter replacements."

Response: AUF has no responsive documents.

Q. WHAT TYPES OF INFORMATION DO YOU BELIEVE THE COMPANY SHOULD HAVE BEEN ABLE TO PROVIDE IN RESPONSE TO THESE DOCUMENT REQUESTS?

A. The Company should have been able to provide any source documents that would help support the amount of the capital expenditures that it was projecting. This

1 would include such items as budget requisitions, contracts with vendors,
2 payments to vendors, and bids to the extent that vendors had not been selected.

3 **Q. WHAT ABOUT GENERAL PLANT OR ADMINISTRATIVE**
4 **EXPENDITURES? WAS THE COMPANY ABLE TO SUPPORT ITS**
5 **REQUEST FOR \$676,119 FOR 2006 AND \$346,162 FOR 2007 ADDITIONS**
6 **TO GENERAL PLANT?**

7 A. No. OPC requested additional information from the Company with respect to the
8 proposed additions to plant for 2006 in its Interrogatory 74, which was
9 propounded on the Company April 27, 2007. On July 23, 2007, the Company
10 supplied a response to this interrogatory—making the response 56 days overdue.
11 The Company's response indicates that even where it admits that there will be
12 cost savings associated with its administrative capital additions, it failed to
13 quantify or include in the rate case the impacts of these cost savings. The
14 Company's response to this interrogatory was provided at such a late date that it
15 essentially prevented OPC from asking follow-up discovery and getting a
16 response prior to the filing of its testimony.

17 In Document Request 72, OPC asked the Company to provide supporting
18 documentation for its 2007 budgeted expenditures of \$346,162. Specifically,
19 OPC requested: "Please refer to Mr. Connolly's Exhibit GPC-3, 2007
20 Construction Budget – Plant Less CIAC, Administrative Expenditures. Please
21 provide source documents, accounting records, and all workpapers and
22 calculations in electronic spreadsheet format with all formulas and links intact,

1 supporting the amount for Administrative Expenditures.” The Company
2 responded that it had no responsive documents. (Response to OPC POD 72.)

3 Again, I find it quite disturbing that the Company has been unable to
4 provide any information in response to this document request. It could have
5 provided budget requisitions, contracts with vendors, payments to vendors, and
6 bids to the extent that vendors had not been selected. Apparently, such sources of
7 information do not exist. In my opinion, the Company should have been able to
8 provide some form of objective documentation that would be supportive of its
9 request to include \$346,162 of general plant in its 2007 rate base.

10 **Q. WHAT OTHER INFORMATION HAVE YOU REQUESTED THAT WAS**
11 **NOT PROVIDED, OR FOR WHICH UNSATISFACTORY RESPONSES**
12 **WERE PROVIDED, OR THE COMPANY FAILED TO PROVIDE**
13 **TIMELY RESPONSES?**

14 A. In POD 48, OPC requested that the Company provide all documents supporting
15 the pro-forma plant additions/improvements to Plant in Service, including but not
16 limited to: invoices, budgets, signed contracts, bids if the project has not been
17 completed, and any requirements of the DEP for the proposed plant additions.

18 The Company objected to this document request stating:

19 AUF requests clarification of the minimum or threshold dollar
20 amount of plant additions/improvements and time period to which
21 this document request refers. To the extent that this interrogatory
22 refers to or requests information regarding all plant
23 additions/improvements to Plant in Service, without limitation as to a
24 minimum or threshold dollar amount or time period, AUF objects that
25 this document request is overbroad and overly burdensome in that it
26 requires an excessive amount of staff time and effort to research and
27 respond in connection with minor investment amounts and an
28 unlimited time period.

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Subject to discussion with OPC and determination of a minimum or threshold dollar amount and applicable time period, and without waiving the foregoing objection and request for clarification, AUF will provide documents regarding pro-forma additions/improvements for the years 2006 and 2007 that exceed or are estimated to exceed \$20,000 in total project cost. (AUF, Objections to OPC's Second Set of Document Requests.)

OPC and the Company had several conversations on the subject matter of this document request. OPC agreed to a methodology proposed by the Company to select invoices for completed projects.

However, no agreement was reached concerning the other documentation requested, specifically, budgets, signed contracts, bids if the project has not been completed, and any requirements of the DEP for the proposed plant additions. To date, the Company has not provided any documents responsive to the remainder of OPC POD 48.

Concerning the complaint about the tedious nature of providing documentation on items with a value less than \$20,000, it should be pointed out that there are several small systems owned by AUF where a \$20,000 capital addition is a significant increase to rate base.

For example, as shown on Schedule 10 for the Friendly Center water system, the 2006 \$5,233 proposed addition to plant in service represents a 25% increase to plant in service for this system. The proposed 2007 addition of \$15,752 represents an increase to plant in service of over 60%. Similar situations are shown for Harmony Homes, Haines Creek, Jungle Den, JS-Summit Chase, Oakwood, Stone Mountain, Silver Lake Oaks, The Woods, and Wootens. For each of these systems, if the \$20,000 threshold were implemented, documentation

1 would not be provided despite the fact that the capital additions represent a large
2 increase to plant in service.

3 Furthermore, when the Company purchased these small systems, it should
4 have known that the burden associated with presenting a rate case and associated
5 documentation would be important to satisfying its burden of proof.
6 Unfortunately for the customers, the Commission acquiesced to the Company's
7 opinion that capital additions of less than \$20,000 need not be scrutinized, without
8 some form of additional discovery. Specifically, in its Order ruling on OPC's
9 Motion to Compel, the Commission found: "Objection sustained with the
10 understanding that AUF will provide documents regarding pro-forma
11 additions/improvements for the years 2006 and 2007 that exceed or are estimated
12 to exceed \$20,000 in total project cost." (FPSC, Order on Motion to Compel,
13 Order No. PSC-07-0598-PCO-WS, p. 11.)

14 The Company also objected to OPC's Interrogatory 97, which stated:

15 Interrogatory No. 97:

16 97. For each plant addition in the 2006 and 2007 capital budget, please
17 provide the following:

- 18 a. A discussion of the status of the addition.
- 19 b. The original estimated date of completion, the current estimated date
20 of completion, and the actual date of completion if applicable.
- 21 c. The status of the engineering and permitting efforts, if the plant
22 addition has not been through the bidding process.
- 23 d. The actual cost to complete the addition, the amount expended as of
24 April 2007 the addition is not complete, and the current estimate of cost
25 of addition.
- 26 e. A statement if any of the pro forma plant if required by Environmental
27 Protection, and explain why it is required.

28
29 The Company's objection was the same as that claimed in response to POD
30 48, and the Commission sustained the Company's objection finding: "Aqua has
31 agreed to respond to this interrogatory in connection with major capital

1 expenditures estimated to exceed \$20,000 in total project cost. If OPC determines
2 that additional information is required beyond the information it receives by way
3 of AUF's response to this interrogatory, it may serve additional interrogatories, as
4 required. Objection sustained." (FPSC, Order on Motion to Compel, Order No.
5 PSC-07-0598-PCO-WS, p. 6.) Unfortunately, there was no way for OPC to have
6 issued further discovery on items of less than \$20,000 prior to the filing of its
7 testimony.

8 The Company's response to this interrogatory is depicted on Schedule 11.
9 As is shown on this schedule, the vast majority of the 2007 capital projects are
10 less than \$20,000. Therefore, there is no information presented on the status of
11 these projects.

12 For most of the other projects shown, the Company is projecting that the
13 plant additions go into service in the last month of the projected 2007 test year.
14 This raises serious questions as to whether or not these projects will actually be in
15 service as of the end of the projected 2007 test year.

16 **Q. YOU HAVE IDENTIFIED NUMEROUS PROBLEMS WITH THE**
17 **COMPANY'S BUDGETS AND SUPPORT FOR THE CAPITAL**
18 **ADDITIONS PROPOSED TO BE INCLUDED IN RATE BASE FOR THE**
19 **2006 AND 2007 PROJECTED TEST YEARS. DID THE FPSC AUDIT**
20 **STAFF HAVE SIMILAR PROBLEMS?**

21 A. Yes, it did. In its Rate Case Audit of the Company, the Staff identified similar
22 concerns. Specifically, in Audit Finding No. 9, the Commission Audit Staff
23 found:

1 We requested supporting documentation (invoices, etc.) that should
2 include projection basis, any bids, quotes, or invoices used to project,
3 and method used to project. The response to this request did not
4 provide any significant support. A few items had already had money
5 expended and these invoices were provided. But of the \$1,410,100 in
6 projections that were requested, these expenditures were only
7 \$21,204. The remaining items were explained as either a blanket work
8 order based on prior knowledge; engineer estimates based on similar
9 items (with no tangible evidence provided); or work to be done,
10 estimate based on prior work (no copies of prior work or invoices
11 were provided). All invoices indicated replacements. Audit staff
12 recommends that the 2007 projections for plant be disallowed as the
13 company did not provide sufficient support for its projections. (Staff
14 Audit, p. 21.)
15

16 The Audit Staff recommended that the 2007 additions to plant in service
17 be disallowed until the Company provides sufficient support to document its
18 projections.

19 **Q. YOU AND THE STAFF HAVE IDENTIFIED SEVERAL PROBLEMS**
20 **WITH THE COMPANY'S PROJECTED PLANT IN SERVICE. DO YOU**
21 **HAVE A RECOMMENDATION THAT WILL OVERCOME THE**
22 **PROBLEMS YOU HAVE IDENTIFIED?**

23 A. Yes. I recommend that the Commission use the plant in service for 2005. There
24 are serious deficiencies with the Company budgets and responses to discovery,
25 which make use of these budgets to set rate base problematic. Further and
26 substantial analysis, which has essentially been prevented by the Company's late
27 responses to OPC and Staff discovery, is necessary before any additions should be
28 added to plant in service for rate setting purposes. In addition, as explained by Mr.
29 Woodcock, OPC has been unable to verify if the amounts closed to plant in
30 service in 2006 actually exist at the plant sites.

31 **VIII. Recommendations**

1 Q. WHAT ARE THE FINAL RECOMMENDATIONS OF THE OPC?

2 A. As explained elsewhere in this testimony, I recommend that the Commission
3 dismiss the Company's rate request and therefore grant no increase in rates. There
4 are numerous and serious deficiencies in the Company rate filing, its responses to
5 discovery, and its billing and flow records, that would render any decision about
6 the need for rate relief using the data filed in the MFRs erroneous.

7 However, if the Commission does not agree with this recommendation,
8 then the preliminary results of the analyses conducted by the OPC and its
9 consultants indicates that AUF has justified a decrease of at least \$67,975⁵ for the
10 water systems and an increase of no more than \$237,722⁶ for the wastewater
11 systems. Schedules 12 and 13 of the exhibit show the income statement and rate
12 bases that correspond with these recommendations.

13 In addition, Schedule 14 compares the revenue requirement amounts
14 calculated by OPC to that of the allowed interim increase and the proposed
15 permanent increase requested by the Company. As shown on this schedule,
16 OPC's calculations show an increase for all water and wastewater systems of 2%
17 compared to the Company's proposed increase of 94%.

18 Q. DOES THIS COMPLETE YOUR TESTIMONY PREFILED ON AUGUST
19 7, 2007?

20 A. Yes, it does.

⁵ OPC was unable to calculate the revenue increase or decrease for Kings Cove because the links in the Company's electronic MFRs for this system were broken. OPC will present this recommendation in its supplemental filing.

⁶ Ibid.

1 APPENDIX I

2 KIMBERLY H. DISMUKES

3 QUALIFICATIONS

4

5 Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?

6 A. I graduated from Florida State University with a Bachelor of Science degree in
7 Finance in March, 1979. I received an M.B.A. degree with a specialization in
8 Finance from Florida State University in April, 1984.

9 Q. WOULD YOU PLEASE DESCRIBE YOUR EMPLOYMENT HISTORY IN
10 THE FIELD OF PUBLIC UTILITY REGULATION?

11 A. In March of 1979 I joined Ben Johnson Associates, Inc., a consulting firm
12 specializing in the field of public utility regulation. While at Ben Johnson
13 Associates, I held the following positions: Research Analyst from March 1979
14 until May 1980; Senior Research Analyst from June 1980 until May 1981;
15 Research Consultant from June 1981 until May 1983; Senior Research Consultant
16 from June 1983 until May 1985; and Vice President from June 1985 until April
17 1992. In May 1992, I joined the Florida Public Counsel's Office, as a Legislative
18 Analyst III. In July 1994 I was promoted to a Senior Legislative Analyst. In July
19 1995 I started my own consulting practice in the field of public utility regulation.

20 Q. WOULD YOU PLEASE DESCRIBE THE TYPES OF WORK THAT YOU
21 HAVE PERFORMED IN THE FIELD OF PUBLIC UTILITY
22 REGULATION?

1 A. Yes. My duties have ranged from analyzing specific issues in a rate proceeding to
2 managing the work effort of a large staff in rate proceedings. I have prepared
3 testimony, interrogatories and production of documents, assisted with the
4 preparation of cross-examination, and assisted counsel with the preparation of
5 briefs. Since 1979, I have been actively involved in more than 180 regulatory
6 proceedings throughout the United States.

7 I have analyzed cost of capital and rate of return issues, revenue
8 requirement issues, public policy issues, market restructuring issues, and rate
9 design issues, involving telephone, electric, gas, water and wastewater, and
10 railroad companies. I have also examined performance measurements,
11 performance incentive plans, and the prices for unbundled network elements
12 related to telecommunications companies. In addition, I have audited the
13 purchased gas adjustment clauses of three gas companies and the fuel adjustment
14 clause of one electronic company in the State of Louisiana.

15 **Q. WHAT IS YOUR EXPERIENCE CONCERNING COST OF CAPITAL?**

16 A. In the area of cost of capital, I have analyzed the following parent companies:
17 American Electric Power Company, American Telephone and Telegraph
18 Company, American Water Works, Inc., Ameritech, Inc., CMS Energy, Inc.,
19 Columbia Gas System, Inc., Continental Telecom, Inc., GTE Corporation,
20 Northeast Utilities, Pacific Telecom, Inc., Southwestern Bell Corporation, United
21 Telecom, Inc., and U.S. West. I have also analyzed individual companies like
22 Connecticut Natural Gas Corporation, Duke Power Company, Idaho Power

1 Company, Kentucky Utilities Company, Southern New England Telephone
2 Company, and Washington Water Power Company.

3 **Q. HAVE YOU PREVIOUSLY ASSISTED IN THE PREPARATION OF**
4 **TESTIMONY CONCERNING REVENUE REQUIREMENTS?**

5 A. Yes. I have assisted on numerous occasions in the preparation of testimony on a
6 wide range of subjects related to the determination of utilities' revenue
7 requirements and related issues.

8 I have assisted in the preparation of testimony and exhibits concerning the
9 following issues: abandoned project costs, accounting adjustments, affiliate
10 transactions, allowance for funds used during construction, attrition, cash flow
11 analysis, conservation expenses and cost-effectiveness, construction monitoring,
12 construction work in progress, contingent capacity sales, cost allocations,
13 decoupling revenues from profits, cross-subsidization, demand-side management,
14 depreciation methods, divestiture, excess capacity, feasibility studies, financial
15 integrity, financial planning, gains on sales, incentive regulation, infiltration and
16 inflow, jurisdictional allocations, non-utility investments, fuel projections, margin
17 reserve, mergers and acquisitions, pro forma adjustments, projected test years,
18 prudence, tax effects of interest, working capital, off-system sales, reserve margin,
19 royalty fees, separations, settlements, used and useful, weather normalization, and
20 resource planning.

21 Companies that I have analyzed include: Alascom, Inc. (Alaska), Arizona
22 Public Service Company, Arvig Telephone Company, AT&T Communications of

1 the Southwest (Texas), Blue Earth Valley Telephone Company (Minnesota),
2 Bridgewater Telephone Company (Minnesota), Carolina Power and Light
3 Company, Central Maine Power Company, Central Power and Light Company
4 (Texas), Central Telephone Company (Missouri and Nevada), Consumers Power
5 Company (Michigan), C&P Telephone Company of Virginia, Continental
6 Telephone Company (Nevada), C&P Telephone of West Virginia, Connecticut
7 Light and Power Company, Danube Telephone Company (Minnesota), Duke
8 Power Company, East Otter Tail Telephone Company (Minnesota), Easton
9 Telephone Company (Minnesota), Eckles Telephone Company (Minnesota), El
10 Paso Electric Company (Texas), Entergy Corporation, Florida Cities Water
11 Company (North Fort Myers, South Fort Myers and Barefoot Bay Divisions),
12 Florida Power and Light, General Telephone Company (Florida, California, and
13 Nevada), Georgia Power Company, Jasmine Lakes Utilities, Inc. (Florida),
14 Kentucky Power Company, Kentucky Utilities Company, KMP Telephone
15 Company (Minnesota), Idaho Power Company, Louisiana Gas Service Company,
16 Oklahoma Gas and Electric Company (Arkansas), Kansas Gas & Electric
17 Company (Missouri), Kansas Power and Light Company (Missouri), Lehigh
18 Utilities, Inc. (Florida), Mad Hatter Utilities, Inc. (Florida), Mankato Citizens
19 Telephone Company (Minnesota), Michigan Bell Telephone Company, Mid-
20 Communications Telephone Company (Minnesota), Mid-State Telephone
21 Company (Minnesota), Mountain States Telephone and Telegraph Company
22 (Arizona and Utah), Nevada Bell Telephone Company, North Fort Myers

1 Utilities, Inc., Northwestern Bell Telephone Company (Minnesota), Potomac
2 Electric Power Company, Public Service Company of Colorado, Puget Sound
3 Power & Light Company (Washington), Sanlando Utilities Corporation (Florida),
4 Sierra Pacific Power Company (Nevada), South Central Bell Telephone Company
5 (Kentucky), Southern Union Gas Company (Texas), Southern Bell Telephone &
6 Telegraph Company (Florida, Georgia, and North Carolina), Southern States
7 Utilities, Inc. (Florida), Southern Union Gas Company (Texas), Southwestern Bell
8 Telephone Company (Oklahoma, Missouri, and Texas), Sprint, St. George Island
9 Utility, Ltd., Tampa Electric Company, Texas-New Mexico Power Company,
10 Tucson Electric Power Company, Twin Valley-Ulen Telephone Company
11 (Minnesota), United Telephone Company of Florida, Virginia Electric and Power
12 Company, Washington Water Power Company, and Wisconsin Electric Power
13 Company.

14 **Q. WHAT EXPERIENCE DO YOU HAVE IN RATE DESIGN ISSUES?**

15 A. My work in this area has primarily focused on issues related to costing. For
16 example, I have assisted in the preparation of class cost-of-service studies
17 concerning Arkansas Energy Resources, Cascade Natural Gas Corporation, El
18 Paso Electric Company, Potomac Electric Power Company, Texas-New Mexico
19 Power Company, and Southern Union Gas Company. I have also examined the
20 issue of avoided costs, both as it applies to electric utilities and as it applies to
21 telephone utilities. I have also evaluated the issue of service availability fees, reuse

1 rates, capacity charges, and conservation rates as they apply to water and
2 wastewater utilities.

3 **Q. WHAT FUEL AUDITS HAVE YOU CONDUCTED?**

4 A. I have conducted purchased gas adjustment audits of Louisiana Gas Company for
5 the period 1971-2000, CenterPoint Energy Entex for the years 1971 through July
6 2001, and CenterPoint Energy Arkla for the years 1971 through December 2001. I
7 have also audited the fuel adjust clause of Entergy Gulf States, Inc. for the period
8 1995-2004.

9 **Q. HAVE YOU TESTIFIED BEFORE REGULATORY AGENCIES?**

10 A. Yes. I have testified before the Arizona Corporation Commission, the
11 Connecticut Department of Public Utility Control, the Florida Public Service
12 Commission, the Georgia Public Service Commission, Louisiana Public Service
13 Commission, the Missouri Public Service Commission, the Public Utilities
14 Commission of Nevada, the Public Utility Commission of Texas, and the
15 Washington Utilities and Transportation Commission. My testimony dealt with
16 revenue requirement, financial, policy, rate design, fuel, cost study issues
17 unbundled network pricing, and performance measures concerning AT&T
18 Communications of Southwest (Texas), Cascade Natural Gas Corporation
19 (Washington), Central Power and Light Company (Texas), Connecticut Light and
20 Power Company, El Paso Electric Company (Texas), Embarq (Nevada), Florida
21 Cities Water Company, Kansas Gas & Electric Company (Missouri), Kansas
22 Power and Light Company (Missouri), Houston Lighting & Power Company

1 (Texas), Lake Arrowhead Village, Inc. (Florida), Lehigh Utilities, Inc. (Florida),
2 Louisiana Gas Service Company, Jasmine Lakes Utilities Corporation (Florida),
3 Mad Hatter Utilities, Inc. (Florida), Marco Island Utilities, Inc. (Florida),
4 Mountain States Telephone and Telegraph Company (Arizona), Nevada Bell
5 Telephone Company, North Fort Myers Utilities, Inc. (Florida), Southern Bell
6 Telephone and Telegraph Company (Florida, Louisiana and Georgia), Southern
7 States Utilities, Inc. (Florida), Sprint of Nevada, St. George Island Utilities
8 Company, Ltd. (Florida), Puget Sound Power & Light Company (Washington),
9 and Texas Utilities Electric Company.

10 I have also testified before the Public Utility Regulation Board of El Paso,
11 concerning the development of class cost-of-service studies and the recovery and
12 allocation of the corporate overhead costs of Southern Union Gas Company and
13 before the National Association of Securities Dealers concerning the market value
14 of utility bonds purchased in the wholesale market.

15 **Q. HAVE YOU BEEN ACCEPTED AS AN EXPERT IN THESE**
16 **JURISDICTIONS?**

17 A. Yes.

18 **Q. HAVE YOU PUBLISHED ANY ARTICLES IN THE FIELD OF PUBLIC**
19 **UTILITY REGULATION?**

20 A. Yes, I have published two articles: "Affiliate Transactions: What the Rules Don't
21 Say", Public Utilities Fortnightly, August 1, 1994 and "Electric M&A: A
22 Regulator's Guide" Public Utilities Fortnightly, January 1, 1996.