

KEN PRUITT
President of the Senate



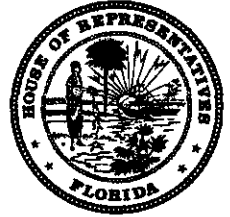
J.R. Kelly
Public Counsel

STATE OF FLORIDA
OFFICE OF PUBLIC COUNSEL

C/O THE FLORIDA LEGISLATURE
111 WEST MADISON ST.
ROOM 812
TALLAHASSEE, FLORIDA 32399-1400
850-488-9330

EMAIL: OPC_WEBSITE@LEG.STATE.FL.US
WWW.FLORIDAOPC.GOV

MARCO RUBIO
Speaker of the House of
Representatives



July 28, 2008

RECEIVED-FPSC
08 JUL 28 AM 9:48
COMMISSION
CLERK

Ms. Ann Cole
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Re: Docket 080121-WS; Request of Aqua Utilities Florida, Inc., for an Interim Rate Increase

Dear Ms. Cole:

I am writing in response to the letter of D. Bruce May dated July 24, 2008, which was sent on behalf of Aqua Utilities Florida, Inc. (Aqua). Like Mr. May, I am requesting permission to address the Commission at its Agenda Conference tomorrow.

The cases cited in Aqua's letter do not address the point that the initial decision to grant an interim rate increase under section 367.082(1), Florida Statutes, is separate from the mechanics of applying section 367.082(2). Section 367.082(1) specifically provides that the Commission *may* authorize the collection of interim rates. By using the word *may*, the legislature evidenced its intent that the Commission has broad discretion to decide whether to authorize interim rates at all. *If* the Commission decides to authorize interim rates, subsection (2) comes into play. Subsection (2) contains a number of provisions using the word *shall* which tell the Commission exactly how to determine the amount to be collected *if* the Commission decides to grant an interim rate increase. If the Commission declines to authorize interim rates under subsection (1) of the statute, it need not address any of the issues set forth in subsection (2). The overall scheme of section 367.082, Florida Statutes, provides the Commission with discretion

COM _____
ECR _____
GCL 4 _____
OPC _____
RCP 1 _____
SSC _____
SGA _____
ADM _____
CLK _____

DOCUMENT NUMBER-DATE

6501 JUL 28 08

FPSC-COMMISSION CLERK

Ms. Ann Cole
July 28, 2008
Page 2

with respect to the initial decision to authorize - or not authorize - the collection of interim rates during a rate case.

The many billing issues raised by customers during the service hearings held earlier this month demonstrate that the billing data underlying the company's filing is so unreliable that it cannot be used to justify an interim rate increase. During these hearings the Commission heard an outcry from numerous customers about wildly incorrect bills they received from Aqua. Repeatedly, the company responded to these complaints by blaming their customers for the company's own billing mistakes. The complaints cover a range of time that includes bills rendered during the calendar year 2007 test year to bills rendered just before the service hearing held in Oviedo.

In Gainesville we heard comments such as these:

"But really what's getting me now is they put in the new automatic meter reading and ever since they did that in May of 2007 my bills have just been going crazy. One month they had me using 53,000 gallons of water..... I've asked for meter tests twice: Once 11/21/07 and then on 6/18/2008. As far as I know, nothing has ever happened" (Transcript of Gainesville service hearing, pages 22-23);

"My meter was changed last April 2007 before the change my water bills were on a roller coaster. They went anywhere from 2,000 gallons a month to 8,000, 9,000 gallons a month. No change in usage. There's only two of us that live there. We do have a washer, we do have a dishwasher and we have cats. They don't drink much water. However, with the change now to the new meter, I average about 3,500 gallons a month." (Transcript of Gainesville service hearing, page 29);

"it took us probably a full eight-hour day from getting off, spending time of our time to talk to these people to try to find out what's the matter, whose bill are we getting" (Transcript of Gainesville service hearing, page 39);

"Here's one for May 5th, 2008, \$161.45 credit. April 4th, \$432.82. I mean, their billing is an absolute nightmare" (Transcript of Gainesville service hearing, page 75).

In Palatka we heard about a Vietnamese family who spent \$3,000 to redo the plumbing in their house because they were told by Aqua that they must have had a leak. As it turned out, the problem was with Aqua's billing. These are some of the comments from customers in Palatka:

"Our second major problem is customer service. During the past year we have had some colossal problems... After new meters were installed in our neighborhood, I personally went through an eight-month period of

DOCUMENT NUMBER DATE

06501 JUL 28 08

FPSC-COMMISSION CLERK

dozens of telephone calls trying to get my own bill straightened out, and others in our community were having similar problems. In my case, the wrong meter number was being used. At one point my wife and I, a two-person household, were billed for 187,500 gallons of water in one month. Month after month I talked to customer service and billing and got nowhere... Customer service personnel in Pennsylvania were generally unsympathetic and poorly informed all during this fiasco. My problem is now solved after eight months, but there are similar problems in our neighborhood today. A Vietnamese family is currently battling with the Aqua accounts today. They have difficulty speaking and understanding English. They were told they had a leak by billing personnel and, probably due to the language problems, ended up spending \$3,000 to replumb their house and run a pipe from the meter into their house because they were billed for 54 -- for 94,000 gallons of water in one month. In other words, they called up and said, "What is going on?" And they were told by customer service personnel up there that "You must have a leak... In another case a resident was billed for 54,000 gallons of water and paid less than \$5. He did not complain. So we're having both extremes in the billing and customer service departments." (Transcript, pages 21-23) and "there's a massive change in training needed for these people to understand. I mean, any one of us, if someone said to you "My wife and I are in a house, we used 187,500 gallons of water in one month and you're charging for it," shouldn't that trigger some sort of a bell or something? Shouldn't somebody think that something is odd here, we better go look at this problem and solve it? Rather than say, which is the comment I got, "Mr. Hoffman, you've either got a leak or you filled your swimming pool." That was the comment I got from customer service. That's just not satisfactory" (Transcript of Palatka service hearing, pages 36-37);

"We got new meters two days ago, two days ago... my next-door neighbor has been in Kentucky since the first of June and she's up to 820 gallons on a new meter in two days. The other neighbor, luckily he turned his meter off, so it's only at 20. Our meter is at 520. I think our meter is probably one that's working.... The meters were put in shoddily. When they came out, the same answer he got, "The meter is fine. You must have a leak," and they left. That's customer service..... I had in July of 2007 a spike of, from, from 92 -- the spike said that I ran around 94,000 gallons of water, just like they said, I had a water leak. I fought and I fought and I gave up because "it must be a water leak." "Our meters are fine. There's nothing wrong with our meters." (Transcript of Palatka service hearing, pages 42-43).

AU	System	Misc. Revenues	Total Billed Rev	Booked Adj'd by AUS	Variance	% Variance	Note	1,000 Gallons (2)	Billed Vs Booked NoteText	Billed		Variance, Billed less		Booked		Misc					
										Rev per MFR	Diff: MFR less AUS	% Diff	per B-4 less AUS	Billed less	%	Misc Chrgs per AUS	Diff: MFR less AUS	% Diff			
6389	Arredondo Farms	10	101,379	102,046	667	0.65%		19,743.8		101,344	(35)	-0.04%	102,046	0	(703)	-0.69%	10	10	0	0.00%	
6439	Beechers Point		17,066	17,203	137	0.80%		1,015.4		17,067	1	0.00%	17,203	(0)	(136)	-0.80%	0	0	0	#DIV/0!	
Adjustment for 122 customers not billed																					
6457	Chuluota	20	522,309	436,466	(85,843)	-19.67%		79,338.0		522,288	(21)	0.00%	436,466	0	85,822	16.43%	20	20	0	0.00%	
6461	FL Central Commerce	20	152,435	150,999	(1,436)	-0.95%		14,114.7		152,413	(22)	-0.01%	150,999	(0)	1,414	0.93%	20	20	0	0.00%	
6412	Holiday Haven		53,513	53,993	480	0.89%		4,707.0		53,513	0	0.00%	53,993	(0)	(479)	-0.90%	0	0	0	#DIV/0!	
6391	Jasmine Lakes		370,682	373,632	2,950	0.79%		90,956.3		370,683	1	0.00%	373,632	0	(2,950)	-0.80%	0	0	0	#DIV/0!	
6468	Jungle Den		45,787	46,179	392	0.85%		2,592.0	Cap not applied in 2007	38,350	(7,437)	-19.39%	46,179	(0)	(7,829)	-20.41%	0	0	0	#DIV/0!	
6395	Kings Cove		73,323	74,077	754	1.02%		30,733.4		73,322	(1)	0.00%	74,077	(0)	(755)	-1.03%	0	0	0	#DIV/0!	
6435	Lake Gibson Estates		97,481	98,681	1,200	1.22%		31,563.7		97,052	(429)	-0.44%	98,681	(0)	(1,629)	-1.68%	0	0	0	#DIV/0!	
6392	Lake Suzy		370,899	374,084	3,185	0.85%		22,769.2		370,901	2	0.00%	374,084	0	(3,183)	-0.86%	0	0	0	#DIV/0!	
6404	Leisure Lakes		68,366	68,774	408	0.59%		6,658.1		68,366	(0)	0.00%	68,774	0	(408)	-0.60%	0	0	0	#DIV/0!	
6415	Morningview		21,561	21,817	256	1.17%		2,231.6		21,561	(0)	0.00%	21,817	(0)	(256)	-1.19%	0	0	0	#DIV/0!	
6445	Palm Port		58,477	58,907	430	0.73%		4,633.9		58,477	0	0.00%	58,907	(0)	(430)	-0.73%	0	0	0	#DIV/0!	
6430	Palm Terrace		381,537	384,667	3,130	0.81%		54,024.7		381,537	(0)	0.00%	384,667	(0)	(3,130)	-0.82%	0	0	0	#DIV/0!	
6443	Park Manor		14,924	15,056	132	0.88%		1,235.4		14,924	(0)	0.00%	15,056	(0)	(132)	-0.88%	0	0	0	#DIV/0!	
6386	Rosalie Oaks	425	27,269	26,909	(360)	-1.34%		1,745.6		26,719	(550)	-2.06%	26,909	(0)	(190)	-0.71%	425	425	0	0.00%	
6449	Silver Lake Oaks		18,699	18,823	124	0.66%		1,663.5		18,699	(0)	0.00%	18,823	0	(124)	-0.66%	0	0	0	#DIV/0!	
Golf Course irrigation was booked in Dec '07 for 426 days																					
6831	South Seas		421,473	446,288	24,795	5.88%	(1)	67,657.4		421,474	1	0.00%	452,894	6,626	(31,420)	-7.45%	0	0	0	#DIV/0!	
6396	Summit Chase		41,772	42,012	240	0.57%		7,255.6		41,772	(0)	0.00%	42,012	(0)	(240)	-0.57%	0	0	0	#DIV/0!	
6472	Sunny Hills		84,629	86,899	2,270	2.61%		6,325.9		84,630	1	0.00%	86,899	(0)	(2,269)	-2.68%	0	0	0	#DIV/0!	
6388	The Woods	513	20,058	20,232	174	0.86%		3,014.0		19,545	(513)	-2.63%	20,232	0	(687)	-3.52%	530	513	17	3.21%	
6424	Valencia Terrace	40	126,600	127,704	1,104	0.86%		23,308.2		126,559	(41)	-0.03%	127,704	(0)	(1,145)	-0.90%	40	40	0	0.00%	
6426	Venetian Village		49,943	49,873	(70)	-0.14%		5,779.2		49,440	(503)	-1.02%	49,873	0	(433)	-0.88%	0	0	0	#DIV/0!	
Revenues booked to Village in error																					
6390	Village Water WW	150	95,185	96,021	836	0.89%	Texas	12,896.2		93,479	(1,686)	-1.80%	156,101	60,080	(62,622)	-66.99%	150	150	0	0.00%	
6432	Zephyr Shores		133,719	134,430	711	0.53%		8,339.3		133,720	1	0.00%	134,430	(0)	(710)	-0.53%	0	0	0	#DIV/0!	
25	Total Wastewater	1,178	3,369,066	3,325,752	(43,314)	-1.30%		504,202		#####	(11,233)		3,392,457	66,705	(34,624)	-1.03%	1,195	1,178	17		

Note: (1) books were adjusted for bill analysis comparison purposes. Golf Course irrigation was booked in December 2007 for 426 days. The Bill analysis only reflects 365 days. Therefore the books were adjusted downwards.

(2) this includes all usage shown on customer bill including billed and usage over caps.
Texas - books were adjusted to deduct revenues booked to Village that belonged to Texas

**BEFORE THE BAY COUNTY UTILITY
REGULATORY AUTHORITY**

**In re: Application of Sandy Creek Utility Services, Inc.,
for an increase in water and wastewater rates
in Bay County, Florida** _____ /

**Docket No. 06 - 003
Order No. 06-003/** _____

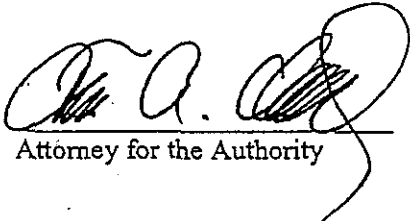
ORDER DENYING INTERIM RATES

BY THE AUTHORITY:

BACKGROUND

Sandy Creek Utility Services, Inc. (the "Utility") is a Class C utility providing service to approximately 224 water and 183 wastewater customers in Bay County. Sandy Creek is a wholly-owned subsidiary of Utilities, Inc. ("UI"), a water and wastewater holding company that has operations in Florida, North Carolina, South Carolina, Georgia, Nevada, Mississippi, Maryland, Louisiana, Arizona, Kentucky, Illinois, Virginia, Pennsylvania, New Jersey, Indiana, and Ohio. On February 28, 2006, Sandy Creek filed with the Bay County Utility Regulatory Authority (the "Authority") its Application for an Increase in Water and Wastewater Rates (the "Application"). On August 24, 2006, the Authority suspended Utility's request for interim and permanent rates. The Authority ordered that a Staff Recommendation concerning interim rates be issued 30 days from the date of its Order. On August 29, 2006, the Staff requested certain information from the Utility to expedite its analysis of the request for interim rates. On September 22, 2006, one working day before Staff's interim recommendation was due, Staff received some of the information requested. The information provided was deemed by Staff to be deficient. Information provided by the Utility is in PDF format and does not show how the calculations in the Utility MFR spreadsheets were performed or if there are other relevant work papers which link to the calculations provided. The information requested by the Staff contains the essence of the Utility's interim and final rate request since it contains the calculations that are used to develop the amount of the requested rate increases. Utility's MFRs consist of 21 schedules that set forth the financial data, rate base, balance sheet, net operating income, expenses, rate case expenses, CIAC balances, cost of capital, annualized revenue, and rates that make up the rate request. Without the information requested, the Staff has been unable to confirm the accuracy of the rate calculations used by the Utility to derive the requested interim and final rate increases.

Reviewed and Approved: _____


Attorney for the Authority

On September 28, 2006, Staff and Utility representatives held a teleconference to discuss getting the additional information needed by Staff to fully analyze the interim and final rates requested by the Utility. Utility representatives stated that the requested information was proprietary and contained trade secrets or other intellectual property of the Utility's consultants. As such, the Utility stated that it was unable to provide the requested information because its consultant was unwilling to provide the information to the Utility. On October 11, 2006, Staff offered to the Utility as a solution to enter into confidentiality agreements to protect and return this proprietary data. Staff felt this would protect the information that was requested and is consistent with practices used by the Florida Public Service Commission. As of the date of this Order, the Utility has been unwilling to produce the requested information even pursuant to a confidentiality agreement.

INTERIM RATE INCREASE

The Utility has requested in its Application that interim water and wastewater rates be approved by the Authority pending the decision on the permanent rates requested. Based on the requirements of the Bay County Ordinance No. 04-33 (the "Ordinance") and Section 367.082, Florida Statutes, the Authority may authorize the collection of interim rates if the Utility demonstrates a prima facie entitlement for interim rate relief. Under Section 367.082, Florida Statutes, the Utility must demonstrate that it is earning outside the range of reasonableness on its rate of return in order to meet this prima facie burden of proof. The Utility has requested interim rates designed to generate annual water revenues of \$135,974.00 and annual wastewater revenues of \$194,822.00¹.

Staff has analyzed that information which has been provided by the Utility to date in support of the requested interim rates. The Authority cannot confirm the method or accuracy of the calculations used by the Utility to establish the requested interim rates since it is unable to get all of the necessary supporting information from the Utility. Under Section 367.082(1), the Authority must be able to confirm that the Utility is earning outside of the range of reasonableness on rate of return when calculated in accordance with Section 367.082(5). Since no such determination can be made by this Authority based on the information the Utility is able to provide, the Utility has failed to meet its prima facie burden to demonstrate that it is eligible for interim rates under Section 367.082, Florida Statutes and the Ordinance.

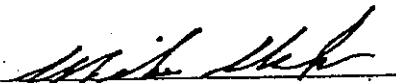
Based on the foregoing, it is

ORDERED by the Bay County Utility Regulatory Authority that the request for an interim rate increase for water and wastewater rates by Sandy Creek Utility Services, Inc. is hereby denied. It is further

¹ The utility requested final rates designed to generate annual water revenues of \$190,466, an increase of \$132,299 or 227% and annual wastewater revenues of \$249,420, an increase of \$164,870 or 195%.

ORDERED that this docket shall remain open pending our final action on the Utility's requested final rate increase.

BY ORDER of the Bay County Utility Regulatory Authority this 17th day of October, 2006.

By: 

Title: Chairman

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

ATTACHMENT 3

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

ATTACHMENT 3

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?**

ATTACHMENT 3

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:

ATTACHMENT 3

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:

ATTACHMENT 3

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.

ATTACHMENT 3

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/Folder)

ATTACHMENT 3

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.)

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33

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.

ATTACHMENT 3

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?**

ATTACHMENT 3

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:

ATTACHMENT 3

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.

ATTACHMENT 3

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

ATTACHMENT 3

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

ATTACHMENT 3

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

ATTACHMENT 3

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

ATTACHMENT 3

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

ATTACHMENT 3

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%.

ATTACHMENT 3

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

ATTACHMENT 3

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:

ATTACHMENT 3

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.

ATTACHMENT 3

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39

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

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

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

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

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

ATTACHMENT 3

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 in the instant rate proceeding, but this nevertheless demonstrates the pervasive nature of the billing problems.

³ Ibid.

ATTACHMENT 3

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

ATTACHMENT 3

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.