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REPLY TO CENTRAL FLORIDA OFFICE

August 1, 2008

HAND DELIVERY

MARTIN S. FRIEDMAN, P.A.
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CHRISTIAN W. MARCELO OF COUNSEL
(LICENSED IN NEW YORK ONLY)

RECEIVED-FPSC
AUG 1 AM 11:25
COMMISSION CLERK

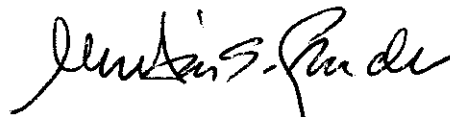
Ann Cole, Commission Clerk
Office of Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399

RE: Docket No.: 080006-WS; In re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081 (4)(f), F.S.
Our File No.: 30057.161

Dear Ms. Cole:

Enclosed for filing in the above-referenced docket on behalf of Utilities, Inc., is an original and fifteen (15) copies of the Prefiled Direct Testimony of Pauline M. Ahern.

Very truly yours,



MARTIN S. FRIEDMAN
For the Firm

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

MSF/mp
Enclosures

cc: Jean Hartman, Esquire, Office General Counsel (w/enclosure)
J. R. Kelly, Esquire, Office of Public Counsel (w/enclosure)
John P. Hoy, Chief Regulatory Officer (w/enclosure)
Rick Durham, Regional Vice President for Operations (w/enclosure)
Patrick C. Flynn, Regional Director (w/enclosure)
John D. Stover, Esquire, General Counsel (w/enclosure)
John D. Williams, Director of Governmental Affairs (w/enclosure)

DOCUMENT NUMBER-DATE
06754 AUG-1-08
FPSC-COMMISSION CLERK

BEFORE THE PUBLIC SERVICE COMMISSION

In re: Water and Wastewater Industry)
Annual Reestablishment of Authorized)
Range of Return on Common Equity for)
Water and Wastewater Utilities pursuant)
to Section 367.081 (4)(f), F.S.)
_____)


Docket No.: 080006-WS

NOTICE OF FILING PREFILED DIRECT TESTIMONY

UTILITIES, INC., by and through its undersigned counsel, hereby gives notice of filing
in the above-referenced docket the Prefiled Direct Testimony of Pauline M. Ahern.

Respectfully submitted this 1st day of
August, 2008, by:

Rose, Sundstrom & Bentley, LLP
2180 W. State Road 434, Suite 2118
Longwood, FL 32779
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BY: 

MARTIN S. FRIEDMAN
For the Firm

DOCUMENT NUMBER-DATE

06754 AUG-18

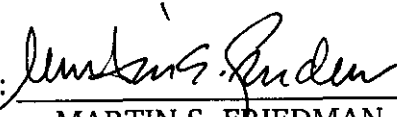
FPSC-COMMISSION CLERK

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by U. S. Mail this 1st day of August, 2008, to:

Jean Hartman, Esquire
Office of General Counsel
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399

Charles Beck, Esquire
Office of Public Counsel
c/o The Florida Legislature
111 W. Madison Street, Room 812
Tallahassee, FL 32399-5458

BY: 

MARTIN S. FRIEDMAN
For the Firm

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 080006-WS
UTILITIES, INC.
DIRECT TESTIMONY OF
PAULINE M. AHERN
REGARDING WATER AND WASTEWATER INDUSTRY
ANNUAL REESTABLISHMENT OF AUTHORIZED RATE OF
RETURN ON COMMON EQUITY FOR WATER AND WASTEWATER
UTILITIES PURSUANT TO SECTION 367.081(4)(f), F.S.

DOCUMENT NUMBER-DATE

06754 AUG-18

FPSC-COMMISSION CLERK

1 **DIRECT TESTIMONY OF PAULINE M. AHERN, CRRA**

2 **Q. Please state your name, occupation and business address.**

3 **A.** My name is Pauline M. Ahern and I am a Principal of AUS Consultants. My business
4 address is 155 Gaither Drive, Suite A, Mt. Laurel, New Jersey 08054.

5 **Q. Please summarize your educational background and professional experience.**

6 **A.** I am a graduate of Clark University, Worcester, MA, where I received a Bachelor of
7 Arts degree with honors in Economics in 1973. In 1991, I received a Master of Business
8 Administration with high honors from Rutgers University.

9 In June 1988, I joined AUS Consultants as a Financial Analyst and am now a
10 Principal. I am responsible for the preparation of all fair rate of return and capital
11 structure exhibits for AUS Consultants. I have offered expert testimony on behalf of
12 investor-owned utilities before twenty-four state regulatory commissions. The details
13 of these appearances, as well as details of my educational background, are shown in
14 Appendix A supplementing this testimony.

15 I also calculate and maintain the A.G.A. Index under contract with the American
16 Gas Association (A.G.A.). The A.G.A. Index is a market capitalization weighted index
17 of the common stocks of about 70 corporate members of the A.G.A.

18 I have co-authored an article with Frank J. Hanley, a Principal & Director of
19 AUS Consultants entitled "Comparable Earnings: New Life for an Old Precept" which
20 was published in the American Gas Association's Financial Quarterly Review, Summer
21 1994. I also assisted in the preparation of an article authored by Frank J. Hanley and A.
22 Gerald Harris entitled "Does Diversification Increase the Cost of Equity Capital?"
23 published in the July 15, 1991 issue of Public Utilities Fortnightly.

DOCUMENT NUMBER-DATE:

1 06754 AUG-1 g

FPSC-COMMISSION CLERK

1 I am a member of the Society of Utility and Regulatory Financial Analysts
2 (formerly the National Society of Rate of Return Analysts) serving as President for
3 2006-2008 and Secretary/Treasurer for 2004-2006. In 1992, I was awarded the
4 professional designation "Certified Rate of Return Analyst" (CRRRA) by the National
5 Society of Rate of Return Analysts. This designation is based upon education,
6 experience and the successful completion of a comprehensive written examination.

7 I am an associate member of the National Association of Water Companies,
8 serving on its Finance Committee, a member of the Energy Association of
9 Pennsylvania, formerly the Pennsylvania Gas Association, and a member of the
10 American Finance and Financial Management Associations.

11 The details of my educational background and professional experience are
12 shown in Exhibit (PMA-1) ___ supplementing this testimony.

13 **Q. What is the purpose of your testimony?**

14 **A.** The purpose is to provide testimony on behalf of Utilities, Inc. (UI or the Company)
15 regarding the Commission's reestablishment of authorized rate of return on common
16 equity for water and wastewater utilities.

17 **Q. Do you have any general comments regarding the proposed leverage formula?**

18 **A.** Yes, based upon my experience as an expert witness on rate of return in numerous rate
19 proceedings (see Exhibit (PMA-1)___) and current capital market conditions, it is my
20 opinion that the results of leverage formula are reasonable for establishing a return on
21 equity for water and wastewater utilities in Florida. This is the same formula that this
22 Commission approved to establish the return on equity for Utilities, Inc. of Florida, in
23 Order No. PSC-03-1440-FOF-WS, issued December 22, 2003. In that proceeding, in

1 which I testified on behalf of Utilities, Inc. of Florida, the Public Counsel had
2 challenged the application of the leverage formula to Utilities, Inc. of Florida. After
3 considering the testimony of myself and a witness of Public Counsel, this Commission
4 concluded that the formula was applicable to establish the rate of return for Utilities,
5 Inc. of Florida.

6 **Q. Do you have any further comments at this time?**

7 **A.** Yes, I understand that the Public Counsel has made a challenge to the proposed
8 leverage formula, but as of now I am unaware of the exact basis for challenge. Thus, I
9 will address the basis of Public Counsel challenge in further testimony rather than to try
10 to anticipate its positions at this time.

11 **Q. Does this conclude your direct testimony?**

12 **A.** Yes, it does.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 080006-WS

UTILITIES, INC.

EXHIBIT

TO ACCOMPANY THE

DIRECT TESTIMONY OF

PAULINE M. AHERN

REGARDING WATER AND WASTEWATER INDUSTRY

ANNUAL REESTABLISHMENT OF AUTHORIZED RATE OF

RETURN ON COMMON EQUITY FOR WATER AND WASTEWATER

UTILITIES PURSUANT TO SECTION 367.081(4)(f), F.S.

**PROFESSIONAL QUALIFICATIONS
OF
PAULINE M. AHERN, CRRA
PRINCIPAL
AUS CONSULTANTS**

PROFESSIONAL EXPERIENCE

1996-2006

As a Principal (Vice President – 1996-2006), I offer testimony as an expert witness on the subjects of fair rate of return and cost of capital before state public utility commissions. I provide assistance and support to clients throughout the entire ratemaking litigation process.

1994-1996

As an Assistant Vice President, I prepared fair rate of return and cost of capital exhibits which are filed along with expert testimony before various state and federal public utility regulatory bodies. These supporting exhibits include the determination of an appropriate ratemaking capital structure and the development of embedded cost rates of senior capital. The exhibits also support the determination of a recommended return on common equity through the use of various market models, such as, but not limited to, Discounted Cash Flow analysis, Capital Asset Pricing Model and Risk Premium Methodology, as well as an assessment of the risk characteristics of the client utility. I also assisted in the preparation of responses to any interrogatories received regarding such testimonies filed on behalf of client utilities. Following the filing of fair rate of return testimonies, I assisted in the evaluation of opposition testimony in order to prepare interrogatory questions, areas of cross-examination, and rebuttal testimony. I also evaluated and assisted in the preparation of briefs and exceptions following the hearing process. I have submitted testimony before state public utility commissions regarding appropriate capital structure ratios and fixed capital cost rates.

1990-1994

As a Senior Financial Analyst, I supervised two analysts in the preparation of fair rate of return and cost of capital exhibits which are filed along with expert testimony before various state and federal public utility regulatory bodies. The team also assisted in the preparation of interrogatory responses.

I evaluated the final orders and decisions of various commissions to determine whether further actions are warranted and to gain insight which may assist in the preparation of future rate of return studies.

I assisted in the preparation of an article authored by Frank J. Hanley and A. Gerald Harris entitled "Does Diversification Increase the Cost of Equity Capital?" published in the July 15, 1991 issue of Public Utilities Fortnightly.

I co-authored an article with Frank J. Hanley entitled "Comparable Earnings: New Life for an Old Precept" which was published in the American Gas Association's Financial Quarterly Review, Summer 1994.

I was awarded the professional designation "Certified Rate of Return Analyst" (CRRA) by the National Society of Rate of Return Analysts (now the Society of Utility and Regulatory Financial Analysts (SURFA)). This designation is based upon education, experience and the successful completion of a comprehensive examination.

As Administrator of Financial Analysis for AUS Utility Reports, which reports financial data for over 200 utility companies and has approximately 1,000 subscribers, I oversee the preparation of this monthly publication, as well as the annual publication, Financial Statistics - Public Utilities.

1988-1990

As a Financial Analyst, I assisted in the preparation of fair rate of return studies including capital structure determination, development of senior capital cost rates, as well as the determination of an appropriate rate of return on equity. I also assisted in the preparation of interrogatory responses, interrogatory questions of the opposition, areas of cross-examination and rebuttal testimony. I also assisted in the preparation of the annual publication C. A. Turner Utility Reports - Financial Statistics - Public Utilities.

1973-1975

As a research assistant in the Research Department of the Regional Economics Division of the Federal Reserve Bank of Boston, I was involved in the development and maintenance of econometric models to simulate regional economic conditions in New England in order to study the effects of, among other things, the energy crisis of the early 1970's and property tax revaluations on the economy of New England. I was also involved in the statistical analysis and preparation of articles for the New England Economic Review. Also, I acted as assistant editor for New England Business Indicators.

1972

As a research assistant in the Office of the Assistant Secretary for International Affairs, U.S. Treasury Department, Washington, D.C., I developed and maintained econometric models which simulated the economy of the United States in order to study the results of various alternate foreign trade policies so that national trade policy could be formulated and recommended.

I am also a member of the Society of Utility and Regulatory Financial Analysts (formerly the National Society of Rate of Return Analysts).

Clients Served

I have offered expert testimony before the following commissions:

Arkansas	Maryland
California	Michigan
Connecticut	Missouri
Delaware	Nevada
Florida	New Jersey
Hawaii	New York
Idaho	North Carolina
Illinois	Ohio
Indiana	Pennsylvania
Kentucky	South Carolina
Louisiana	Virginia
Maine	Washington

I have sponsored testimony on the rate of return and capital structure effects of merger and acquisition issues for:

California-American Water Company

New Jersey-American Water Company

I have sponsored testimony on fair rate of return and related issues for:

Alpena Power Company	Pinelands Waste Water Company
Aqua Illinois, Inc.	Pittsburgh Thermal
Aqua New Jersey, Inc.	Southland Utilities, Inc.
Aqua Virginia, Inc.	Spring Creek Utilities, Inc.
Artesian Water Company	Sussex Shores Water Company
Audubon Water Company	Tega Cay Water Service, Inc.
The Borough of Hanover, PA	Total Environmental Services, Inc. –
The Atlantic City Sewerage Company	Treasure Lake Water & Sewer Divisions
Carolina Pines Utilities, Inc.	Thames Water Americas
Carolina Water Service, Inc. of NC	Tidewater Utilities, Inc.
Carolina Water Service, Inc. of SC	Transylvania Utilities, Inc.
Consumers Illinois Water Company	Twin Lakes Utilities, Inc.
Consumers Maine Water Company	United Utility Companies
Consumers New Jersey Water Company	United Water Arkansas, Inc.
City of DuBois, Pennsylvania	United Water Connecticut, Inc.
Elizabethtown Water Company	United Water Delaware, Inc.
Emporium Water Company	United Water Idaho, Inc.
GTE Hawaiian Telephone Inc.	United Water Indiana, Inc.
Greenridge Utilities, Inc.	United Water New Jersey, Inc.
Illinois American Water Company	United Water New Rochelle, Inc.
Iowa American Water Company	United Water New York, Inc.
Land'Or Utility Company	United Water Owego / Nichols, Inc.
Long Neck Water Company	United Water Pennsylvania, Inc.
Louisiana Water Service, Inc.	United Water Virginia, Inc.
Massanutten Public Service Company	United Water West Lafayette, Inc.
Middlesex Water Company	Utilities Inc. of Central Nevada
Missouri-American Water Company	Utilities, Inc. of Florida
Mt. Holly Water Company	Utilities Services of South Carolina
Nero Utility Services, Inc.	Utility Center, Inc.
New Jersey-American Water Company	Valley Energy, Inc.
NRG Energy Center Pittsburgh LLC	Water Service Corp. of Kentucky
NRG Energy Center Harrisburg LLC	Wellsboro Electric Company
Ohio-American Water Company	Western Utilities, Inc.
Penn Estates Utilities	

I have sponsored testimony on capital structure and senior capital cost rates for the following clients:

Alpena Power Company	PG Energy Inc.
Arkansas-Western Gas Company	United Water Delaware, Inc.
Associated Natural Gas Company	Washington Natural Gas Company

I have assisted in the preparation of rate of return studies on behalf of the following clients:

Algonquin Gas Transmission Company	Commonwealth Telephone Company
Anadarko Petroleum Corporation	Conestoga Telephone & Telegraph Co.
Arkansas-Louisiana Gas Company	Connecticut Natural Gas Corporation
Arkansas Western Gas Company	Consolidated Gas Transmission Company
Artesian Water Company	Consumers Power Company
Associated Natural Gas Company	CWS Systems, Inc.
Atlantic City Electric Company	Delmarva Power & Light Company
Bridgeport-Hydraulic Company	East Honolulu Community Services, Inc.
Cambridge Electric Light Company	Equitable Gas Company
Carolina Power & Light Company	Equitrans, Inc.
Citizens Gas and Coke Utility	Florida Power & Light Company
City of Vernon, CA	Gary Hobart Water Company
Columbia Gas/Gulf Transmission Cos.	Gasco, Inc.
Commonwealth Electric Company	GTE Arkansas, Inc.

Rate of Return Study Clients (Continued)

GTE California, Inc.	Paiute Pipeline Company
GTE Florida, Inc.	PECO Energy Company
GTE Hawaiian Telephone	Penn-York Energy Corporation
GTE North, Inc.	Pennsylvania-American Water Co.
GTE Northwest, Inc.	PG Energy Inc.
GTE Southwest, Inc.	Philadelphia Electric Company
Great Lakes Gas Transmission L.P.	Providence Gas Company
Hawaiian Electric Company	South Carolina Pipeline Company
Hawaiian Electric Light Company	Southwest Gas Corporation
IES Utilities Inc.	Stamford Water Company
Illinois Power Company	Tesoro Alaska Petroleum Company
Interstate Power Company	Tesoro Refining & Marketing Co.
Interstate Power & Light Co.	United Telephone of New Jersey
Iowa Electric Light and Power Company	United Utility Companies
Iowa Southern Utilities Company	United Water Arkansas, Inc.
Kentucky-West Virginia Gas Company	United Water Delaware, Inc.
Lockhart Power Company	United Water Idaho, Inc.
Middlesex Water Company	United Water Indiana, Inc.
Milwaukee Metropolitan Sewer District	United Water New Jersey, Inc.
Mountaineer Gas Company	United Water New York, Inc.
National Fuel Gas Distribution Corp.	United Water Pennsylvania, Inc.
National Fuel Gas Supply Corp.	United Water Virginia, Inc.
Newco Waste Systems of NJ, Inc.	United Water West Lafayette, Inc.
New Jersey Natural Gas Company	Vista-United Telecommunications Corp.
New Jersey-American Water Company	Washington Gas Light Company
New York-American Water Company	Washington Natural Gas Company
North Carolina Natural Gas Corp.	Washington Water Power Corporation
Northumbrian Water Company	Waste Management of New Jersey – Transfer Station A
Ohio-American Water Company	Wellsboro Electric Company
Oklahoma Natural Gas Company	Western Reserve Telephone Company
Orange and Rockland Utilities	Western Utilities, Inc.
	Wisconsin Power and Light Company

EDUCATION:

1973 – Clark University – B.A. – Honors in Economics
 1991 – Rutgers University – M.B.A. – High Honors

PROFESSIONAL AFFILIATIONS:

American Finance Association
 Financial Management Association
 Society of Utility and Regulatory Financial Analysts
 President – 2008-2010
 Secretary/Treasurer – 2004-2006
 Energy Association of Pennsylvania
 National Association of Water Companies – Member of the Finance Committee

SPEAKING ENGAGEMENT:

AWWA Pre-Conference Workshop – Water Utility Ratemaking – March 25, 2008, Atlantic City, NJ
 Topic: “Water Utility Financing” Where Does All That Cash Come From?”