

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

DOCKET NO. 100330-WS

COMMISSION
CLERK

DATED: October 31, 2011

COMMISSION STAFF'S PREHEARING STATEMENT

Pursuant to Order No. PSC-11-0384-PCO-WS, filed September 13, 2011, the Staff of the Florida Public Service Commission files its Prehearing Statement.

a. All Known Witnesses

<u>Witness</u>	<u>Subject</u>	<u>Issues</u>
Angela Chelette	AUF's compliance with the Northwest Florida Water Management District (WMD) for the Sunny Hills water system, which was in compliance in 2009 - 2011.	1
Jay W. Yingling	AUF's compliance with the Southwest Florida WMD for water systems in Desoto, Highlands, Pasco, and Polk Counties, which were in compliance in 2009 - 2011.	1
Catherine A. Walker	AUF's compliance with the St. Johns River WMD for water systems in Alachua, Brevard, Lake, Marion, Orange, Putnam, Seminole, and Volusia Counties, which includes a closed April 2010 Consent Order for the Twin Rivers and Tomoka View systems for withdrawing water from a well exceeding Consumptive Use Permit (CUP) thresholds without the requisite CUP.	1

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<u>Witness</u>	<u>Subject</u>	<u>Issues</u>
Stephanie Daugherty	AUF's compliance with the Lake County Health Department for the Stone Mountain water system, which is in compliance.	1
Scott Harrison	AUF's compliance status with the Palm Beach County Health Department for the Lake Osborne Estates water system, which includes a closed non-compliance letter for 2010 and two boil water notices in 2010 and 2011.	1
Diane Loughlin	AUF's compliance status with DEP for Highlands County for the Leisure Lakes Utilities wastewater system, which includes a closed warning letter in 2010.	1
Ryan Schwarb	AUF's compliance status with DEP for the Highlands County water systems, including Lake Josephine Heights, Sebring Lakes, and Leisure Lakes, which are in compliance.	1
Richard Lott	AUF's construction permit status with DEP for systems in Brevard, Indian River, Lake, Marion, Orange, Osceola, and Seminole Counties.	1
Benjamin L. Piltz	AUF's compliance status with DEP for Putnam County, including the Beechers Point, Hermit's Cove, Palm Port, Pomona Park, River Grove, Saratoga Harbor, Welaka Mobile Home Park, and Wootens water systems, which includes a closed 2009 Consent Order for River Grove (water), minor deficiencies for other systems, and a precautionary boil water notice list.	1

<u>Witness</u>	<u>Subject</u>	<u>Issues</u>
Patricia Carrico	AUF's compliance with the Volusia County Health Department, including the Tomoka View, Twin River, and Jungle Den water systems, which includes closed warning letters, closed Consent Orders, and boil water notices.	1
Tom Rauth	AUF's compliance with DEP for wastewater systems in Alachua and Putnam Counties, including Arredondo Farms, Palm Port, Park Manor, and Silver Lake Oaks, which includes a closed 2010 Consent Order for Arredondo Farms.	1
Caitlyn Eck	AUF's compliance with DEP for wastewater systems in Lee County, including South Seas, which includes a pending Short Form Consent Order to settle on penalties.	1
Gary P. Miller	AUF's compliance with DEP for wastewater systems in Lake, Seminole, and Volusia Counties, including Fairways at Mt. Plymouth, Holiday Haven, Kings Cove, Morningview, Summit Chase, Valencia Terrace, Venetian Village, Chuluota, Florida Central Commerce Park, and Jungle Den, which includes effluent disposal issues for Chuluota, and an outstanding November 5, 2010 noncompliance letter for Jungle Den, and a closed Consent Order for Fairways at Mt. Plymouth.	1

<u>Witness</u>	<u>Subject</u>	<u>Issues</u>
Ginny Marie Montoya	AUF's compliance with DEP for water systems in Putnam County (West), including Silver Lake Oaks and Interlachen Lake Estates, which includes closed Consent Orders for Silver Lake Oaks and an outstanding August 9, 2011 warning letter for Interlachen Lake Estates.	1
Josie Penton	AUF's compliance with DEP for water and wastewater systems in Washington County, including Sunny Hills, which includes an open Consent Order for water, a closed non-compliance letter for water, and a precautionary boil water notice list.	1
Daniela Sloan	AUF's compliance with the Polk County Health Department for water systems, including Breeze Hill, Lake Gibson Estates, Gibsonia Estates, Orange Hill/Sugar Creek, Rosalie Oaks, and Village Water, which includes warning notices for Gibsonia Estates, Orange Hill/Sugar Creek, and Rosalie Oaks, and other minor deficiencies for other systems, and a precautionary boil water notice list.	1

<u>Witness</u>	<u>Subject</u>	<u>Issues</u>
Kimberly Dodson	AUF's compliance with DEP for water systems in Brevard, Lake, Marion, Orange, and Seminole Counties, including Kingswood, Oakwood, 48 Estates, Carlton Village, East Lake Harris, Fairways at Mt. Plymouth, Fern Terrace, Friendly Center, Grand Terrace, Haines Creek, Hobby Hills, Holiday Haven, Imperial Terrace, Kings Cove, Morningview, Palms MHP, Picciola Island, Piney Woods/Spring Lake, Quail Ridge, Ravenswood, Silver Lake Estates, Skycrest, Summit Chase, Valencia Terrace, Venetian Village, Western Shores, 49 th Street, Belleair, Belleview Hills Estates, Belleview Hills, Chappell Hills, Fairfax Hills, Hawks Point, Marion Hills, Ocala Oaks, West View, Woodberry Forest, Tangerine, Chuluota, Harmony Homes, which includes closed enforcement action for Chuluota, and other minor deficiencies, and a precautionary boil water notice list.	1

<u>Witness</u>	<u>Subject</u>	<u>Issues</u>
Jeffrey S. Greenwell	AUF's compliance with DEP for water and wastewater systems in Desoto, Hardee, Marion, Pasco, Polk, and Sumter, including Lake Suzy, Peace River, Ridge Meadow, Jasmine Lakes, Palm Terrace, Zephyr Shores, Breeze Hill, Gibsonia Estates, Lake Gibson, Orange Hill/Sugar Creek, Rosalie Oaks, Village Water, and the Woods, which includes open Consent Orders for Peace River (water) and Village Water (wastewater), outstanding warning letters for Jasmine Lakes (wastewater) and Palm Terrace (wastewater), other closed Consent Orders for Peace River (water) and Zephyr Shores (water), deficiencies for Jasmine Lakes (water), and a precautionary boil water notice list.	1
Blanca Rodriguez	AUF's compliance with DEP for water systems in Alachua County, including Arredondo Farms and Arredondo Estates with no enforcement or compliance activity, and precautionary boil water notice comments.	1
Rhonda L. Hicks	Complaints filed against AUF with the Commission from January 1, 2009 through September 30, 2011.	1
Kathy L. Welch	Describes AAI's methodology for allocating corporate costs and other affiliate costs to AUF and describing Commission staff's audit review of the transactions between AUF and its affiliates.	16
Paul W. Stallcup	Test year revenues and billing determinants; calculation of rate cap thresholds; and affordability of rates.	14, 24, 26

b. All Known Exhibits

<u>Witness</u>	<u>Exhibit</u>	<u>Title</u>
Jay W. Yingling	JWY-1	Water Use Permit Table for AUF Systems in DeSoto, Highlands, Pasco and Polk County
Catherine A. Walker	CAW-1	Compliance Status of each AUF water system in St. Johns River Water Management District
Catherine A. Walker	CAW-2	April 2010 CUP General Consent Order No. 935441
Gary P. Miller	GM-1	Jungle Den November 5, 2010 Noncompliance Letter
Ginny Marie Montoya	GMM-1	Interlachen Lake Estates August 9, 2011 Warning Letter
Josie Penton	JP-1	Sunny Hills December 2010 Consent Order
Josie Penton	JP-2	Precautionary Boil Water Notices (PBWNs) for Sunny Hills Utilities
Daniela Sloan	DS-1	Orange Hill - Sugar Creek; Rosalie Oaks; and Gibsonia Estates Warning Notices
Daniela Sloan	DS-2	List of 23 Boil Water Notices for Six Systems
Kimberly Dodson	KD-1	PBWNs for 40 Systems From 2009 Forward
Jeffry S. Greenwell	JSG-1	Peace River Heights June 2010 Consent Order
Jeffry S. Greenwell	JSG-2	Jasmine Lakes June 2011 Warning Letter
Jeffry S. Greenwell	JSG-3	Village Water August 2007 Consent Order With the Second and Third Amendments
Rhonda L. Hicks	RLH-1	Summary Listing of 2009 Complaints Filed With the Commission
Rhonda L. Hicks	RLH-2	Summary Listing of 2010 Complaints Filed With the Commission

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<u>Witness</u>	<u>Exhibit</u>	<u>Title</u>
Rhonda L. Hicks	RLH-3	Summary Listing of 2011 Complaints Filed With the Commission (Thru 9/30/11)
Rhonda L. Hicks	RLH-4	Listing of Complaint Close-Out Codes
Kathy L. Welch	KLW-1	History of Testimony
Kathy L. Welch	KLW-2	Affiliated Transactions Audit Report
Kathy L. Welch	KLW-3	Summary of Aqua Corporate Allocations by Rate Band
Kathy L. Welch	KLW-4	Audit Workpaper 48-4 (Detail of Aqua Corporate Charges by Rate Band)
Kathy L. Welch	KLW-5	Volume 5 of 5 of the AUF Affiliate Audit No. 10-181-4-1 (Confidential)

c. Staff's Statement of Basic Position

Staff's positions are preliminary and based on materials filed by the parties and on discovery. The preliminary positions are offered to assist the parties in preparing for the hearing. Staff's final positions will be based upon all the evidence in the record and may differ from the preliminary positions stated herein.

d. Staff's Position on the Issues

QUALITY OF SERVICE

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

POSITION: No position pending further development of the record.

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

POSITION: No position pending further development of the record.

RATE BASE

ISSUE 3: What is the appropriate amount of pro forma plant, and related depreciation and property taxes, for the following specific protested pro forma plant projects; Breeze Hill Wastewater I&I Project, Lake Josephine and Sebring Lakes AdEdge

Water Treatment Project; Leisure Lakes AdEdge Water Treatment Project; Peace River Water Treatment Project; Tomoka View; Twin Rivers Water Treatment Plant Tank Lining Project; Sunny Hills Water System Water Tank Replacement Project?

POSITION: For non-testifying Staff, the following table reflects staff's recommended plant amounts for AUF's protested pro forma plant projects.

<u>System</u>	<u>System or Rate Band</u>	<u>Project</u>	<u>MFR Amount</u>	<u>Supported Amount</u>	<u>Plant Adjustments</u>
Breeze Hill	Breeze Hill	Wastewater I&I	\$100,000	\$78,165	(\$21,835)
Lake Josephine & Sebring Lakes	Water 4	AdEdge Water Treatment	300,000	309,139	9,139
Leisure Lakes	Water 4	AdEdge Water Treatment	150,000	102,909	(47,091)
Peace River	Peace River	Water Treatment	50,000	15,216	(34,784)
Tomoka Twin Rivers	Water 4	Tank Lining	70,000	48,066	(21,934)
Sunny Hills	Water 2	Tank Replacement	120,000	36,809	(83,191)
Total			<u>\$790,000</u>	<u>\$509,304</u>	<u>(\$199,697)</u>

In addition, for non-testifying Staff, the following table reflects staff's corresponding adjustments to accumulated depreciation, depreciation expense, and property taxes.

<u>System</u>	<u>System or Rate Band</u>	<u>Project</u>	<u>Accum. Depr.</u>	<u>Depr. Exp.</u>	<u>Prop. Tax</u>
Breeze Hill	Breeze Hill	Wastewater I&I	(\$4,455)	(\$268)	(\$2,144)
Lake Josephine & Sebring Lakes	Water 4	AdEdge Water Treatment	(27,702)	402	(5,428)
Leisure Lakes	Water 4	AdEdge Water Treatment	(11,503)	(2,147)	(3,503)
Peace River	Peace River	Water Treatment	(2,710)	(1,583)	(1,429)
Tomoka Twin Rivers	Water 4	Tank Lining	(3,925)	(79)	(1,273)
Sunny Hills	Water 2	Tank Replacement	(4,352)	(2,512)	(1,692)
Total			<u>(\$54,646)</u>	<u>(\$6,188)</u>	<u>(\$15,468)</u>

ISSUE 4: What are the appropriate used and useful percentages and the associated composite used and useful percentages for the following specific protested water treatment and related facilities of Arredondo Estates, Arredondo Farms, Breeze Hill, Carlton Village, East Lake Harris/Friendly Center, Fern Terrace, Hobby Hills, Interlachen/Park Manor, Lake Josephine/Sebring Lakes, Picciola Island, Rosalie Oaks, Silver Lake Estates/Western Shores, Tomoka View, Twin Rivers, Venetian Village, Welaka, and Zephyr Shores?

POSITION: No position pending further development of the record.

ISSUE 5: What are the appropriate used and useful percentages and the associated composite used and useful percentages for the following specific protested water distribution systems of Arredondo Estates, Beecher's Point, Breeze Hill, Gibsonia Estates, Interlachen/Park Manor, Kingswood, Oakwood, Orange Hill/Sugar

Creek, Palm Port, Palms Mobile Home Park, Peace River, Piney Woods, Ravenswood, River Grove, Rosalie Oaks, Silver Lake Estates/Western Shores, Silver Lake Oaks, Skycrest, Stone Mountain, Sunny Hills, The Woods, Twin Rivers, Venetian Village, Village Water, Welaka, and Wootens?

POSITION: No position pending further development of the record.

ISSUE 6: What are the appropriate used and useful percentages and the associated composite used and useful percentages for the following specific protested wastewater treatment and related facilities of Arredondo Farms, Breeze Hill, Fairways, Florida Central Commerce Park, Holiday Haven, Jungle Den, Kings Cove, Leisure Lakes, Morningview, Palm Port, Peace River, Rosalie Oaks, Silver Lake Oaks, South Seas, Summit Chase, Sunny Hills, The Woods, Valencia Terrace, Venetian Village, and Village Water?

POSITION: No position pending further development of the record.

ISSUE 7: What are the appropriate used and useful percentages and the associated composite used and useful percentages for the following specific protested wastewater collection systems of Beecher's Point, Breeze Hill, Fairways, Holiday Haven, Jungle Den, Peace River, Rosalie Oaks, Silver Lake Oaks, Sunny Hills, The Woods, and Village Water?

POSITION: No position pending further development of the record.

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

POSITION: Yes. Consistent with Commission practice, the simple average balance during the 4-year statutory amortization period of the Commission approved rate case expense amount for the instant case should be included in the working capital allowance.

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

POSITION: The appropriate amount is subject to the resolution of other issues.

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

POSITION: The appropriate amount is subject to the resolution of other issues.

COST OF CAPITAL

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

POSITION: The appropriate amount of accumulated deferred taxes is dependent on further development of the record and is subject to the resolution of other issues.

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

POSITION: The appropriate leverage formula to use is the leverage formula in effect when the Commission makes its decision.

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

POSITION: The appropriate weighted average cost of capital, and proper components, is dependent on further development of the record and is subject to the resolution of other issues.

NET OPERATING INCOME

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

POSITION: No position pending evidence adduced at the hearing.

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

POSITION: The appropriate amount is subject to the resolution of another issue.

ISSUE 16: Should adjustments be made to the allocation methodology used to allocate costs and charges to AUF by Aqua America, Inc. and its affiliates?

POSITION: Staff witness Welch's position is addressed in the stipulated affiliate audit findings. For non-testifying Staff, no position pending evidence adduced at the hearing.

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

POSITION: No position pending evidence adduced at the hearing.

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

POSITION: No position pending evidence adduced at the hearing.

ISSUE 19: Should any adjustments be made to Incentive Compensation?

POSITION: No position pending evidence adduced at the hearing.

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

POSITION: No position pending evidence adduced at the hearing.

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

POSITION: No position pending evidence adduced at the hearing.

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

POSITION: The appropriate amount of rate case expense is subject to the evidence adduced at the hearing. However, only prudently incurred rate case expense should be allowed and amortized over four years.

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

POSITION: The appropriate amount is subject to the resolution of other issues.

ISSUE 24: Are the total operating expenses prudently incurred such that the resulting rates are affordable within the meaning and intent of fair, just, and reasonable pursuant to Sections 367.081 and 367.121, Florida Statutes?

POSITION: Staff does not believe that this issue as worded is proper. The prudence of all expenses will already have been determined in prior issues. Once an expense is found to be prudently incurred, the applicable statutes and case law require that rates be set so as to allow the utility to recover those expenses plus an opportunity to earn a fair rate of return on its used and useful investment. Staff believes that this issue could be included as a proper legal issue if reworded. Staff would suggest that the issue be reworded as follows: "Are the resulting rates affordable within the meaning of fair, just and reasonable pursuant to Sections 367.081 and 367.121, Florida Statutes?" Staff's final position on this issue will be taken after reviewing the memorandums filed by the parties.

REVENUE REQUIREMENT

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

POSITION: The appropriate amount is subject to the resolution of other issues.

RATES AND CHARGES

ISSUE 26: What are the appropriate rate cap thresholds to be used to cap residential customer bills for the water and wastewater systems? (Fallout Issue)

POSITION: The appropriate rate cap thresholds are subject to the resolution of other issues.

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

POSITION: The appropriate rate structures are subject to the resolution of other issues.

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

POSITION: The appropriate level of consolidation is subject to the resolution of other issues.

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

POSITION: The appropriate level of consolidation is subject to the resolution of other issues.

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

POSITION: The appropriate repression adjustments are subject to the resolution of other issues.

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

POSITION: The appropriate monthly rates are subject to the resolution of other issues.

OTHER ISSUES

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

POSITION: No position pending evidence adduced at the hearing.

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

POSITION: This issue is subject to the resolution of other issues.

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

POSITION: No position pending evidence adduced at the hearing.

ISSUE 35: In determining whether any portion of the interim increase granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any? (Fallout Issue)

POSITION: This issue is subject to the resolution of other issues.

ISSUE 36: In determining whether any portion of the implemented PAA rates should be refunded, how should the refund be calculated, and what is the amount of the refund, if any? (Fallout Issue)

POSITION: This issue is subject to the resolution of other issues.

ISSUE 37: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense for the instant case as required by Section 367.0816, F.S.? (Fallout Issue)

POSITION: The amount of the rate reduction is subject to the resolution of other issues.

ISSUE 38: In accordance with Order No. PSC-10-0707-FOF-WS, what is the amount and who would have to pay the regulatory asset (or deferred interim revenues), if it is ultimately determined by the Commission that the Utility was entitled to those revenues when it first applied for interim rates?

POSITION: Using the August 1, 2011-effective date of the implemented-PAA rates, a 245-day period is appropriate for the calculation of any regulatory asset. However, the amount of any regulatory asset is subject to the resolution of other issues.

ISSUE 39: Should this docket be closed?

POSITION: If the Commission's Final Order is not appealed, this docket should be closed upon the expiration of the time for filing an appeal, the completion of the refund, if any, of the interim rates and the implemented rates, and the utility providing proof, within 90 days of the Final Order in this docket, that the adjustments for all the applicable National Association of Regulatory Utility Commissioners Uniform System of Accounts primary accounts have been made.

e. **Issues Deemed Stipulated Pursuant 120.80(13)(b), Florida Statutes**

(The issues designated are the issues as designated in the staff proposed agency action recommendation Dated May 12, 2011, and approved by the Commission at the May 24, 2011 Commission Conference – See Order No. PSC-11-0256-PAA-WS).

RATE BASE

PAA ISSUE 2: Should the audit adjustments to rate base and operating expenses to which the Utility agrees, be made?

STIPULATION: Based on audit adjustments agreed to by the Utility, land and working capital be increased by \$160,093 and \$79,006, respectively, and operation & maintenance (O&M) expenses shall be decreased by \$255,390. Specifically, the following adjustments to rate base and O&M expenses shall be made.

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		Working	O&M
<u>Rate Band/System</u>	<u>Land</u>	<u>Capital</u>	<u>Expense</u>
Water Band 1	\$0	\$0	(\$47,877)
Wastewater Band 1	0	0	(6,382)
Water Band 2	0	0	(25,905)
Wastewater Band 2	160,093	79,006	(84,541)
Water Band 3	0	0	(14,060)
Wastewater Band 3	0	0	(21,043)
Water Band 4	0	0	(52,994)
Wastewater Band 4	0	0	988
Breeze Hill- Water	0	0	(942)
Breeze Hill- Wastewater	0	0	(298)
Fairways- Water	0	0	(515)
Fairways- Wastewater	0	0	(1,314)
Peace River- Water	0	0	(436)
Peace River- Wastewater	0	0	(72)
Total Adjustments	<u>\$160,093</u>	<u>\$79,006</u>	<u>(\$255,390)</u>

PAA ISSUE 3: Should adjustments be made to the Utility's pro forma plant additions?

STIPULATION: The Utility's requested PAA-pro forma plant additions should be decreased by \$137,060 for water and by \$565,288 for wastewater. Accordingly, accumulated depreciation should be increased by \$102,867 for water and \$85,016 for wastewater, and depreciation expense should be decreased by \$21,698 for water and \$36,524 for wastewater. Moreover, the Utility's property taxes should be decreased by \$6,399 for water and \$11,972 for wastewater. The specific rate band and system adjustments are set forth below.

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Trucks			
<u>Rate Band/System</u>	<u>MFR Amount</u>	<u>Documented Amount</u>	<u>Adjustment</u>
Water Band 1	\$47,081	\$41,840	(\$5,241)
Wastewater Band 1	8,830	7,811	(1,019)
Water Band 2	21,475	19,027	(2,448)
Wastewater Band 2	36,735	32,621	(4,114)
Water Band 3	13,241	11,773	(1,468)
Wastewater Band 3	4,760	4,227	(533)
Water Band 4	57,657	51,207	(6,450)
Wastewater Band 4	800	674	(126)
Breeze Hill-Water	1,064	939	(125)
Breeze Hill-Wastewater	1,039	939	(100)
Fairways- Water	3,977	1,792	(2,185)
Fairways- Wastewater	2,027	2,378	351
Peace River- Water	817	705	(112)
Peace River- Wastewater	775	734	(41)
Total Adjustments	<u>\$200,278</u>	<u>\$176,667</u>	<u>(\$23,611)</u>

Allocated Corporate IT			
<u>Rate Band/System</u>	<u>MFR Amount</u>	<u>Documented Amount</u>	<u>Adjustment</u>
Water Band 1	\$62,197	\$40,957	(\$21,240)
Wastewater Band 1	11,666	7,646	(4,020)
Water Band 2	28,371	18,625	(9,746)
Wastewater Band 2	48,529	31,932	(16,597)
Water Band 3	17,493	11,525	(5,968)
Wastewater Band 3	6,288	4,138	(2,150)
Water Band 4	76,169	50,126	(26,043)
Wastewater Band 4	1,057	660	(397)
Breeze Hill-Water	1,406	919	(487)
Breeze Hill-Wastewater	1,372	919	(453)
Fairways- Water	5,253	1,754	(3,499)
Fairways- Wastewater	2,677	2,328	(349)
Peace River- Water	1,080	690	(390)
Peace River- Wastewater	1,024	718	(306)
Total Adjustments	<u>\$264,582</u>	<u>\$172,938</u>	<u>(\$91,644)</u>

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Projects Requested in the MFRs			
<u>System</u>	<u>Pro Forma Plant Improvement</u>	<u>Utility Requested Amount</u>	<u>Documented Amount</u>
Arredondo Farms & Estates/ The Woods	Hydro Tank Replacement	\$32,866	\$73,287
Arredondo Farms	WWTP Upgrade	240,000	414,240
48 Estates/ Ravenswood	Hydro Tank Replacement	25,506	42,691
Jasmine Lakes	Disinfection Contact Time	180,000	9,250
Jasmine Lakes	Generator for Lift Station #5	50,000	46,905
Jasmine Lakes	weir and walkways	65,000	0
Jasmine Lakes	WWTP Security Upgrades	10,754	10,300
Jungle Den	I&I Study and Improvements	60,000	0
Lake Gibson/Piney Woods	Hydro Tank Replacement	67,623	86,790
Lake Suzy	Fire Flow Upgrades	65,000	9,675
Lake Suzy	New Air Headers and Surge Tank	35,200	135,028
Leisure Lakes	Water Chlorine Conversion	30,000	24,840
Ocala Oaks/Rosalie Oaks	Hydro Tank Replacement	77,801	59,391
Park Manor	I&I Study and Improvements	40,000	0
Rosalie Oaks	Lift Station Relocation to Plant Site	80,000	0
Silver Lake Estates	Water Chlorine Conversion	42,969	36,880
Skycrest	Water Well #1 Pump Replacement	2,769	0
South Seas	Replacement of Reject Tank	334,906	323,395
South Seas	Wet Weather Storage	350,000	0
South Seas	WWTP Upgrades and New Diffusers	9,982	0
Summit Chase	Water Sand Strainer Project	20,000	13,073
Sunny Hills	Connect Wells 1&4 to Storage Tanks	50,000	34,500
Tangerine	Water Hardness Sequestering	9,500	5,859
Tangerine	Looping Project on Scott St.	90,000	103,429
The Woods	Wastewater Perc Pond Rehab	10,733	21,935
Tomoka/Twin Rivers	Chloramine Project	13,610	14,283
Tomoka/Twin Rivers	Water Main Relocation	3,367	13,578
Valencia Terrace	WWTP Improvements	82,071	79,830
Village Water	Effluent Reuse Solution	250,000	33,645
Western Shores	Water Chlorine Conversion	21,069	20,746
Zephyr Shores	Water Quality Project	36,217	33,209
	Total:	<u>\$2,386,943</u>	<u>\$1,646,759</u>

<u>Additional Projects not in the MFRs</u>		
<u>System</u>	<u>Pro Forma Plant Improvement</u>	<u>Documented Amt.</u>
East Lake Harris	Chlorine Conversion	\$18,254
Haines Creek	Hydropneumatic Tank Replacement	13,800
Jungle Den	WWTP upgrades	11,900
Imperial Mobile Terrace	Stormwater project	23,698
Lake Gibson Estates	Replacement of lift station pump #2	6,035
Tomoka/Twin Rivers	Water Flushing Upgrades	32,560
Valencia Terrace	Chlorine Conversion	46,847
Total:		<u>\$153,094</u>

<u>Summary of Pro Forma Plant Adjustments</u>					
<u>Rate Band/System</u>	<u>Plant</u>	<u>Retirements</u>	<u>Accumulated Depreciation</u>	<u>Depreciation Expense</u>	<u>Property Taxes</u>
Water Band 1	(\$212,265)	(\$27,607)	(\$24,174)	(\$13,756)	(\$4,275)
Wastewater Band 1	(7,280)	(1,944)	(12,936)	(1,074)	(174)
Water Band 2	38,319	(21,725)	46,180	(424)	(855)
Wastewater Band 2	(215,484)	(144,056)	125,161	(19,609)	(6,171)
Water Band 3	9,749	(7,839)	4,947	(973)	(261)
Wastewater Band 3	(124,748)	0	(8,097)	(3,585)	(2,021)
Water Band 4	\$33,934	(62,985)	79,314	(5,413)	(1,008)
Wastewater Band 4	(216,878)	0	(16,290)	(12,106)	(3,606)
Breeze Hill-Water	(612)	0	(721)	(101)	0
Breeze Hill-Wastewater	(553)	0	(712)	(92)	0
Fairways- Water	(5,684)	0	(2,130)	(948)	0
Fairways- Wastewater	2	0	(1,568)	0	0
Peace River- Water	(501)	0	(549)	(83)	0
Peace River- Wastewater	(347)	0	(542)	(58)	0
Total Adjustments	<u>(\$702,348)</u>	<u>(\$266,157)</u>	<u>187,885</u>	<u>(\$58,222)</u>	<u>(18,369)</u>

PAA ISSUE 4: Do any water systems have excessive unaccounted for water, and, if so, what adjustments are necessary?

STIPULATION: The percentages for excessive unaccounted for water (EUW) for each water rate band and stand-alone system are shown below.

<u>Rate Band/System</u>	<u>Composite EUW %</u>
Rate Band 1	1.05
Rate Band 2	2.10
Rate Band 3	0.09
Rate Band 4	2.94
Breeze Hill	6.09
Peace River	11.47

The adjustment to Purchased Power, Chemicals, and Purchased Water expenses for Rate Band 4 is \$96.

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PAA ISSUE 5: What are the appropriate used and useful percentages for water treatment and related facilities of each water system?

STIPULATION: The following table reflects the U&U percentages for the stipulated water treatment and related facilities of each system listed below:

System	WTP%
48 Estates	100
Fairways	100
Gibsonia	61
Grand Terrace	100
Haines Creek	100
Harmony Homes	100
Hermits Cove/St. Johns Highlands	31
Imperial Mobile	100
Jasmine Lakes	100
Kings Cove	100
Lake Gibson Estates	100
Lake Josephine/Sebring Lakes	55
Leisure Lakes	100
Morningview	100
Ocala Oaks	100
Orange Hill/Sugar Creek	100
Palm Port	100
Palms MHP	100
Peace River	100
Piney Woods	100
Pomona Park	100
Quail Ridge	100
Ravenswood	100
River Grove	100
Silver Lake Oaks	100
Skycrest	100
Stone Mountain	100
Summit Chase	100
Sunny Hills	91
Tangerine	100
The Woods	100
Tomoka View	100
Valencia Terrace	100
Wootens	100
Zephyr Shores	100

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PAA ISSUE 6: What are the appropriate used and useful percentages for the storage tanks?

STIPULATION: All of the AUF storage tanks shall be considered 100 percent U&U.

ISSUE 7: What are the appropriate used and useful percentages for water distribution systems?

STIPULATION: The following table reflects the U&U percentages for the stipulated water distribution of each system list below:

System	W Dist. System %
Arredondo Farms	88
48 Estates	85
Carlton Village	47
East Lake Harris/Friendly Center	100
Fairways	100
Fern Terrace	100
Grand Terrace	100
Haines Creek	100
Harmony Homes	100
Hermits Cove/St. Johns Highlands	80
Hobby Hills	100
Holiday Haven	76
Imperial Mobile	100
Jasmine Lakes	100
Jungle Den	100
Kings Cove	100
Lake Gibson Estates	100
Lake Josephine/Sebring Lakes	55
Lake Osborne	100
Lake Suzy	100
Leisure Lakes	84
Morningview	100
Ocala Oaks	100
Palm Terrace	100
Picciola Island	80
Pomona Park	51
Quail Ridge	100
Summit Chase	100
Tangerine	60
Tomoka View	100
Valencia Terrace	100
Zephyr Shores	100

PAA ISSUE 8: Do any wastewater systems have excessive infiltration and inflow and, if so, what adjustments are necessary?

STIPULATION: The appropriate percentages for excessive Infiltration and Inflow (I&I) for each wastewater rate band and stand-alone system are shown below:

Rate Band/System	Composite Excessive I&I %
Rate Band 1	0.00
Rate Band 2	2.18
Rate Band 3	25.72
Rate Band 4	4.53
Breeze Hill	65.40
Peace River	19.73

The adjustments to Purchased Power, Chemicals, and Purchased Wastewater expenses for Rate Band 2, Rate Band 3, and Breeze Hill are (\$994), (\$22,606), and (\$5,098), respectively.

PAA ISSUE 9: What are the appropriate used and useful percentages for wastewater treatment and related facilities of each wastewater system?

STIPULATION: The following table reflects the U&U percentages for the stipulated wastewater treatment and related facilities of each system listed below:

System	WWTP %
Jasmine Lakes	100
Lake Suzy	100
Palm Terrace	100
Park Manor	100

PAA ISSUE 10: What are the appropriate used and useful percentages for wastewater collection systems?

STIPULATION: The following table reflects the U&U percentages for the stipulated wastewater collection of each system listed below:

System	WW Coll. System %
Arredondo Farms	100
Florida Central Commerce Park	100
Jasmine Lakes	100
Kings Cove	100
Lake Gibson Estates	100
Lake Suzy	100
Leisure Lakes	85
Morningview	100
Palm Port	91
Palm Terrace	100
Park Manor	100
South Seas	100
Summit Chase	100
Valencia Terrace	100
Venetian Village	100
Zephyr Shores	100

PAA ISSUE 11: Should any further adjustment be made to Other Deferred Debits?

STIPULATION: Other Deferred Debits shall be increased further by \$14,042 for the jurisdictional systems to reflect the appropriate 13-month average balance as shown in the table below:

Band	Adjustment
Band 1-Water	\$3,326
Band 1 -Wastewater	621
Band 2 -Water	1,512
Band 2 – Wastewater	2,592
Band 3 -Water	936
Band 3 - Wastewater	336
Band 4 -Water	4,070
Band 4 - Wastewater	54
Breeze -Water	75
Breeze - Wastewater	75
Fairways -Water	142
Fairways - Wastewater	189
Peace -Water	56
Peace - Wastewater	58
Total:	\$14,042

PAA ISSUE 12: Should any adjustments be made to Accrued Taxes?

STIPULATION: Consistent with the Commission's decision in the Utility's last rate case, Accrued Taxes shall be reduced by \$1,917,134 on a total company basis to normalize the test year Accrued Tax balance for purposes of setting rates. The reduction of \$1,917,134 represents the total for AUF. The Commission only has jurisdiction over 60.17 percent of the total AUF systems. This represents a reduction of \$1,153,548 for the jurisdictional systems as shown in table below:

<u>Band</u>	<u>Adjustment</u>
Band 1-Water	(\$273,194)
Band 1 -Wastewater	(51,002)
Band 2 -Water	(124,236)
Band 2 - Wastewater	(212,998)
Band 3 -Water	(76,875)
Band 3 - Wastewater	(27,600)
Band 4 -Water	(334,355)
Band 4 - Wastewater	(4,403)
Breeze -Water	(6,130)
Breeze - Wastewater	(6,130)
Fairways -Water	(11,701)
Fairways - Wastewater	(15,527)
Peace -Water	(4,606)
Peace - Wastewater	(4,792)
Total:	<u>(\$1,153,548)</u>

COST OF CAPITAL

PAA ISSUE 16: What is the appropriate capital structure to use for rate setting purposes?

STIPULATION: The appropriate capital structure to use for rate setting purposes is based on the capital structure of AUF.

PAA ISSUE 18: What are the appropriate cost rates for short and long-term debt for the test year?

STIPULATION: There is no short-term debt in AUF's capital structure. The appropriate cost rate for long-term debt for the test year is 5.10 percent.

PAA ISSUE 19: What is the appropriate return on equity (ROE) for the test year?

STIPULATION: The appropriate ROE should be as set out in the Commission-approved leverage formula.

NET OPERATING INCOME

PAA ISSUE 21: Should any adjustments be made to disallow fines and penalties assessed to the Utility?

STIPULATION: O&M expenses shall be reduced by \$12,767 to remove expenses related to fines and penalties. The specific adjustments to each rate band and system are shown in the table below:

<u>Rate Band/System</u>	<u>O&M Expense</u>
Water Band 1	(\$2,1360
Wastewater Band 1	(10)
Water Band 2	(25)
Wastewater Band 2	(139)
Water Band 3	(15)
Wastewater Band 3	(5)
Water Band 4	(10,426)
Wastewater Band 4	(1)
Breeze Hill- Water	(1)
Breeze Hill- Wastewater	(1)
Fairways- Water	(2)
Fairways- Wastewater	(3)
Peace River- Water	(1)
Peace River- Wastewater	(1)
Total Adjustments	(\$12,767)

PAA ISSUE 23: Should any adjustments be made to Sludge Hauling, Contractual Services – Accounting, and Contractual Services - Legal expenses?

STIPULATION: O&M expenses shall be reduced by \$29,949 to reflect the appropriate Sludge Hauling, Contractual Services – Accounting, and Contractual Services – Legal expenses. The specific adjustments to each rate band and system are shown in the table below:

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

PAA ISSUE 25: Should any adjustments be made for Director and Officers Liability insurance?

STIPULATION: Consistent with Commission practice, O&M expenses shall be reduced by \$5,289 for its jurisdictional systems to reflect a sharing of the cost of Director and Officers Liability (DOL) insurance between ratepayers and the Utility, as shown in the table below:

Rate Bands/Systems	O&M Exp.
Water Rate Band 1	(\$1,253)
Water Rate Band 2	(234)
Water Rate Band 3	(570)
Water Rate Band 4	(977)
Wastewater Rate Band 1	(352)
Wastewater Rate Band 2	(127)
Wastewater Rate Band 3	(1,533)
Wastewater Rate Band 4	(20)
Breeze Hill - Water	(28)
Breeze Hill - Wastewater	(28)
Fairways - Water	(71)
Fairways - Wastewater	(54)
Peace River - Water	(22)
Peace River - Wastewater	(21)
	(\$5,289)

PAA ISSUE 29: Should an adjustment be made to the Utility's normalization adjustments?

STIPULATION: O&M expenses shall be decreased by \$33,748 for water and increased by \$1,768 for wastewater. The specific adjustments for each rate band and stand-alone system are shown in table below:

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

PAA ISSUE 30: Should an adjustment be made to the Utility's pro forma expense adjustments?

STIPULATION: O&M expenses shall be increased by \$83,790 for water and decreased by \$431 for wastewater, as shown in the table below. In addition, AUF shall file a report with the Commission detailing the outcome of the dispute with the City of Lake Worth Utilities, within 30 days of the resolution of the dispute.

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

PAA ISSUE 31: Should an adjustment be made to O&M expense to remove the additional cost of mailing multiple bills to the same customers who have more than one class of service?

STIPULATION: The costs of mailing 2,892 duplicate bills in the amount of \$14,142 shall be removed from O&M expense for the Fairways water system.

PAA ISSUE 34: What, if any, limit should be imposed on the subsidies that could result if the Utility's rate bands and stand-alone systems are partially or fully consolidated?

STIPULATION: The appropriate subsidy limit for the water systems and the wastewater systems should be \$12.50. This subsidy limit is applicable only to the residential class, and is based upon usage levels of 7 kgals per month for the water systems and 6 kgals per month for the wastewater systems.

PAA ISSUE 41: Should the Utility be authorized to revise its miscellaneous service charges, and, if so, what are the appropriate charges?

STIPULATION: AUF shall be authorized to revise the Miscellaneous Service Charges for its Breeze Hill and Fairway systems. The appropriate charges are reflected below.

	Water		Wastewater	
	Normal Hrs	After Hrs	Normal Hrs	After Hrs
Initial Connection	\$22	\$33	\$22	\$33
Normal Reconnection	\$22	\$33	\$22	\$33
Violation Reconnection	\$35	\$55	Actual Cost	Actual Cost
Premises Visit	\$22	\$33	\$22	\$33
Late Payment Fees	\$5	N/A	\$5	N/A

PAA ISSUE 42: What are the appropriate service availability charges and allowance for funds prudently invested charges for the Utility?

STIPULATION: The Utility's previously-approved uniform meter installation, service installation, main extension, and plant capacity charges are appropriate for AUF's Breeze Hill, Fairways, and Peace River stand-alone systems. AUF's proposed uniform engineering fees are cost-based and appropriate. However, the Utility's proposed uniform field inspection fees shall be denied for lack of support documentation in accordance with Section 367.091(6), F.S.

PAA ISSUE 48: Should the Utility be required to provide proof that it has adjusted its books for all Commission approved adjustments?

STIPULATION: To ensure that the Utility adjusts its books in accordance with the Commission's decision, AUF shall provide proof, within 90 days of the final order in this docket, that the adjustments for all the applicable National Association of Regulatory Utility Commissioners Uniform System of Accounts primary accounts have been made.

f. Pending Motions

Intervenors Joint Motion to Move Brief Filing Date

g. Pending Confidentiality Claims or Requests

None at this time


h. Objections to Witness Qualifications as an Expert

None

i. Compliance with Order No. PSC-11-0384-PCO-WS

Staff has complied with all requirements of the Order Establishing Procedure entered in this docket.

Respectfully submitted this 31st day of October, 2011.



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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

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DATED: October 31, 2011

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that the original of STAFF'S PREHEARING STATEMENT has been filed with Office of Commission Clerk and one copy has been furnished to the following by electronic and U.S. Mail, on this 31st day of October, 2011:

D. Bruce May/Gigi Rollini
Holland & Knight LLP
Post Office Drawer 810
Tallahassee, FL 32302-0810

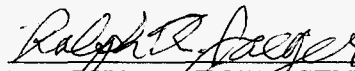
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