MIKE
HARIDOPOLOS
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
1-800-540-7039

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

DEAN CANNON
Speaker of the
House of Representatives

RECEIVED-FPSC
12 JUL 10 AM 11:50
COMMISSION
CLERK

July 10, 2012

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

Re: Docket No. 100330-WS, 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.

Dear Ms. Cole:

Attached for filing is an Original and one copy of Office of Public Counsel's Notice of Cross-Appeal to the First District Court of Appeal filed in the above-referenced docket and served on the parties July 5, 2012.

Thanks for your attention to this matter, please call me if you have any questions or concerns.

COM _____
APA _____
ECR _____
GCL _____
RAD _____
SRC _____
ADM _____
OPC _____
CLK 1-MM

Sincerely,

Patricia A. Christensen
Associate Public Counsel

cc: Parties of record

DOCUMENT NUMBER-DATE
04571 JUL 10 12
FPSC-COMMISSION CLERK

IN THE FLORIDA PUBLIC SERVICE COMMISSION
Case Number: 1D12-3196
PSC Docket No.: 100330-WS

OFFICE OF PUBLIC COUNSEL,

Appellant/Cross-Appellee,

NOTICE OF CROSS-APPEAL

v.

AQUA UTILITIES FLORIDA, INC.

Appellee/Cross-Appellant.

FLORIDA PUBLIC SERVICE COMMISSION,

Appellee.

_____/

RECEIVED-FPSC
12 JUL 10 AM 11:50
COMMISSION CLERK

NOTICE IS GIVEN that the Citizens of the State of Florida, through J.R. Kelly, Public Counsel, State of Florida, Appellants, cross appeals to the First District Court of Appeals, the following orders of the Florida Public Service Commission, Order No. PSC-12-0102-FOF-WS, rendered March 5, 2012, Order No. PSC-12-0259-FOF-WS, rendered May 29, 2012, and PSC-11-0544-PHO-WS, rendered November 23, 2011. Copies of these orders are attached.

The nature of Order No. PSC- 12-0102-FOF-WS is a final order that disposes of an Order Approving in Part Requested Increase in Water and

DOCUMENT NUMBER-DATE
04571 JUL 10 12
FPSC-COMMISSION CLERK

Wastewater Rates and Requiring Refunds with Interest. Order No. PSC-12-0259-FOF-WS is the Order granting Aqua Utilities Florida, Inc. (Aqua) Motion for Reconsideration and reconsidering and correcting errors. Order No. PSC-11-0544-PHO-WS is a procedural order.

DATED this 5th day of July, 2012.

Respectfully submitted,



Patricia A. Christensen
Associate Public Counsel
OFFICE OF PUBLIC COUNSEL
111 West Madison Street, Room 812
Tallahassee, FL 32399
Tel: (850) 488-9330
Fax: (850) 487-6419
Fla. Bar No.: 989789

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing Notice of Cross-Appeal was furnished by hand delivery, e-mail or U.S. Mail this 5th day of July, 2012 to:

*Ralph Jaeger/Lisa Bennett, Ralph Jeager/ Rosanne Gervasi/ Samantha Cibula
Office of General Counsel
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

*D. Bruce May/Gigi Rollini/ Stephen H. Grimes
Holland & Knight LLP
Post Office Drawer 810
Tallahassee, FL 32399-1400

Joseph D. Richards
Pasco County Attorney's Office
8731 Citizens Drive, Suite 340
New Port Richey, FL 34654

Kenneth M. Curtin
Adams and Reese LLP
150 Second Avenue North, Suite 1700
St. Petersburg, Florida 33701

*Cecilia Bradley
Office of the Attorney General
The Capitol – PL
Tallahassee, FL 32399-1050

*Hand delivered

Patricia A. Christensen

IN THE FLORIDA PUBLIC SERVICE COMMISSION
Case Number: 1D12-3196
PSC Docket No.: 100330-WS

OFFICE OF PUBLIC COUNSEL,

Appellant/Cross-Appellee,

NOTICE OF CROSS-APPEAL

v.

AQUA UTILITIES FLORIDA, INC.

Appellee/Cross-Appellant.

FLORIDA PUBLIC SERVICE COMMISSION,

Appellee.

_____/

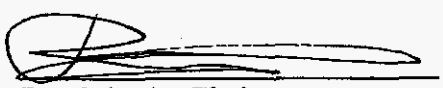
NOTICE IS GIVEN that the Citizens of the State of Florida, through J.R. Kelly, Public Counsel, State of Florida, Appellants, cross appeals to the First District Court of Appeals, the following orders of the Florida Public Service Commission, Order No. PSC-12-0102-FOF-WS, rendered March 5, 2012, Order No. PSC-12-0259-FOF-WS, rendered May 29, 2012, and PSC-11-0544-PHO-WS, rendered November 23, 2011. Copies of these orders are attached.

The nature of Order No. PSC- 12-0102-FOF-WS is a final order that disposes of an Order Approving in Part Requested Increase in Water and

Wastewater Rates and Requiring Refunds with Interest. Order No. PSC-12-0259-FOF-WS is the Order granting Aqua Utilities Florida, Inc. (Aqua) Motion for Reconsideration and reconsidering and correcting errors. Order No. PSC-11-0544-PHO-WS is a procedural order.

DATED this 5th day of July, 2012.

Respectfully submitted,



Patricia A. Christensen
Associate Public Counsel
OFFICE OF PUBLIC COUNSEL
111 West Madison Street, Room 812
Tallahassee, FL 32399
Tel: (850) 488-9330
Fax: (850) 487-6419
Fla. Bar No.: 989789

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing Notice of Cross-Appeal was furnished by hand delivery, e-mail or U.S. Mail this 5th day of July, 2012 to:

*Ralph Jaeger/Lisa Bennett/ Rosanne Gervasi/ Samantha Cibula/
Lawrence Harris
Office of General Counsel
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

*D. Bruce May/Gigi Rollini/
Stephen H. Grimes
Holland & Knight LLP
Post Office Drawer 810
Tallahassee, FL 32399-1400

Joseph D. Richards
Pasco County Attorney's Office
8731 Citizens Drive, Suite 340
New Port Richey, FL 34654

Kenneth M. Curtin
Adams and Reese LLP
150 Second Avenue North, Suite 1700
St. Petersburg, Florida 33701

*Cecilia Bradley
Office of the Attorney General
The Capitol – PL
Tallahassee, FL 32399-1050

*Hand delivered

Patricia A. Christensen

ATTACHMENT A

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.	DOCKET NO. 100330-WS ORDER NO. PSC-12-0102-FOF-WS ISSUED: March 5, 2012

The following Commissioners participated in the disposition of this matter:

RONALD A. BRISÉ, Chairman
LISA POLAK EDGAR
ART GRAHAM
EDUARDO E. BALBIS
JULIE I. BROWN

ORDER APPROVING IN PART REQUESTED INCREASE IN WATER AND WASTEWATER RATES AND REQUIRING REFUNDS WITH INTEREST

BY THE COMMISSION:

APPEARANCES:

BRUCE MAY, and GIGI ROLLINI, ESQUIRES, Holland & Knight LLP, Post Office Drawer 810, Tallahassee, Florida 32302-0810
On behalf of Aqua Utilities Florida, Inc. (AUF).

KENNETH M. CURTIN and ANDREW MCBRIDE, ESQUIRES, Adams and Reese LLP, 150 Second Avenue North, Suite 1700, St. Petersburg, Florida 33701
On behalf of YES Communities, Inc., d/b/a Arredondo Farms (YES).

CECILIA BRADLEY, ESQUIRE, Office of the Attorney General, The Capitol, L01, Tallahassee, Florida 32399-1050
On behalf of the Attorney General and the Citizens of the State of Florida (AG).

PATRICIA CHRISTENSEN and STEPHEN C. REILLY, ESQUIRES, Office of Public Counsel, c/o The Florida Legislature, 111 West Madison Street, Room 812, Tallahassee, Florida 32399-1400
On behalf of the Citizens of the State of Florida (OPC).

JOSEPH D. RICHARDS, ESQUIRE, Pasco County Attorney's Office, Pasco County Board of County Commissioners, 8731 Citizens Drive, Suite 340, New Port Richey, Florida, 34654
On behalf of the Citizens of Pasco County (Pasco).

RALPH JAEGER, LISA BENNETT, and LARRY HARRIS, ESQUIRES, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850
On behalf of the Florida Public Service Commission (Staff).

CURT KISER, GENERAL COUNSEL; MARY ANNE HELTON, DEPUTY GENERAL COUNSEL; and SAMANTHA CIBULA, ESQUIRE, Office of the General Counsel, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850
Advisors to the Florida Public Service Commission.

Table of Contents

Description		Page
I.	BACKGROUND	5
II.	APPROVED STIPULATIONS	8
III.	ABBREVIATIONS	8
IV.	QUALITY OF SERVICE	10
	A. Quality of Service	10
	B. Additional Actions for Quality of Service	51
V.	RATE BASE	57
	A. Pro Forma Plant	57
	B. U&U and Composite U&U for Protested Water Treatment Systems	62
	C. U&U for Protested Water Distribution Systems	74
	D. U&U and Composite U&U for Protested Wastewater Facilities	78
	E. U&U and Composite U&U for Protested Wastewater Collection	82
	F. Deferred Rate Case Expense	85
	G. Working Capital Allowance	87
	H. Total Rate Base	88
VI.	COST OF CAPITAL	88
	A. Deferred Tax	88
	B. Leverage Formula	89
	C. Overall Cost of Capital	89
VII.	NET OPERATING INCOME	90
	A. Billing Determinants	90
	B. Test Year Revenues	92
	C. Allocation Methodology	93
	D. Affiliate Revenues and Charges	98
	E. Corporate IT Charges	112

F. Incentive Compensation 115
G. Salaries and Wages 118
H. Bad Debt Expense 122
I. Rate Case Expense 125
J. Pre-Repression Operating Income 134
VIII. REVENUE REQUIREMENT 134
A. Pre-Repression Revenue Requirement 134
IX. RATES AND CHARGES 135
A. Rate Cap Thresholds 135
B. Rate Structures 135
C. Rate Consolidation for Water 138
D. Rate Consolidation for Wastewater 143
E. Repression Adjustments 148
F. Water and Wastewater Rates 149
G. Are Rates Affordable 150
X. OTHER ISSUES 159
A. Allowance for Funds Prudently Invested Charges (AFPI) 159
B. Customer Deposits 160
C. Four-Year Reduction for Docket No. 080121-WS 163
D. Interim Refund Calculation 167
E. PAA Refund Calculation 168
F. Four-Year Rate Reduction 169
G. Deferred Interim Revenues 170
Appendix 175
Attachment 1 – Water Treatment Plant U&U 189
Attachment 2 – Water Distribution Systems U&U 191
Attachment 3 – Wastewater Plant U&U 193
Attachment 4 – Wastewater Collection U&U 194
Schedule 1 – Capital Structure 195
Schedule 2 – Revenue Requirements 196
Schedule 3-A – Water Band 1 Rate Base 197
Schedule 3-B – Wastewater Band 1 Rate Base 198
Schedule 3-C – Water and Wastewater Band 1 Adjustments to Rate Base 199
Schedule 4-A – Water Band 1 Operating Income 200
Schedule 4-B – Wastewater Band 1 Operating Income 201
Schedule 4-C – Water and Wastewater Band 1 Adjustments to Operating Income 202
Schedule 5-A – Water Band 1 Rates 203
Schedule 5-B – Wastewater Band 1 Rates 204
Schedule 3-A – Water Band 2 Rate Base 205
Schedule 3-B – Wastewater Band 2 Rate Base 206
Schedule 3-C – Water and Wastewater Band 2 Adjustments to Rate Base 207
Schedule 4-A – Water Band 2 Operating Income 208
Schedule 4-B – Wastewater Band 2 Operating Income 209
Schedule 4-C – Water and Wastewater Band 2 Adjustments to Operating Income 210
Schedule 5-A – Water Band 2 Rates 211

Schedule 5-B – Wastewater Band 2 Rates....212
Schedule 3-A – Water Band 3 Rate Base....213
Schedule 3-B – Wastewater Band 3 Rate Base....214
Schedule 3-C – Water and Wastewater Band 3 Adjustments to Rate Base....215
Schedule 4-A – Water Band 3 Operating Income....216
Schedule 4-B – Wastewater Band 3 Operating Income....217
Schedule 4-C – Water and Wastewater Band 3 Adjustments to Operating Income....218
Schedule 5-A – Water Band 3 Rates....219
Schedule 5-B – Wastewater Band 3 Rates....220
Schedule 3-A – Water Band 4 Rate Base....221
Schedule 3-B – Wastewater Band 4 Rate Base....222
Schedule 3-C – Water and Wastewater Band 4 Adjustments to Rate Base....223
Schedule 4-A – Water Band 4 Operating Income....224
Schedule 4-B – Wastewater Band 4 Operating Income....225
Schedule 4-C – Water and Wastewater Band 4 Adjustments to Operating Income....226
Schedule 5-A – Water Band 4 Rates....227
Schedule 5-B – Wastewater Band 4 Rates....228
Schedule 3-A – Breeze Hill Water Rate Base....229
Schedule 3-B – Breeze Hill Wastewater Rate Base....230
Schedule 3-C – Breeze Hill Water and Wastewater Adjustments to Rate Base....231
Schedule 4-A – Breeze Hill Water Operating Income....232
Schedule 4-B – Breeze Hill Wastewater Operating Income....233
Schedule 4-C – Breeze Hill Water and Wastewater Adjustments to Operating Income....234
Schedule 5-A – Breeze Hill Water Rates....235
Schedule 5-B – Breeze Hill Wastewater Rates....236
Schedule 3-A – Fairways Water Rate Base....237
Schedule 3-B – Fairways Wastewater Rate Base....238
Schedule 3-C – Fairways Water and Wastewater Adjustments to Rate Base....239
Schedule 4-A – Fairways Water Operating Income....240
Schedule 4-B – Fairways Wastewater Operating Income....241
Schedule 4-C – Fairways Water Adjustments to Operating Income....242
Schedule 5-A – Fairways Water Rates....243
Schedule 5-B – Fairways Wastewater Rates....244
Schedule 3-A – Peace River Water Rate Base....245
Schedule 3-B – Peace River Wastewater Rate Base....246
Schedule 3-C – Peace River Water and Wastewater Adjustments to Rate Base....247
Schedule 4-A – Peace River Water Operating Income....248
Schedule 4-B – Peace River Wastewater Operating Income....249
Schedule 4-C – Peace River Water and Wastewater Adjustments to Operating Income....250
Schedule 5-A – Peace River Water Rates....251
Schedule 5-B – Peace River Wastewater Rates....252

I. BACKGROUND

A. Current Rate Case

Aqua Utilities Florida, Inc. (AUF or Utility) is a wholly-owned subsidiary of Aqua America, Inc. (AAI). For purposes of this proceeding, AUF provides water and wastewater service to 58 water and 27 wastewater systems in 17 counties under our jurisdiction.[1] Water and wastewater rates were last established for this Utility in a rate case initiated in 2008.[2]

On September 1, 2010, the Utility filed an application for approval of an increase in rates for both its water and wastewater operations. The Utility requested that this rate application be processed using the Proposed Agency Action (PAA) procedures. By letter dated September 22, 2010, our staff advised AUF that its Minimum Filing Requirements (MFRs) had deficiencies. The Utility corrected these deficiencies on October 14, 2010, and this date was set as the official date of filing.

In its MFR filing, AUF requested final rates that would result in additional operating revenue of $2,478,491 for water and $1,273,557 for wastewater, based on the historical 13-month average test year ended April 30, 2010, with requested adjustments for pro forma plant and operating expenses. At the end of the test year, the Utility recorded total regulated operating revenue of $8,255,766 and $4,824,531 for water and wastewater, respectively. AUF reported regulated net operating income for the test year of $605,852 for water and $526,976 for wastewater.

Pending our decision on final rates, AUF requested interim rates. By Order No. PSC-10-0707-FOF-WS (Interim Rate Order), issued November 29, 2010, in this docket, we approved an interim revenue requirement designed to generate annual water revenue of $9,062,892, an increase of $1,125,588[3] or 13.19 percent, and wastewater revenue of $5,391,338, an increase of $600,215[4] or 11.81 percent.

During the processing of AUF's requested rate increase, the Office of the Public Counsel (OPC), the Office of the Attorney General (AG), YES Companies, LLC d/b/a Arredondo Farms (YES), Mr. David L. Bussey (Mr. Bussey), Ms. Lucy Wambsgan (Ms. Wambsgan), and Pasco County intervened in this docket. However, Mr. Bussey and Ms. Wambsgan subsequently withdrew their intervention.

---

[1] During the test year, 17,154 water and 6,595 wastewater customers received service from the Utility's regulated systems that are a part of this proceeding.

[2] See Order No. PSC-09-0385-FOF-WS, issued May 29, 2009, in Docket No. 080121-WS, In re: Application for increase in water and wastewater rates in Alachua, Brevard, DeSoto, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida, Inc.

[3] Of the total approved interim water revenue increase of $1,125,588, we allowed $529,922 to be collected though interim rates and deferred the remainder as a regulatory asset.

[4] Of the total approved interim wastewater revenue increase of $600,215, we allowed $310,041 to be collected through interim rates and deferred the remainder as a regulatory asset.

As a part of the PAA process, our staff conducted nine customer meetings throughout the state. Also, our staff served the Utility with numerous data requests, and OPC, along with YES and Pasco County, served the Utility with numerous interrogatories and requests for production of documents (PODs).

The original five-month statutory deadline for us to vote on our PAA action was March 14, 2011. However, by letter dated November 18, 2010, AUF waived the time to vote through May 24, 2011, and we voted on the Utility's requested rate increase on that date. Pursuant to that vote, we issued Order No. PSC-11-0256-PAA-WS (PAA Order)[5] on June 13, 2011. However, Ms. Wambsgan[6] and OPC timely filed protests of portions of the PAA Order. Also, AUF and YES timely filed cross-petitions concerning portions of the PAA Order. Pursuant to Section 120.80(13)(b), Florida Statutes (F.S.), any issue not disputed is deemed stipulated.

Pending the resolution of these protests, AUF provided notice of implementation of PAA rates subject to refund with interest on July 1, 2011. On July 21, 2011, AUF provided AAI's guarantee of AUF's corporate undertaking in the amount of $2,763,278. By Order No. PSC-11-0336-PCO-WS, issued August 10, 2011 (in this docket), we acknowledged the implementation of the PAA rates.

Pursuant to Order No. PSC-11-0309-PCO-WS (Order Establishing Procedure), issued July 25, 2011, the protests and cross-petitions of the PAA Order were scheduled for formal hearing.[7] Ten service hearings were held throughout the state,[8] and the technical hearing was held on November 29 and 30, and December 1 and 7, 2011.

On November 29, 2011, the first day of the technical hearing, we noted that 23 issues from the PAA Order were deemed stipulated pursuant to Section 120.80(13)(b), F.S., and approved those stipulations. Also, we approved a Type B Stipulation,[9] whereby our staff and AUF agreed that the appropriate leverage formula to be used in setting final rates was the leverage formula in effect at the time of our final action on the Utility's requested increase.

---

[5] Although Order No. PSC-11-0256-PAA-WS, was primarily a PAA Order, as final agency action, we closed Docket No. 080121-WS. Also, although AUF's Chuluota system was not a part of the rate proceeding in Docket No. 100330-WS, we determined that any quality of service problems related to the Chuluota water and wastewater systems would be considered in Docket No. 100330-WS.

[6] Ms. Wambsgan subsequently withdrew as a party.

[7] Order No. PSC-11-0544-PHO-WS (Prehearing Order), issued November 23, 2011, set forth the agreements reached by the parties and the decisions of the Prehearing Officer for purposes of the formal hearing. The Prehearing Order also set out the issues in dispute and the issues deemed stipulated pursuant to Section 120.80(13)(b), F.S.

[8] Service Hearings were held in Greenacres (August 29, 2011); North Ft. Myers (August 30, 2011); Sebring (August 31, 2011); Oviedo (September 1, 2011); Gainesville (September 12, 2011); Palatka (September 13, 2011); Eustis (September 13, 2011); Chipley (September 16, 2011); New Port Richey (October 11, 2011); and Lakeland (October 12, 2011).

[9] A Type B Stipulation is where the Utility and our staff agree on an issue, and the Intervenors take no position.

This Order addresses the Utility's quality of service, the requested final rates, and the appropriate disposition of the interim rates, implemented PAA rates, and regulatory assets.[10] We have jurisdiction pursuant to Sections 367.081 and 367.082, F.S.

B. Prior Rate Case and Monitoring Plans (Docket No. 080121-WS)

Docket No. 080121-WS was established on February 29, 2008, with the Utility's notification of its intent to submit an application for general rate relief for its jurisdictional water and wastewater systems. By Order No. PSC-09-0385-FOF-WS (080121-WS Final Order), we found that the quality of service provided by AUF was marginal for all systems, except the Chuluota system, which was found to be unsatisfactory. Because of concerns with AUF's customer service, we ordered a six-month Monitoring Plan to address: (1) AUF's apparent failure to handle customer complaints properly, (2) AUF's call centers' process for handling complaints, and (3) incorrect meter readings that resulted in improper bills. The Utility was required to submit recordings of calls to its call centers,[11] monthly reports, and other documentation to verify the accuracy of the meter readings and resulting customer bills.[12]

Upon completion of these reporting requirements, our staff presented its recommendation regarding AUF's quality of service at the March 16, 2010, Commission Conference. In addition, our staff provided an update of the Utility's compliance with the Department of Environmental Protection (DEP), county health departments (HDs), and water management districts (WMDs), which oversee AUF's compliance with environmental rules and regulations. After hearing from our staff, interested parties, and several customers at the conference, we concluded in Order No. PSC-10-0218-PAA-WS (April 2010 Order)[13] that, while preliminary results showed substantial improvement in AUF's customer service, additional monitoring was required to ultimately determine the adequacy of AUF's quality of service, and ordered continued monitoring of AUF's customer service through December 31, 2010, including customer complaints, meter reading and billing accuracy, and environmental compliance. We instructed our staff to work collaboratively with AUF and the other parties in order to develop a cost-effective, efficient, and meaningful supplemental monitoring plan.

Our staff met with representatives from AUF, OPC, AG, and several customer representatives to discuss specifics of a cost-effective monitoring plan consistent with our direction. AUF and OPC agreed to a jointly-proposed Phase II Monitoring Plan and submitted their Agreement on Scope of Phase II Monitoring. In this document, they agreed upon the criteria by which quality of service would be measured. By Order No. PSC-10-0297-PAA-WS (May 2010 Order),[14] we approved the Phase II Monitoring Plan jointly proposed by AUF and OPC with certain Commission-ordered additions. The approved Phase II Monitoring Plan entailed monitoring: (1) customer complaints; (2) estimated meter readings; (3) aesthetic water quality for seven of AUF's systems; (4) the filing of reports by AUF and OPC; (5) our staff's

[10] There are 39 issues and 24 stipulations.
[11] This was so that the Customer Service Representative's performance could be evaluated and assessed.
[12] Our staff also verified that a sampling of selected meter readings were accurate.
[13] Issued April 6, 2010, in Docket No. 080121-WS.
[14] Issued May 10, 2010, in Docket No. 080121-WS.

monitoring of environmental compliance; and (6) our staff's further evaluation of customer billing samples through calendar year 2010.

Pursuant to the Phase II Monitoring Plan, AUF filed its Final Phase II Monitoring Report on February 28, 2011.[15] Subsequently, on March 31, 2011, OPC filed its Response to AUF's Summary Report and Current Status of AUF's Quality of Service in Docket No. 100330-WS.

Because OPC's response concerning the Utility's quality of service in Docket Nos. 080121-WS and 100330-WS was combined, our staff combined its discussions on quality of service for the two dockets in one recommendation, and we voted on the quality of service in the combined dockets. Further, pursuant to the PAA Order issued subsequent to this vote, we found that the quality of service provided by AUF remained marginal, though it did appear that the quality of service had improved. Based on this finding, we proposed to reduce the return on equity (ROE) by 25 basis points, and directed our staff to meet with AUF, OPC, and the other Intervenors to develop a Phase III Monitoring Plan. Finally, because the Phase III Monitoring Plan could be adequately handled in Docket No. 100330-WS, we voted, as final agency action, to close Docket No. 080121-WS. This was done with the acknowledgment that, while the quality of service for the Chuluota water and wastewater systems would continue to be evaluated in Docket No. 100330-WS, the rates for those systems were not a part of the rate case in Docket No. 100330-WS. Because our finding on quality of service was protested by both AUF and several Intervenors, a Phase III Monitoring Plan was not developed.

II. APPROVED STIPULATIONS

We have previously approved several stipulated issues, stipulated adjustments, and partially stipulated issues. The stipulated issues are reflected later in this Order as "Stipulated" pursuant to the Prehearing Order No. PSC-11-0544-PHO-WS, issued November 23, 2011, and subsequent decisions by us at the Technical Hearing held on November 29 and 30 and December 1 and 7, 2011. A consolidated list of all stipulations is attached as the Appendix.

III. ABBREVIATIONS AND TECHNICAL TERMS

For reference purposes, the following is a list of acronyms and technical terms which have been used in this Order:

Company and Party Names

AAI	Aqua America, Inc.
ACO	Aqua Customer Operations
AG	Attorney General
ASI	Aqua Services, Inc.
AUF	Aqua Utilities Florida, Inc.
OPC	Office of Public Counsel

[15] This final report was a summary of the other reports.

Company and Party Names (continued)

Pasco County	Pasco County Board of County Commissioners
YES	Yes Companies, LLC d/b/a Arredondo Farms

Technical Terms and Acronyms

ADITs	Accumulated Deferred Income Taxes
AFPI	Allowance for Funds Prudently Invested
AWWA	American Water Works Association
BFC	Base Facility Charge
BSP	Bate Stamp Page
CART	Complaint Analysis and Remediation Team
CATS	Consumer Activity Tracking System
CIAC	Contributions in Aid of Construction
CLP	Connecticut Light and Power Company
CSRs	Customer Service Representatives
CUPs	Consumptive Use Permits
DEP	Department of Environmental Protection
DITs	Deferred Income Taxes
DMRs	Discharge Monitoring Reports
DOL	Director and Officer Liability
DRCE	Deferred Rate Case Expense
EPA	Environmental Protection Agency
ERCs	Equivalent Residential Connections
ERT	Electronic Radio Transmitter
EUW	Excessive Unaccounted for Water
EWQ	Electronic Work Queue
EXH	Hearing Exhibit
F.A.C.	Florida Administrative Code
FDPS	Florida Delinquency Process Summary
FGUA	Florida Governmental Utility Authority
FPL	Florida Power & Light Company
FPUC	Florida Public Utilities Company
FRC	Firm Reliable Capacity
F.S.	Florida Statutes
FWSC	Florida Water Services Corporation
gpd	Gallons per Day
gpm	Gallons per Minute
HD	Health Department
I&I	Infiltration and Inflow
IT	Information Technology
IRC	Internal Revenue Code
kgals	per 1,000 gallons
MACRS	Modified Accelerated Cost Recovery System

MCLs	Maximum Contaminant Levels
MFRs	Minimum Filing Requirements
MOU	Memorandum of Understanding
NARUC	National Association Regulatory Utility Commission
O&M	Operations and Maintenance
PAA	Proposed Agency Action
PBWNs	Precautionary Boil Water Notices
psi	Pounds per Square Inch
POD	Production of Documents
RAFs	Regulatory Assessment Fees
ROE	Return on Equity
SARCs	Staff-Assisted Rate Cases
SFCO	Short Form Consent Order
SMCLs	Secondary Maximum Contaminant Levels
SSU	Southern States Utilities, Inc.
TR	Transcript
TTHMs	Total Trihalomethanes
U&U	Used and Useful
USOA	Uniform Systems of Accounts
WCI	Water Conservation Initiative
WMDs	Water Management Districts
WRB	Water Rate Band
WTP	Water Treatment Plant
WWRB	Wastewater Rate Band
WWTP	Wastewater Treatment Plant

IV. QUALITY OF SERVICE

A. Quality of Service

Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), we determine the overall quality of service provided by the utility by evaluating the quality of the utility's product, the operating condition of the utility's plant and facilities, and the utility's attempt to address customer satisfaction. AUF's compliance history with the Department of Environmental Protection (DEP), County Health Departments (HDs), and Water Management Districts (WMDs), and comments or complaints received from customers is also considered.

AUF, OPC, Pasco County, and YES witnesses provided testimony concerning the quality of product and operating condition of AUF's 58 water and 27 wastewater systems. Our staff sponsored 19 DEP, HD, and WMD witnesses who provided testimony regarding each of AUF's systems located within their respective areas of responsibilities. In addition, testimony was provided describing AUF's attempt to address customer satisfaction. AUF, OPC, YES, Pasco County, and staff witnesses testified regarding service hearings, customer complaints, correspondence, and prior AUF monitoring plans. Also, customers provided testimony at ten service hearings and provided comments at nine customer meetings.

1. Parties' Arguments

a. AUF

AUF asserted that the overwhelming evidence in this proceeding demonstrates that the Utility's overall quality of service is good as a result of its ongoing quality control initiatives, customer service enhancements, and water quality improvement projects.

AUF argued that there is undisputed evidence that AUF is in compliance with the applicable DEP, HD, and WMD standards for the vast majority of its water and wastewater systems, and that notably, no witness for OPC testified as to the operational condition of AUF's plants and facilities. Furthermore, AUF maintained that none of the OPC witnesses that testified on water and wastewater quality had any experience in water or wastewater quality analysis. AUF noted that, although Pasco County and YES attempted to argue that the quality of AUF's water and wastewater service was deficient, close review of the record showed that those arguments lack credible evidentiary support. Neither Pasco County nor YES offered any expert testimony to support their claims regarding alleged water and wastewater quality deficiencies.

AUF also noted that it continues to take steps to address billing and payment issues raised by customers in the last rate case, and in customer meetings and service hearings in the instant case. AUF argued that it has taken significant steps to address customer satisfaction in the area of aesthetic water quality. AUF asserted that a downward trend in the number of water quality complaints from customers in the seven systems selected for the Utility's 2008 Original Aesthetic Program shows that customers are seeing the benefits of the Utility's aesthetic water quality improvements. In addition, AUF argued that the record shows it has proactively established its own quality of service metrics as part of a robust quality assurance program to achieve and maintain customer satisfaction, and has made steady improvement in the quality of customer service since the last rate case.

b. OPC

OPC argued that the overall analysis of AUF's systems related to DEP compliance shows persistent water quality problems. The numerous violations, consent orders, and non-compliance incidents over the last three years demonstrate that AUF is routinely out of compliance with DEP and water standards that frequently result in an unsatisfactory product.

OPC argued that our mission statement states that we are committed to ensuring that Florida's consumers receive some of their most essential services, including water and wastewater, in a safe, affordable, and reliable manner. According to OPC, we should find that AUF provides unsatisfactory service at unaffordable rates. Specifically, OPC argued that the Utility's overall quality of service is unsatisfactory as a result of its ongoing poor performance in the areas of water quality, billing, and customer service, despite an ongoing monitoring program. According to OPC, customers' testimony confirms that no significant improvements have been made. Further, OPC argued there was no significant improvement in the quality of service based on the eight months of additional Phase II monitoring.

c. YES

YES asserted that the service hearing testimony, particularly the testimony provided at the Gainesville service hearing, demonstrates that the customer service, water quality, and billing practices of AUF are deplorable, unsatisfactory, and do not warrant a rate increase. Moreover, YES argued that the evidence demonstrates that the Utility's quality of service to customers at Arredondo Farms has declined since its last rate case, as evidenced by a 400 percent increase in the number of customers who testified at the Gainesville service hearing in 2011 as compared to the customer meeting held in 2010.

YES argued that the evidence showed that AUF has been on notice for years of excessive sedimentation and hard water at Arredondo Farms, but failed to take any action to remedy the problem. YES demanded that AUF should not be granted a rate increase on its promise to improve water quality; rather, AUF should not receive a rate increase unless and until water quality at Arredondo Farms has improved. YES also asserted that overwhelming evidence shows that AUF provides substandard and deficient customer service. In particular, the Gainesville service hearing testimony makes clear that the Utility's Customer Service Representatives (CSRs) serving Arredondo Farms are particularly rude and condescending.

d. Pasco County

Pasco County's position was that the operational conditions of AUF's plants and facilities are unsatisfactory, as demonstrated by the numerous warning letters and consent orders issued by regulatory agencies. Pasco County asserted that rather than be out front of the issues and regularly maintain and upgrade its systems, AUF waited for a problem to occur before spending money and time to address obvious issues which affect the environment. Pasco County noted that AUF does not even do land surveys prior to purchasing systems. Pasco County maintained that this is irresponsible and confirms the lack of institutional control over AUF's systems.

According to Pasco County, Rule 25-30.433(1), F.A.C., states that the testimony of a utility's customers shall be considered in our determination of the utility's quality of service. Pasco County maintained that the extensive testimony at the New Port Richey service hearing clearly shows that AUF's water quality is poor.

e. AG

The AG adopted the position of the OPC on water quality and added that water safety should be of great concern to this Commission. The AG argued that the DEP witnesses identified ongoing concerns about water safety, and the perception of many customers is that the water is not safe to drink. The AG urged us to take steps to monitor the safety of AUF's water and take whatever steps necessary to ensure that customers can feel safe to drink the water and use it for cooking and bathing.

The AG noted that numerous customers testified during the service hearings that AUF's overall quality of service is unsatisfactory. According to the AG, many of the same problems

have persisted since the last rate case. If the water quality was satisfactory, customers would not mind the cost of water as much; however, customers testified that they are paying excessive rates for water they cannot use. The AG supported the position espoused by OPC and concurred with OPC witnesses' analyses of these complaints as well as those provided during the 2010 customer meetings and those filed with this Commission.

2. Commission Analysis

a. Quality of Product and Operating Condition

As noted by AUF witness Luitweiler, many of AUF's systems were constructed 40 to 50 years ago. The majority of AUF's water systems are small systems that serve primarily residential customers, utilizing basic chlorination for treatment. The witness also noted that AUF's wastewater systems vary in size and complexity but generally employ traditional wastewater treatment methods, such as screening, extended aeration, clarification, disinfection, and effluent disposal by spray irrigation or percolation ponds.

Witness Luitweiler testified that the water quality from AUF's water and wastewater facilities is good, and the facilities are in good operating condition. The witness asserted that AUF complies with DEP and applicable WMD regulations, and has a clearly defined strategy to maintain compliance. Further, the witness maintained that AUF has a strong commitment to customer service and is dedicated to attempting to address customer satisfaction as shown by, among other things, its ongoing efforts to improve the aesthetic quality of water for its customers.

Witness Luitweiler stated that AUF is committed to operating its water and wastewater systems in compliance with all applicable standards of DEP, the various HDs, and the WMDs. He asserts that most of the systems have been recently inspected by the applicable regulatory agencies and have no outstanding compliance issues. He further asserted that there have been no Notices of Violation issued for any of the systems since the Final Order was issued in AUF's last rate case.

Witness Luitweiler testified that AUF has taken aggressive steps to resolve all of the environmental compliance issues identified in the 2008 rate case. The witness noted that at the close of the evidentiary record in the 2008 rate case, AUF had open consent orders for five systems, including the Chuluota, The Woods, and the Zephyr Shores water systems, and the Village Water and the South Seas wastewater systems. All of those consent orders have now been closed with the exception of the Village Water consent order.

Witness Luitweiler acknowledged that there are three new outstanding consent orders related to: (1) effluent disposal at the Village Water wastewater system; (2) storage capacity at the Sunny Hills water system; and (3) Gross Alpha Particle Activity at the Peace River water system. However, he opined that AUF's environmental compliance record in Florida is excellent. Witness Luitweiler admitted that, as with any type of aging infrastructure, there will be maintenance and repair requirements which, at times, will present environmental compliance

challenges. He asserted that the fact that virtually all of its systems are in compliance with environmental requirements is clear evidence that AUF is committed to environmental compliance. He concluded that no further action by this Commission was needed to ensure the quality of AUF's water and wastewater product and the operating condition of its facilities.

Our staff sponsored 19 witnesses from the DEP, HD, and WMD that testified regarding each of AUF's systems located within their respective areas of responsibility. These witnesses testified that, generally: the overall operation and maintenance of AUF's systems were in compliance with DEP, HD, or WMD rules and regulations and the condition of AUF's facilities is satisfactory, with some systems having improved and others having remained the same. Witnesses testified that inspection records are satisfactory and most of the recent sanitary survey inspections indicated no deficiencies, although some did have a few minor deficiencies which AUF corrected in a timely manner. Staff-sponsored DEP witness Dodson testified that it is not uncommon to find a number of small deficiencies at any facility. She stated that in general, AUF is doing a good job of maintaining these facilities. Staff witness Lott, who is responsible for review of capacity analysis reports, 4-log virus inactivation studies, sole source aquifer studies, and permit determinations for all public drinking water systems in the DEP Central District, testified that the permits he reviewed that have not yet been cleared for service are not indicative that the system is out of compliance, only that a full clearance has not been submitted for the permit within the five-year timeframe. When staff witness Sloan was asked to compare the AUF facilities in Polk County to other utilities, she indicated that AUF's systems are in good condition and comparable to other privately-owned utilities or county water systems.

Representing the Northwest WMD, witness Chelette testified that AUF was not found to have significant compliance issues. Witness Walker, on behalf of the St. Johns River WMD, testified that in general, AUF does not submit compliance submittals in a timely manner, but once the data is requested, the Utility is able to provide it. Witness Yingling, with the Southwest Florida WMD, found no compliance issues.

In review of the 19 staff-sponsored witnesses' testimony regarding AUF's compliance history, OPC witness Vandiver testified that the testimony, whether taken individually or as a whole, is persuasive in determining that AUF's quality of service is unsatisfactory. The witness pointed out that 11 of these staff-sponsored witnesses indicated that AUF's overall operation and maintenance of the treatment plants and distribution systems were satisfactory or met minimum requirements, giving the implication that the quality of service is satisfactory. However, witness Vandiver also noted that 28 of the 62 systems (45 percent) have issues affecting the quality of service provided by AUF, including 78 quality issues involving: (1) systems operating without a permit; (2) multiple systems exceeding maximum contaminant levels (MCLs), (3) failure to notify the public and DEP of positive E. coli test results, (4) sanitary sewage overflows, (5) plant maintenance issues, and (6) numerous failures to submit timely reports. Witness Vandiver further noted that nine of the staff witnesses listed 23 issues that were included in consent orders; with an additional eight witnesses who identified 34 issues that were included in warning letters or non-compliance letters. In her testimony, witness Vandiver found it troubling that the staff witnesses identified pages of violations, non-compliances, and other deficiencies, and yet they deem the overall quality of the plant operations satisfactory. She argued that the overall picture

painted by this staff-sponsored testimony is of a company that routinely fails to follow the rules that are put in place to protect the customers.

Witness Vandiver pointed out that while some may consider reporting requirements inconsequential in a general sense, it is these reporting requirements that allow regulatory authorities to monitor the level of the quality and safety of the plant operations. When the witness compared the magnitude of the customer testimony, as well as the number of quality issues listed by the staff witnesses, she found that they frequently address the same issues. The OPC witness noted that the customers are the ones who are harmed if the utility fails to report instances where it exceeds MCLs or when poorly maintained facilities result in sewage spills or main breaks and customers are subjected to potential health risks when the company fails to adequately and properly issue precautionary boil water notices (PBWNs).

OPC witness Poucher testified that he reviewed DEP's voluminous files dealing with water quality issues with all of the AUF systems dating as far back as 2002, as well as our staff's recommendation dealing with water quality that was part of the original PAA proceeding in this docket. The witness noted that during the 2008 rate case there were several water quality violations that were unresolved at the time of the hearings. He also stated that having had an additional year to clean up its act, so to speak, AUF appears to have resolved its existing formal violations that have been identified by DEP.

OPC witness Woodcock testified that since 2007, there have been a total of 26 primary water quality violations, 20 total coliform violations, 15 secondary violations, and 15 violations for late or not reported parameters. Since 2010, there have been a total of 3 primary water quality violations, 6 total coliform violations, 2 secondary violations, and 1 violation for late or not reported parameters. Since 2007, the AUF wastewater treatment plants have been issued minor out of compliance notices 96 times and significant out-of-compliance issues 39 times.

We note that the Utility currently has open DEP consent orders for the Village Water wastewater system and the Peace River and Sunny Hills water systems. In addition, the Utility currently has open warning letters for the Jasmine Lakes, Palm Terrace, and South Seas wastewater systems, and the Interlachen Lakes Estates/Park Manor and Village Water water systems. Systems with DEP consent orders and warning letters that have been closed during the last several years include the Chuluota, The Woods, Twin Rivers, Tomoka View, Zephyr Shores, and Jungle Den water systems, and the Jasmine Lakes, Palm Terrace, South Seas, and Arredondo wastewater systems. The status of each system that is currently under enforcement is discussed below.

(1) Open Consent Orders

As shown in the table below, AUF currently has three open consent orders related to the Village Water wastewater treatment plant (WWTP) regarding effluent disposal, the Peace River water treatment plant (WTP) regarding Gross Alpha Particle Activity above MCLs, and the Sunny Hills WTP regarding storage capacity and water monitoring concerns.

Open Consent Orders		
System	County	Current Status
Village Water WWTP	Polk	DEP Consent Order
Peace River WTP	Hardee	DEP Consent Order
Sunny Hills WTP	Highlands	DEP Consent Order

(a) Village Water WWTP

AUF witness Luitweiler testified that the previous owner of the Village Water wastewater system constructed the ponds below the ground water table. A combination of DEP regulations, policies, and actions has created an intractable situation for this small, predominantly industrial wastewater system. AUF continues to pursue two solutions: (1) leasing land and constructing a spray field and associated piping, and (2) entering into an agreement with the City of Lakeland and building infrastructure to convey treated effluent through an effluent disposal pipeline to an electric generating station. Pursuant to the consent order, AUF has executed a long-term lease with a nearby property owner for land for a spray field for effluent disposal, and has completed the soil evaluation and the preliminary design of the spray fields. The findings of the soil evaluation prompted AUF to negotiate with DEP an extension of the deadlines in the consent order to give AUF time to take one last look at an alternative involving use of the effluent disposal system operated by the City of Lakeland. Discussions with the City of Lakeland are continuing; however, without at least partial funding from the WMD, witness Luitweiler believes that this alternative is not likely to be economically viable. The WMD has advised that funding is not likely to be available. Both solutions are prohibitively expensive for this system with 48 industrial customers. The WWTP has operated for 30 months with only one exceedance of a permit limit reported on monthly Discharge Monitoring Reports (DMRs). AUF has continued a dialog with DEP about the impact (or lack thereof) of the status quo, regulatory obstacles to potential alternatives, and the potential impact on rates (which is substantial). Witness Luitweiler testified that just the capital cost of the spray field solution alone is approximately $354,915, and just the capital cost of the Lakeland interconnect solution alone is approximately $527,555.

Staff-sponsored DEP witness Greenwell testified that the Village Water wastewater facility was significantly out of compliance and that the Utility has been unable to address the long-term disposal solution for the ponds and the inadequate maintenance of the ponds. Witness Greenwell pointed out that a consent order was executed on August 21, 2007, for operating the facility without a permit and failure to maintain the ponds, including proper access control. The consent order has been amended multiple times and remains open. Witness Greenwell further stated that while AUF still remains out of compliance with the pond issue, the consent order gives them a certain amount of relief and AUF is attempting to find a corrective action to address the pond disposal issue.

(b) Peace River WTP

AUF witness Luitweiler and staff-sponsored witness Greenwell testified with respect to the DEP consent order from June 2010 for the Peace River water system that required AUF to

perform bi-monthly sampling for Gross Alpha Particle Activity and Combined Radium for 24 consecutive months. According to witness Luitweiler, AUF also conducted a pilot study to evaluate possible treatment methods. Although the facility is currently in compliance with the MCLs for Gross Alpha Particle Activity and Combined Radium, witness Luitweiler pointed out that results of the bi-monthly sampling triggered a requirement under the consent order to begin to design radium removal treatment. Design was completed and a permit application was submitted to DEP in June 2011. DEP issued a construction permit on August 18, 2011. AUF executed a contract with the supplier of the treatment system and bid the construction in September 2011. At the time of the hearing, AUF was in discussions with the two lowest bidders (approximately $139,000 and $144,000) about qualifications and interpretation of the bids, and expected to make an award by the end of October 2011. AUF anticipated completion of construction before February 15, 2012 (180 days from the issuance of the DEP permit, as required under the consent order). AUF has requested that the cost of this pro forma project be included in rate base. We discuss inclusion of the pro forma adjustment later in this Order.

(c) Sunny Hills WTP

AUF witness Luitweiler testified that the Sunny Hills consent order, which was executed in December 2010, involved DEP's determination that the existing storage capacity for the water system was not sufficient. Therefore, DEP required AUF to, among other things, increase its current storage capacity. AUF submitted plans and a permit application to DEP for a new storage tank and related piping. DEP issued a construction permit for installation of the storage tank, piping, and related improvements required by the consent order. Witness Luitweiler indicated that AUF executed a contract for construction of the tank and improvements in the amount of $231,076, effective September 14, 2011. At the time of the hearing, work was underway and AUF anticipated the project to be complete and in service in December 2011. Witness Luitweiler explained that AUF is requesting that the cost of this pro forma project be included in rate base. Again, we discuss inclusion of this pro forma adjustment later in this Order.

According to staff-sponsored DEP witness Penton, the Sunny Hills consent order was aimed at addressing the Utility's: (a) failure to provide a total useful finished water storage capacity of at least 25 percent of the system's maximum day water demand as required under Rule 62-555.320(19)(a), F.A.C.; (b) failure to provide satisfactory results of a 20 sample bacteriological well survey before placing Well 1 into permanent service after having been out of operation for more than six months, as required under Rule 62-555.315(6)(b), F.A.C.; and (c) failure to perform routine nitrate/nitrite monitoring and raw bacteriological monitoring of the water produced by Well 1, when it was producing water for public consumption in July and August 2007, as required under Rules 62-550.500, 62-550.512, and 62-550.518(2), F.A.C. Witness Penton stated that the consent order is still in force. She testified that the conditions related to the bacteriological well survey and the failure to perform routine nitrate/nitrite monitoring have been addressed. The consent order remains open to resolve the water storage capacity issue.

(2) Open Warning Letters

AUF has four open warning letters related to the Jasmine Lakes and Palm Terrace wastewater systems regarding treatment plant operational compliance concerns, the Interlachen Lakes Estates/Park Manor water system related to source water testing positive for E. coli, and the Village Water water system related to lead and copper monitoring, as shown in the table below.

Open Warning Letters		
System	County	Current Status
Jasmine Lakes WWTP	Pasco	DEP Warning Letter
Palm Terrace WWTP	Pasco	DEP Warning Letter
Interlachen Lakes Estates WTP	Putman	DEP Warning Letter
Village Water WTP	Polk	PCHD Warning Letter

(a) Jasmine Lakes and Palm Terrace WWTP

AUF witness Luitweiler testified that AUF moved quickly to respond to the issues identified by DEP at its Jasmine Lakes and Palm Terrace wastewater facilities. AUF met with DEP on July 28, 2011, to discuss all actions taken. Furthermore, witness Luitweiler stated that AUF has provided DEP thorough written responses which document that the issues identified by DEP have been resolved. For Jasmine Lakes, witness Luitweiler pointed out that DEP staff conducted an inspection of the facility on September 8, 2011, and indicated that all outstanding maintenance issues had been satisfactorily addressed and that a closure letter from DEP would be forthcoming.

Witness Luitweiler noted that DEP conducted a final inspection of the Palm Terrace system on October 5, 2011, and indicated at that time that all items had been satisfactorily addressed and that a closure letter would be forthcoming. Witness Luitweiler indicated that the most substantive issue relates to the installation of a replacement force main at Palm Terrace to convey treated wastewater effluent to a spray field. The prior main had been installed by a previous owner before the system was acquired by AUF, and traversed a concrete apron conveying storm water to a Pasco County storm water pond. AUF applied to Pasco County for a permit to replace the main on June 1, 2011, and received the permit on July 20, 2011. Witness Luitweiler confirmed that construction was completed on August 3, 2011, and DEP was present to witness the completion and testing of the new force main.

Staff witness Greenwell testified that AUF received warning letters from DEP for Jasmine Lakes and Palm Terrace on June 23, 2011, for being out of compliance for maintenance issues. Although these warning letters are still outstanding, witness Greenwell explained that AUF has taken corrective action and the systems are substantially in compliance. Concerning Palm Terrace, at the time of the hearing, witness Greenwell indicated that DEP had not decided whether to attempt to enter into a consent order with AUF. Witness Greenwell discussed the plant operational situation at Palm Terrace and acknowledged that a 2,000 gallon discharge into a storm water retention pond was an unauthorized discharge and would be considered a violation

of DEP regulations. Concerning the above-ground pipe that broke causing the discharge, witness Greenwell suggested that it certainly was constructed in a manner that did not seem consistent with sound engineering practices. However, witness Greenwell testified that AUF appears to be moving towards amending the compliance problems. When asked about the Palm Terrace plant being taken off line with the wastewater sent to a regional plant, witness Greenwell indicated that for smaller plants, regional control would have clear advantages; however, he does not consider Palm Terrace to be a small plant. Witness Greenwell was not aware of any discussions to take the facility off line.

While not related to the DEP warning letter issued for Palm Terrace, Pasco County raised a concern regarding whether AUF had the legal authority to maintain a required overflow pipe on County property. AUF witness Luitweiler explained the dispute by indicating that prior to AUF's acquisition of the Palm Terrace wastewater system, and in accordance with normal utility practice, an overflow pipe was installed in the berm between the percolation pond and an adjacent Pasco County storm water management pond. He pointed out that the purpose of the pipe was to prevent water in the pond from ever flowing over the top of the berm in an uncontrolled manner that could erode and eventually induce failure of the berm. Although the witness maintained that the current location of the pipe is legally permissible, he noted that, in an attempt to resolve the matter without litigation, AUF engaged a consulting engineer and a lawyer to secure an easement from the County for this pipe. Meanwhile, witness Luitweiler explained that AUF has placed a cap on the pipe which can be removed in an emergency, but that otherwise provides assurance to the County that the pipe is not discharging into the storm water basin.

Pasco County witness Mariano testified that some nearby residents of the Palm Terrace WWTP alerted the County to a possible discharge to a County storm water pond adjacent to AUF's effluent storage ponds. The witness visited the site with some County personnel and residents in May 2011. At that time, he observed a PVC pipe crossing a County storm water spillway. The pipe was above ground and appeared to be recently repaired, as a small piece of cut PVC pipe was on the ground next to the repair. The replaced pipe was visible behind AUF's fence. The repaired joint pipe was leaking slowly at the time of the visit. Witness Mariano indicated that that the pipe carries treated effluent to the AUF's disposal spray field. A DEP letter indicated that a break in this pipe discharged effluent to the County's pond on May 17, 2011. Witness Mariano noted the leaking pipe and discarded PVC were potential violations of the County storm water regulations, but the County chose not to prosecute these violations if AUF agreed to bury the pipe. AUF had since applied for and received a County right-of-way use permit to place the pipe underground.

Additionally, witness Mariano noted that while viewing the above-ground pipe, he noticed percolation in the County's storm water pond while effluent was flowing through the pipe. That raised concerns regarding a possible leak in AUF's effluent pipe or another source of discharge of effluent to the County pond. Witness Marino testified that County personnel investigated historical records and found a plan sheet showing a direct pipe connection from AUF's ponds to the County's pond. With the assistance of AUF personnel, a direct pipe connection was discovered. Witness Mariano pointed out that the County has no record that

would give AUF the authority to maintain this pipe on County property or to allow the direct discharge of its effluent to the County pond. The County asked AUF to provide any documentation it had regarding this matter. AUF indicated that it had no record of any permit or application to Pasco County. Witness Mariano acknowledged that AUF had replaced the pipe, noting that the pipe had to go underground to meet code. Pasco County gave an easement to AUF because that pipe had to go underground a long way to get to AUF's spray field.

Pasco County argued that if AUF had done a simple land survey at the time it purchased the Palm Terrace system, it would have learned about the easement issue as well as the above-ground pipe at that time. Pasco County maintained that AUF acted irresponsibly in this instance and that it confirms the lack of institutional control over AUF's systems, which is costing its customers in higher rates.

(b) Interlachen Lakes Estates/Park Manor WTP

Staff witness Montoya testified that a DEP warning letter was sent out to AUF on August 9, 2011, advising AUF of possible violations resulting from July 2011 source water tests that showed the system tested positive for E. coli from Well No. 2. AUF failed to notify DEP, complete repeat sampling per the Ground Water Rule, and issue Public Notices within 24 hours of knowledge of the E. coli positive result. AUF has since performed proper repeat sampling and issued a public notice. However, witness Montoya pointed out that DEP has deemed the well contaminated and that AUF has decided to take steps to submit an application for 4-Log approval to deal with the microbial contamination. Well No. 2 has been taken off line and the E. coli issue has been resolved. Witness Montoya indicated that DEP drafted a consent order for failure to notify DEP and to issue a public notice within the required time, and, at the time of the hearing, planned to send the consent order out to AUF. AUF is replacing the second well and has filed an application for 4-Log approval with DEP. Witness Montoya stated that this shows DEP that AUF is monitoring its bacteriological results and the quality of its water.

(c) Village Water WTP

Staff witness Sloan testified that on January 20, 2011, the Polk County HD sent warning notices to AUF for failure to sample for nitrate/nitrites in 2010 for the Orange Hill/Sugar Creek water system, Gibsonia Estates water system, and Rosalie Oaks water system. At the hearing, witness Sloan indicated that those notices are now closed and there is a new warning notice for the Village Water water system issued November 12, 2011, for lead and copper monitoring during June through September 2011. The warning letter will be closed once AUF samples next year.

(3) Other Compliance Concerns

(a) Chuluota WTP and WWTP

AUF witness Luitweiler testified that in AUF's last rate case, we denied a rate increase for both Chuluota's water and wastewater systems because we found that the quality of service

for those systems was unsatisfactory. That finding was based primarily on water quality compliance issues involving total trihalomethanes (TTHMs), which were ongoing with the DEP at the time of the last rate case. Since the last rate case, witness Luitweiler points out that AUF has made significant improvements to the Chuluota water system and, to date, has invested over $2.1 million dollars in plant improvements to address the TTHM issue. As a result, a consent order was closed in December 2010, and a follow up inspection in January 2011 noted that the plant was in good operating condition with no deficiencies.

Witness Luitweiler testified that there is a reference in staff-sponsored DEP witness Miller's testimony that AUF had not implemented public access reuse for the Chuluota WWTP. However, witness Luitweiler concluded that AUF had worked diligently and cooperatively with the City of Oviedo to bring into operation the reuse connection between the Chuluota effluent disposal system and the City's irrigation system. Since mid-October, AUF has been providing substantial volumes of reuse water to the City's irrigation system on a daily basis. Witness Luitweiler asserted that the system is now in compliance.

Staff witness Miller later acknowledged that AUF just began providing public access reuse to the City of Oviedo on October 18, 2011. This system is currently still in violation of its annual average flow for the effluent disposal of the spray field; however, the annual average flow should be coming down. Witness Miller stated that DEP is not planning on taking any formal enforcement action because it appears that AUF is on the way back into compliance.

(b) River Grove WTP

Test results for TTHMs show the River Grove system exceeding the MCL. Witness Luitweiler testified that AUF has evaluated a number of options to cost-effectively address this issue. Based on that evaluation, AUF is currently negotiating an agreement with Putnam County to purchase water. Witness Luitweiler indicated that available water quality information reviewed from Putnam County currently indicates that its water is in compliance with the standards for TTHMs. AUF anticipates entering into the agreement with the County before the end of the year, obtaining permits for the project, and installing the interconnect in the first quarter of 2012.

(c) Jungle Den WWTP

At his November 16, 2011 deposition, AUF witness Luitweiler testified that he believed that a DEP inspection and November 5, 2010 noncompliance letter that listed several deficiencies at the Jungle Den WWTP, percolation ponds, and spray field, were conducted pursuant to an application for a permit renewal for Jungle Den. Witness Luitweiler indicated that AUF's consulting engineer prepared a full response, filed December 7, 2010, that addressed the DEP issues. He believes that the deficiency issue has been resolved with DEP. In his direct testimony, staff witness Miller testified that DEP had no records indicating a response from AUF regarding various deficiencies addressed in the noncompliance letter. At the hearing, he updated his testimony by stating that the condition of the plant was addressed in the DEP permit renewal

and the compliance schedule is part of the permit. Therefore, it appears that AUF is satisfactorily addressing the compliance issue.

(d) Peace River WWTP

AUF witness Luitweiler testified that there is a reference in staff witness Greenwell's testimony that the Peace River WWTP is out of compliance for undefined maintenance issues. Witness Luitweiler stated that a warning letter has not been issued for this matter, and that a construction permit was issued for installation of a surge tank, digester tank, and other improvements at this facility on February 21, 2011, which AUF believes addresses the maintenance issues mentioned by witness Greenwell. Witness Luitweiler pointed out that construction drawings for the project are complete and AUF is reviewing a proposal from a contractor. We note that witness Greenwell did not specify the maintenance issues referred to in his testimony. Based on witness Luitweiler's response, it appears that AUF has adequately addressed the maintenance issue at this system.

(e) South Seas WWTP

AUF witness Luitweiler testified that DEP issued a Short Form Consent Order (SFCO) for the South Seas WWTP for permitting and maintenance issues, and for having released wastewater without providing proper treatment. AUF completed all the requirements which included repairs to tanks and other various repairs and upgrades to the system under the permit conditions. DEP inspected the facility in September 2011 and issued a SFCO to close out all outstanding issues at this facility on October 11, 2011.

Staff witness Eck testified that the South Seas WWTP had been under DEP enforcement for the past three years and that AUF had worked with DEP to resolve the case. AUF made repairs to tanks and other various repairs and upgrades to the system.

(f) Precautionary Boil Water Notices

AUF argued that it follows DEP guidelines on issuing PBWNs, and that not one of the DEP witnesses gave any indication that AUF's policies and practices for issuing these notices failed to comply with DEP guidelines. AUF also believed that the evidence showed that Pasco County's policies and practices with respect to PBWNs is virtually the same as those of AUF.

AUF witness Luitweiler testified that AUF is committed to ensuring, and works hard to ensure, that its customers are properly notified. He testified that most boil water notices are precautionary advisories issued as a result of main breaks. If the main breaks or the resultant shut-down results in a loss of pressure to the system below 20 psi, Florida regulators require issuance of a PBWN to the affected customers because of a remote possibility that depressurization of the system could result in contamination. Witness Luitweiler explained that lifting the advisory usually requires collection of two sets of bacteria samples on two consecutive days once system pressure is restored. The laboratory test requires at least 24 hours to complete

the process. Therefore, these advisories are normally in effect for three days, and sometimes longer if the laboratory is not open, for instance over a weekend or holiday.

Witness Luitweiler testified that the verbiage in the mandatory notice is dictated by the regulations and can give the impression that contamination of the water system has occurred. However, in almost every case, tests come back clear demonstrating that there never was any contamination of the system. The notices are required and are issued out of an abundance of caution to protect susceptible persons from a remote possibility of contamination. Witness Luitweiler acknowledged that immediate notification to all affected customers is not a realistic expectation; however, Florida regulators require notification within 24 hours of a triggering event.

In discussing how the PBWNs are issued, witness Luitweiler testified that AUF, and most water systems in Florida, predominantly use hand delivery of notices to reach customers, particularly if the number of affected customers is fewer than a couple hundred. This process can take time and is labor intensive depending on the size and make-up of the system. However, the process is generally effective and meets the requirements of the regulations. Witness Luitweiler explained that AUF's notices generally also include the address for the AUF website and a phone number to allow customers to call for more information. Witness Luitweiler pointed out that AUF also posts information internally for its Customer Service Representatives (CSRs) in the call centers, enabling CSRs to provide information to customers who might experience a service outage, including when service is expected to be restored and whether a PBWN is or will be in effect.

For large scale outages or advisories affecting hundreds or thousands of customers, AUF posts a notice on the AUF website. AUF also posts updates and notices when an advisory is lifted. In discussing AUF's ability to utilize phone notification, witness Luitweiler testified that AUF has available a system for launching a phone campaign to customers for whom the Utility has phone number records. AUF utilizes this system in Pennsylvania, and occasionally in other states, including in Florida when circumstances warrant. The system can call thousands of numbers and deliver a short message in a matter of minutes. The message will direct customers to the AUF website where more information and updates are posted. The message will also typically provide a phone number which customers can call for more information. However, neither this method, nor any other method, is a perfect method for notifying customers. It has been witness Luitweiler's experience that there is no fail-safe process to ensure that every customer receives timely notification of a triggering event. Wind and rain can cause hand delivered notices to be lost or damaged. Notices might not be seen by residents until they enter or exit their home by the door on which the notice is posted. Phone calls might not reach every resident, might not be answered, or might go to a voice message and/or answering machine and not be played back immediately. If a radio or television advisory is given, customers may not have radios or TVs tuned to the station carrying the notice at the time it is broadcasted. Further, witness Luitweiler pointed out that newspaper notices cannot be expected to provide timely notification.

AUF issues PBWNs in advance of planned outages necessary to make system improvements. For example, witness Luitweiler testified that the clearwells at the Tomoka View and Twin Rivers water systems had to be taken out of service to install liners to address a directive from the Volusia County HD. AUF provided advance PBWNs and delivered bottled water to customers. With the implementation of the federal Ground Water Rule in Florida in 2010, witness Luitweiler indicated DEP has required additional testing of raw water (prior to disinfection) for bacteria, and has required PBWNs to be issued in circumstances where bacteria are found in the well, even if simultaneous sampling of the disinfected water at the point of entry or in the distribution system are clear of bacteria. This new rule has resulted in AUF issuing several PBWNs in the past two years. Additionally, witness Luitweiler explained that a Tier 1 PBWN has long been required when a combination of routine and follow-up distribution system samples on consecutive days test positive for a combination of total and fecal coliform bacteria. Such an event is generally considered to be an indication of bacterial contamination of the distribution system warranting prompt and aggressive notification of customers to avoid or minimize exposure. Witness Luitweiler stated that AUF has never experienced a violation caused by this category of circumstances.

Witness Luitweiler described AUF's response to incidents at Jasmine Lakes, Palm Terrace, and Chuluota. On April 16, 2010, AUF issued a PBWN at the Jasmine Lakes system when well test results were found positive for E. coli bacteria. In that situation, AUF notified customers using an outbound phone campaign with a recorded message, posted the notice on its website, and provided a copy to the after-hours call service. In November 2010, valve replacements and installation of new valves prompted notifications at Palm Terrace in conformance with DEP regulations. Phone notification was also used during this event. In May 2011, a break on a 4-inch water main at Palm Terrace occurred and PBWNs were hand delivered. Another main break occurred on a 4-inch main in Palm Terrace in August 2011; in that case, AUF implemented an emergency telephone notification to 1,660 phone numbers. A June 2011 planned outage was implemented in the Chuluota system to accommodate a project by Seminole County to replace and re-align storm water piping and replace sidewalks. Witness Luitweiler indicated that AUF prepared and distributed, by hand delivery, notices to potentially affected customers of anticipated localized water service interruptions necessitated by the main relocation work.

OPC witness Dismukes testified that the PBWNs were of particular concern for the customers and provided several examples of customer complaints about notices being untimely or non-existent. OPC witness Vandiver prepared a summary of staff witness testimony addressing PBWNs. She reported that in that list, there are eight witnesses that addressed 183 instances where notices were provided. She noted that one witness, staff witness Rodriquez, did not identify how many instances, but referenced occasions since 2009 that DEP had been notified days after the interruption of service by the utility through the local health department who had received complaints from customers. Witness Vandiver pointed out that, except for staff witness Rodriguez, the other staff witnesses made statements that they have been notified timely and that AUF had timely notified the customers. However, witness Vandiver believed that these statements appear to be based on self-reporting by AUF. She noted that staff witness Carrico indicated that her office was properly notified of each of these PBWNs in a timely

manner, the utility documents submitted to DEP indicate that PBWNs were issued to their customers, and witness Carrico had not been made aware of any incident when PBWNs were not issued. Witness Vandiver pointed out that none of the staff witnesses testified that they spoke with any customers who confirmed that the PBWNs were in fact distributed and received timely.

In its brief, Pasco County argued that AUF had failed repeatedly to properly and fully inform its customers of PBWNs in the Jasmine Lakes and Palm Terrace service areas. Pasco County believed that AUF provided no indication that it even investigated the complaints and asserted that AUF certainly made no attempts to improve its delivery of the PBWNs. Pasco County maintained that customers are not satisfied and AUF is doing little if anything to correct the situation.

Pasco County witness Mariano testified that, as a County Commissioner, he received complaints about AUF PBWNs. During 2011, he received complaints from the Jasmine Lakes and Palm Terrace service areas where AUF failed to properly and fully inform its customers of the PBWNs. Witness Mariano assisted the residents in preparing a Boil Water Notices Survey and sending the completed surveys to Governor Rick Scott with a copy to us. Witness Mariano explained that approximately 340 customers completed the survey. He believed that the results of the survey indicate that AUF has been inconsistent in notifying customers about the need to boil water. Witness Mariano pointed out that according to the surveys, 137 customers stated that they never received any form of notice, 78 received notice via a letter size piece of paper, and 92 received a door hanger. Only 17 indicated they received a phone call from AUF.

Several staff witness, including witnesses Carrico, Greenwell, Harrison, and Penton, acknowledged that AUF has issued multiple PBWNs over the last three years. They testified that AUF issued the notices as required and further discussed how the PBWNs are handled. Witness Carrico testified that water systems, including AUF, self-report when it comes to boiled water notices. Staff witness Dodson testified that AUF issued PBWNs as required, completed necessary corrective actions, conducted follow-up sampling, and rescinded the notices as required and in a timely manner. Witness Dodson noted that the Utility does not always have control over the chain of events that necessitate the issuance of PBWNs, and it is not uncommon to find a number of PBWNs issued for any facility. Staff witness Rodriquez testified that the two AUF systems that she reviewed, Arredondo Estates and Arredondo Farms, have had PBWNs on various occasions since 2009. However, she is not completely sure if AUF has notified the customers in a timely manner in each occasion. Witness Rodriquez testified that sometimes DEP had been notified several days after the interruption of service by the Utility. Complaints about the interruption of service due to water main breaks or other problems (power failure, repairs) have been received by the local HD, and they have forwarded the complaints to DEP. Witness Rodriquez investigated some of the complaints and found that, lately, AUF has been responding better to PBWN issues and notification to the customers. Staff witness Sloan testified that, in each instance, the notices were hand delivered to all affected water customers.

Based on DEP witness testimony that AUF's policies and practices for issuing PBWNs complied with DEP guidelines, it appears that AUF attempts to follows DEP guidelines on issuing PBWNs. However, there is evidence that AUF has been inconsistent in notifying

customers. Noting that there is no fail-safe process to ensure that every customer receives timely notification, we find that AUF's policies and procedures regarding PBWNs requires further monitoring. Although AUF did provide evidence that it has developed procedures to provide customer notification in multiple ways, and enables its call centers to provide information to customers who inquire about service outages, we believe further action is required. In Section IV. B. Additional Actions for Quality of Service below, we will go into detail as to what those actions should be.

(4) Commission Conclusion on Quality of Product and Operating Condition

We believe that the evidence in the record demonstrates that AUF is in compliance with the applicable regulatory standards for the majority of its water and wastewater systems. Many of AUF's water and wastewater systems were constructed 40 to 50 years ago, and, because of the aging infrastructure, there have been maintenance, repair, and environmental compliance challenges. With 58 water and 27 wastewater systems, compliance can be daunting. However, we do note that there are seven systems with current consent orders and warning letters. Also, several staff witnesses testified that AUF had failed to do appropriate testing with regard to nitrates/nitrites and lead and copper. Further, AUF has failed to timely provide required reports to DEP or CH. Also, based on our review of the testimony of the customers, the 19 staff witnesses, and the witnesses of the intervenors and AUF, it appears that there are still problems with AUF's attempt to address customer satisfaction. Therefore, while we note that AUF has attempted to respond to service quality problems, and that its service has improved, we find that the Utility has not yet reached a satisfactory level of quality of service.

We agree with OPC's argument that it is necessary to follow the rules that are put in place to protect the customers. While we note that it is not uncommon to find a number of deficiencies at any facility, we find that the number of deficiencies listed in testimony still preclude a finding of satisfactory service.

We do not take lightly the arguments of some of the Intervenors that the perception of many customers is that the water is not safe to drink. Water safety is always a great concern to this Commission. In fact, it is largely for that reason that we seek the testimony of representatives from the DEP, HD and WMD, which are the agencies with primary jurisdiction over the quality of the product and operating conditions of the facilities. We are also aware that the operating and compliance status of any utility's plants and facilities do not necessarily coincide with the customers' perception of whether the utility's product is of acceptable quality. However, weighing the evidence provided by the experts from the agencies with primary jurisdiction in determining the quality of the product and operating conditions of the facilities, and also considering the evidence provided by intervenors' witnesses, and customer testimony, we find that pursuant to Rule 25-30.433(1), F.A.C., the quality of the utility's product and the operating condition of the utility's plant and facilities are marginal.

2. Attempt to Address Customer Satisfaction

a. Service Hearings

Ten customer service hearings were held throughout the state between August 29 and October 12, 2011. Approximately 371 customers attended these noticed hearings and 170 customers provided sworn testimony regarding AUF's quality of service. Local legislators and county officials also attended several of the service hearings and provided comments. The following table provides an overview of the number of customers who attended and spoke at each of the service hearings.

Date	Location Of Service Hearing	Customers In Attendance	Customer Speakers
August 29, 2011	Greenacres	24	13
August 30, 2011	North Fort Myers	0	0
August 31, 2011	Sebring	24	11
September 1, 2011	Oviedo	14	9
September 12, 2011	Gainesville	45	40
September 13, 2011	Palatka	10	6
September 13, 2011	Eustis	85	22
September 16, 2011	Chipley	24	7
October 11, 2011	New Port Richey	85	36
October 12, 2011	Lakeland	60	26
	Total	371	170

Of the 466 specific concerns expressed by customers, approximately 19 percent related to water quality. These complaints included sediment, color, sludge, film, and pressure. Approximately 34 percent of the concerns related to billing. These complaints involved backbilling, meter reading accuracy, service disconnections, high rates, and affordability. Twenty percent of complaints related to outages, boil water noticing, impact on properties and communities, and customer service. The remaining 27 percent of complaints encompassed other issues, such as lifestyle changes and health problems.

AUF witness Chambers testified that the Utility thoroughly investigated each customer issue raised at the service hearings. She stated that while many customers discussed issues that had already been resolved, some customers' concerns were addressed on site at the appropriate service hearing and other customers' concerns were addressed subsequent to the service hearings. Witness Chambers presented testimony regarding AUF's responses to customers' billing-related testimony. AUF witness Rendell also presented testimony providing responses to specific concerns, such as AUF's negotiations with the City of Lake Worth for a revised bulk water rate, customers' desire to receive service from Pasco County or the Florida Governmental Utility Authority (FGUA), customers' year-round payment of a monthly base facility charge (BFC), and the cost to ratepayers of AUF's acquisitions of other utility systems.

According to OPC's brief, customers continued to complain about AUF's poor water quality, plant maintenance, and customer service during the service hearings. As further discussed below, OPC witness Vandiver testified that the complaints from the 2010 customer meetings were similar in nature to those from the 2011 service hearings. OPC witness Poucher testified that AUF has the highest complaint rate of any Commission-regulated utility in Florida. His analysis showed that complaints filed with this Commission against AUF represented 41 percent of the total water and wastewater complaints filed during 2010, and 44 percent of the complaints filed during the first ten months of 2011. However, he admitted that he did not make any adjustments to make the comparison more comparable between different-sized utilities, such as determining the percentage of complaints on a per 100 customer basis. We note that our Commission audit staff analyzed water and wastewater utility complaints in another case and determined that, when compared on a per 100 customer basis, AUF did not have the highest percentage of complaints for Commission-regulated water and wastewater utilities during 2010.[16]

According to OPC witness Dismukes, concerns raised at the service hearings included AUF's slow response time in resolving problems and criticisms of CSRs' interactions with customers. She noted that customers also expressed complaints regarding untimely or inadequate information provided by the Utility, billing issues such as unfair billing practices and meter reading inconsistencies, and treatment by CSRs ranging from ineffective to apathetic or rude. Witness Dismukes further explained that some of AUF's field service technicians seem indifferent to damages that they may cause, and one customer testified that an honest field technician feared losing his job if he was too outspoken with regard to the Utility's overcharging for services.

OPC witness Poucher asserted that the service hearing complaints were a reiteration of prior testimony, customer letters, and complaints already filed with this Commission. He testified that although complaints regarding AUF's failure to consistently and timely read meters have subsided, new issues have risen with respect to automatic meter reading activities that have generated complaints about inaccurate, inconsistent, and nonexistent monthly billing, as well as high bills and backbilling.

Witness Poucher emphasized that the number of witnesses who testified at the service hearings represents only a fraction of the number of individuals who attended. He noted that many customers were excluded from attending and participating in the service hearings because many of AUF's systems serve seasonal customers who do not reside in Florida during the summer and early fall months. In addition, witness Poucher stated that many customers were excluded due to work, disability, or child or parental care responsibilities. Witness Poucher emphasized that testifying witnesses presented evidence reflective of the entire customer base. He concluded that the testimony reinforces record evidence that demonstrates AUF's business plan is producing an unacceptable quality of service for a product that is not drinkable at rates

[16] See Order No. PSC-11-0541-SC-WS, issued November 22, 2011, in Docket No. 110254-WS, Initiation of show cause proceedings against Four Points Utility Corporation in Polk County for violation of Commission rules and regulations as outlined in the Florida Public Service Commission's management audit for Four Points Utility Corporation and Bimini Bay Utilities Corporation issued June 2011, p. 14.

that are unaffordable. He further concluded that although the Utility was notified that it needed to improve its service and was given more than a year to do so, the service hearings did not produce customer support for AUF as he expected they would.

According to Pasco County, of the 36 customers who testified, 25 complained of poor water quality. Senator Fasano testified that the water was undrinkable and substandard, and Representative Legg provided similar comments. The County asserted in its brief that many more customers complained of poor water quality in the 759 petitions signed by Jasmine Lakes and Palm Terrace customers.

b. Customer Complaints and Correspondence

According to AUF's brief, since its last rate case, the Utility has formed a Complaint Analysis and Remediation Team (CART) and developed an electronic work queue (EWQ), purchased equipment to facilitate on-site meter tests in order to achieve efficiencies and enhance customer confidence in the process, and standardized its processes for its field service technicians to improve interactions between field technicians and the call center in order to enhance customer responsiveness and efficiency. In addition, AUF has worked with YES representatives to effectively address unique issues affecting the Arredondo Farms mobile home park.

According to AUF witness Chambers, undisputed evidence shows that the volume of complaints filed against the Utility has fallen dramatically since its last rate case. Witness Chambers asserted that the reduction is significant given that customer complaint volumes typically increase during a contested rate case proceeding. She further alleged the reduction is also impressive given the well-orchestrated efforts by interested parties and other non-party special interest groups to encourage customers to complain in hopes that the sheer volume would persuade us to deny AUF's request for rate relief. Finally, AUF asserted that the reduction in the volume of complaints is telling in light of the aggressive and inflammatory tactics employed by OPC witness Poucher, who encouraged customers to complain and characterized the instant rate case as a "war."

Witness Chambers emphasized AUF's strong commitment to customer service. She stated that the Utility is dedicated to anticipating and meeting the needs of its customers by effectively utilizing CSRs, field technicians, and technology to enhance its quality of service. AUF has listened to its customers' concerns and implemented several significant proactive measures to address customer satisfaction. She explained that AUF's commitment involves having a Customer Field Services Manager in Florida who manages all customer service functions, including service orders, billing issues, water quality issues, meter reading and customer interface. In addition, witness Chambers noted that the Utility has a dedicated call center for AUF-related calls and is committed to ensuring that CSRs are well-trained to respond to customers in an effective, prompt, and courteous manner.

As previously noted, witness Chambers stated that in an effort to improve AUF's customer service, AUF developed CART, which held its first meeting in September 2009. The

CART meets monthly to address escalated calls (customer calls transferred to a Senior CSR or a Supervisor) and to identify trends and problem areas, as well as areas where additional training is needed. Witness Chambers explained that the EWQ is a work order created for an escalated call when a Senior CSR or Supervisor is not available. She acknowledged that an EWQ is closed after only one attempt to reach the customer, regardless of whether a Senior CSR or Supervisor is able to leave a voicemail message for the customer. The system tracks EWQs and generates reports that are reviewed weekly. Witness Chambers denied any knowledge of instances in which CSRs refused to transfer a customer's call following the customer's request to speak with a Supervisor. Witness Chambers noted zero consumption as one of the problem areas identified by the CART, a billing-related issue which involves the Utility undercharging a customer due to factors beyond the Utility's control (such as meter equipment damaged by vandalism, a weather event, or third-party construction activities, or repeated move-ins/move-outs at a residence) or due to a malfunctioning electronic radio transmitter (ERT). She testified that the number of escalated calls has significantly decreased since the CART was formed.

Witness Chambers calculated that the number of complaints against AUF filed with this Commission in 2010 was approximately 24 percent lower than the number filed in 2007. From 2009 to 2010, the number of complaints filed decreased by 19 percent. Additionally, the Utility averaged 10 complaints per month for the period January-July 2011. In contrast, the Utility averaged 18 per month and 13 per month in 2009 and 2010, respectively. According to witness Chambers, despite the well-orchestrated effort by OPC, YES, Pasco County, and other non-party special interest groups to encourage customers to complain against AUF, the volume of complaints has decreased. Witness Chambers claimed that OPC witnesses Poucher and Vandiver provided incomplete and one-sided testimonies with regard to these complaints and that OPC's failure to acknowledge the significant drop in complaints underscores the bias of its analysis.

Witness Chambers and OPC witness Poucher disagreed with regard to the nature of customers' calls to AUF's call center. Witness Chambers deemed witness Poucher's assumption that all incoming calls are customer complaints erroneous when, in fact, records show that the vast majority of calls involve routine issues such as move-in and move-out requests, payment questions, and requests to verify account balances. In response to a Commissioner's question, witness Chambers testified that AUF may receive a greater number of complaints than other states in which AAI provides services due to greater water quality challenges in Florida.

In response to customer testimony from the service hearings that CSRs were rude, witness Chambers explained that she, along with two supervisors and one other manager, listened to all available calls during which customers alleged CSRs were rude. Witness Chambers acknowledged that there was one call in which the CSR could have been more helpful, but she countered that none of the CSRs were rude. She admitted that, while reviewing these calls, she perceived that CSRs reciprocated customers' frustrations to some degree.

In its brief, AUF characterized Food & Water Watch, a nonprofit organization that challenges the corporate control and abuse of consumers' water resources, as a lobbying group whose political agenda is to abolish privately-owned water utilities throughout the country.

According to AUF, Food & Water Watch is involved in a campaign called Florida Flow (For Local Ownership of Water) (also known as FlowFlorida) to request that state officials prevent any new acquisitions by AUF, reduce the Utility's rate of return, and help communities remunicipalize local water systems. AUF implied that the organization is one of the entities involved in the well-orchestrated effort to arouse customer complaints. AUF further argued that Pasco County witness Mariano's recommendation to reduce the Utility's return on equity (ROE) follows nearly verbatim the remunicipalization strategy set forth by Food & Water Watch. AUF stated in its brief that an OPC witness described the Utility to a Food & Water Watch representative as using its position to steal from customers.

Referencing AUF witness Chambers' acknowledgement that an EWQ is closed after only one attempt to return a customer's call, OPC argued in its brief that the Utility's failure to make more than one attempt to contact a customer confirms customer testimony regarding difficulties in getting problems resolved. OPC further argued that customers have complained that when they are able to reach a CSR, CSRs are rude. With regard to witness Chambers' testimony that during at least one call that she reviewed, the CSR could have been more helpful, OPC argued that she made a generic sampling of some of the customers who testified.

OPC witness Dismukes testified that customer service includes communication with customers, the speed and courtesy of responding to customer questions, and customers' satisfaction with the resolution of their concerns or problems. OPC witness Poucher concluded, however, that while utilities sometimes make customers happy and sometimes do not, customers generally live with the results. Witness Dismukes also recognized that AUF has implemented several customer service improvement measures, which include the formation of CART, implementation of EWQs to handle escalated calls, development of a detailed Supervisor Audit, auditing of all of its replaced meters, standardization of its service order processing system for field technicians, refinement of on-site meter and bench test procedures, and provision of an informational brochure for seasonal customers.

OPC witness Vandiver argued that AUF's quality of customer service is uniformly unsatisfactory and that customers are often unable to talk with someone who is responsive to their concerns. Further, OPC witness Poucher testified that many AUF customers feel that their complaints over the past years have fallen on deaf ears. He stated that he would not be surprised by reduced attendance at customer hearings and fewer complaints and correspondence filed with this Commission because customers are tired of complaining without seeing results. We believe that witness Poucher's assertion that customers' complaints have fallen on deaf ears is contradicted by OPC witness Dismukes' recognition of the many service improvement measures implemented by AUF.

Witness Poucher admitted that some of the statistics provided in AUF's Phase II Monitoring reports indicate improvement. He argued that prior to 2010, the Utility had a tremendous problem with inaccurate or nonexistent meter reading and estimated bills, and there was little evidence to suggest that the Utility even cared. He acknowledged, however, that the Utility's current use of digital meters caused complaints of estimated bills to decline significantly. He also acknowledged that the Utility's reports indicate improvement in call

center performance, although he cautioned that these reports can be deceiving since AUF did not consider certain types of data. Witness Poucher concluded that the best way to find out if customers are satisfied is to ask them if they are.

Witness Vandiver presented her analysis of billing and service complaints filed with this Commission during the period 2007-2010. This analysis, which confirmed AUF witness Chambers' testimony, revealed that the total number of complaints decreased by 24 percent during the period 2007-2010. Witness Vandiver claimed that despite the fact that AUF was notified by our 080121-WS Final Order that it would be under even more scrutiny, her analysis of customer complaints reflects an increase of six percent in 2009. She acknowledged that the number of complaints decreased by 19 percent in 2010. However, she argued that since AUF knew it would be filing a rate case and would be under increased scrutiny by this Commission the Utility should have put extra effort into the services it provides to its customers. We believe that the Utility's improvements to many facets of its customer service are supported by substantial record testimony and evidence. In addition, witness Vandiver acknowledged a 24 percent decrease in complaints during the period 2007-2010, and witness Dismukes acknowledged AUF's service improvement measures.

While we acknowledge AAI's efforts to improve its customer service procedures, we believe AAI could further improve its escalated call process by modifying its procedures to require more than one attempt to contact a customer before closing the EWQ. This would be particularly helpful in cases where the AAI Supervisor is unable to leave a message on the first call because the customer is not home and does not have an answering machine. We note that AUF's Florida Delinquency Process includes two attempts to make a reminder telephone call to customers before disconnection. We encourage AAI to consider a similar modification to its escalated call procedures to include a minimum of two or three attempts to call a customer before closing the EWQ.

OPC witness Poucher testified that he reviewed the 210 customer complaints filed with this Commission during the period January 1, 2010, through July 28, 2011, to determine any error or fault on AUF's part. He asserted that seldom does any complaint in the Commission's files reflect a rule violation because this Commission has so few rules regarding customer service, especially for water and wastewater companies. Thus, his analysis did not take into consideration whether the Commission determined that a rule violation occurred. Witness Poucher acknowledged, however, that his analysis of each complaint did not include discussion of the complaint with the respective customer, our staff, or the Utility.

Witness Poucher alleged that our complaint files represent the tip of the iceberg for AUF because the majority of complaints are held in the Utility's own records, which are difficult, if not impossible, to recover. Regarding the nature of customers' calls to AUF's call center, he also suggested that the real indicator of the volume of complaints against the Utility is the number of calls received at the Utility's call center. He testified that Florida customers' calls have averaged more than 5,000 per month, while our complaint files indicate 210 complaints received during the period January 1, 2010, through July 28, 2011; and Florida customers' calls currently average more than 60,000 each year, or approximately 3 calls per customer per year.

Given his characterization of the complaints in our files, witness Poucher indicated that he accepts these complaints as representative of the thousands of complaints received by the Utility each year. However, he recognized that a majority of the call center's incoming calls are not complaints, as determined by us. In addition, he acknowledged that our files are valuable because our database is manageable and contains fairly reliable data, whereas he would be unable to analyze the complaints in AUF's records due to their volume. He deemed our files an excellent source to target corrective action where it will do the most good.

In response to AUF witness Chambers' testimony regarding a well-orchestrated effort by interested parties and other non-party special interest groups to encourage customers to complain against AUF, witness Poucher challenged that his review of complaints revealed absolutely no evidence that customers filed false complaints. He asserted that during AUF's and OPC's meetings with customer representatives during the Phase II Monitoring Program, both the Utility and OPC encouraged customers to file water quality complaints so that AUF could address those issues. He further stated that OPC encourages customers to participate and provide their input in a rate case proceeding, regardless of whether customers support or oppose the Utility's petition. He concluded that AUF's poor service and high rates for an inferior product have persuaded customers to organize in order to seek relief, and he suggested that FlowFlorida was developed as a result of those very issues.

OPC witness Poucher denied involvement with Food & Water Watch. He further denied any knowledge that Pasco County witness Mariano was following FlowFlorida's strategy by stating that if AUF's ROE was reduced, its rates would be dramatically affected and the Utility would quickly "come to the table" with regard to remunicipalization of its local systems.

Witness Poucher further testified regarding some Pasco County customers' desire for the Utility to sell its local systems to FGUA or to Pasco County in order to receive the County's rates. He admitted that he had not researched whether these customers would, in fact, be charged the County's rates if these systems were acquired by FGUA. Specifically, witness Poucher stated that that is not part of OPC's job because FGUA is not regulated by us and that he is not responsible for managing customers' expectations as it relates to a potential acquisition of AUF's local systems by FGUA. Witness Poucher further stated that he did not speak to any Pasco County customers regarding such an acquisition by any entity.

Pasco County argued in its brief that AUF's response to customer complaints is to tell customers there are no problems. Despite 25 comments regarding poor water quality at the New Port Richey service hearing and many more quality complaints in written petitions, AUF responded with one paragraph of testimony stating that no odor or water quality issues were found. Further, Pasco County alleged that over the past few years, the County has received numerous complaints from AUF customers regarding poor service, poor water quality, and exorbitant rates. The County intervened in this action in an attempt to obtain some relief for the many frustrated customers. In response to AUF's implication that there would not have been so many customers complaining but for the actions of the County and other Intervenors, Pasco County stated that it did encourage customers to express their complaints, and the Utility's President also encouraged customers to speak at the New Port Richey service hearing and likely

at all of the service hearings. Further, Pasco County asserted that with so many customers hurting from the high rates and poor water quality, they did not need any encouragement to voice their concerns.

With regard to several utilities in Pasco County that were acquired by FGUA, witness Mariano acknowledged that customers of these utilities were not charged Pasco County's rates following the acquisitions. He clarified that customers' new rates are based upon the acquisition price of the utility. He further acknowledged that an FGUA customer with a quality of service issue must address that issue with FGUA or the Pasco County Commission; and that the FGUA board consists of no elected officials, although a representative of the Board of County Commissioners sits on that board. Witness Mariano asserted that since FGUA's acquisitions of each of those utilities, the Pasco County Commission has not received a single quality of service complaint.

In its brief, the AG explained that customers testified that they had made great sacrifices to conserve water, including not bathing daily, not participating in activities that would require them to bathe, not flushing toilets after each use, saving water from showers to flush toilets, and not having guests because they could not afford additional water usage. Customers also testified about frequent replacement of water heaters, faucets, and appliances due to poor water quality. With regard to customer service, the AG adopted OPC's statement and added that the use of an independent verifier, which AUF conceded it does not currently employ, would assist the Utility in identifying areas of concern and improving customer service, resulting in decreased costs and satisfied customers who feel their complaints are taken seriously. The AG concluded that the poor water quality has impacted the customers, small business owners, and communities served by AUF. As a result of the poor water quality and the high rates, some customers have vacated their rental properties while others have been unable to sell their homes and move because potential buyers do not want to own homes in areas served by AUF. With respect to the AG's encouragement of AUF's use of an independent verifier to review customer calls, we note that AUF witness Chambers' testified that she has found our staff to be helpful, knowledgeable, and a good resource. She concluded that if AUF needed to find an objective, unbiased third party, our staff would be a good choice. In addition, regarding the AG's argument that AUF's service has prevented residents from selling their homes, we note that the AG has failed to consider the role of Florida's statewide decline in property values and high level of home foreclosures, as demonstrated by the Florida Legislature Office of Economic and Demographic Research.

In response to AUF witness Chambers' statement regarding a well-orchestrated effort by interested parties and other non-party special interest groups to encourage customers to complain against AUF, the AG asked witness Chambers whether OPC asked service hearing witnesses to testify to their experiences with AUF, even if those experiences were positive. Witness Chambers conceded that that was true and acknowledged that OPC's statement did not sound like an encouragement to complain.

In her testimony, staff witness Hicks noted that CATS was reviewed for complaints filed against AUF under Rule 25-22.032, F.A.C. Approximately 400 complaints were received from January 1, 2009, through September 30, 2011. An analysis of these complaints revealed 71

percent concerned billing issues, and the remaining 29 percent dealt with quality of service issues. Of the 400 complaints, 46 or 11 percent were determined to be apparent violations of Commission rules. AUF received 21 apparent rule violations in 2009, 18 apparent rule violations in 2010, and as of September 31, 2011, AUF has received 7 apparent rule violations.

As of December 7, 2011, we have received approximately 558 letters and e-mails in this docket in which customers expressed opposition to the rate increase and frustration regarding the lifestyle changes that increased rates would further necessitate. Customers described their overall dissatisfaction with the level of service they receive and the quality of the water. They also asked specific questions about our rate case process as it relates to the instant case. Comments were also submitted by several local and state government officials expressing opposition to the Utility's application for a rate increase, including letters from state Legislators, Pasco County Commissioners, and Polk County Commissioners. In addition, more than 900 signatures on petitions were filed with this Commission on April 26 and May 5, 2011, by two Legislators who represent customers in Pasco County. The Polk County Commission filed with this Commission its Resolution No. 10-174, stating its objection to the instant rate case proceeding.

c. Billing Problems

AUF, OPC, and YES witnesses provided testimony regarding customers' billing issues, including concerns regarding backbilling, high bills, online payment options, leak adjustments, and shut-off due to nonpayment of bills.

In its brief, AUF noted that it continues to take steps to address billing and payment issues raised by customers in the last rate case, and in customer meetings and service hearings in the instant case. As noted in AUF's brief, to better educate seasonal customers of various programs available, the Utility sends an informational brochure to customers encouraging them to contact the call center when they leave the state so that their account is properly noted as seasonal. AUF discussed the Utility's practice of offering seasonal customers the option to postpone payment of base facility charges while the customer is residing outside of Florida.

With respect to the length of time covered by a customer's backbill, AUF witness Chambers claimed that there have been rare occasions in which AUF has, through human error, billed a customer for a longer period of time than 12 months. Witness Chambers then stated that AUF put in a new process to ensure that AUF does not backbill any customers for longer than 365 days. The new process, which went into service in November 2011, is an automated coding system that will now alert a CSR to review the account in order to ensure that a bill exceeding 365 days is not presented to a customer. Zero consumption reads also make up a portion of the backbilling issue. To address this issue, AUF has created a monthly zero consumption report, which reports accounts with zero consumption for more than six months. Regarding the calculation of backbills, witness Chambers stated that backbills are calculated using a daily average methodology.

In an attempt to mitigate high bills, AUF has implemented a process in which an alert message is placed on a customer's bill if it is a high bill or the bill covers a period longer than 35 days. The high bill alert prompts the customer to investigate for potential leaks and visit AUF's website for more detailed information. The long-period bill alert advises the customer that they can request a payment arrangement upon contacting the call center.

With regard to leak and pool adjustments provided to customers, AUF witness Chambers testified that the Utility developed a water conservation and leak detection informational section on their website.

According to AUF witness Chambers, in order to address customers' requests for online payment options, the Utility has developed a new program, Aqua Online that allows customers to view bills online for free and provides an option to pay bills online as well. The payment option is provided by a third-party vendor, SpeedPay, which collects a convenience fee of $3.20 for each payment a customer makes online. AUF's Aqua Online bill insert informs customers of the paperless billing options, the availability of the program at no cost to the customers, and the immediate access to current and past bills, all of which allow ease of payment.

For a utility to shut-off service for non-payment, Rule 25-30.320, F.A.C., requires that the utility provide five working days' written notice, separate and apart from a bill for service. AUF witness Chambers provided the Utility's Florida Delinquency Process Summary (FDPS). Under AUF's FDPS policy, a customer is provided at least ten days' advance written notice indicating that service will be discontinued if payment is not received. Witness Chambers explained that AUF also attempts to call a customer prior to discontinuing service, which is not required by Commission rules. In addition to attempting to contact a customer by telephone, the Utility's policy is to proceed with service termination only when the customer's outstanding balance exceeds $100. Where service is terminated for failure to pay, AUF attempts to reinstate service within the next business day following the date of payment confirmation.

With regard to AUF's billing practices related to seasonal customers, OPC noted in its brief that although AUF provides a long-period bill message on the first bill received to allow a customer to pay over a longer period of time, this practice contributes to backbilling and high bill problems complained of by customers.

OPC witness Poucher testified that the most frequent complaints against AUF relate to billing issues. He asserted that the volume of backbilling complaints today should not be so large as a result of AUF's installation of new meters that reduced occurrences of estimated reads and largely eliminated human error from the meter reading process. He stated that complaints have persisted due to AUF's improper handling of complaints and ineffective procedures. In addition, AUF witness Chambers and OPC witness Poucher disagreed with respect to the length of time a customer is backbilled. OPC witness Poucher countered that according to our complaint records, 16 customers were backbilled for greater than 365 days. YES witness Kurz also provided testimony related to specific customer complaints about backbilling.

OPC witness Poucher stated that 31 percent of complaints filed with this Commission against AUF deal with unusually high bills. He stated that many of these cases can be tracked down to billing errors and meter read errors, while other billing errors can be traced to leaks at the customer's premises. Witness Poucher stated that the Utility does not appear to have any plan or procedure to deal with the high bill issue other than to suggest that the customer check for leaks and make sure that the flapper in the toilet is operational or to conduct an expensive meter check at the customer's premises.

With respect to AUF's leak and pool adjustments, OPC witness Poucher conceded that where it can be determined that there was a leak at the customer's premises and the customer pays to fix the leak, the company provides a leak adjustment to the bill.

3. Aesthetics

AUF witness Luitweiler testified that a downward trend in the number of water quality complaints from customers in the systems addressed by the Utility's 2008 Original Aesthetic Program shows that customers are seeing the benefits of the improvements being made. Further, he explained that AUF is developing the next tier of systems for the second phase of its aesthetic improvement project, which will include the Arredondo Farms water system, among others. Witness Luitweiler concluded that AUF's efforts to improve aesthetic water quality clearly demonstrate its commitment to customer service and to addressing customer satisfaction.

Arredondo Farms is a mobile home community located in Gainesville that receives water and wastewater services from AUF. As the owner and operator of Arredondo Farms, YES provides affordable rental housing to its residents and is also an AUF customer. In its brief, AUF characterized the community as one in which the resident population has been largely transient for years, which results in a large number of move-ins and move-outs and, in turn, creates a greater number of service orders and presents billing challenges. AUF further confirmed in its brief that the system has been included in the second phase of the Utility's aesthetic improvement project.

AUF witness Luitweiler testified that the U.S. Environmental Protection Agency (EPA) National Secondary Drinking Water Regulations set non-mandatory Secondary Maximum Contaminant Levels (SMCLs) for constituents based on aesthetic considerations, such as taste, color, and odor. EPA and DEP do not enforce these SMCLs. Such constituents are not considered to present a risk to human health at or below the SMCL. He acknowledged that the raw water source for some of AUF's water systems contains naturally occurring constituents, such as iron and sulfides, which at times can cause undesirable color, taste, and odor. Some of these raw water sources also contain calcium and other minerals, which can lead to hard water. He asserted that these constituents can often be difficult and expensive to remove.

Witness Luitweiler referenced AUF's Original Aesthetic Program developed to address customer comments related to aesthetic water quality provided during the 2008 rate case. As a result of this program, AUF identified seven water systems where customers had expressed the most concern regarding aesthetic water quality issues, including Lake Josephine, Leisure Lakes,

Sebring Lakes, Rosalie Oaks, Tangerine, Tomoka View, and Zephyr Shores. The scope and results of this aesthetic water quality improvement initiative are set forth in detail in AUF's Final Phase II Quality of Service Monitoring Report dated February 28, 2011 (Final Report). Witness Luitweiler testified that aesthetic water quality improvements have been completed at the Rosalie Oaks (flushing hydrants and blowoffs), Zephyr Shores (flushing hydrants, blowoffs, and installation of sequestration treatment), Tangerine (pipe replacement and looping, and installation of sequestration treatment) and Tomoka View (chloramination) systems. Work on permitting and installation of AdEdge treatment to remove hydrogen sulfide is currently ongoing at Leisure Lakes, Lake Josephine, and Sebring Lakes. Additionally, Lake Josephine and Sebring Lakes were interconnected in 2010 to improve supply, pressure, and flushing. Improved distribution system monitoring and flushing were also implemented. Witness Luitweiler stated that by tracking AUF's water quality complaints, he saw convincing evidence that the water quality has improved. He further believe that where AUF has made treatment and flushing protocol changes, substantial and demonstrable improvements in water quality have been achieved.

According to witness Luitweiler, AUF intends to continue to address aesthetic water quality issues beyond the seven systems discussed above. In selecting the systems to be included in the first phase of aesthetic water quality improvements, priority was given to systems with SMCL exceedences for taste and odor (due mainly to hydrogen sulfide, iron, and manganese). Priority was also given to systems that could have issues with primary drinking water standards. While work on some of the projects in the first phase continues, witness Luitweiler announced that AUF is developing the next tier of systems to be included in the second phase of the aesthetic improvement project. The Arredondo Farms, Hermit's Cove, River Grove, and Arredondo Estates water systems have been selected for this second phase.

Witness Luitweiler pointed out that Arredondo Farms had no SMCL exceedences and no issues related to primary standards. Thus, it was placed in the second tier of systems to be considered for aesthetic improvements. The witness contended that the quality of AUF's product at the Arredondo Farms water system is good, as is the operational condition of that system. Furthermore, witness Luitweiler stated that AUF has made, and continues to make, concerted attempts to address customer satisfaction at the Arredondo Farms system. Witness Luitweiler admitted that Arredondo Farms' water is hard, but not exceptionally hard for Florida. He argued that we have consistently recognized that it is not unusual for Florida water utilities to experience water hardness issues, and we have not taken punitive actions against utilities that do. The witness noted that in the 1996 rate case involving Arredondo Farms (which was then owned by Arredondo Utility Corporation), we found, in Order No. PSC-96-0728-FOF-WS,[17] that while the water at the system was hard, it did not present a health hazard. We went on to conclude that the treated water provided by Arredondo Utility met or exceeded all requirements for safe drinking water and that the utility had satisfactory water quality. We also warned in that Order that a system-level solution to the hard water issue at Arredondo Farms would not be cost-effective or prudent, and that the cost to make such improvements would be passed on to the customers

[17] Issued May 30, 1996, in Docket No. 951234-WS, In re: Application of Arredondo Utility Corporation, Inc., for a staff-assisted rate case in Alachua County, p. 3.

through their rates. We noted at that time that customers who found the scaling problem to be intolerable had other options. They could either have a local water softening company install a water softening unit at a variable price, or they could purchase a whole house filter. AUF maintained that there is no evidentiary basis for us to reverse our previous decision and conclude otherwise in the instant case.

In consideration of system-level alternatives to address the hardness at Arredondo Farms, witness Luitweiler indicated that options under consideration currently include softening processes other than lime softening, which is still very expensive, adding a sequestering agent tailored to address the effects of calcium and magnesium, or purchasing water from Gainesville Regional Utilities. He stated that AUF's ultimate goal is to find a balanced solution that will maximize benefits to customers and minimize upward pressure on rates. AUF does not currently have a budget for a specific project because, as witness Luitweiler pointed out, it is premature to determine exactly what actions AUF is going to take. Witness Luitweiler acknowledged that in a future rate case, AUF may seek to recover the costs to address the hardness issues and other secondary issues.

With regard to Arredondo Farms, AUF suggested that record evidence indicates that the community has experienced a high turnover rate of residents well before YES acquired the community in January 2008. AUF witness Chambers testified that due to the high volume of turnover, the Utility finds it difficult to determine the true customer of record, which then leads to the issuance of long-bills. Further, evidence related to an AUF study of move-out data for Arredondo Farms from October 2008 through September 2011 was introduced, and AUF witness Rendell affirmed that the study indicated that the number of move-outs in the community were higher in each of the two months preceding AUF's implementation of PAA rates than in each of the two months following the same. Specifically, there were 23 move-outs in June 2011 and 22 move-outs in July 2011. The PAA rates were implemented in August 2011. There were 16 move-outs in August 2011 and 18 move-outs in September 2011.

Further, AUF witness Rendell and YES witnesses Harpin and Kurz disagreed with respect to the impact of the Utility's quality of service on the real estate value of property in the community. Witness Rendell testified that a presentation made by the Florida Legislature Office of Economic and Demographic Research in October 2011 shows that the entire state of Florida is currently experiencing a decline in property value and a very high level of home foreclosures. He asserted that the presentation clearly shows that the decline in the housing market is a statewide phenomenon which has nothing to do with AUF's rates. The presentation actually shows that the counties in Florida with the highest number of loans in foreclosure occur in Dade, Osceola and St. Lucie Counties, where AUF does not own or operate any water or wastewater systems. Witness Rendell asserted that there is no causal relationship between the real estate crash and AUF's rates.

In response to a Commissioner's question, AUF witness Rendell testified that Arredondo Farms' customers reap a tremendous benefit by being AUF customers rather than customers of a small local utility. He suggested that there's a proliferation of hundreds of small systems throughout the State of Florida. In an effort to contain this proliferation of small systems,

witness Rendell explained, this Commission considered consolidation of small systems. Consolidation allows for synergies between a utility and companies that provide products and services, which then allows the utility to provide service at a reduced cost, sharing of personnel, and a greater number of customers over which to spread costs. Witness Rendell suggested that AUF is better equipped than a small utility to attract qualified personnel and to obtain financing in order to address compliance concerns. Thus, he concluded that AUF customers do not experience as significant an impact as customers of a small utility when AUF receives a rate increase.

OPC witness Dismukes cited the testimony of numerous customers who expressed their complaints about water quality and objections to any rate increase. She stated that customers complained about their inability to consume the water, health concerns, and the additional expenses incurred unjustly due to purchases of bottled water and water filters. Further, witness Dismukes testified that customers have found their use of the Utility's water to be inconvenient and embarrassing. OPC witness Vandiver also emphasized that customers find it objectionable to use the water for cleaning and bathing. In some systems, she further alleged, customers have found the odors emanating from the wastewater plant and inadequate disposal of wastewater to be objectionable.

YES witness Kurz referenced complaints from Arredondo Farms residents related to, among other issues, the quality of the water. Several residents claimed that: the water often smells like bleach; they do not consume the water due to its foul taste; the water is hard and requires special cleaning agents to remove stains from surfaces; they purchase bottled water for consumption; they use water filtration systems; they boil water prior to use; the water has made their children ill; buildup of sand and calcium in water lines has caused low pressure and necessitated cleaning and replacement of lines, water heaters, and other appliances; and the lack of fluoride in the water has caused dental issues. Residents purchase water for many household uses, such as food and beverage preparation, pet care and consumption, personal hygiene, and general consumption. Witness Kurz contended that residents do not feel they are receiving a quality product, given AUF's rates and the expenses they bear in purchasing bottled water and resolving maintenance issues. Additionally, she referenced complaints of high bills at vacant homes, high bills due to backbilling, and poor customer service from AUF's call center.

YES witness Starling testified with respect to several issues encountered by Arredondo Farms and its residents, including a main break that flooded a community playground, the removal or demolition of mobile homes by homeowners due to their inability to continue residing there or their inability to sell their homes, sediment accumulation in water heaters and damaged heater elements, sediment accumulation in water lines that result in little to no pressure, and sewer backup incidents. She provided photographs to emphasize the impact of these issues on the community. She further confirmed that she has encountered obstacles in her attempts to assist residents with their AUF-related issues, such as difficulty in establishing payment plans, rude CSRs, and AUF's lack of a streamlined customer service process that causes calls to be transferred among departments in order to achieve a resolution. Similarly, witness Kurz described that when she worked on a customer's issue, she contacted the Utility's call center, spoke with members of AUF's management team on several occasions, and was repeatedly

redirected back to the call center. Witness Kurz also provided similar testimony with respect to hardness and sediment buildup, emphasizing that the costs of plumbing maintenance are borne by residents and YES.

Witness Kurz also testified that when YES representatives have contacted AUF's call center, CSRs have behaved very unprofessionally and have offered no resolutions. She referenced instances of interactions with CSRs and characterized that being intentionally put on hold without returning to the line as "very rude." Witness Kurz concluded that "the customer service provided by AUF is rude and condescending." However, she also suggested that CSRs who are not properly equipped to address issues specific to particular service areas may experience a high volume of calls from customers in those areas and, in turn, may experience frustration. In combination with customers' frustration that CSRs cannot address water quality issues to the customers' satisfaction, this creates a tense environment in which customers' grievances continue to remain unresolved.

YES witness Kurz alleged that, despite the countless hours that YES staff spent attempting to resolve customers' issues and obtain responses from members of AUF's management team, it was not until YES intervened in the instant case that AUF demonstrated that it was concerned about these issues. In addition, she asserted that when members of AUF's management team were responsive, their solutions were passive rather than cooperative, and they did not seem to desire to identify the root causes of the billing issues. Witness Kurz argued that YES' earnest attempts to obtain AUF's attention were futile until YES representatives testified at the Gainesville service hearing. Their testimony resulted in communication from the Utility in order to begin working on the relevant issues, and discussions of creating a YES/AUF joint task force began.

According to witness Kurz, a YES/AUF joint task force was formed some time after the Gainesville service hearing. She noted that members of the task force include AUF's President, Rick Fox; AUF and AAI employees Troy Rendell and Susan Chambers; AUF's Counsel, Kimberly Joyce; and YES employees Shawn Harpin, Jeremy Gray, Mallory Starling, and herself. AUF witnesses Chambers and Rendell confirmed that the Utility has been actively participating in the task force. Witness Kurz testified that approximately three meetings have been held with the primary goal to reduce billing errors. One of the task force's achievements has been an improvement in billing errors related to the new customer process. Witness Kurz stated that YES has implemented an AUF-generated application for utility service, which has given the Utility greater confidence in accurate establishment of customer accounts.

Witness Kurz acknowledged that progress has been made through the YES/AUF joint task force. She also recognized some cooperation issues, citing some departure from the procedures agreed upon by all members. A continued focus on the issues at hand was needed, she suggested. Witness Kurz also mentioned that the participants in the task force include upper level CSRs, some of which "have not been completely helpful with Mallory Starling," who assists residents with their AUF-related issues on a daily basis.

YES witness Harpin asserted that AUF's quality of service and rates have led to a massive number of vacancies in this rental community and encumbered the affordable housing market in Arredondo Farms; and they have negatively impacted YES' business by causing YES to incur increased marketing expenses and lost revenues after residents vacate their homes. Witness Harpin asserted that the real estate value of property in the community is negatively impacted by AUF's quality of service and the perception of poor water quality. Additionally, witness Harpin noted that YES has incurred increased payroll and maintenance expenses for the sole purpose of managing the water issues in Arredondo Farms.

YES witness Gray also asserted that AUF's rates have severely impacted Arredondo Farms. He further noted that the Utility's 93 percent rate increase in 2009 has resulted in customer bills of approximately $125 per month, which represents nearly 50 percent of YES' monthly lot rental fee. According to witness Gray, the Utility's rates have forced residents to leave their homes, with 52 percent of move-outs citing their water bills as the reason for moving. With an average of four move-outs per month since January 2011, witness Gray claimed that approximately 32 residents had vacated their homes as of September 12, 2011. Additionally, he stated that YES incurs $1,998 per month to refurbish, remarket, and relist that home to attract a new resident, which has amounted to approximately $64,000 in expenses year-to-date. According to witness Gray, these figures do not account for the amounts of lost rental income and rent concessions. He concluded that the Utility's rates are putting YES out of the affordable housing market and that the Utility's growing quality of service problems have increased massive write-offs, increased turnover costs, impacted resident retention, increased payroll expense, and reduced the rent amount YES can charge. YES witness Kurz provided similar comments regarding AUF's impact on YES' business.

YES witness Green testified that he is responsible for maintaining the more than 100 rental homes in Arredondo Farms. He alleged that due to AUF's poor response and the community's water problems, YES has taken proactive measures in solving and attempting to avoid these problems. Witness Green explained that YES established a program called Gold Key Service, in which maintenance personnel conduct monthly inspections of the community's homes. Witness Harpin added that technicians ensure there are no leaks in the home that would result in a high water bill due to AUF's rate tiers. Technicians replace plumbing lines that provide little to no water pressure due to sediment and calcium build up from the poor water quality; replace toilet parts that no longer function due to sediment and cause the toilet to run, leading to high bills; and replace water heater elements that have corroded due to calcification as a result of the water. Witness Green asserted that he has retrieved at least five gallons of sediment from water lines at a particular home, replaced water heater elements, and replaced those elements again within two weeks as a result of six to ten inches of sediment buildup in the lines. He further stated that he has replaced showerheads, supply lines, shutoff valves, and faucets inside a home, all of which has become an uncontrollable cost issue for YES. Leak detection and meter check services are also provided to residents as a part of the Gold Key Service program. According to witness Green, maintenance personnel conduct weekly meter readings for all lots and ensure that meters are functioning correctly. In order to maintain residents, he noted they repair any problems identified at YES' cost.

AUF presented evidence from the website Homesfacts.com, a service that provides due diligence information to potential buyers and renters regarding a particular community. The Homefacts.com website indicated that Arredondo Farms' water quality is rated as 9.8 out of 10. With respect to this evidence, YES witness Harpin stated that the exhibit did not show which chemicals were tested and found, which chemicals were tested and not found, and which chemicals were not tested. He also asserted that he was not familiar with Homefacts.com's rating scale. However, he admitted that Homefacts.com's water quality rating of 9.8 out of 10 would favorably impact a potential resident's decision to move into Arredondo Farms.

4. Prior Monitoring

As previously discussed, AUF and OPC disagreed regarding the outcome of the jointly proposed Phase II Monitoring Plan approved by us in our May 2010 Order. AUF witness Chambers provided testimony regarding AAI's call center performance and operations. AUF submitted seven monthly reports that showed two to five years of data for company-wide and Florida-specific performance measurements taken from January 2007 through October 2011. Utility management uses the reports internally to: ascertain whether the Utility is meeting its targeted service performance levels, understand recent performance, identify adverse trends, track pending service orders, and ensure that service order requests are properly addressed as soon as practicable. Witness Chambers testified that the data gathered in these reports during the Phase II monitoring period was consistent with AUF's expectations, and there did not appear to be abnormal variances or trends for Florida calls.

A comparison of performance data from January 2007 through October 2011 indicates that AAI has generally maintained an improved level of performance since October 2008, a period of three years.[18] Witness Chambers testified that the Utility consistently met most of its self-imposed service goals with some minor exceptions. In general, the exceptions were explained by AUF and linked to known causes, such as a water main break, hurricane, or impact of move ins/move outs and well accounts.[19] Also, the number of accounts affected by the exceptions were quite low, sometimes as few as one or two accounts.

Following the end of the Phase II monitoring period, additional improvements were noted in January 2011 through October 2011. On average, AAI's three call centers answered over 87,000 calls per month with approximately 5,300 calls, or 6.0 percent, placed by Florida customers. Although AAI's total calls increased in 2011, Florida calls decreased by an average of 112 calls per month. In addition, the percentage of Florida calls related to service issues, such as water outages, high bills, and service line leaks, decreased from 12.6 percent during Phase II to 10.5 percent during 2011, a reduction of 2.1 percent. The remaining calls were primarily informational in nature, with nearly 85 percent of all calls handled through AAI's Interactive

[18] A detailed analysis of the Phase II monitoring reports through December 2010 is provided in Order No. PSC-11-0256-PAA-WS, issued June 13, 2011, in this docket. Attachment 2.

[19] Well accounts are AUF internal accounts for which meter readings are obtained and consumption is tracked, but no bills are issued. However, because the accounts are being tracked, they will appear on the unbilled report during any months for which a meter reading is not obtained, thereby increasing the percentage of active accounts not billed.

Voice Response system. In fact, over 60 percent of Florida calls (an average of 3,200 calls per month), were for routine move ins/move outs, pay by phone/SpeedPay, account balance verification, and customer account changes, which consistently ranked as the top four reasons for calls. Also, on average, calls to CSRs were answered in 40 seconds, and complaints filed directly with AAI were closed in five days.

Regarding service complaints, witness Chambers testified that any call related to a water quality complaint, a boil water notice, or an emergency repair is immediately addressed by a customer service technician through the issuance of a service order. AUF strives to address customer concerns within 7 to 14 days of the service orders, with 7 days being the goal. Witness Chambers testified that the overwhelming majority of service order requests were addressed within those timelines, and that Phase II monitoring reports show that AUF vigilantly tracks, and consistently follows through on, service order requests.[20]

Witness Chambers also discussed several procedures related to operation of AAI's call centers, including reviewing call center service metrics, determining staffing requirements, providing CSR training, and conducting CSR performance evaluations. AAI previously conducted customer research to gain customer feedback regarding call wait times and expanded call center service hours. The survey indicated that only 18 percent of survey participants answered that their call wait times were longer than expected, and although 82 percent of respondents were in favor of extending the call center hours to include late night hours, a weekend day, or 24 hour/7 day operation, only 20 percent were willing to pay for the increased CSR hours. In addition, AAI reviews its call center metrics on an annual basis to determine if changes are needed. Witness Chambers testified that AAI tries to find a balance between metrics that are cost-effective and address customer service.

Witness Chambers also provided testimony to illustrate AAI's proactive approach to staff its call centers to accommodate increased call volumes. The average number of CSRs working per day at AAI's call centers increased from approximately 42 CSRs to nearly 63 CSRs between January 2007 and January 2008, representing a 50 percent increase. During that time, AAI converted its customers to one customer information system, and increased the number of customers from 704,150 to 849,027. Witness Chambers testified that AAI increased the number of CSRs in response to the increased call volumes and number of customers. In addition, the Phase II monitoring reports indicate that the call center performance metrics improved following the addition of more CSRs.

AAI also monitors monthly blocked call or busy signal data provided by the telephone company to assess whether additional phone lines may be needed to handle call volumes. Witness Chambers testified that over the past three years, AAI's call centers had received over 5.8 million calls, and that during that time, the rate of calls blocked had averaged 0.55 percent. In fact, 12 of the 22 months reviewed between January 2010 and October 2011 had a blocked call rate of zero.

[20] See Order No. PSC-11-0256-PAA-WS, issued June 13, 2011, in this docket -- Attachment 2, p. 153.

Also, witness Chambers described the process that AAI uses to route customer calls between its three call centers in an effort to minimize customers' call wait times and ensure that calls are answered by knowledgeable CSRs. AAI's three call centers currently have 116 dedicated lines to support the maximum requirement of 83 CSRs and the automated Interactive Voice Response system. In addition to 77 CSRs employed to work at the call centers, within the Quality Control Organization located in Bryn Mawr, Pennsylvania, there are 4 additional CSRs who answer calls during the peak days of Monday and Tuesday, and 2 additional CSRs who answer Aqua Online calls Monday through Friday, for a total of 83 CSRs. All CSRs are assigned to various call queues based upon their training rather than their physical work location, ensuring that all call centers have CSRs trained to answer any type of call from any state served by AAI.

In addition, witness Chambers testified that AAI has taken steps to upgrade the training of its CSRs. Since the last rate case, AAI has had 35 CSRs complete a 3-course customer service training program developed by the AWWA for utility company CSRs. Witness Chambers testified that AAI was the first utility in the country to have its employees complete the full range of the AWWA's courses, demonstrating AAI's commitment to CSR training and improving customer service.

Further, witness Chambers discussed AAI's procedures for evaluating its CSRs on a monthly basis and calculating combined call quality scores for each call center. The quality scores are determined by AAI's call center managers who review ten randomly selected calls for each CSR per month for performance expectations including greeting and closing, adherence to policy, analytical skills, and soft skills. Soft skills are allocated 40 points and analytical/strategic thinking skills are allocated 60 points. Witness Chambers explained that any CSR who is found to be rude would receive a score below 85, and that any CSR who receives a score below 85 percent receives coaching. In addition, witness Chambers testified that if a CSR's quality scores did not continue to improve, they could eventually be terminated. Since October 2008, all call quality scores for AAI's call centers have remained above AAI's stated goal of 85 percent, sometimes reaching 95 percent.

Witness Chambers concluded that the results of the Phase II Monitoring show that AUF has been proactive in adopting aggressive quality control methods and has done an excellent job in meeting those service quality goals, and that AUF has made steady improvement in the quality of customer service since the 2008 rate case. Witness Chambers added that the CSR Call Quality scores improved dramatically when compared to 2008, the estimation rate for Florida has been consistently below the target goal of one percent, and there has been a downward trend in complaints filed with the Commission. In addition to her direct testimony, witness Chambers provided rebuttal testimony on several points raised by OPC related to the Phase II Monitoring Plan, as will be discussed later.

Three witnesses filed testimony on behalf of OPC regarding the Phase II Monitoring Plan. OPC witnesses Poucher and Dismukes both testified that AUF had shown some improvement in its service quality and call center performance. Witness Poucher noted that meter reading complaints related to estimated bills have declined significantly due to AUF's

meter replacement program. Also, witness Dismukes acknowledged that a comparison of the first quarter of 2008 to the last ten months of 2010 shows that AUF improved its abandon rate from an average of 6 percent to 3.1 percent, improved the percentage of calls answered in less than 90 seconds from 70 percent to 86 percent, and reduced the average speed to answer calls from 86 seconds to 33 seconds.[21]

However, all three witnesses asserted that AUF has not significantly improved its quality of service as perceived by customers. Witnesses Vandiver and Dismukes both noted several instances in which the Utility failed to meet its own service goals, and witness Vandiver added that any failures in these areas directly impact customer bills. Witness Poucher suggested that AUF's service metric regarding abandoned calls failed to take into account the customers who got a busy signal and were blocked from entering the call center queue. Witness Poucher noted that most of the busy signal complaints he recalled involved customers who said they had a bad problem and could not reach the Utility. He identified three customers who specifically complained at a service hearing about getting a busy signal; one customer each at the Lakeland, Gainesville, and New Port Richey hearings.

Witnesses Poucher and Dismukes also discussed their concerns with the content of the Phase II monitoring reports. Witness Poucher testified that he believes AUF's goals are unsatisfactory, the national call center performance results are not directly translatable to Florida operations, and that AUF did not provide historical tracking data that was requested by OPC in its initial meetings that could be used to track improved operating performance over an extended period of time. He also suggested that AUF's goal of answering 80 percent of its calls in less than 90 seconds is not strong enough and should be changed to a goal of answering 95 percent of all calls in 30 to 50 seconds.

In addition, witness Dismukes noted that AAI's call center metrics do not show specific statistics for Florida customers. She recommended that we order the Utility to gather state specific call center data on a going forward basis, if the cost of doing so is reasonable. Witness Dismukes provided the Connecticut Light & Power Company's (CLP) call center statistics for 2008 and 2009 as an example of call center standards adopted in other jurisdictions. She indicated that she would expect differences between the statistics that an electric company would generate versus a water company, such as a longer average handle time per call for electric utility calls because they are more complex and have more complex customers than a water utility. However, witness Dismukes later testified that she was not recommending that we use the CLP call center metrics as a benchmark to measure AUF's call center performance. She suggested that an AWWA publication regarding water utility customer relations best practices would be a good reference for measuring a utility's customer service performance.

In response, AUF disagreed with OPC's claim that no historical data was provided. AUF witness Chambers testified that in addition to providing all of the information contemplated in the Phase II reports to which OPC had agreed, AUF specifically provided historical information

[21] Witness Dismukes included March and April 2010 in this analysis, which were outside the Phase II monitoring period.

concerning the reports and metrics. Also, regarding OPC's recommendation that we order the Utility to gather state specific call center data on a going forward basis, AUF witness Chambers testified that AAI does not currently have the ability to produce the Call Center Monitoring Statistics Report for a specific state, and she did not know if the system could be modified to produce such a report. In response to OPC's assertion that AUF's goals are unsatisfactory and that the call answer time goal should be changed, AUF witness Chambers testified that to change the call answer time goal of answering 80 percent of all calls in less than 90 seconds to answering 80 percent of all calls in 60 seconds would require hiring additional CSRs and most likely increasing the dedicated phone lines. Also, the Utility would have to staff for the peak days of Monday and Tuesday. However, based upon the input that AUF received initially from its customers in the Pennsylvania survey, she testified that it would not be appropriate to change this goal, and that the current goal of answering 80 percent of all calls in less than 90 seconds should be maintained. Further, the current metrics in 2011 show an overall average answer time of 40 seconds. In addition, witness Chambers disagreed with OPC's assertion that AAI has an insufficient number of telephone lines in its call centers and that blocked calls are a significant problem. Witness Chambers testified that 116 lines of capacity are more than an adequate number of incoming lines and that the average blocked call rate of .55 percent is an excellent record in her opinion.

Also, in response to the OPC's exhibit on CLP's call center statistics for 2008 and 2009, witness Chambers demonstrated that AAI had already adopted similar metrics and achieved significantly better performance than CLP. A comparison of CLP's statistics to AAI's current statistics for 2011 shows that CLP's 2009 average speed to answer CSR handled calls was 296.6 seconds versus AAI's lower average of 41 seconds. Witness Chambers also noted that CLP's average call abandonment rate was 19.1 percent in 2008 and 26.2 percent in 2009 versus AAI's 2011 average abandon rate of 3.6 percent. Further, CLP's average call handle time was approximately 6 minutes and 24 seconds versus AAI's 2011 average handle time of 4 minutes and 28 seconds.

c. Commission Conclusion on Utility's Attempt to Address Customer Satisfaction

Review of the customer testimony provided at the ten service hearings with regard to AUF's quality of service shows that customers expressed complaints related to water quality, billing, outages and PBWNs, customer service, community impact, and lifestyle changes. As stated earlier, we do not take lightly the concerns of these individuals, particularly considering the current state of our economy as it pertains to levels of employment and income and the ability of working class and retired citizens to pay their water and wastewater bills. We do note that AUF appears to have worked diligently to address specific customer complaints by working toward resolutions with customers, such as establishing payment plans and applying Commission rules related to billing and discontinuance of service in a more customer-friendly manner.

The Utility has shown that it has taken steps toward improving customer service, including establishing programs to enhance customer responsiveness, improve customers' interactions with field technicians and CSRs, standardize routine utility processes, and enhance customers' confidence in the Utility. Record evidence indicates that complaints filed against the

Utility have decreased by approximately 24 percent from 2007 to 2010, despite the fact that there was a protested rate case in progress which generally leads to an increase in complaints filed. We believe that this decrease in the volume of complaints can be attributed to the fact that customers are experiencing the benefits of the Utility's improvements.

Although testimony reflects that CSRs have been rude to customers, there does appear to have been improvements. We believe AUF has worked to provide additional training to its CSRs in order to provide more satisfactory and more efficient service to callers, and AUF has cited that its review of calls in which customers deemed CSRs rude revealed only one instance in which the CSR could have been more helpful but was not rude. We would encourage AUF to continue to provide training to its CSRs, particularly with respect to those issues that are unique to Florida customers, such as water quality.

However, we note that customers have historically had significant concerns with respect to AUF's billing practices. Although the Utility continues to take steps to address billing and payment issues raised by customers in the 2008 rate case and in customer meetings and customer service hearings in the instant case, we note there was still extensive testimony on problems with billing, especially with backbilling. Having reviewed the policies and procedures AUF has put in place to address backbilling, high bills, online payments, leak adjustments, and shut-off for nonpayment instances, we believe AUF is moving toward ameliorating these problems. Further, we note that in some instances the Utility has gone beyond what is required by our rules in its efforts to address customer billing concerns.

Regarding aesthetics, it appears that the Phase II aesthetic program has had some success, and we believe the Utility should continue to attempt to find cost-effective means for improving aesthetics. We note that the naturally occurring aesthetic properties in some systems' water sources can often be difficult and expensive to remove. We believe AUF's aesthetic program is a competent plan to effectively address its customers' aesthetic water quality concerns. This is evident through confirmation of work that has been completed to improve aesthetic water quality.

Although it does not appear that AUF is providing a harmful product to its customers, there was evidence that the Utility's product was undesirable to many customers. We believe that although AUF's aesthetic improvement project has been well developed and appears to be progressing toward improvement in customer satisfaction concerning water quality, AUF is faced with a challenging situation. Therefore, we encourage the continuation of AUF's aesthetic improvement program and the inclusion of the next tier of systems intended for the second phase of the project with the caveat that the Utility be aware of the costs and use the most cost-effective means. In addition, we encourage the continuation of the YES/AUF joint task force to continue to work toward unique account establishment, billing, and shutoff issues that affect the Arredondo Farms community.

AUF and OPC disagreed regarding the outcome of the jointly proposed Phase II Monitoring Plan. AUF argued that it has made steady improvement in the quality of customer service since the 2008 rate case, while OPC argued that there was no significant improvement in

the quality of service based on the eight months of additional monitoring. We agree with points raised by both parties. OPC is correct that there were no significant improvements noted solely during the eight months of additional monitoring. However, when the review is extended to include all the available information leading up and subsequent to Phase II, the record supports AUF's testimony that its call center and customer service performance has improved. Further, the record supports that AUF has either maintained or further improved its performance measures since October 2008, a period of three years.

Also, it appears AUF did not provide historical data or sufficient information on Florida calls. AUF has provided data as far back as January 2007 for certain performance measures. Combined with the updated information through October 2011, all the parties were given nearly five years of data to review. Further, five of the seven reports provided during the Phase II monitoring period were specifically related to Florida calls. We believe that taking all of the reports together provide a comprehensive view of AAI and AUF's performance with respect to calls and complaints from Florida customers. In addition, because all AAI customer calls are routed through AAI's call centers using the same process, it appears that the national call center performance results are directly translatable to Florida operations. The evidence supports that Florida customers will share similar call experiences with customers from other states, and that call metrics are affected more by other factors, such as call volume and the number of CSRs, than by the state from which the call is placed. Although we agree with OPC's testimony that blocked call data should be considered when reviewing call center performance, we disagree with OPC's assertion that blocked calls are a significant problem with AAI's call center operations or performance metrics. Further, the evidence demonstrates that AAI has implemented call center metrics similar to those implemented in other jurisdictions, and in fact, experienced better results than those reported in the CLP call center exhibit provided by OPC witness Dismukes.

We note that AAI has taken many steps to ensure proper operation of its call centers including, but not limited to: reviewing its call center metrics on an annual basis; responding to permanent increased call volumes by employing additional CSRs; responding to peak call days by adding additional CSRs on those days; implementing a call routing system that allows calls to be routed to other call centers during times of high call volumes; assigning CSRs to various call queues based upon their training to ensure that calls are answered by CSRs trained on those issues; monitoring monthly blocked call/busy signal data to assess when additional phone lines and/or CSRs may need to be added; evaluating CSR performance monthly; providing coaching to CSRs with inadequate performance scores; and providing additional training to CSRs through the AWWA. In addition, the record shows that AAI previously conducted a year-long survey of its Pennsylvania customers to review the need and desire on the part of customers to add additional call hours and CSRs. All these factors demonstrate that AAI is being attentive to the performance of its call centers and is prepared to make changes in its telephone system, call center staffing, and training when the performance data indicates sufficient need.

Regarding the results of the Phase II Monitoring Plan, overall, we believe AUF's arguments that it has been proactive in establishing its quality of service metrics and implementing changes to address customer service concerns has some merit. The evidence

supports AUF's assertion that it has made improvement in the quality of customer service since the 2008 rate case, and has either maintained or further improved its customer service performance metrics since October 2008, a period of three years. However, noting the volume and nature of the calls, the customers' testimony at the service hearings, and the total number of customer complaints, we find that the Utility has not yet reached the level of service that we could determine to be satisfactory. In review of the evidence provided, and pursuant to Rule 25-30.433(1), F.A.C., we find AUF's attempt to address customer satisfaction is marginal.

Further, although we have found the Utility's quality of service to be marginal, any quality of service monitoring costs incurred during the test year shall be amortized over a 5-year period pursuant to Rule 25-30.433(8), F.A.C. In a late-filed hearing exhibit, the Utility reflected that it included $75,225 in test year expenses for our required Phase I Monitoring Plan. In accordance with Rule 25-30.433(8), F.A.C., and allowing an annual expense of $15,045, O&M expenses shall be reduced by $60,180 and working capital be increased by $60,180. The table below reflects the adjustments to each rate band and stand-alone system.

Amortization of Phase I Monitoring Plan Costs		
System	O&M Expenses	Working Capital Allowance
Water Band 1	($14,047)	$14,047
Wastewater Band 1	(2,497)	2,497
Water Band 2	(6,244)	6,244
Wastewater Band 2	(11,452)	11,452
Water Band 3	(3,814)	3,814
Wastewater Band 3	(1,406)	1,406
Water Band 4	(17,354)	17,354
Wastewater Band 4	(697)	697
Breeze Hill Water	(295)	295
Breeze Hill Wastewater	(295)	295
Fairways Water	(1,078)	1,078
Fairways Wastewater	(556)	556
Peace River Water	(229)	229
Peace River Wastewater	(214)	214
Total	($60,180)	$60,180

5. Conclusion

Based on the record evidence, we find that the quality of the Utility's product and the operating condition of the Utility's plant and facilities are each marginal, as well as its attempt to address customer satisfaction. Therefore, we find AUF's overall quality of service shall be deemed marginal.

B. Additional Actions for Quality of Service

In our PAA Order issued in this docket, we: (1) found that AUF's quality of service was marginal; (2) proposed a 25-basis point reduction from the midpoint of the ROE calculated pursuant to the current leverage graph; and (3) proposed to require development of a Phase III Monitoring Plan. These findings and requirements were protested, and thus became null and void.

At the request of the parties, what had been one issue addressing quality of service in the PAA Order was split into two issues, with the first issue addressing the quality of service (discussed above), and the second issue addressing whether any additional actions should be taken by this Commission based on AUF's quality of service. Under this issue, there are two main subparts. The first subpart addresses whether the quality of service is so deficient that AUF should be penalized by reducing its ROE from the normal midpoint as would be indicated by the current leverage formula. The second subpart addresses whether the quality of AUF's service is so deficient that a third monitoring plan should be initiated. Each of these subparts is discussed below.

1. Parties' Arguments

a. Parties' Arguments on Penalties/Reduction of ROE

(1) AUF

AUF witness Szczygiel testified that he disagreed with OPC witness Dismukes' testimony urging us to impose a 100-basis point penalty on the Utility's ROE for insufficient quality of service. Witness Szczygiel pointed to the testimonies of AUF witnesses Luitweiler and Chambers, along with various DEP and WMD witnesses, that demonstrate that AUF's quality of service is good and has significantly improved since the last rate case. Further, he testified that the reduction is unwarranted and would result in confiscatory rates. Finally, witness Szczygiel noted that witness Dismukes had argued for similar draconian ROE penalties in the last rate case, which we rejected.

AUF argued in its brief that a plain reading of Section 367.111, F.S., authorizes this Commission to reduce a utility's ROE only if it is shown that the utility has failed to provide water and wastewater service that meets standards promulgated by DEP or the WMDs. AUF also cited a case in which the Florida Supreme Court cautioned that our authority to reduce earnings is a "powerful tool" to bring about improved utility services, but it should be used "carefully" so as to avoid depressing earnings to a level that would jeopardize the utility's ability to continue service improvement programs. See Askew v. Bevis, 283 So. 2d 337, 340 (Fla. 1973). AUF referenced two Commission orders that it believes demonstrate that we have been careful to limit ROE penalties to egregious situations such as where the utility has flagrantly disregarded environmental regulations or ignored Commission rules.[22] AUF asserted that there

[22] See Order No. PSC-03-0699-PAA-SU, issued June 9, 2003, in Docket No. 020439-SU, In re: Application for a staff-assisted rate case in Lee County by Sanibel Bayous Utility Corporation; and Order No. PSC-98-0763-FOF-SU,

is no evidence in this case, and indeed no claim, that AUF has flagrantly disregarded DEP or Commission rules, charged unauthorized rates, or ignored our staff's requests for information. Further, AUF noted in its brief that OPC witnesses could not identify any promulgated DEP or WMD standard that AUF failed to meet in this case.

In addition, AUF cited the Supreme Court decision in Gulf Power Co. v. Wilson, 597 So. 2d 270 (Fla. 1992), and noted that it is particularly instructive in addressing whether we should impose an ROE penalty on AUF. In its brief, AUF discussed that in that case, the utility's management admitted that a senior executive had for years been engaged in corrupt practices such as theft, misuse of utility property, and inappropriate political contributions. This Commission reduced Gulf Power's ROE by 50 basis points, but limited that ROE reduction to a period of two years on the basis that utility management had shown a commitment to address its prior problems. AUF argues that none of those extraordinary circumstances are present in this case. AUF argued in its brief that AUF is committed to taking actions beyond that required by law to improve customer service. Further, AUF argues the punitive ROE penalty recommended by OPC ignores AUF's good faith efforts to provide and improve its quality of service to customers, and should be rejected.

(2) OPC

OPC witness Poucher recommended that we reach a finding that AUF's service is unsatisfactory and set rates based on an ROE that is at least 100 basis points below the midpoint until such time as AUF's service is deemed satisfactory. Witness Poucher testified that the 100-basis point reduction would serve as an incentive to motivate AUF to improve its service, product, and operational efficiency. Witness Poucher also indicated that there were no DEP or WMD standards that he was alleging that AUF had failed in this case to warrant an ROE penalty. Rather, he stated that the recommendation was based upon customer complaints about customer service that were heard at the service hearings, and on AUF's failure to meet some of its internal performance goals.

OPC witness Dismukes also recommended that we reduce AUF's ROE by 100 basis points. In support of this recommendation, witness Dismukes asserted that the customer testimony and customer complaints, as well as the information provided in the testimony of witnesses Vandiver and Poucher, provide clear indications that despite our initial finding of substantial improvement, the Utility has a long way to go before its quality of service can be considered satisfactory. Witness Dismukes discussed several cases in which we have made ROE reductions, including a 100-basis point reduction for Pine Island Utility and Consolidated Utilities Company, a 50-basis point reduction for Aloha Utilities and Ocean Reef Club, and a 25-basis point reduction for Southern States Utilities (the predecessor for most of the AUF systems). Witness Dismukes added that while there has been some improvement in the call center statistics, there are still numerous problems which have not been resolved, including: customer service, billing accuracy, estimated bills, and water quality. Thus, there has been a continuation

---

issued June 3, 1998, in Docket No. 971182-SU, In re: Application for a staff-assisted rate case in Marion County by BFF Corp.

of the problems identified in the 2008 rate case. Witness Dismukes also indicated that she was not testifying on DEP standards, and that her testimony regarding water quality deficiencies was from the customer's perspective from the service hearing transcripts.

OPC argued in its brief that the reduction of 100 basis points is necessary to effect change in AUF's behavior that is long overdue without creating financial jeopardy to the Utility. OPC also noted that a 25 basis point reduction in revenue is less than $90,000 on a combined basis, and represents .6 percent of AUF's 2010 total revenue or less than .01 percent of AAI's 2010 total revenue. In contrast, a 100-basis point reduction would be approximately 2.6 percent of AUF's total revenues and .05 percent of AAI's total revenue.

(3) YES, Pasco County, and AG's Argument

Although the other Interveners agreed that AUF's ROE should be reduced by 100 basis points, they did not offer specific testimony or any arguments in their briefs on this issue. Also, YES took the position that we should disallow a portion of executive salaries and the requested rate case expense, but did not present any argument under this issue.

b. Parties' Arguments on Continued Monitoring

(1) AUF

AUF argued in its brief that the record reflects that additional monitoring is not required and would impose unnecessary costs on the Utility and its customers. Further, AUF argued that for over two years its service quality has already been the focus of two separate and rigorous monitoring plans. AUF contended that the monitoring results, which are a part of the record in this case, show that AUF has good customer service and consistently complies with environmental requirements. AUF also noted that the record evidence shows that the Phase I and Phase II Monitoring Plans have imposed significant costs on AUF in excess of $230,000.

In addition, AUF stated in its brief that, "OPC's request for continued monitoring rings hollow especially when OPC was so apathetic to the monitoring plans it initially worked to develop and ultimately agreed to." AUF added that, "[t]he apathy was exemplified at the hearing when OPC witness Poucher admitted that, while AUF had complied with OPC's request and provided OPC with the audio tapes of all of the calls into the call centers, the OPC had never attempted to listen to even one of the tapes." AUF also noted that witness Poucher admitted that the OPC had never visited and inspected AAI's call center even though such inspection was expressly contemplated by our Phase II Monitoring Order. During her deposition, witness Chambers elaborated that AUF felt that OPC's visit to an AAI call center would give OPC a better understanding of AAI's organization by providing OPC with firsthand knowledge of the call centers, how the calls come in and how AAI operates. AUF concluded in its brief that "[i]n light of AUF's demonstrated commitment to improved customer service, additional monitoring is unnecessary and would not be cost effective."

During her deposition, witness Chambers testified that AAI does not currently have the ability to produce the Call Center Monitoring Statistics Report for a specific state as was suggested by OPC witness Dismukes, and she did not know if the system could be modified to produce such a report. Also, she opposed OPC witness Poucher's suggestion that the Utility be required to provide information on every complaint as part of a Phase III Monitoring Plan because it had already done so during Phase I at a cost of $100,000. In the event a third round of monitoring is implemented, witness Chambers suggested that it include reports similar to those used during Phase II.

(2) OPC

As discussed above, OPC believed AUF's quality of service was unsatisfactory. Consequently, OPC witness Poucher testified that that we should require our staff to continue to actively monitor AUF's service quality and require AUF to provide prompt and comprehensive reports regarding its efforts and progress in providing a drinkable, quality product. Witness Poucher recommended that our staff, OPC, and AUF work collectively to develop and implement a monitoring program that includes measurement, benchmarks, and programs that would improve AUF's operational efficiencies and service quality. During his deposition, witness Poucher recommended that the Phase III Monitoring Plan should include a review of every complaint received by the Utility as was done in the Phase I Monitoring Plan. He recommended that we require the Utility provide documentation showing the facts and closure of every complaint received, not just the complaints filed with the Commission.

OPC witness Vandiver testified that she had not developed a specific monitoring plan or performance standards, but suggested that a third phase of monitoring should include DEP compliance, billing issues, and customer service issues. In addition, she suggested that we develop some of the metrics instead of using AUF's metrics, unless AUF has some metrics that meet what we are interested in.

Regarding additional options, OPC witness Dismukes recommended that we order the Utility to gather state specific call center data on a going forward basis, if the cost of doing so is reasonable, and suggested use of an AWWA publication regarding utility customer service best practices. Although witness Dismukes provided an exhibit showing call center metrics for CPL, she later indicated that she was not suggesting that it be used as a benchmark to measure AUF's performance.

(3) YES, Pasco County, and AG

None of these three parties offered any specific testimony or arguments in their briefs regarding additional monitoring.

2. Commission Analysis

a. Penalties/Reduction of ROE

Section 367.111(2), F.S., states in part, "[i]f the commission finds that a utility has failed to provide its customers with water or wastewater service that meets the standards promulgated by the Department of Environmental Protection or the water management districts, the commission may reduce the utility's return on equity until the standards are met." As discussed above in Section IV. A. Quality of Service, although AUF has taken steps, and is continuing to take steps, which address the environmental compliance and customer service issues that have been raised, the Utility has not yet reached a level of service that we consider satisfactory. Having found that the overall quality of service is marginal, we find that the ROE shall be reduced from the midpoint as indicated by the current leverage graph, pursuant to the holding of the Florida Supreme Court in Gulf Power Company v. Wilson.[23] OPC cited numerous times where we have reduced the ROE based on marginal quality of service. In cases of unsatisfactory quality of service we have reduced the ROE by as much as 100 basis points. However, we note that we have imposed a penalty approaching 100 basis points only under egregious circumstances. We do not think such egregious circumstances exist in this case. Therefore, we do not agree with OPC that ROE should be reduced by 100 basis points. Instead, because we have found the quality of service to be marginal, under the circumstances set forth herein, we find that the ROE shall be reduced by 50 basis points.

b. Continued Monitoring

As noted above, AUF believes no continued monitoring is warranted, but OPC witness Poucher recommended we require a Phase III Monitoring Plan to include a review of every complaint received by the Utility as was done in the Phase I Monitoring Plan. Staff witness Hicks provided testimony regarding our process for regularly reviewing complaints filed with the Commission for rule violations. She testified that during the complaint resolution process, complaint staff determines if the complaint is a possible rule violation. If it is determined that the complaint is a possible rule violation, an infraction close-out code is applied to the complaint so that it can be tracked. Technical staff is then notified when there appears to be a significant number of possible violations of the same rule or a large quantity of possible violations received in a short timeframe. Witness Hicks testified that AUF did not receive a significant number of apparent rule violations from 2009 through 2011.

However, as noted by witness Poucher, witness Hicks' review is only applicable to complaints filed with the Commission. Witness Poucher recommended that we require the Utility to provide documentation showing the facts and closure of every complaint received by AUF, not just the complaints filed with us.

Something similar to this has already been done in Phase I, and it proved to be quite costly. As noted by AUF, the Phase I and Phase II Monitoring Plans have imposed significant

[23] 597 So. 2d 270 (Fla. 1992).

costs on AUF in excess of $230,000. Further, by witness Poucher's own admission, these plans did not appear to be effective. Also, during Phase I, approximately six months of call center sound recordings and detailed complaint records were monitored with no adverse trends noted by our staff. Although OPC has recommended that we require similarly detailed records again, witness Poucher admitted that OPC never listened to any of the call center sound recordings provided to OPC by AUF during Phase I. Witness Poucher stated, "I didn't think they were of value since you made the company aware that you're going to be taking observations of their calls." Therefore, we find that continued monitoring of this nature is not warranted. Such intense monitoring is not cost effective and may have reached a point where it is counterproductive.

Further, the evidence suggests that while OPC has been a strong proponent for the Phase I and Phase II Monitoring Plans, and took part in the development of the Phase II Monitoring Plan, it appears that OPC has little faith in the efficacy and worth of the data that was provided pursuant to the Plans. Instead, OPC has relied more heavily on customer testimony in determining what further actions should be required. Based upon the record evidence in this case, we do not believe a third round of call center monitoring as was done in Phase I is necessary, and agree with AUF's testimony that a Phase III Monitoring Plan of this nature would impose unnecessary costs on the Utility and its customers. In addition, the Phase II monitoring, while less costly, still caused AUF to incur substantial costs. Therefore, we find that additional monitoring in the nature of the Phase I or Phase II Monitoring Plans shall not be continued.

However, based on testimony provided, there appears to be significant customer and Intervenor concern regarding the number of and compliance with the requirements for PBWNs. Also, our staff has advised us of four very brief reports that were helpful in monitoring the service provided by AUF, and which were already generated by AUF. These reports are: (1) the Call Center Monitoring Statistics Report; (2) the Management Quality Performance Report; (3) the Florida Complaint Support Information Report; and (4) the Florida Score Card Report. Further, as regards the Florida Complaint Support Information Report, our staff advises us that only the bottom-line total is needed from that report. Finally, we note that AUF continues to have multiple warning letters, consent orders, or notices of violation from either DEP, CH, or the WMDs. Based on the above, we find that our staff shall continue to monitor these type of problems and have access to the above-noted documents. In consideration of the less than positive perception by those parties and customers towards AUF's handling of PBWNs, the continuing problems with customer complaints, and the multiple warning letters, consent orders, or notices of violation, we find that our staff shall continue a modified monitoring of these areas.

Specifically, we believe that the parties' and customers' concerns can be addressed more effectively through our staff's review of quarterly status reports regarding PBWNs, the four above-noted AUF reports, and any new warning letters, consent orders, or notices of violation that may occur. Based on all the above, we find that a third phase of monitoring addressing AUF's call centers and all complaints not filed with the Commission is not warranted and would not be cost effective. However, we further find that, along with our current process for monitoring complaint trends, for a period of one year following this Final Order, AUF shall provide quarterly reports regarding PBWNs, the Call Center Monitoring Statistics Report, the

Management Quality Performance Report; the Florida Complaint Support Information Report (only the overall monthly bottom-line totals for CSR contacts), and the Florida Score Card Report. For the quarterly PBWNs Report, the report shall include an explanation for each occurrence, the name of the systems where each PBWN occurred, the number of customers affected, explanation as to how the customers were notified, and the length of time the PBWNs remained in effect. The PBWN reports shall also include a summary of customer responses to the PBWNs, and any written customer responses shall be attached to the report.

As indicated above, the information obtained through the required reports is for this Commission to observe AUF's attempt to address customer satisfaction related to PBWNs and quality of service. Our staff will review each report for consistency with our order and will report back to us if it has any concerns.

3. Commission Conclusion

Based on the analysis above, we find that: (1) the Utility's ROE shall be reduced by 50 basis points from the midpoint of the current leverage graph; and (2) there shall be no continued monitoring plan similar to the plans developed in Phase I and Phase II except as discussed above concerning PBWNs, the four reports, warning letters, consent orders, and notices of violation that may occur. For these concerns, AUF shall provide quarterly reports regarding PBWNs, the four above-noted reports, and any new warning letters, consent orders, or notices of violation that may occur for a period of one year following the issuance of this Final Order in this docket. Our staff will review each report for consistency with this order and will report to us if it has any concerns.

V. RATE BASE

A. Pro Forma Plant

In the PAA Order, we disallowed several proposed pro forma projects requested by AUF due to insufficient supporting documentation regarding the cost and completion of the projects.[24] In AUF's cross-petition of the PAA Order, it requested that six of these projects be recognized for purposes of this case.

1. Parties' Arguments

a. AUF

AUF witness Luitweiler testified that, to include a pro forma project in rate base, this Commission requires documentation supporting the purpose, design, and price of the project to allow sufficient evaluation of the project's prudence. This requirement is typically met through executed contracts, work orders, and current price quotes. OPC witness Woodcock, the only other witness to address AUF's pro forma plant requests, conceded that if AUF secured bids and provided proof that construction would be underway within the required period, then the projects

[24] See Order No. PSC-11-0256-PAA-WS, pp. 35-42.

should be placed into rate base. In its brief, the Utility asserted that its undisputed evidence supports the purpose, design, and price of these six pro forma plant projects, and also demonstrates that each has been or will be placed into service within the required period. Thus, AUF contended that these six projects should be included in rate base.

AUF argued that it has demonstrated that all six of these projects will be completed by February 2012, within 24 months after the end of the test year. The Utility contended that OPC's assertions that AUF's pro forma plant projects will not be completed within 18 months from the end of the historic test year references a non-existent standard. Moreover, the Utility pointed out that Section 367.081(2)(a)2., F.S., provides that, in fixing rates which are just, reasonable, compensatory and not unfairly discriminatory, we "shall consider utility property, including land acquired or facilities constructed or to be constructed within a reasonable time in the future, not to exceed 24 months after the end of the historic base year," not 18 months. The following discussion addresses AUF's support for each of these six plant projects.

(1) Breeze Hill Wastewater I&I Project

AUF witness Luitweiler testified that the Breeze Hill wastewater system previously had a high amount of I&I. Witness Luitweiler proposed an I&I rehabilitation project in its rate case filing to address the excessive I&I. Witness Luitweiler stated this project was completed in March 2011. He indicated that, on May 31, 2011, this project was closed from CWIP into plant in service. Witness Luitweiler testified that the total amount of this now-closed project is $78,165, including overhead.

(2) Lake Josephine and Sebring Lakes AdEdge Water Treatment Project

Witness Luitweiler testified this project has been designed, permit applications have been submitted to DEP, and the equipment ordered. In his rebuttal testimony, he testified that the filtration equipment from AdEdge was delivered on October 12, 2011. Witness Luitweiler stated that a contractor was engaged to complete installation of the AdEdge treatment at both facilities by November 2011. Witness Luitweiler testified that the projected cost for these two projects of $372,760 should be included in rate base as pro forma plant.

(3) Leisure Lakes AdEdge Water Treatment Project

Witness Luitweiler testified this project has been designed, a permit application has been submitted to DEP, and the equipment ordered. In his rebuttal testimony, he testified that the filtration equipment was ordered from AdEdge while the permit application was pending at DEP. Witness Luitweiler testified that a construction permit was finally issued by DEP on October 6, 2011. He stated that the work on installing the treatment equipment is to begin in November 2011. In its brief, AUF stated it expects construction to be completed by mid-January 2012. Witness Luitweiler testified that actual costs of $105,799, plus additional costs for installation, inspection and certification for this project should be included in rate base as pro forma plant.

(4) Peace River Water Treatment Project

Witness Luitweiler testified that AUF completed the Peace River Water Treatment Project design and submitted the permit application to DEP. He testified that AUF executed a contract with the treatment system supplier on August 23, 2011. In his late-filed deposition Exhibit 5, witness Luitweiler provided an executed contract for construction dated November 18, 2011. He asserted this project is expected to be completed by February 15, 2012. Witness Luitweiler testified this project, which is required by a DEP Consent Order, will cost $204,681 and should be included in rate base as pro forma plant.

(5) Tomoka Twin Rivers Water Treatment Plant Tank Lining Project

Witness Luitweiler testified that the need for this project was identified in a February 2, 2010, Volusia County Department of Health (VCHD) letter, which addressed the age and condition of the concrete block tank at the Tomoka Twin Rivers plant. Witness Luitweiler indicated that the previous owner failed to coat the tank and the project to reline the tank was completed in May 2011. On June 30, 2011, this project was closed from CWIP into plant in service. Witness Luitweiler indicated that the total amount of this now-closed project is $48,066, including overhead, and should be included in AUF's rate base in this rate case.

(6) Sunny Hills Water System Water Tank Replacement Project

Witness Luitweiler testified that AUF completed a design for a new water tank and piping, and the design and construction permit application was filed with DEP on June 6, 2011. Subsequently, the tank was ordered, a contract was executed on September 14, 2011, and AUF authorized a contractor to commence work. Witness Luitweiler asserted that the total amount of this project is $267,885 and should be included in rate base as pro forma plant.

In closing, AUF argued that three of these projects were performed to comply with environmental requirements, including: (1) Peace River Gross Alpha Treatment; (2) Sunny Hills Additional Storage; and (3) Tomoka Twin Rivers Tank Liners. The Lake Josephine and Sebring Lakes AdEdge and Leisure Lakes AdEdge Treatment projects were undertaken due to the Commission-approved Phase II Aesthetic Water Quality Improvement plan. As such, AUF argued that it is entitled to recover the costs of these projects pursuant to Section 367.081(2)(a)2.c., F.S.

b. OPC

OPC protested the inclusion of several of these items due to the uncertainty of the completion of the projects. OPC witness Woodcock testified that he was concerned that even though the equipment for improvements may have been purchased, there is no commitment that they will actually be installed and placed into operation. Further, witness Woodcock expressed that even though the projects may be bid out to a contractor to install, there may be other reasons that could delay or prevent the projects from being completed. However, witness Woodcock conceded that, once construction is under way there is a greater likelihood that the facilities will

be completed. The three remaining systems for which construction has yet to start are the Leisure Lakes AdEdge Water Treatment Project, the Peace River Water Treatment Project, and the Sunny Hills Water System Water Tank Replacement Project.

(1) Leisure Lakes AdEdge Water Treatment Project

In its brief, OPC stated that the Utility included $150,000 in its MFRs for the Leisure Lakes AdEdge Water Treatment Project. OPC pointed out that AUF witness Luitweiler testified that the Utility expected to bid the construction by early November 2011. OPC also noted that, as of the date of AUF witness Luitweiler's deposition on November 16, 2011, AUF still had not signed a contract. OPC stated that witness Luitweiler testified that the current estimated date for the bids to be awarded was the middle of December. Based on OPC witness Woodcock's concern that any project is uncertain until construction actually begins, OPC stated that this project is still very uncertain. OPC expressed concern that, if any construction begins in the next month, it will be well over 20 months after the test year before this project might be completed, and as such, the Peace River project should not be included in rate base.

(2) Peace River Water Treatment Project

In its brief, OPC stated that the Utility included $50,000 in the MFRs for the Peace River Water Treatment Project. OPC pointed out that AUF witness Luitweiler testified that the Utility expected to bid the construction by October 3, 2011. OPC also noted that, as of the date of witness Luitweiler's deposition on November 16, 2011, the Utility had still not signed a contract. OPC stated that witness Luitweiler testified that the contract for construction had been awarded. OPC also argued that while witness Luitweiler had executed a contract, he could not confirm whether the Notice to Proceed had been issued. Based on OPC witness Woodcock's concern that any project is uncertain until construction actually begins, OPC stated that this project is still very uncertain. OPC expressed concern that, if any construction begins in the next month, it will be well over 20 months after the test year before this project might be completed, and as such, the Peace River project should not be included in rate base.

(3) Sunny Hills Water System Water Tank Replacement Project

In its brief, OPC stated that the Utility included $120,000 in the MFRs for the Sunny Hills Water System Water Tank Replacement Project. Witness Luitweiler testified that the Utility expected construction to be completed by December 15, 2011. OPC also pointed to witness Luitweiler's deposition where he testified that a Notice to Proceed had been issued and that he would provide that as a Late Filed Exhibit No. 4. However, OPC stated that its review of the late filed exhibits does not show a Notice to Proceed. OPC stated that witness Luitweiler was asked about the status of the project and still could not confirm that construction had started. Based on OPC witness Woodcock's concern that any project is uncertain until construction actually begins, OPC stated that this project is still very uncertain. In its brief, OPC expressed that, if any construction begins in the next month, it will be well over 20 months after the test year before this project might be completed, and as such, the Peace River project should not be included in rate base.

For the reasons discussed above, OPC recommended that these three projects should not be included in rate base.

c. Other Intervenors

YES, Pasco County, and AG either deferred to or adopted the position of OPC on this issue, and presented no argument.

2. Commission Analysis

Section 367.081(2)(a)2., F.S., states:

> For purposes of such proceedings, the commission shall consider utility property, including land acquired or facilities constructed or to be constructed within a reasonable time in the future, not to exceed 24 months after the end of the historic base year used to set final rates unless a longer period is approved by the commission, to be used and useful in the public service . . . .

The test year in this case is the historical 13-month average year ended April 30, 2010. The 24-month period following this test year will end on April 30, 2012. As such, we disagree with OPC's contention that the Leisure Lakes AdEdge Water Treatment Project, the Peace River Water Treatment Project, and the Sunny Hills Water System Water Tank Replacement Project should not be included in rate base because it would be over 20 months after the test year before these projects might be completed. In addition, we disagree with OPC's argument that pro forma plant projects should not be included in rate base unless construction has begun, because we have previously approved pro forma plant based on an award bid or executed contract.[25]

Based on the support documentation provided by AUF, we find that the Utility has supported $792,347 related to the six protested pro forma projects. However, for the three pro forma projects that were not completed as of the end of the technical testimony, AUF shall provide certification from DEP as to the completion date or date the projects were placed into service. The table below reflects the breakdown by rate band and stand-alone system.

[25] See Order Nos. PSC-10-0400-PAA-WS, pp. 10-11, issued June 18, 2010, in Docket No. 090392-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities, Inc. of Pennbrooke; and PSC-08-0622-PAA-WU, pp. 5-6, issued September 24, 2008, in Docket No. 060540-WU, In re: Application for increase in water rates in Pasco County by Colonial Manor Utility Company.

Supported Pro Forma Plant Projects				
Band/ System	Description	MFR Amount	Commission Amount	Adjustment
Water Rate Band 2	Additional Storage	$120,000	$141,004	$21,004
Water Rate Band 4	Tank Liners	70,000	48,066	(21,934)
Water Rate Band 4	Secondary Water Treatment	300,000	341,367	41,367
Water Rate Band 4	Secondary Water Treatment	150,000	106,646	(43,354)
Breeze Hill Wastewater	Sewer I&I	100,000	78,165	(21,835)
Peace River Water	Gross Alpha Project	50,000	77,099	27,099
Total		$790,000	$792,347	$2,347

3. Commission Conclusion

Based on the support documentation provided by AUF, we find that the Utility has supported $792,347 related to the six protested pro forma projects. As such, the Utility's pro forma plant additions shall be increased by $24,182 for water and decreased by $21,835 for wastewater. In accordance with the depreciation rates prescribed in Rule 25-30.140, F.A.C., corresponding adjustments shall be made to increase accumulated depreciation and depreciation expense by $1,132 for water and decrease accumulated depreciation and depreciation expense by $485 for wastewater. In addition, corresponding adjustments shall be made to decrease property taxes by $8,549 for water and $2,136 for wastewater. Also, as stated above, AUF shall provide certification from DEP as to the completion date or date the projects were placed into service. The specific rate band and system adjustments are set forth in the table below.

Pro Forma Plant and Corresponding Adjustments				
Rate Band/System	Plant	Accumulated Depreciation	Depreciation Expense	Property Taxes
Water Band 2	$21,004	($93)	$93	$671
Water Band 4	(23,922)	190	(190)	(9,658)
Breeze Hill-Wastewater	(21,835)	485	(485)	(2,136)
Peace River- Water	(27,099)	(1,230)	1,230	437
Total Adjustments	$2,347	($647)	$647	($10,686)

B. U&U and Composite U&U for Protested Water Treatment Systems

Rule 25-30.4325, F.A.C., addresses the considerations to be used in determining the U&U percentages for water treatment systems. The U&U percentage is determined by dividing the numerator, which includes peak customer demand less excessive unaccounted for water (EUW), plus fire flow and a growth allowance, by the denominator, which is based on the firm reliable capacity (FRC) of the wells. For systems with storage facilities, the FRC is based on 16 hours of pumping and the units are referenced in gallons per day (gpd). For systems without storage facilities, the units are referenced in gallons per minute (gpm). The rule also contains a provision by which an alternative calculation may be considered if supporting justification is provided, including service area or treatment capacity restrictions, changes in flows due to conservation or a reduction in the number of customers, and alternative peaking factors. Paragraph (4) of the rule provides that a water plant is considered 100 percent U&U if the service area "is built out and there is no apparent potential for expansion of the service territory

or the system is served by a single well." The appropriate adjustments for EUW have been stipulated by all parties, as shown in PAA Issue 4 in the Appendix.

AUF and OPC agreed on U&U percentages for many of the water treatment systems; however, OPC protested the U&U percentages for the following WTPs: 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 Lakes Estates/Western Shores, Tomoka View, Twin Rivers, Venetian Village, Welaka, and Zephyr Shores. In witness Woodcock's testimony, OPC agreed with the PAA Order for the Fairways WTP. The parties disagreed on several U&U issues, including reliance on prior Commission orders; the appropriate U&U determination for systems with one well; and the impact of growth trends, reductions in demand, and fire flow on the U&U calculation. The table below contains a summary of AUF's and OPC's proposed U&U percentages, along with our approved U&U percentages for each of the systems in dispute. Details of AUF's and OPC's U&U calculations, our approved U&U percentages, and the resulting composite U&U percentages are shown, by rate band, on Attachment 1.

TABLE 1 – WTP U&U

System	AUF U&U%	OPC U&U%	Comm'n Approved U&U%
Arredondo Estates	100	80	100
Arredondo Farms	100	61	100
Breeze Hill	100	26	100
Carlton Village	95	91	95
East Lake Harris/Friendly Center	100	41	100
Fern Terrace	100	68	100
Hobby Hills	100	41	100
Interlachen/Park Manor	100	76	100
Lake Josephine/Sebring Lakes	85	25	85
Picciola Island	75	56	75
Rosalie Oaks	100	12	100
Silver Lake Estates/Western Shores	94	74	94
Tomoka View	100	43	100
Twin Rivers	100	24	100
Venetian Village	74	63	74
Welaka	80	74	80
Zephyr Shores	100	26	100

1. Parties' Arguments

a. AUF

AUF's position is that all of the U&U findings in our PAA order should be approved as final. AUF witness Rendell testified that we should use our previously approved U&U methodologies and resulting percentages in determining the correct amounts of U&U for WTPs.

He stated that AUF used the same methods in its filing as were approved in the last rate case which were based upon Commission rules. Witness Rendell asserted that regulatory certainty is a core principle for any regulated utility and that ignoring the last approved U&U percentages undermines that certainty. The courts have made it clear that we must adhere to our "prior practices in calculating used and useful percentages."[26]

AUF witness Seidman testified that OPC witness Woodcock's U&U conclusions are erroneous because they misinterpret the governing statutes and rules, as well as the intent of those statutes and rules. He noted that there is no statutory definition of U&U, describing the term U&U as a regulatory rate setting term for the cost of property that is included in a utility's rate base on which the utility is entitled to earn a rate of return. The balance of the cost of the property that is excluded from rate base is referred to as non-U&U or future use plant. Witness Seidman provided background on the U&U concept citing statutory provisions in Chapters 367 and 403, F.S., as well as Rules 25-30.431, 25-30.432, and 25-30.4325, F.A.C., and how those statutes and rules evolved into the rules that were codified in 1999 and 2008.

Witness Seidman testified that this Commission has regulated water and wastewater utilities since 1959, and a common issue has been the determination of "property used and useful in the public service." A change was made to the statutory language in 1999 prohibiting us from imputing contributions in aid of construction against property U&U in the public service, pursuant to Section 367.081(2)(a)1., F.S. In addition, language was added as Section 367.081(2)(a)2., F.S., which requires us to consider property U&U if it is needed to serve current customers, as well as additional customers for five years after the test year or longer if supported by the evidence.

Witness Seidman described our efforts to standardize or codify our approach to determining U&U over the years, relying on our broad authority under Section 367.011, F.S., to liberally construe the statutes. Witness Seidman notes that our policy, developed through orders, internal memoranda, and workshops, ultimately led to the codification of Rules 25-30.432 and 25-30.4325, F.A.C., which address U&U for WWTPs and WTPs, respectively. He further notes that OPC was an active party in the rulemaking process.

AUF witness Seidman agreed with witness Rendell that AUF's determination of U&U complies with the methodology and intent of our rules, and that a utility should be able to rely on approved U&U methodologies litigated and adjudicated in prior cases. If such reliance cannot be had, he alleged that regulatory uncertainty results. Witness Seidman testified that witness Woodcock's arguments in the instant docket are the same that he made in Docket No. 080121-WS, the last AUF docket, and in Docket No. 070183-WS, our U&U rulemaking docket.[27] He asserted that the positions advanced by Woodcock were rejected by us in both of those dockets, which are now closed. Further, witness Seidman disagreed with OPC's argument that U&U for each system must be relitigated in every rate case, and asserted that this is contrary to the intent

[26] Southern States Utilities, n/k/a Florida Water Services Corporation v. Fla. Public Service Commission, 714 So. 2d 1046, 1057 (Fla 1st DCA 1998).
[27] See Order No. PSC-08-0328-FOF-WS, issued May 20, 2008, in Docket No. 070183-WS, In re: Proposed adoption of Rule 25-30.4325, F.A.C., Water Treatment Plant Used and Useful Calculations.

of the governing rules. Finally, he stated that the rules in place are intended to reduce the need for experts to re-argue the same issues over and over. AUF witness Rendell testified that ignoring previously approved U&U methodologies and percentages will result in protracted disputes that ultimately lead to higher rate case expense for the customers.

Witness Seidman testified that reductions in consumption may decrease demand below plant design and previous production levels, but should not affect U&U calculations. He stated that the plant is no less U&U than before those reductions occurred, even if mathematical calculations might show a different conclusion. While reductions in demand will result in a lower U&U number, he testified that recognition must be given to providing service in a prudent manner, which would include changes in demand, whether demand goes up or down. A utility must provide safe, efficient, and sufficient service in accordance with good engineering practice and must also have stability in its financial position so that funding can be obtained at reasonable costs. Further, witness Seidman asserted that a utility must be ready to serve regardless of changes in market demand or its customer base. Finally, witness Seidman concluded that witness Woodcock's approach of recognizing reductions in demand for U&U purposes did not make sense.

In its brief, AUF argued that OPC's disagreement with the PAA Order's U&U determinations deviate from Rule 25-30.4325, F.A.C. AUF asserted that witness Woodcock's reliance on the general provision of the rule allowing an alternative U&U calculation under certain circumstances was misplaced. Citing Palm Beach Canvassing Board v. Harris, 772 So. 2d 1273, 1287 (Fla. 2000), AUF argued that the general provisions of paragraph 3 of the rule must yield to the specific provisions of paragraph 4. AUF also refuted witness Woodcock's position with respect to rounding up a U&U percentage. Citing a prior Commission order,[28] AUF argued that considering a system 100 percent U&U when the applicable formula results in a U&U of 90 percent is a proper evaluation of costs that should be recognized as necessary to provide service to existing customers, taking into account prudence of investment, economies of scale, and other factors recognized in Rule 25-30.4325(2), F.A.C.

b. OPC

OPC witness Woodcock testified that he made calculations based upon Rule 25-30.4325, F.A.C., for water systems, and relied on Section 367.081(2)(a), F.S., which provides that we shall consider property U&U in the public service when such property is needed to serve current customers, including an allowance for growth. He asserted that to provide a complete and thorough review of a utility during a rate case, U&U should be evaluated every time. Over time, there are material changes in the growth of a service area, how the system is operated, and the usage patterns of the customer base. He also stated that there may be new or different information submitted that corrects inaccurate information from a prior rate case. He concluded that customers are bearing the full brunt of the risk associated with stranded capacity in systems with little or no growth, declining growth or decreased usage. The end result is higher rates for the customers who have no control over these factors.

[28] See Order No. PSC-03-1440-FOF-WS, issued December 22, 2003, in Docket No. 020071-WS, In re: Application for a rate increase in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.

Witness Woodcock testified that he disagreed with our prior decisions to round up to 100 percent when an older system with little or no growth is calculated to be 95 percent U&U. He testified that this approach is not supported by any U&U rule and results in higher rates for the customers. OPC argued that our staff has stretched the interpretation of Rule 25-30.4325, F.A.C., beyond its reasonable limits to determine systems to be 100 percent U&U where the systems are not built out and where a potential does exist for expansion of the service territory. Witness Woodcock noted that, while we included a growth allowance for many of the AUF systems in the last rate case, since that time, the economy has undergone a recession and many of the AUF systems have experienced a decline in the growth factor. Further, noting the portions of Rule 25-30.4325(4), F.A.C., addressing reductions in flows related to conservation or a reduction in the number of customers, witness Woodcock argued that the rules require that U&U be re-evaluated for systems where flows have decreased. Witness Woodcock maintained that a change in the growth rate and a decline in customer demand provided sufficient justification to reevaluate the overall U&U of all of the AUF systems.

Another area of concern for witness Woodcock was determining whether a system is built out. Witness Woodcock's opinion was that a swing of 25 percent is an appropriate figure to use to account for incremental sizing of facilities and the differences between design estimates and actual usages. In the case where a service area appears to be built out with no apparent opportunity to expand the service, he proposed a recognition of 100 percent U&U for treatment facilities provided that the calculated U&U percentage is greater than 75 percent. If the calculated percentage is less than 75 percent, he advocated using the calculated U&U percentage rather than recognizing a built-out condition, as contemplated under Rule 25-30.4325, F.A.C. He explained that original facilities could have been overdesigned, designed to serve a larger service area, land use might have changed from the original concept, or the customer demand could be less than originally contemplated. Regardless of the reason, he concluded that there are large amounts of stranded capacity that will never be used by the customers and should be recognized in the U&U analysis.

c. Other Intervenors

YES, Pasco County, and AG either deferred to or adopted the position of OPC on this issue. None of these parties included any argument on this issue in their respective briefs.

2. Commission Analysis

AUF and OPC agreed on the U&U percentages for all but 17 of AUF's WTPs. Table 1, set out above, reflects AUF's and OPC's U&U positions, as well as our approved U&U percentages for each of the WTPs that were not stipulated. As described above, the parties disagreed on issues related to reliance on prior Commission orders; the appropriate U&U determination for systems with one well; and the impact of reductions in demand, growth, and fire flow on the U&U calculation.

We believe that a utility should be able to rely on our approved U&U methodologies litigated and adjudicated in prior cases. Without such reliance, regulatory uncertainty results.

Further, we believe that our intent in adopting Rule 25-30.4325, F.A.C., was to mitigate unnecessary litigation with respect to U&U issues.

We are not persuaded by witness Woodcock's testimony that reliance on prior Commission orders is a race to increase U&U, with no real justification for doing so. It is the policy of this Commission to rely upon prior Commission Orders in addressing issues where the facts and circumstances are the same or similar. However, when there is a change in facilities or operation of a system, we believe further evaluation is warranted in determining the appropriate U&U percentage. In the instant case, only two systems have experienced a change since the last rate case. The interconnection between the Lake Josephine and Sebring Lakes systems was made permanent and DEP now considers the two facilities one system; and one well was added at the Zephyr Shores water system.

a. Systems with One Well

For the systems in dispute, AUF has four WTPs with one well each, including Breeze Hill, Fern Terrace, Rosalie Oaks, and Twin Rivers. AUF's position is that pursuant to Rule 25-30.4325(4), F.A.C., a water treatment system should be considered 100 percent U&U if the system is served by a single well. AUF witness Seidman characterized witness Woodcock's testimony on U&U as his disagreement with the Commission's rules, specifically Rule 25-30.4325(4), F.A.C., which states:

> A water system is considered 100% used and useful if the service territory the system is designed to serve is built out and there is no apparent potential for expansion of the service territory or the system is served by a single well.

Noting our staff's recommendation in the U&U rule docket, Docket No. 070183-WS, dated March 27, 2008, p. 27, which recommendation was approved by us, witness Seidman quoted it as follows:

> The Commission has consistently found that systems with one well and systems that are built out with no apparent potential for expansion are 100% used and useful unless it appears that the system was not prudently designed.[29] These systems, and there are hundreds of them in Florida, are typically built by developers to serve a relatively small area. Staff believes that it is not efficient to require a sophisticated used and useful analysis to ascertain whether these types of

[29] See, e.g., Order No. PSC-96-1320-FOF-WS, issued October 30, 1996, in Docket No. 950495-WS, In re: Application for rate increase and increase in service availability charges by Southern States Utilities, Inc. for Orange-Osceola Utilities, Inc. in Osceola County, and in Bradford, Brevard, Charlotte, Citrus, Clay, Collier, Duval, Highlands, Lake, Lee, Marion, Martin, Nassau, Orange, Osceola, Pasco, Putnam, Seminole, St. Johns, St. Lucie, Volusia, and Washington Counties, p. 58 (finding that in systems with only one component [such as a single well], that component is considered 100 percent used and useful), rev'd on other grounds, Southern States Utilities, n/k/a Florida Water Services Corporation v. Fla. Public Service Commission, 714 So. 2d 1046 (Fla. 1st DCA 1998); and Order No. PSC-03-1440-FOF-WS, p. 44 (finding that it is not unreasonable or unusual for this Commission to consider distribution and collection systems that are 80% or more built out to be 100% used and useful in instances where there is virtually no growth potential and the existing lines are the minimum size needed to serve the existing customers).

> systems are oversized for the developments they are designed to serve. (Rather, a used and useful analysis should only be performed as an alternative when there is evidence indicating that the system may be oversized.)

In its brief, AUF argued that witness Woodcock's testimony does not say that there is anything imprudent about these systems. Moreover, AUF argued that witness Woodcock's exception to Rule 25-30.4325(4), F.A.C., generates the type of unnecessary costs and inefficiencies this Commission sought to avoid by adopting the rule. Therefore, AUF concluded that there is no basis to determine that AUF's systems with one well are less than 100 percent U&U.

Fern Terrace, Rosalie Oaks, and Twin Rivers were found 100 percent U&U in the last AUF rate case. AUF notes that the Breeze Hill system, now in its first rate proceeding under AUF ownership, was previously found 100 percent U&U in two prior Commission staff-assisted rate cases.[30] Witness Rendell noted that OPC participated in both of those rate cases and did not appeal the U&U determinations from either case. In the 2001 Breeze Hill rate case, we found:

> The design criteria method of analysis represents the highest potential need that may be required of a system during any given peak day. Since this system has only one well, no less than the actual capacity of 200 gpm could serve the existing customers. . . . We find it unlikely that Breeze Hill Mobile Home Park . . . will ever contain 350 persons to meet the requirement of Rule 62-555.315, Florida Administrative Code, for a second well.

(Order No. PSC-02-1114-PAA-WS, p. 7)

Witness Woodcock testified that he considered Breeze Hill, Fern Terrace, Rosalie Oaks, and Twin Rivers exceptions to Rule 25-30.4325(4), F.A.C. Relying upon the alternate calculation provision specified in Rule 25-30.4325(3), F.A.C., witness Woodcock indicated that he wanted to be sure that he was only considering systems where a further analysis would have a significant impact; therefore, he generated criteria to provide a conservative basis for isolating special cases. His criteria for calculating a U&U percentage for systems with one well was that he considered whether the supply well was rated at greater than 150 gpm and whether the calculated U&U was 75 percent or less. Witness Woodcock based his allowance of 150 gpm upon his experience as an engineer. Because single wells are allowed for smaller service areas of less than 150 service connections or less than 350 persons, expectations are that single well systems will have a low capacity. Using a design of 1 gpm per connection generally matches the 1.1 gpm per connection specified in our Rule 25-30.4325(7)(a), F.A.C., and equates to the 150 service connections in DEP's Rule 62-555.315, F.A.C. Because each of the four systems have well capacity of greater than 150 gpm, and the calculated U&U was less than 75 percent, witness

[30] Order No. PSC-02-1114-PAA-WS, issued August 14, 2001, in Docket No. 011481-WS, In re: Application for staff-assisted rate case in Polk County by Bieber Enterprises, Inc. d/b/a Breeze Hill Utilities, holder of Certificate Nos. 598-W and 513-S; Order No. PSC-99-2394-FOF-WS, issued December 7, 1999, in Docket No. 990356-WS, In re: Application for staff-assisted rate case in Polk County by Bieber Enterprises, Inc. d/b/a Breeze Hill Utilities.

Woodcock conducted further evaluation, finding Breeze Hill, Fern Terrace, Rosalie Oaks, and Twin Rivers to be 26, 68, 12, and 24 percent U&U, respectively.

Breeze Hill, Fern Terrace, Rosalie Oaks, and Twin Rivers each have one well, with capacities ranging from 177 to 268 gpm, and each system serves approximately 100 customers. The parties agree that each of these systems have had no significant growth in the past five years. We found each of these systems to be 100 percent U&U in prior rate cases.

We have consistently found that systems with one well are 100 percent U&U unless it appears that the system was not prudently designed. We agree with witness Seidman's reference to the justification provided when Rule 25-30.4325, F.A.C., was adopted. It is not efficient to require a sophisticated U&U analysis to ascertain whether these types of systems are oversized for the developments they are designed to serve. Rather, a U&U analysis should only be performed as an alternative when there is evidence indicating that the system may be oversized.

We also agree with AUF's argument that OPC offered no testimony to suggest that the four systems with one well were imprudently designed. Rather, OPC relied on two criteria, whether the supply well was rated at greater than 150 gpm and whether the calculated U&U was 75 percent or less. While witness Woodcock characterized these criteria as conservative, we are not persuaded that those criteria should be used to determine whether to apply Rule 25-30.4325(4), F.A.C. Further, as with most of AUF's WTPs, these systems were constructed more than 30 years ago and have experienced no significant growth in the past five years. Therefore, we find that Breeze Hill, Fern Terrace, Rosalie Oaks, and Twin Rivers are 100 percent U&U, consistent with our prior decisions and Rule 25-30.4325(4), F.A.C.

b. Systems with Growth

Only four AUF WTPs that were not stipulated in this proceeding have experienced any significant growth in the past five years, including Carlton Village, Picciola Island, Venetian Village, and Welaka. Both AUF and OPC provided U&U calculations for these four systems. However, AUF's position was to rely on the higher U&U finding in Docket No. 080121-WS and OPC's position was to rely on a new calculation based on the peak demand in the test year.

AUF's position was that Carlton Village is 95 percent U&U, Picciola Island is 75 percent U&U, Venetian Village is 74 percent U&U, and Welaka is 80 percent U&U, as reflected in Docket No. 080121-WS. As previously discussed, AUF maintained it was entitled to regulatory certainty and, therefore, that we should use our previously approved U&U methodologies and resulting percentages in determining the correct amounts of U&U for these water systems. Witness Seidman recognized that water and wastewater utilities were subject to reductions in consumption by customers, and even a loss of customers, as a result of conservation efforts and events beyond the control of a utility. When this happens, demand may decrease to something less than that for which it was prudently designed and less than levels it had previously served. According to witness Seidman, we already recognize the impact of reduced consumption on revenue requirements by adjusting billed consumption with a repression adjustment. Witness Seidman testified that putting witness Woodcock's approach into practice would be inconsistent with the efforts made by this Commission and Florida's WMDs to promote conservation.

According to witness Seidman, we have a responsibility to the utility, as well as to the customer, which is precisely why we have consistently recognized that a utility company should not be penalized for incurring prudent investment to provide capacity to its customers, even if the customers or consumption is then reduced for factors beyond a utility's control. When there is a decrease in demand, a utility's facilities are still providing service to the customers. Witness Seidman testified that witness Woodcock was certainly correct that going through the mathematical exercise of dividing demand by capacity will result in a lower number, but stated that recognition must be given to providing service in a prudent manner. That means being ready to serve when demand changes, up or down. Witness Seidman testified that witness Woodcock's approach would mean that a utility could recover costs when demand goes up, but not recover costs when demand goes down.

OPC's position was that Carlton Village is 91 percent U&U, Picciola Island is 56 percent U&U, Venetian Village is 63 percent U&U, and Welaka is 74 percent U&U. Witness Woodcock recommended that we recognize changes in system demand, including diminished demand, in U&U calculations. For the Carlton Village and Venetian Village water systems, witness Woodcock pointed out that the growth factors had decreased since the last rate case. He also noted that for Picciola Island and Welaka, while the growth rates increased since the last rate case, the customer usage declined to the extent that the calculated U&U percentages for this proceeding are less than in the prior rate case.

We are not persuaded by witness Woodcock's argument that diminished flows should be relied on in determining the appropriate U&U percentage for systems. While Rule 25-30.4325(3), F.A.C., provides for consideration of a decrease in flows, the rule also provides for consideration of whether the investment was prudent. OPC did not demonstrate that the systems were not prudently designed. Further, we find that we should not reduce a system's U&U percentage merely due to a reduction in flow. Rather, we shall recognize the greater demand that was relied on when the higher U&U percentage was previously approved in the prior case.

However, we note that AUF's proposed U&U percentages for Carlton Village, Picciola Island, and Venetian Village, were not fully litigated in Order No. PSC-09-0385-FOF-WS, but were stipulated.[31] In Order No. PSC-96-1320-FOF-WS, issued October 30, 1996, in Docket No. 950495-WS after a full evidentiary hearing, we found all three WTPs to be 100 percent U&U. In this rate case, AUF requested that the Carlton Village, Picciola Island, and Venetian Village systems be considered 95, 75, and 74 percent U&U, respectively. Clearly when there has been a change in circumstances, a change in structure or operations, or if we have made a mistake, then we should revisit the calculation. We do not believe the U&U percentages approved in the prior rate case should be reduced. As a result of a change in flows, because AUF proposed lower U&U percentages than were previously approved, we find that AUF's proposed U&U percentages for Carlton Village, Picciola Island, and Venetian Village shall be approved.

For the Welaka WTP, the U&U percentage was fully litigated in Docket No. 080121-WS and found to be 79.72 percent U&U. Again, where there has been no structural or operational

[31] See Order No. PSC-09-0385-FOF-WS, p. 36.

change, but merely a reduction in flows, we find that the U&U determination from the prior rate case shall not be reduced. See, e.g., Order No. PSC-03-1440-FOF-WS[32] ("When a rate case is filed, prior Commission orders involving the same systems or system components from prior rate cases should be reviewed and considered as part of the analysis in the current rate case proceeding."). As AUF witnesses Rendell and Seidman both testified, there have been no material structural or operational changes to AUF's systems since the last rate case to justify deviating from our previously approved U&U methodologies and resulting percentages. In summary, we find that Carlton Village, Picciola Island, Venetian Village, and Welaka, shall be considered to be 95, 75, 74, and 80 percent U&U, respectively.

c. Systems Without Growth

The parties agree that the nine remaining AUF systems that were not stipulated in the current proceeding have had no significant growth since the last rate case, including Arredondo Estates, Arredondo Farms, East Lake Harris/Friendly Center, Hobby Hills, Interlachen/Park Manor, Lake Josephine/Sebring Lakes, Silver Lake Estates/Western Shores, Tomoka, and Zephyr Shores. Witness Rendell's testimony and exhibits reflect that six of the water systems, including Arredondo Estates, Arredondo Farms, East Lake Harris/Friendly Center, Hobby Hills, Interlachen/Park Manor, and Tomoka, were considered built out and therefore 100 percent U&U in Docket No. 080121-WS and there have been no changes in the structure or operation of those systems since that case. In addition, witness Rendell testified that, although a second well was added to the Zephyr Shores system to comply with DEP Rule 65-555.315(2), F.A.C., which requires community systems serving more than 350 persons to have more than one well, the number of customers served by the Zephyr Shores system has declined over the past 14 years. AUF argued that Rule 25-30.4325(4), F.A.C., and Commission precedent require that these systems be treated as 100 percent U&U unless the system was not prudently designed. Further, AUF asserted that because witness Woodcock did not testify that there is anything imprudent about these systems, each of these seven water systems should be considered 100 percent U&U in the current case.

Witness Rendell testified that, in the last two rate cases, while the Lake Josephine and Sebring Lakes systems were interconnected, the interconnection valve was not open. Subsequently, the interconnection valve has been opened and became permanent in order to address pressure concerns in one small section of Lake Josephine and improve the reliability of service of both systems. The opening of the valve did not add any additional capacity to the treatment system. In the last rate case, the Lake Josephine system was found 92 percent U&U and the Sebring Lakes system was found 45 percent U&U. AUF proposed that the combined Lake Josephine/Sebring Lakes system be considered 85 percent U&U based on the weighted average U&U percentages found in the last rate case for the two systems. AUF refuted witness Woodcock's proposal to eliminate fire flow from the U&U calculation, relying on prior Commission orders allowing fire flow, even for systems with limitations on the amount of fire flow available. However, it should be noted that AUF did not include fire flow in its U&U calculation, nor was fire flow included for this system in Docket No. 080121-WS.

[32] See Order No. PSC-03-1440-FOF-WS, p. 38.

The Silver Lake Estates/Western Shores system was found 93.71 percent U&U in Docket No. 080121-WS, recognizing that the system was experiencing some growth. There has been a significant reduction in demand, no significant growth, and no change in the structure or operation of the system since the last rate case. Therefore, AUF proposed that Silver Lake Estates/Western Shores be considered 94 percent U&U, consistent with our finding in that rate case.

OPC's position was that these nine water systems should be considered less than 100 percent U&U. Witness Woodcock testified that: Arredondo Estates is 80 percent U&U; Arredondo Farms is 61 percent U&U; East Lake Harris/Friendly Center and Hobby Hills are both 41 percent U&U; Interlachen/Park Manor is 76 percent U&U; Lake Josephine/Sebring Lakes is 25 percent U&U; Silver Lake Estates/Western Shores is 74 percent U&U; Tomoka is 43 percent U&U; and Zephyr Shores is 26 percent U&U.

As previously discussed, Witness Woodcock testified that he was concerned with the reliance on build out and prior Commission orders as appropriate justifications for finding systems 100 percent U&U. Referring to our PAA Order, he noted that the phrase "prior order" was relied upon 38 times to justify a U&U percentage higher than a calculation would support, while the term "built out" was used 26 times. He noted that there have been material changes to many of these systems since the last rate case that affect the U&U calculations, especially in the areas of growth and demand.

Witness Woodcock also testified that, as previously discussed, for systems with a calculated U&U percentage of less than 75 percent, such a difference goes beyond the expected variability of planning and design, leaving large amounts of stranded capacity that will never be used. Witness Woodcock testified that the actual U&U calculation should be used when it results in a U&U of 75 percent or less for systems such as Tomoka and Zephyr Shores.

Noting that the U&U calculations for the Arredondo Estates, Arredondo Farms, and Interlachen/Park Manor distribution systems showed that portions of the distribution systems are available for new connections, witness Woodcock testified that it is completely incongruous and unreasonable to find those systems built out and, therefore, 100 percent U&U. Therefore, he stated that reliance on the prior order finding the WTPs 100 percent U&U should not be allowed.

Witness Woodcock testified that the Lake Josephine/Sebring Lakes system should be considered 25 percent U&U. OPC's position is that, as interconnected systems, there are significant changes to the FRC of the water treatment system which has a direct impact on the U&U calculation. Further witness Woodcock did not support the provision of fire flow for a water plant unless lines are properly sized and there are sufficient hydrants to actually provide service to the entire service area. He argued that if all the customers do not benefit from the provision of fire flow, that capacity is not U&U for all customers. Similarly, witness Woodcock stated that fire flow should be excluded from the U&U calculation for the Silver Lake Estates/Western Shores system, making the system 74 percent U&U.

Witness Woodcock testified that, pursuant to Rule 25-30.4325(4), F.A.C., both the design service area must be built out and there must be no potential for service area expansion in order

to be considered 100 percent U&U. He provided aerial photos of the East Lake Harris/Friendly Center and Hobby Hills service areas to demonstrate that those systems have significant developable land within AUF's service territory that is available for potential expansion. He further testified that there do not appear to be any other utilities in the area that could easily provide service to the properties. Witness Woodcock asserted that the second part of the 100 percent built-out test has not been met because there is the ability for the utility to expand. Therefore, witness Woodcock recommended performing a U&U calculation for each of these WTPs, which results in each of the two systems being 41 percent U&U.

The parties agree that nine AUF water systems have had no significant growth in the past five years, including Arredondo Estates, Arredondo Farms, East Lake Harris/Friendly Center, Hobby Hills, Interlachen/Park Manor, Lake Josephine/Sebring Lakes, Silver Lake Estates/Western Shores, Tomoka, and Zephyr Shores. AUF's position is that all of these systems, with the exception of Lake Josephine/Sebring Lakes and Silver Lake Estates/Western Shores should be considered 100 percent U&U, consistent with our decision in the last rate case. Further, AUF asserted that Silver Lake Estates/Western Shores, is 94 percent U&U, consistent with our decision in Docket No. 080121-WS and Lake Josephine/Sebring Lakes is 85 percent U&U based on the weighted average of the U&U calculation for the two systems in that rate case. OPC's position was that U&U should be recalculated for each of these nine systems.

Consistent with our previous analysis, we find that the six water systems that have had no changes in the structure or operation of those systems since Docket No. 080121-WS and were considered built out and therefore, 100 percent U&U in that case shall be considered 100 percent U&U in the current rate case, consistent with Rule 25-30.4325(4), F.A.C., and our prior decisions. Despite OPC's arguments to the contrary, while there is some vacant land available for development in the East Lake Harris/Friendly Center and Hobby Hills service territories, based on the lack of growth and age of those systems, as well as our prior findings that the systems were built out, we find that those systems shall continue to be considered 100 percent U&U. The WTPs serving these systems are more than 30 years old.

Although a well was added at the Zephyr Shores water system to comply with DEP's rules, we believe the system is built out, as demonstrated by a decline in connections in the past 14 years. The system, which is more than 30 years old, was considered 100 percent U&U in Docket No. 080121-WS. Therefore, because the Zephyr Shores service area is built out and no evidence was presented to indicate that the system was not prudently designed, the WTP shall be considered 100 percent U&U, consistent with Rule 25-30.4325(4), F.A.C.

The Silver Lake Estates/Western Shores system was found 93.71 percent U&U in Docket No. 080121-WS. There has been no significant growth in customers, a significant reduction in demand, and no change in the structure or operation of the system since the last rate case. Therefore, the system shall be considered 94 percent U&U, consistent with our decision in Docket No. 080121-WS. Further, we do not accept OPC's argument that fire flow should be excluded from the U&U calculation because all customers do not benefit from the fire flow. Pursuant to Rule 25-30.4325(1)(c), F.A.C., when fire flow is provided, a minimum of either the fire flow required by the local governmental authority or two hours at 500 gpm shall be included

in the U&U calculation. We have consistently included fire flow in the U&U calculation over OPC's objections, even when there were few hydrants in the service area.

In Docket No. 080121-WS, we found Lake Josephine to be 92 percent U&U and Sebring Lakes to be 45 percent U&U. Subsequently, a valve in the existing interconnection between the two systems was permanently opened to improve pressure and reliability. The U&U calculation proposed by OPC reflects the requirement in Rule 25-30.4325(6), F.A.C., that the largest well be removed to determine the FRC. However, in the prior rate case Lake Josephine and Sebring Lakes were considered separate systems and the largest well was removed from each system. The FRC (denominator) is much higher in OPC's calculation, based on removing only one well for both systems, than in the prior case, resulting in a significantly lower U&U calculation. While the Lake Josephine/Sebring Lakes systems are now combined as one system, we find that opening the valve and making the existing interconnection permanent shall not result in a reduction to the U&U percentages found in that case. The permanent interconnection adds increased reliability to both systems. Based on our decision in Docket No. 080121-WS, we find that a weighted average 85 percent U&U shall be approved for the Lake Josephine/Sebring Lakes WTP.

d. Commission Conclusion

All of the AUF WTPs that were not previously stipulated shall be considered 100 percent U&U, with the exception of the six systems shown on Table 1. The resulting composite U&U percentages, based on the number of customers in each rate band, are shown on Attachment 1. Further, the rate base adjustments are shown on Schedule 3-C and the depreciation expense and property tax adjustments are shown on Schedule 4-C.

C. U&U for Protested Water Distribution Systems

We do not have a rule that specifies how the U&U determination for water distribution systems is to be made. Our practice has been to compare the customers (or ERCs) receiving service to the lots with service available. In addition, a growth allowance may also be included in the U&U calculation, pursuant to Section 367.081(2), F.S.

While the parties agreed on the U&U percentages for 32 of AUF's water distribution systems, there is disagreement with respect to the following 26 distribution systems: Arredondo Estates, Beecher's Point, Breeze Hill, Gibsonia Estates, Interlachen/Park Manor, Kingswood, Oakwood, Orange Hill/Sugar Creek, Palms Mobile Home Park, Palm Port, Peace River, Piney Woods, Ravenswood, River Grove, Rosalie Oaks, Silver Lake Estates/Western Shores, Silver Lake Oaks, Skycrest, Stone Mountain, Sunny Hills, Twin Rivers, Venetian Village, Village Water, Welaka, Wootens, and The Woods. Many of the parties' arguments are the same or similar to the arguments related to the appropriate U&U determination for WTPs, including reliance on prior Commission decisions, determination as to whether a system is built out, and rounding up the U&U percentage. Table 2, below, contains a summary of AUF's and OPC's proposed U&U percentages, along with our approved U&U percentages for each of the distribution systems in dispute. Attachment 2 reflects, by rate band, the details of AUF's and

OPC's U&U positions, as well as our approved percentages for each of the 26 water distribution systems that were not stipulated.

Table 2 – Distribution System U&U			
System	AUF U&U%	OPC U&U%	Comm'n Approved U&U%
Arredondo Estates	100	90	100
Beecher's Point	100	58	100
Breeze Hill	100	92	100
Gibsonia Estates	100	84	100
Interlachen/Park Manor	83	79	78
Kingswood	100	98	100
Oakwood	100	98	100
Orange Hill/Sugar Creek	100	94	100
Palm Port	100	94	100
Palms Mobile Home Park	88	79	88
Peace River	100	79	100
Piney Woods	100	89	100
Ravenswood	100	88	100
River Grove	100	80	100
Rosalie Oaks	100	80	100
Silver Lakes Estates/Western Shores	100	88	100
Silver Lake Oaks	87	83	87
Skycrest	100	93	100
Stone Mountain	54	48	46
Sunny Hills	13	11	10
The Woods	76	70	76
Twin Rivers	100	98	100
Venetian Village	85	81	85
Village Water	100	68	100
Welaka	52	51	52
Wootens	66	43	66

1. Parties' Arguments

a. AUF

Consistent with AUF's position with respect to the appropriate U&U percentages for WTPs, AUF argued that we should rely on the U&U percentages for the water distribution systems found in Docket No. 080121-WS. Witness Rendell testified that AUF used the same methods as were approved in that case. Witness Rendell testified that regulatory certainty is a core principle for any regulated utility and asserted that ignoring the last approved U&U percentages undermines that certainty. In its brief, AUF argues that considering a built-out system to be 100 percent U&U is a practice rooted in the history of Florida's water and

wastewater system development and properly includes evaluation of cost that should be recognized as necessary to provide service to existing customers within the service area.

AUF witness Seidman testified that a utility must be ready to serve regardless of changes in market demand or its customer base and noted that the system layout should also be considered. He concluded that even when every lot is not served and might never be served, a distribution system must be continuous and for all those reasons, it would be reasonable to conclude that a system is 100 percent U&U whether all lots are occupied. Witness Seidman asserted that it should never be concluded that simply because a calculated percentage was less than 100 that a reduction should be made to U&U.

Witness Seidman testified that, while we have historically relied upon a lot count method (comparing the number of lots served with lots with service available), that method has not been codified in a rule. Further, while the lot count method is a starting point, the system layout should also be considered. He cautioned about relying solely on a lot count calculation and suggested that judgment should be considered. Citing a prior Commission decision, AUF argued that distribution and collection systems should be considered to be 100 percent U&U that are 80 percent or more built out, where there is no real growth potential, and the existing lines are the minimum size needed to serve existing customers.[33] AUF argued that the U&U determination for distribution and collection lines should be the same as for electric, gas, and telephone. That assessment focuses on whether they are reasonably necessary to provide service within the service area.

Witness Rendell noted that, in the last rate case, OPC had stipulated to the U&U percentages for the distribution systems at Interlachen/Park Manor, Stone Mountain, and Sunny Hills, but protested those percentages in this case, despite there being no operational or structural changes to those systems since the last rate case. In addition, the Breeze Hill distribution system was previously found 100 percent U&U in the two prior staff-assisted rate cases. OPC participated in those cases and did not appeal those decisions and there have been no structural or operational changes to the system since the last rate case. Further, witness Rendell asserted that the Fairways and Peace River systems are built out with no possibility for expansion; thus, consistent with our practice, those distribution systems shall be considered to be 100 percent U&U.

b. OPC

Consistent with its position with respect to U&U for WTPs, OPC argued that the U&U percentage for distribution systems should be re-evaluated for each new rate case to produce the most accurate percentage. OPC argued that the U&U percentage should not be rounded up, but only rounded to the nearest full single percentage point to avoid overstating the U&U percentage. Further, OPC argued that the U&U percentage should be based on a comparison of

[33] See Orders No. PSC-09-0385-FOF-WS; No. PSC-10-0585-PAA-WS, issued September 22, 2010, in Docket No. 090462-WS, In re: Application for increase in water and wastewater rates by Utilities, Inc. of Florida; and Order No. PSC-07-0505-SC-WS, issued June 13, 2007, in Docket No. 060253-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.

the total number of lots with active customers to the total number of lots served by the distribution system.

Witness Woodcock testified that our reliance on prior decisions and findings that systems were built out resulted in U&U percentages that were higher than the calculated U&U percentages. For example, witness Woodcock noted that Rosalie Oaks was considered to be 100 percent U&U in the PAA Order, based on a prior Commission decision, when AUF, OPC, and our staff had calculated the U&U percentage to be 80 percent.

Witness Woodcock agreed with using the lot count methodology unless the service territory includes commercial and multi-family customers, in which case the total number of customers served should be compared to the total number of potential customers to be served at buildout, based on the service area maps, for both distribution and collection systems. Witness Woodcock relied on the latter methodology in evaluating the Jungle Den collection system, which has several lots with multi-family customers; however, he did not rely on that methodology for any of the distribution systems that are in dispute.

c. Other Intervenors

YES, Pasco County, and AG either deferred to or adopted the position of OPC on this issue. None of these parties included any argument on this issue in their respective briefs.

2. Commission Analysis

AUF and OPC agreed on the U&U percentages for all but 26 of the AUF water distribution systems. Table 2 reflects AUF's and OPC's U&U positions, and our approved U&U percentages for each of the distribution systems that were not stipulated.

As previously discussed, it is our policy to rely on our prior decisions when there has been no change in the operating capacity of the system since the last rate case. In AUF's 2008 rate case, we found that a system fully developed as planned, without potential for expansion, with minimal or no growth, few vacant lots, and small distribution lines shall be considered to be 100 percent U&U. We further concluded that distribution systems that had a growth factor of 1.05 or less were considered to be 100 percent U&U. Of the 26 distribution systems that were not stipulated in the current proceeding, 14 were found 100 percent U&U in Docket No. 080121-WS, including Arredondo Estates, Beecher's Point, Gibsonia Estates, Kingswood, Orange Hill/Sugar Creek, Palm Port, Piney Woods, Ravenswood, River Grove, Rosalie Oaks, Silver Lake Estates/Western Shores, Skycrest, Twin Rivers, and Village Water.

Again, we do not accept OPC's arguments regarding re-evaluating systems in each rate case or its concerns with regard to finding a system to be 100 percent U&U when vacant lots exist. As with WTPs, when systems are not experiencing growth, especially when a system is an older system, it is likely that a built-out condition exists. Finding a system to be 100 percent U&U is appropriate when the system is the minimum size necessary to serve the development or when the system is otherwise built out. Therefore, the 14 distribution systems that were

considered to be 100 percent U&U in Docket No. 080121-WS shall be considered to be 100 percent U&U in the instant docket. We also find that the Breeze Hill and Peace River distribution systems shall be considered built out and, therefore, 100 percent U&U. Further, while the Oakwood system was found to be 97 percent U&U in Docket No. 080121-WS, it now appears to be built out and, therefore, shall be considered 100 percent U&U. We do note that Oakwood was found to be 100 percent U&U in Order No. PSC-96-1320-FOF-WS, in Docket No. 950495-WS.

For two of the distribution systems, Palms Mobile Home Park and Wootens, we find that the systems shall be considered to be 88 and 66 percent U&U, respectively, consistent with our decision in Order No. PSC-09-0385-FOF-WS, in Docket No. 080121-WS. For the remaining seven distribution systems, including Interlachen/Park Manor, Silver Lake Oaks, Stone Mountain, Sunny Hills, The Woods, Venetian Village, and Welaka, we find the systems shall be considered to be 78, 87, 46, 10, 76, 85, and 52 percent U&U, respectively, based on calculations from data filed in this case, comparing the number of lots served to lots with service available.

3. Commission Conclusion

All of the AUF water distribution systems that were not previously stipulated shall be considered to be 100 percent U&U, with the exception of nine systems (see Table 2, above). Attachment 2 contains our approved U&U percentages and the resulting composite U&U percentages based on the number of customers in each rate band. Further, the rate base adjustments are shown on Schedule 3-C and the depreciation expense and property tax adjustments are shown on Schedule 4-C.

D. U&U and Composite U&U for Protested Wastewater Facilities

Rule 25-30.432, F.A.C., provides that the U&U percentage for a WWTP is determined by dividing the numerator, which includes customer demand plus a growth allowance less excessive infiltration and inflow (I&I), by the permitted capacity of the WWTP. The customer demand shall be the same basis as the permitted capacity. The rule also provides that we will also consider other factors, such as the extent to which the area served by the plant is built out, whether the permitted capacity differs from the design capacity, whether there are differences between the actual capacities of the individual components of the wastewater treatment plant and the permitted capacity of the plant, and whether the flows have decreased due to conservation or a reduction in the number of customers. The appropriate adjustments for I&I have been stipulated by all parties, as shown in PAA Issue 8 in the Appendix.

OPC protested the U&U percentage adjustments for 20 of AUF's 27 WWTPs, including 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. Table 3 contains a summary of AUF's and OPC's proposed U&U percentages, along with our approved U&U percentages for each of the systems

in dispute. AUF's and OPC's U&U calculations, our approved U&U percentages, and the resulting composite U&U percentages are shown, by rate band, on Attachment 3.

Table 3 – WWTP U&U			
System	AUF U&U%	OPC U&U%	Comm'n Approved
Arredondo Farms	100	66	100
Breeze Hill	56	24	56
Fairways	100	42	100
Florida Central Commerce Park	100	41	100
Holiday Haven	75	62	62
Jungle Den	100	37	100
Kings Cove	100	46	100
Leisure Lakes	39	32	38
Morningview	100	33	100
Palm Port	58	51	58
Peace River	100	56	100
Rosalie Oaks	100	50	100
Silver Lake Oaks	42	34	42
South Seas	100	40	100
Summit Chase	100	36	100
Sunny Hills	49	23	49
The Woods	100	61	100
Valencia Terrace	100	40	100
Venetian Village	100	49	100
Village Water	79	64	79

1. Parties Arguments

Many of the U&U assertions for WWTPs provided by AUF witnesses Rendell and Seidman and OPC witness Woodcock are the same as those relied on in addressing U&U for WTPs discussed above, including reliance on prior Commission decisions and the impact of growth trends and reductions in demand on the U&U calculation.

a. AUF

AUF's position is that we should approve the U&U percentages approved in the PAA Order for all of the WWTPs. Those percentages are consistent with the U&U percentages approved by us in Docket No. 080121-WS, with the exceptions of Breeze Hill, Peace River, and Fairways, which were not included in that case, as well as Village Water, for which AUF proposed an increased U&U percentage from that case.

For the Breeze Hill system, witness Rendell advocated that we rely on two prior staff-assisted rate cases in which the Breeze Hill WWTP was found to be 56.3 percent U&U.[34] Quoting from the prior Breeze Hill rate case order, he noted that we found that land that was once planned for potential development has reverted back to agricultural status and the probability of expanding utility plant beyond its current capacity is unlikely, making the WWTP valuable to only the existing subdivision. Witness Rendell noted that OPC participated in both of those rate cases and did not appeal the U&U determinations in those cases. Further, there have been no operational or structural changes to the Breeze Hill system since the last rate case. In addition, witness Rendell testified that the Fairways and Peace River systems, which were not included in the last AUF rate case, are completely built out with no possibility of expansion and should be considered to be 100 percent U&U.

As previously discussed, witness Seidman testified that we recognize that, when there is a reduction in usage by customers, the plant is no less U&U in the public service than it was before the reduction in demand. Citing prior Commission orders, witness Seidman[35] testified that we have consistently recognized that a utility company should not be penalized for incurring prudent investment to provide capacity to customers when the customers or consumption is then reduced based on factors beyond the utility's control.

b. OPC

OPC's position is that we should re-evaluate U&U for each system in every rate case based on changes in plant, demand, or growth. Witness Woodcock testified that Rule 25-30.432, F.A.C., requires that the U&U percentage for WWTPs be re-evaluated for systems where flows have decreased. Relying on the flows contained in the DMRs, he found some instances where the flows listed in the filing did not match the DMRs that he reviewed, but in most cases there was no significant difference. He also referred to DEP's operating permits and, where different capacities were listed for treatment and disposal, separate U&U calculations were made and the larger of the two U&U values was used. He recommended that actual calculated percentages be relied upon for rate setting.

Witness Woodcock testified that if the U&U calculation for a collection system was less than 100 percent, that was an indication that there are vacant lots available for new connections, and thus the WWTPs should not be considered built out nor 100 percent U&U. For example, The Woods WWTP was 100 percent U&U in the PAA Order based on the system being built out even though the calculated U&U was 75 percent for the plant and 71 percent for the collection system. Witness Woodcock argued that there are lots available for new growth and recommended that his calculation of 61 percent be used for The Woods WWTP. Similarly, he argued that the Fairways, Jungle Den, Peace River, and Rosalie Oaks WWTPs, which were previously considered to be 100 percent U&U based on the systems being built out, should be considered to be 42, 37, 56, and 50 percent U&U, respectively, based on his U&U calculations for those WWTPs, recognizing that those systems also have vacant lots.

---

[34] See Order No. PSC-02-1114-PAA-WS, and Order No. PSC-99-2394-FOF-WS.

[35] Witness Seidman cited Order Nos. PSC-09-0385-FOF-WS, PSC-10-0585-PAA-WS, and PSC-07-0505-SC-WS, which were also cited earlier in this Order.

Consistent with his assertions regarding WTPs, witness Woodcock advocated that if a U&U calculation results in less than 75 percent, then a system should not be considered built out and a U&U adjustment should be made. Witness Woodcock believes that an allowance of 25 percent is reasonable to account for mismatches between design capacity and actual demand. He opined that these differences could result from facilities that were designed to serve a larger service area than what is certificated, a land use change from the original concept, overdesigned facilities, or a customer base that requires less service than originally contemplated. Based on this reasoning, witness Woodcock recommended that eight systems that were found 100 percent U&U in the last rate case, including Arredondo Farms, Florida Central Commerce Park, Kings Cove, Morningview, South Seas, Summit Chase, Valencia Terrace, and Venetian Village, be considered to be 66, 41, 46, 33, 40, 36, 40, and 49 percent U&U, respectively.

For the remaining seven WWTPs, witness Woodcock relied on a new calculation for U&U, instead of relying on the higher U&U calculation found in a prior rate case, arguing that the reductions in demand since the last rate case should be reflected in the new U&U calculations. He recommended that those systems, including Breeze Hill, Holiday Haven, Leisure Lakes, Palm Port, Silver Lake Oaks, Sunny Hills, and Village Water be considered to be 24, 62, 32, 51, 34, 23, and 64 percent U&U, respectively.

c. Other Intervenors

YES, Pasco County, and AG either deferred to or adopted the position of OPC on this issue. None of these parties included any argument on this issue in their respective briefs.

2. Commission Analysis

As previously discussed, our policy is to rely on U&U decisions in prior orders when there has been no change in the facilities or operation of a system. We believe that a reduction in demand shall not be relied on to require a new U&U calculation. Performing a new U&U calculation in each rate case and ignoring prior decisions ignores the importance of regulatory certainty and results in costly evaluations, particularly when there has been no change in the facilities or operation of a system. This does not preclude us from correcting any errors which may have been made in prior proceedings.

Eleven of the systems protested by OPC were found to be 100 percent U&U in Docket No. 080121-WS, including Arredondo Farms, Florida Central Commerce Park, Jungle Den, Kings Cove, Morningview, Rosalie Oaks, South Seas, Summit Chase, The Woods, Valencia Terrace, and Venetian Village. With no evidence to support a change in facilities or operation of any of these systems, we find that these systems shall be 100 percent U&U because they are essentially built out with no apparent potential for expansion. In addition, the Fairways and Peace River system, which were not included in AUF's last rate case, shall be considered 100 percent U&U because the service areas appear to be built out with no apparent potential for expansion.

The U&U percentages for the Palm Port, Silver Lake Oaks, and Sunny Hills WWTPs were stipulated in Docket No. 080121-WS. Therefore, we find that the U&U percentages

requested by AUF for those systems, 58, 42, and 49 percent, respectively, which are less than or equal to the U&U amounts approved by us in Docket No. 950495-WS, shall be approved. In addition, rather than rely on the stipulated percentage from Docket No. 080121-WS for the Holiday Haven system, we find that AUF's and OPC's calculated U&U amount of 62 percent shall be recognized. For Leisure Lakes, AUF requested 39 percent U&U based on our decision in Docket No. 080121-WS. Because that decision was based on a stipulation, we find that we should rely on our decision in Docket No. 950495-WS, where the plant was found to be 38 percent U&U. For Village Water, we find that AUF's U&U calculation of 79 percent shall be approved, based on the system's peak demand and a growth allowance. Finally, the Breeze Hill WWTP shall be considered to be 56 percent U&U based on our decision in the two prior Breeze Hill rate cases: Docket Nos. 990356-WS and 011481-WS.

3. Commission Conclusion

All of the AUF WWTPs that were not previously stipulated shall be considered 100 percent U&U, with the exception of seven systems (see Table 3). The seven systems, Breeze Hill, Holiday Haven, Leisure Lakes, Palm Port, Silver Lake Oaks, Sunny Hills, and Village Water WWTPs, shall be considered to be 56, 62, 38, 58, 42, 49, and 79 percent U&U, respectively. The resulting composite U&U percentages, based on the number of customers in each rate band, are shown on Attachment 3. Further, the rate base adjustments are shown on Schedule 3-C and the depreciation expense and property tax adjustments are shown on Schedule 4-C.

E. U&U and Composite U&U for Protested Wastewater Collection

We do not have a rule that specifies how the U&U determination for wastewater collection systems is to be made. As previously discussed, our practice is to compare the customers (or ERCs) receiving service to the lots with service available. In addition, a growth allowance may also be included in the U&U calculation, pursuant to Section 367.081(2), F.S.

While AUF and OPC agree on the U&U percentages for 16 of the wastewater collection systems, there is disagreement with respect to 11 of the collection systems, including Beecher's Point, Breeze Hill, Fairways, Holiday Haven, Jungle Den, Peace River, Rosalie Oaks, Silver Lake Oaks, Sunny Hills, Village Water, and The Woods. Table 4, below, contains a summary of AUF's and OPC's proposed U&U percentages, along with our approved U&U percentages for each of the systems in dispute. Attachment 4 reflects AUF's and OPC's U&U positions, as well as our approved U&U percentages, for each of the 11 wastewater collection systems that were not stipulated.

Table 4 – WW Collection System U&U

System	AUF U&U%	OPC U&U%	Comm'n Approved U&U%
Beecher's Point	100	45	100
Breeze Hill	100	94	100
Fairways	100	99	100

System (cont.)	AUF U&U%	OPC U&U%	Comm'n Approved U&U%
Holiday Haven	75	69	69
Jungle Den	100	87	100
Peace River	100	79	100
Rosalie Oaks	100	93	100
Silver Lake Oaks	87	83	87
Sunny Hills	55	36	55
The Woods	71	61	71
Village Water	58	42	58

1. Parties' Arguments

The overall U&U concepts described by AUF witnesses Rendell, Seidman, and OPC witness Woodcock for wastewater collection systems are consistent with their arguments related to water distribution systems, WTPs, and WWTPs, as discussed above. AUF relies on regulatory certainty resulting from reliance on previous Commission decisions, while OPC supports recalculating U&U in each rate case.

a. AUF

AUF witness Rendell testified that AUF is requesting that we recognize the U&U amounts determined in our PAA decision, relying on the arguments that AUF used the same methods that were approved in the last rate case and recognizing that there have been no structural or operational changes to the collection systems.

In Docket No. 080121-WS, three of the collection systems in dispute were found to be 100 percent U&U, including Beecher's Point, Jungle Den, and Rosalie Oaks. We found the Breeze Hill collection system to be 100 percent U&U in the two prior staff-assisted rate cases. According to witness Rendell, OPC participated in those cases and did not appeal those decisions. Further, there have been no structural or operational changes to the system since the last rate case. According to witness Rendell, the Fairways and Peace River systems are completely built out with no possibility of expansion and should also be considered to be 100 percent U&U. For the remaining five collection systems, including Holiday Haven, Silver Lake Oaks, Sunny Hills, The Woods, and Village Water, AUF proposes that we find those systems to be 69, 87, 55, 71, and 58 percent U&U, respectively, consistent with our decision in AUF's last rate case.

b. OPC

OPC witness Woodcock's testimony for wastewater collection systems parallels the testimony he provided for water distribution systems. Consistent with that testimony, witness Woodcock recalculated the U&U percentages for each of the disputed collection systems, relying on a comparison of lots served to lots with service available, for all systems with the exception of Jungle Den. For the Jungle Den collection system, witness Woodcock relied on a comparison of the number of customers connected with the number of potential customers, instead of relying on

comparing lots served to lots with service available. Because there are a number of lots in that system that have ten customers per lot, witness Woodcock proposed adjusting the number of lots available to reflect the number of potential customers. Witness Woodcock supports a U&U percentage of 87 percent for Jungle Den to recognize about 20 vacant lots that would likely accommodate single family homes.

c. Other Intervenors

YES, Pasco County, and AG either deferred to or adopted the position of OPC on this issue. None of these parties included any argument on this issue in their respective briefs.

2. Commission Analysis

As previously discussed, when systems are not experiencing growth, especially when that system is an older system, it is likely that a built-out condition exists. Some vacant lots may be found in a utility's service area, but the timing of the addition of customers on those lots is difficult to predict. AUF and OPC agreed that none of the collection systems for which the U&U percentage was disputed have had any significant growth in the past five years, with the exception of Village Water which experienced about six percent growth over the past five years. In addition, as discussed above and as testified to by AUF witnesses Rendell and Seidman, we find we should rely on our prior decisions and that there is a need for regulatory certainty. Therefore, the four collection systems in dispute that were found to be 100 percent U&U in prior cases, including Beecher's Point, Breeze Hill, Jungle Den, and Rosalie Oaks, shall be considered to be 100 percent U&U because those systems appear to be built out with no apparent potential for expansion. In addition, the Fairways and Peace River systems appear to be built out and shall also be considered to be 100 percent U&U.

For the Holiday Haven, Silver Lake Oaks, Sunny Hills, The Woods, and Village Water systems, the U&U percentages relied on by AUF from Docket No. 080121-WS were stipulated amounts. Rather than rely on stipulated percentages from Docket No. 080121-WS, for these systems, we find that AUF's calculated U&U amounts of 69, 87, 55, 71, and 58 percent shall be recognized for Holiday Haven, Silver Lake Oaks, Sunny Hills, The Woods, and Village Water. A review of the system maps shows that the customer and lot counts provided by AUF were more accurate.

3. Commission Conclusion

Based on the above, we find that all of the AUF collection systems that were not previously stipulated shall be considered to be 100 percent U&U, with the exception of five systems (Table 4). The five systems shall be considered to be 69, 87, 55, 71, and 58 percent U&U for Holiday Haven, Silver Lake Oaks, Sunny Hills, The Woods, and Village Water, respectively. Attachment 4 contains our approved U&U percentages and the resulting composite U&U percentages based on the number of customers in each rate band. Further, the rate base adjustments are shown on Schedule 3-C and the depreciation expense and property tax adjustments are shown on Schedule 4-C.

F. Deferred Rate Case Expense

AUF included $777,577 of Deferred Rate Case Expense (DRCE) in its working capital allowance. With the jurisdictional factor applied, the Utility reflected a total of $467,713 for its rate bands and stand-alone systems in the instant case. This issue is comprised of two components. The first component is the unamortized balance of rate case expense from the 2008 rate case and the second component is the amount of rate case expense approved for this rate case proceeding.

1. Deferred Rate Case Expense - 2008 Rate Case

In Order No. PSC-09-0385-FOF-WS, we approved a total Rate Case Expense of $1,501,609.[36] Amortization went into effect April 1, 2009. Recognizing that rates for the current rate case will not go into effect before March 2012, our staff calculated a 13-month average balance of $573,172 for the first year new rates will be in effect. Our practice is to include one-half of rate case expense in working capital.[37] Therefore, one-half of the 13-month average balance, or $286,586 ($573,172/2), shall be included in the working capital calculation. Consistent with the annual amortization amount approved in the Utility's 2008 rate case, and using one-half of the 13-month average balance for DRCE through March 2012, test year DRCE shall be reduced by $181,127 ($467,713 - $286,586), as shown in Table 5 below.

Table 5 – Deferred Rate Case Expense – 2008 Case

Band	MFR Amount	Comm'n Amount	Comm'n Adjustment
Water Band 1	$109,949	$72,342	($37,608)
Wastewater Band 1	20,606	13,278	(7,328)
Water Band 2	50,154	32,454	(17,700)
Wastewater Band 2	11,119	54,062	42,943
Water Band 3	30,948	20,178	(10,769)
Wastewater Band 3	85,767	7,288	(78,479)
Water Band 4	134,676	85,740	(48,936)
Wastewater Band 4	1,866	1,244	(623)
Breeze Hill - Water	2,488	0	(2,488)
Breeze Hill - Wastewater	2,410	0	(2,410)
Fairways - Water	9,253	0	(9,253)
Fairways - Wastewater	4,743	0	(4,743)
Peace - Water	1,944	0	(1,944)
Peace - Wastewater	1,788	0	(1,788)
Total:	$467,713	$286,586	($181,127)

[36] See Order No. PSC-09-0385-FOF-WS, p. 60.
[37] See Order Nos. PSC-09-0375-PAA-GU, issued May 27, 2009, in Docket No. 080366-GU, In re: Petition for rate increase by Florida Public Utilities Company, p. 21; and PSC-00-0248-PAA-WU, issued February 7, 2000, in Docket No. 990535-WU, In re: Request for approval of increase in water rates in Nassau County by Florida Public Utilities Company (Fernandina Beach System), pp. 13-14.

2. Deferred Rate Case Expense - Current Rate Case

As discussed later in this Order, we calculate total rate case expense for the current case to be $1,409,043. To reflect one-half of the total rate case expense, $704,521 ($1,409,043/2) shall be included in the working capital calculation. This results in an increase to DRCE in the amount of $704,521, as shown in Table 6 below.

Table 6 – Deferred Rate Case Expense – Current Case

Band	MFR Amount	Commission Amount	Adjustment
Water Band 1	$0	$165,589	$165,589
Wastewater Band 1	0	75,541	75,541
Water Band 2	0	46,618	46,618
Wastewater Band 2	0	202,826	202,826
Water Band 3	0	31,044	31,044
Wastewater Band 3	0	16,758	16,758
Water Band 4	0	129,171	129,171
Wastewater Band 4	0	2,823	2,823
Breeze Hill - Water	0	3,760	3,760
Breeze Hill - Wastewater	0	3,643	3,643
Fairways - Water	0	13,947	13,947
Fairways - Wastewater	0	7,156	7,156
Peace - Water	0	2,940	2,940
Peace - Wastewater	0	2,706	2,706
Total:	$0	$704,521	$704,521

3. Commission Conclusion

Consistent with the annual amortization amount approved in the Utility's 2008 rate case and our practice, DRCE shall be increased by $523,395 [($181,127) +$704,521], as shown in Table 7 below.

Table 7 -- Deferred Rate Case Expense – Both 2008 and Current Rate Cases			
Band	MFR Amount	Commission Amount	Adjustment
Water Band 1	$109,949	$237,930	$127,981
Wastewater Band 1	20,606	88,819	$68,213
Water Band 2	50,154	79,071	$28,917
Wastewater Band 2	11,119	256,888	$245,769
Water Band 3	30,948	51,222	$20,274
Wastewater Band 3	85,767	24,045	($61,721)
Water Band 4	134,676	214,912	$80,235
Wastewater Band 4	1,866	4,067	$2,201
Breeze Hill - Water	2,488	3,760	$1,272
Breeze Hill - Wastewater	2,410	3,643	$1,232
Fairways - Water	9,253	13,947	$4,694
Fairways - Wastewater	4,743	7,156	$2,413
Peace - Water	1,944	2,940	$996
Peace - Wastewater	1,788	2,706	$918
Total:	$467,713	$991,107	$523,395

G. Working Capital Allowance

The amount of working capital is a fall-out issue. In its filing, AUF requested a total jurisdictional Working Capital Allowance of $3,465,229. As addressed in the Stipulations for PAA Issues 2, 11, and 12, Deferred Debits have been increased by $93,048 and Accrued Taxes reduced by $1,153,548. As discussed under Section IV. A. Quality of Service, our staff has recommended working capital be increased by an increment of $60,180. As discussed above, we have increased DRCE by $523,395. In addition to these adjustments, we find that an offsetting adjustment is necessary regarding system-specific Regulatory Assets.

In its filing, the Utility included $380,595 in its MFRs for Regulatory Assets. A Regulatory Asset typically involves a cost incurred by a regulated utility that would normally be expensed currently but for an action by the regulator or legislature to defer the cost as an asset to the balance sheet. This allows a utility to amortize the Regulatory Asset over a period greater than one year. Included in AUF's calculation was the 10-year amortization of $664,192 that began on January 1, 2006, related to a Regulatory Asset (in lieu of a surcharge) approved in the Utility's 2004 transfer docket.[38] This Regulatory Asset is associated with specific systems. Our staff calculated the 13-month average for each rate band for the test year. Based on the proper allocation of Regulatory Assets by system and rate bands, the amount recorded for Wastewater Rate Band 2 shall be reduced by $35,273, and the amount recorded for Wastewater Rate Band 3 shall be increased by the same amount. Based on the above, we calculate total jurisdictional Working Capital Allowance to be $2,928,122. This represents a net reduction of $537,106 ($93,048 - $1,153,548 + $60,180 + $523,395).

[38] See Order No. PSC-05-1242-PAA-WS, issued December 20, 2005, in Docket No. 040951-WS, In re: Joint application for approval of sale of Florida Water Services Corporation's land, facilities, and certificates in Brevard, Highlands, Lake, Orange, Pasco, Polk, Putnam, a portion of Seminole, Volusia, and Washington counties to Aqua Utilities Florida, Inc., pp. 10 and 37.

H. Total Rate Base

Based upon the Utility's adjusted 13-month average test year balances, the stipulated adjustments, and our adjustments above, we calculate the appropriate 13-month average rate base to be $20,998,991 for water and $13,960,658 for wastewater. Schedules 3-A and 3-B reflect our rate base calculations. Our adjustments to rate base are shown on the 3-C Schedules.

VI. COST OF CAPITAL

A. Deferred Tax

As shown on the MFR Schedules, AUF proposed a total balance of $1,456,472 in accumulated deferred income taxes (ADITs) in the capital structure. However, the Utility's filing shows that AUF did not include deferred income taxes related to the requested pro forma plant additions when the MFRs were originally filed on September 1, 2010. The Utility explained that it did not make an adjustment because the impact on the total balance of ADITs was expected to be immaterial. The Utility provided a schedule that shows the deferred tax effect of the pro forma plant additions as a debit adjustment of $26,813 to ADITs.

Pursuant to the Small Business Jobs Act of 2010 that was signed into law on September 27, 2010, a taxpayer is allowed 50 percent bonus depreciation for certain eligible property acquired and placed in service during 2010.[39] For qualified property placed in service after September 8, 2010 and before January 1, 2012, the Tax Relief Unemployment Insurance Reauthorization and Job Creation Act of 2010 provides for additional bonus depreciation allowance for a total of 100 percent cost recovery in the first year. (IRC Section 168(k)(1) and (5)) As shown on the MFR schedules, the balance of ADITs does not include the deferred tax effects of bonus depreciation related to plant placed into service between January 1, 2010 and April 30, 2010 or pro forma plant. The bonus depreciation was not considered because the new law was not enacted at the time the Utility filed its MFRs.

The current law was enacted on September 27, 2010, and, therefore, now constitutes a known and measurable change. Therefore, we find that the deferred income taxes related to the bonus depreciation allowed under current law in the balance of accumulated deferred income taxes shall be included. In addition to the applicable bonus depreciation allowance for qualified property, Modified Accelerated Cost Recovery System (MACRS) tax depreciation shall be recognized based on applicable convention, as prescribed by IRC Section 168(d).[40] The net effect of the adjustments is a substantial increase in the balance of ADITs and, thus, a decrease to the Utility's overall cost of capital.

Deferred income taxes related to plant represent deferred tax effects related to the difference in book and tax depreciation caused by accelerated tax depreciation. Tax normalization provisions of the Internal Revenue Code (IRC) require the Utility to record

[39] Small Business Jobs Act of 2010, Pub. L. No. 111-240, § 2022, 124 Stat. 2504 (September 27, 2010).
[40] 26 U.S.C. §168(d) (2011).

deferred income taxes in accordance with ASC 740.[41] Further, IRC Section 168(i)(9) requires consistent application of estimates and projections of tax expense, depreciation expense, and the reserve for deferred taxes with respect to rate base for ratemaking purposes.[42] Per IRC Section 168(f)(2), the consequence of violating the normalization method of accounting is the loss of the ability to utilize accelerated tax methods of depreciation.[43]

The full-year convention was applied to pro forma plant for computation of regulatory depreciation for ratemaking purposes. Consistent with the tax normalization requirements, the full amount of deferred income taxes resulting from the difference in the methods used to compute book depreciation expense and the tax depreciation deduction shall be included in the balance of deferred income taxes. As discussed above, we are including pro forma plant additions of $792,347 in rate base. Consequently, the deferred income taxes generated by the allowed plant additions shall be included in the balance of the ADITs. ADITs also were adjusted to reflect our approved composite used and useful percentages in Attachment 2.

Based on the aforementioned, we find a consolidated adjustment of $662,982 is appropriate. Therefore, the appropriate balance of ADITs to include in AUF's capital structure is $2,133,903.

B. Leverage Formula

This was a Type B Stipulation, whereby AUF and our staff agreed that the appropriate leverage formula to use is the leverage formula in effect at the time we make our final decision, and the other parties took no position. The current leverage formula was approved in Order No. PSC-11-0287-PAA-WS, issued July 5, 2011,[44] and shall be used.

C. Overall Cost of Capital

Based upon the decisions in preceding issues and the proper components, amounts and cost rates associated with the capital structure, we find the weighted average cost of capital to be 7.18 percent for all systems.

As discussed above, we had adjustments to the balance of zero cost accumulated deferred taxes resulting in deferred taxes of $2,133,903. Also, as noted above, it has been stipulated that the leverage formula in effect when we make our final decision will be used in this case. Using the current leverage graph, the midpoint for ROE is calculated to be 9.76 percent. However, as ruled on earlier, because of marginal quality of service, the ROE shall be reduced by 50 basis points, and so rates will be set using a 9.26 percent ROE. This return is based on the application of our leverage formula approved in Order No. PSC-11-0287-PAA-WS and an equity ratio of

[41] Codification of Accounting Standards and Procedures, Statement of Auditing Standards No. 109, § 740 (Fin. Accounting Standards Bd. 1992).
[42] 26 U.S.C. § 168(i)(9) (2011).
[43] 26 U.S.C. § 168(f)(2) (2011).
[44] Docket No. 110006-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.

61.31 percent. For the ROE, we find that an allowed range of plus or minus 100 basis points (8.76 percent to 10.76 percent) shall be recognized for ratemaking purposes.

Based on the proper components, amounts, and cost rates associated with the capital structure for the pro forma test year ended April 30, 2010, the appropriate weighted average cost of capital for AUF for purposes of setting rates in this proceeding is 7.18 percent, as shown on Schedule 1.

VII. NET OPERATING INCOME

A. Billing Determinants

The billing determinants list the number of bills rendered and the number of gallons sold during the test year, by customer class and meter size, for each of AUF's rate bands and stand-alone systems.[45] The raw data for these schedules originates in AUF's MFR Schedules E-14, which shows the actual number of test-year bills for each rate band and stand-alone system, rendered in 1,000-gallon increments by customer class and meter size. The billing data is shown in summary form on MFR Schedules E-2.[46]

1. Parties' Arguments

a. AUF

AUF witness Szczygiel testified that the billing determinants are reasonable and appropriate because they are based on an accurate and representative number of bills, ERCs, and consumption data for AUF's water and wastewater systems that are a part of this case.

b. OPC

OPC witness Dismukes testified that an adjustment to increase the number of kgals sold in the test year is appropriate. The adjustment, totaling 56,722.5 kgals as shown on Schedule 25 of her testimony, reverses the reduction in test-year consumption experienced in the Scottish Highlands area. The result of this adjustment is a test-year revenue imputation (increase) of $372,925. The recommended adjustment to kgals originates from AUF's budget variance reports. Witness Dismukes further testified that AUF should absorb the revenue impact of reduced sales for two reasons: 1) the Utility has more control of the factors that led to the reduced consumption than customers do, and 2) the Utility's ROE already includes a risk component which should compensate AUF for reduced sales.

c. Other Intervenors

YES, Pasco County, and AG either deferred to or adopted the position of OPC on this issue. None of these parties included any argument on this issue in their respective briefs.

---

[45] Aqua Utilities Florida, Inc., Minimum Filing Requirements, Schedules E-2 and E-14.
[46] Id.; See Order PSC-09-0385-FOF-WS.

2. Commission Analysis

Under cross-examination, witness Dismukes agreed that: 1) ratemaking is prospective in nature, and 2) it is not realistic to expect the Scottish Highlands irrigation well customers to return to AUF's system during the first 12 months the new rates will be in effect. Witness Dismukes admitted that if we were to set rates using revenue greater than expected to be generated from rates, regulatory risk would increase.

Staff witness Stallcup testified that once customers have invested in the installation of shallow wells, those customers will not return to AUF for their irrigation demands. These lost gallons and their associated revenues represent a permanent reduction in AUF's sales that should not be artificially adjusted back into the test year. Therefore, witness Stallcup believes that: 1) witness Dismukes' adjustment to test year kgals and the associated revenues recommended was not reflective of the period when AUF's new rates will go into effect, 2) the adjustment recommended by witness Dismukes would result in rates that would fall short of generating AUF's revenue requirement, and 3) the resulting rates would therefore not be compensatory as required by Section 367.081, F.S. Witness Stallcup also believes that if witness Dismukes' adjustment to kgals is adopted, it would likely require an additional risk premium to the appropriate ROE to compensate investors for the revenue shortfall.

On rebuttal, witness Szczygiel testified that witness Dismukes' recommended adjustment to add back lost consumption associated with the irrigation wells in Scottish Highlands would be confiscatory and contrary to long-standing policy. In addition, witness Szczygiel testified that drops in consumption due to the installation of irrigation wells is not unique to AUF. Witness Szczygiel agreed with the points raised by witness Stallcup regarding witness Dismukes' recommended consumption adjustment.

We are persuaded by statements and admissions made by witness Dismukes under cross-examination, in particular: 1) ratemaking is prospective in nature, and 2) it is not realistic to expect the Scottish Highlands irrigation well customers to return to AUF's system during the first 12 months the new rates will be in effect. These statements are consistent with the testimony of witness Stallcup. Furthermore, we believe (as witness Stallcup stated) that the adjustment recommended by witness Dismukes would not only result in rates that would fall short of generating AUF's revenue requirement, but that the resulting rates would therefore not be compensatory as required by Section 367.081, F.S. Therefore, we find witness Stallcup's arguments are compelling.

Furthermore, we are also persuaded by our relevant prior decisions. We have long dealt with the issue of reduced consumption and the appropriate way to handle the consumption reduction on a prospective basis. We note two cases in particular. The first case involved a staff-assisted rate case for Sebring Ridge Utilities, Inc., in Highlands County. In our Proposed Agency Action order, we stated:

> Based on information received from a customer residing in the Bluffs condominiums (Bluffs), the Bluffs installed irrigation wells around August, 1995.

> Therefore, utility consumption will be less for these customers. We have estimated a reduction in consumption of 15% and have adjusted test year consumption accordingly.[47]

Although the above-referenced order was protested, the protest was eventually withdrawn, and a subsequent order was issued making the PAA order final and effective.[48]

Another case that speaks to the issue at hand involved a staff-assisted case for Bieber Enterprises, Inc. d/b/a Breeze Hill Utilities. In that case, we discussed an anticipated consumption reduction and how it should be accounted for:

> Since the customer meeting, we have been notified that 12 additional customers have sunk private wells, allowing a total of 16 customers access to those wells to provide water for their outdoor needs. The ease of installation of wells, coupled with their relatively low cost, presents us with a unique situation from a ratesetting perspective. We must account for the anticipated loss of gallonage sales attributable to those 16 customers who now have access to newly-sunk wells before a rate structure may be designed and the appropriate rates set.[49]

Although the circumstances of each case differ slightly, the common thread is that, like AUF, each utility was faced with consumption reductions arising from the installation of irrigation wells. We, by estimating the consumption reductions before setting rates in each case, recognized that: 1) the consumption reductions were not transitory in nature, 2) the utilities should not absorb the revenue impact of the reduced sales, and 3) the reductions had to be accounted for before setting rates. Failure to appropriately account for these consumption reductions would have resulted in rates that would not be compensatory as required by Section 367.081, F.S. Such is the circumstance in the instant case.

3. Commission Conclusion

Based on the foregoing, the appropriate billing determinants for the test year shall be as shown in AUF's MFR Schedules E-2 and E-14.

B. Test Year Revenues

The appropriate amount of test year revenue is a fall-out calculation using the billing determinants in the test year. Based on the approved billing determinants above, the annualized revenue for each system has been recalculated in order to ensure that there were no calculation errors by the Utility. We note that the Utility used the effective rates of the three different sets of rates that were in effect during the test year instead of the rates in effect prior to filing the instant

---

[47] See Order No. PSC-96-0869-FOF-WS, issued July 2, 1996, in Docket No. 950966-WS, In re: Application for a staff-assisted rate case in Highlands County by Sebring Ridge Utilities, Inc.
[48] See Order No. PSC-96-1458-FOF-WS, issued December 2, 1996, in Docket No. 950966-WS, In re: Application for a staff-assisted rate case in Highlands County by Sebring Ridge Utilities, Inc.
[49] See Order No. PSC-02-1114-PAA-WS.

case. Based on the recalculation, we find that the appropriate annualized water and wastewater revenues are $8,357,510 and $4,908,138, respectively. As a result, water revenue shall be reduced by $110,012 and wastewater revenue shall be reduced by $58,306.

Our adjustments to annualized test year revenue are as shown in Table 8 below.

Table 8 – Appropriate Annualized Revenues Adjustments

Rate Band/System	AUF Annualized Revenue Adj.	Comm'n Annualized Revenue Adj.	Comm'n Approved Rev Adjustment
Water Band 1	$23,356	($76,506)	($99,862)
Water Band 2	6,165	(18,714)	(24,879)
Water Band 3	13,112	(2,209)	(15,321)
Water Band 4	86,310	198,118	111,808
Wastewater Band 1	(529)	2,014	2,543
Wastewater Band 2	163,002	43,988	(119,014)
Wastewater Band 3	17,519	18,420	901
Wastewater Band 4	43,186	20,068	(23,118)
Breeze Hill Water	204	721	517
Breeze Hill Wastewater	437	1,039	602
Fairways Water	(2,380)	(1,574)	806
Fairways Wastewater	288	805	517
Peace River Water	1,603	2,007	404
Peace River Wastewater	1,496	(2,726)	(4,222)
Total:	$353,769	$185,451	($168,318)

C. Allocation Methodology

1. Parties' Arguments

a. AUF

AUF witness Szczygiel testified that AAI and its affiliates allocate costs and charges to AUF in accordance with the policy set forth in AAI's Corporate Charges Allocations Manual. Witness Szczygiel asserted that AUF's affiliate cost allocation policy ensures that costs are properly allocated to AUF's ratepayers. In its brief, the Utility stated no witness has challenged AUF's affiliate cost allocation methodology in this case. Specifically, the Utility's reliance on that statement was that OPC witness Dismukes stated that she did not find any problems with the mechanical allocation. The Utility also argued that AUF's affiliate cost allocation methodology was previously analyzed, reviewed, and approved by this Commission in Docket No. 080121-WS, and there is no evidentiary basis to deviate from that precedent.

In his rebuttal testimony, witness Szczygiel agreed that Aqua Georgia should be allocated a portion of ASI's costs based on an imputed customer count of 408 customers which results in

an annual reduction to AUF of approximately $244. Witness Szczygiel asserted that Suburban Environmental Service Company falls under Aqua Resources and has been imputed a customer count of 2,695, and as such, has already received a portion of ASI's costs.

With regard to Utility & Municipal Services, Inc., witness Szczygiel explained that this entity is owned by Aqua PA and receives passive income similar to other forms of passive income in many states, such as passive income from antenna leases. As a result, witness Szczygiel contended that these passive revenues do not have an associated customer count and therefore receive no allocation. Witness Szczygiel pointed out that most of the passive revenue AAI earns serves to reduce the revenue requirement of the operating company in the applicable state.

With regard to Aqua Operations, witness Szczygiel explained that this is a legal entity which holds and administers operation and maintenance contracts in the applicable states. AUF witness Szczygiel argued that OPC witness Dismukes acknowledged that there are no charges from AAI, ASI or ACO for the vast majority of the municipal contracts. Witness Szczygiel asserted that, to the extent any services are provided to non-regulated affiliates, costs are allocated from affiliates using the existing affiliate interest agreement and the underlying allocation methodology consistent with the 2008 rate case.

With regard to common officers and directors of regulated and non-regulated affiliates, witness Szczygiel testified that the fact that there are common officers should not dictate whether or not to allocate officers' salaries. Witness Szyzcgiel stated that all legal entities require assigned officers and directors. Witness Szczygiel contended that, in the case of Aqua Operations, which covers multi-state non-regulated contracts, the contracts are handled at the state level and are generally administered by the state president.

b. OPC

OPC witness Dismukes testified that, given that affiliate transactions are not arms-length dealings, we have an obligation to closely scrutinize cost allocation techniques and methods of charging affiliates to ensure that the Utility's regulated operations are not subsidizing the non-regulated operations. Witness Dismukes stated that AAI has nine non-regulated subsidiaries, and that AUF has contracted with one of the non-regulated subsidiaries, Aqua Services, Inc. (ASI) to provide managerial, operational, and regulatory support. Witness Dismukes argued that ASI performs services for certain non-regulated affiliates. However, she noted that ASI does not consistently allocate costs to these affiliates and that there are four affiliates that do not receive allocations from ASI. Witness Dismukes pointed out that, in the 2008 rate case, the Utility acknowledged the need to allocate costs to at least one of its non-regulated affiliates. However, OPC argued that all non-regulated affiliates should be consistently allocated ASI costs.

Moreover, OPC witness Dismukes indicated that the regulated and non-regulated Aqua companies have common officers and directors and that AAI failed to demonstrate that the salaries and benefits of these common officers are allocated to the non-regulated companies. Witness Dismukes testified that the failure to allocate common costs to AAI's non-regulated operations causes AAI's regulated operations to subsidize the non-regulated operations.

Witness Dismukes testified that certain operating companies provide contract operator services, but that no common costs are allocated for these services. While the Utility claims it did not allocate costs because no corporate services were provided directly, witness Dismukes testified that AUF failed to take into account the indirect costs associated with the additional oversight and management of the affiliates that provide these services. Witness Dismukes testified that the failure to take these additional costs into account and allocate them accordingly results in an over-allocation of costs to the regulated companies without similar allocations to the non-regulated operations.

c. Other Intervenors

YES, Pasco County, and AG either deferred to or adopted the position of OPC on this issue. None of these parties included any argument on this issue in their respective briefs.

2. Preliminary Matters

Before weighing in on the parties' specific arguments, there are three areas that should be addressed related to the allocation methodology, namely, required analyses of affiliate charges, our staff's affiliate transactions audit, and additional AAI customers.

a. Allocation Methodology

Staff witness Welch explained that AAI has two divisions that allocate costs to the individual states. The first division is ASI which accumulates and allocates common payroll from the AAI Pennsylvania office. ASI also accumulates invoices that are common to all states. Witness Welch explained these costs are allocated in two separate billings to the states, including the payroll charged based on timesheet hours wherein those hours are multiplied by a rate which includes payroll costs, benefits, taxes, pension costs, and office space costs. Witness Welch further explained that the invoices are charged through a sundry allocation which is allocated based on number of meters.

The second division is ACO, which does the customer billing and handles the call center. Witness Welch stated that ACO accumulates all of its costs including payroll, office space, and various invoices, and allocates these costs to states that use the billing system based on number of meters.

In addition to allocations by ASI and ACO, AAI allocates certain costs directly to states, such as insurance, fleet charges, lock box charges, and health insurance. All costs discussed above are charged to AUF's headquarters cost center which are then allocated to its non-regulated and regulated systems based on direct labor and on the number of customers.

(1) Required Analyses of Affiliate Charges

It is a utility's burden to prove that its costs are reasonable.[50] This burden is even greater when the transaction is between related parties because: (1) affiliate transactions raise the

[50] See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982).

concern of self-dealing where market forces do not necessarily drive prices, and (2) utilities have a natural business incentive to shift costs from non-regulated operations to regulated monopoly operations since recovery is more certain with captive ratepayers. Accordingly, although a transaction between related parties is not per se unreasonable, related party transactions require closer scrutiny. The legislature has recognized the need to scrutinize affiliate transactions by specifically granting us access to non-regulated affiliate records. Specifically, Section 367.156(1), F.S., states:

> The commission shall continue to have reasonable access to all utility records and records of affiliated companies, including its parent company, regarding transactions or cost allocations among the utility and such affiliated companies, and such records necessary to ensure that a utility's ratepayers do not subsidize nonutility activities. Upon request of the utility or any other person, any records received by the commission which are shown and found by the commission to be proprietary confidential business information shall be kept confidential and shall be exempt from s. 119.07(1).

(Emphasis added). In overturning a prior Commission decision, the Florida Supreme Court enunciated the standard which we should use in reviewing affiliate transactions stating, "(w)e believe the standard must be whether the transactions exceed the going market rate or are otherwise inherently unfair."[51] This standard of review will be addressed in detail in Section VII. D. Affiliate Revenues and Charges.

(2) Affiliate Transaction Audit

In reviewing the corporate overhead allocated to AUF, our staff auditors reviewed AAI's Board of Directors minutes to determine if any changes to future operations would affect the test year allocated amounts. The auditors reviewed the allocation methodology used to allocate costs from ASI, ACO, AAI, and AUF headquarters by recalculating the allocation percentages and verifying the number of customers to source documents.[52] In addition, staff auditors performed an analytical review of ASI and ACO costs to determine whether selected costs could be traced back to supporting source documentation. An audit of the gross costs at the parent level was performed which included an examination of costs for proper timing, amount, and classification. The auditors also examined the costs to determine whether any costs were non-utility related, non-recurring, unreasonable or imprudent. Further, the auditors reviewed related party transactions for reasonableness by ensuring they were commensurate with arms-length transactions. Finally, selected samples were taken from the ledgers of ASI, ACO, and AAI and were traced to supporting documentation.

Numerous affiliate audit findings were made, with the majority resulting in adjustments that the Utility and parties stipulated. Specifically, the total $170,651 stipulated affiliate-adjustment consists of the following: Sundry expense adjustment of $5,586 (Affiliate Audit Finding 2), Investor Relation Promotions and Sponsorship of Events adjustment of $681

[51] GTE v. Deason, 642 So. 2d 545, 548 (Fla. 1994).
[52] This was done to ensure that AAI's regulated operations are not subsidizing its non-regulated operations.

(Affiliate Audit Finding 3), AUF Headquarters Charges adjustment of $53,095 (Affiliate Audit Finding 4), Administrative and Termination/New Hire Salary Normalization and Pro Forma adjustment of $100,087 (Affiliate Audit Finding 6), and Health Insurance Accrual adjustment of $11,196 (Affiliate Audit Finding 7).

(3) Additional AAI Customers

AUF responded to a staff data request indicating that AAI acquired 22 water and/or wastewater systems totaling 5,894 customers subsequent to the April 30, 2010, test year. In a subsequent response, the Utility stated that there was no net incremental increase in overhead associated with these acquisitions. AUF witness Szczygiel disagreed with the PAA Order adjustments associated with these additional AAI customers because he believed they were overstated. Specifically, witness Szczygiel asserted that the impact of 6,000 customers would have a de minimis impact on AUF. In his late-filed deposition Exhibit 4, witness Szczygiel reflected an impact of $5,972 related to these additional customers.) Because ratemaking is prospective in nature, we find that an adjustment is appropriate to recognize the net additional customers now served by AAI. Accordingly, O&M expenses shall be reduced by $5,972.

3. Commission Analysis

With the exception of no allocation of common officers' and directors' salaries and other associated costs to non-regulated entities, we find that AUF witness Szczygiel sufficiently addressed the concerns raised by OPC witness Dismukes. However, we find that witness Szczygiel's testimony did not provide sufficient evidence to support no allocation of common officers' and directors' salaries and associated costs to non-regulated entities. In so finding, we note that it is our "prerogative to evaluate the testimony of competing experts and afford whatever weight to the conflicting opinions it deems necessary."[53]

As stated previously, it is a utility's burden to prove that its costs are reasonable.[54] Due to the lack of sufficient evidence to support AUF's decision not to allocate common officers' and directors' salaries and associated costs to non-regulated entities, we find a reduction to AUF's O&M expense is warranted in order to recognize an allocation of common costs to AAI's non-regulated entities. Using the percentage of non-regulated revenues to total AAI revenues, AUF's customer percentage, and AUF's jurisdictional factor, we find that O&M expense shall be reduced by $23,555.

4. Commission Conclusion

As stated previously, AUF witness Szczygiel agreed that Aqua Georgia should be allocated a portion of ASI's costs based on an imputed customer count of 408 customers. This results in an annual reduction to AUF of approximately $244. Because ratemaking is prospective in nature, we find it is appropriate to reduce O&M expense by $5,972 in order to recognize the net additional customers now served by AAI. Finally, due to the lack of sufficient

[53] See Gulf Power Co. v. FPSC, 453 So. 2d 799, 805 (Fla. 1984).
[54] See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982).

evidence to support AUF's position that no allocation of common officers' and directors' salaries and associated costs to non-regulated entities is necessary, we find a reduction to AUF's O&M expense of $23,555 is warranted in order to recognize an allocation of common costs to AAI's non-regulated entities. Based on the above, we find that O&M expense shall be reduced by $29,772 ($244 + $5,972 + $23,555). Our calculations are shown in Table 9 set out below.

Table 9	
Allocated O&M Expense Adjustments	
Rate Band/System	Adjustments
Water Band 1	($6,970)
Wastewater Band 1	(1,251)
Water Band 2	(3,113)
Wastewater Band 2	(5,632)
Water Band 3	(1,906)
Wastewater Band 3	(699)
Water Band 4	(8,594)
Wastewater Band 4	(298)
Breeze Hill Water	(149)
Breeze Hill Wastewater	(149)
Fairways Water	(507)
Fairways Wastewater	(281)
Peace River Water	(115)
Peace River Wastewater	(109)
Total	($29,772)

D. Affiliate Revenues and Charges

In its filing, the Utility recorded a total inter-company expense allocation of $2,418,638 from its parent, AAI. This amount included costs associated with AUF non-jurisdictional systems in Citrus and Sarasota counties. The amount of jurisdictional inter-company expense requested in this case is $1,468,020.

1. Parties' Arguments

a. AUF

AUF witness Szczygiel testified that the methodology by which the Utility's affiliate transaction costs are allocated to AUF was closely reviewed and approved by us in Docket No. 080121-WS. He stated that, since the 2008 rate case, AUF conducted a Florida Market Study which shows that its customers benefit by having centralized services provided by affiliates because the allocated costs are less than what it would incur if AUF secured the services from outside sources. In support of his position on affiliate transactions, witness Szczygiel provided AAI's Corporate Charges Allocation Manual and an analysis that he argued demonstrates that the allocated costs to AUF by affiliates are below market costs. AUF witness Szczygiel asserted

that OPC's recommended adjustments are confiscatory and represent a reduction of over $1.2 million in affiliate expenses that we approved in the 2008 rate case.

b. OPC

OPC witness Dismukes testified that affiliate costs have increased significantly since the 2008 rate case and the Utility has failed to explain these increases. Witness Dismukes stated that it is important to closely examine affiliate transactions because they do not represent arms-length dealings and regulated operations should not subsidize the non-regulated operations. She asserted that Contractual Services – Management Fees increased by 281 percent since the 2008 rate case, significantly more than the reduction to miscellaneous expenses. In its brief, OPC pointed out that the Utility's O&M expense ratio is over 50 percent compared to AAI's O&M expense ratio of 38 percent. Based on her peer group analysis, witness Dismukes recommended that AUF's expenses related to affiliates should be reduced by $664,023 for water and $312,822 for wastewater because AUF has not demonstrated any economies of scale or other commensurate benefits to customers.

c. Other Intervenors

YES, Pasco County, and AG either deferred to or adopted the position of OPC on this issue. None of these parties included any argument on this issue in their respective briefs.

2. Commission Analysis

In this issue, OPC and the other Intervenors recommend a reduction of $664,023 for water and $312,822 for wastewater. OPC argued that the reduction is appropriate because AUF has not demonstrated any economies of scale or other commensurate benefits to customers.

In evaluating whether and how much affiliate costs should be included in rates, we are aware of the relevant statutes and cases on rates and affiliate transactions. Section 367.081(2)(a)1., F.S., sets forth our responsibility in rate setting, and specifically states:

> The commission shall, either upon request or upon its own motion, fix rates which are just, reasonable, compensatory, and not unfairly discriminatory. In every such proceeding, the commission shall consider the value and quality of the service and the cost of providing the service, which shall include, but not be limited to, debt interest; the requirements of the utility for working capital; maintenance, depreciation, tax, and operating expenses incurred in the operation of all property used and useful in the public service; and a fair return on the investment of the utility in property used and useful in the public service. . . .

As reflected in the statute cited above, we are required to set reasonable rates, but we must also set rates that are compensatory. The provisions in the statute require that we consider the cost of providing service, which includes operating expenses incurred in the operation of all property used and useful in the public service, as well as a fair return on the investment of the Utility in property used and useful in the public service. In conducting our analysis of the

appropriate operating expenses to be included, we are mindful of two Florida Supreme Court cases. In the case of Keystone Water Co v. Bevis, 278 So. 2d 606 (Fla. 1973), the Court held that a utility is entitled to a fair rate of return on property used or useful in public service. In Keystone, the Court further found that rates which do not yield a fair rate of return are unjust, unreasonable, and confiscatory and their enforcement deprives a utility of due process.[55] Additionally, in GTE v. Deason, 642 So. 2d 545 (Fla. 1994), the Florida Supreme Court laid out the standard of review for affiliate transactions, stating:

> The mere fact that a utility is doing business with an affiliate does not mean that unfair or excess profits are being generated, without more. Charles F. Phillips, Jr., *The Regulation of Public Utilities* 254-55 (1988). We believe the standard must be whether the transactions exceed the going market rate or are otherwise inherently unfair. . . . If the answer is "no," then the PSC may not reject the utility's position.

GTE v. Deason, 645 So. 2d at 547-548. We have reviewed the record evidence and applied the holdings in Keystone v. Bevis and GTE v. Deason as appropriate.

a. Benefit to Ratepayers from Affiliate-Provided Services

OPC challenged the amount of benefit ratepayers receive from affiliate-provided services and recommended that AUF's revenue requirement be reduced by $664,023 for water and $312,822 for wastewater. OPC's challenge is multi-faceted. First, OPC challenges AUF's evidentiary support using a market-based study to support its affiliate transactions. Second, OPC provides a peer group comparison to support its position that AUF's revenue requirement be reduced. Third, OPC challenges AUF's claim that being part of a large organization in which management, operations, and regulatory support provided by the Utility's parent and sister companies reduces costs to customers. We will address the parties' arguments under two separate headings below. The Evidentiary Support for the Affiliate Services subsection addresses both AUF's market-based study and OPC's peer group analysis. In the subsection Cost of Operating AUF's Systems, we review OPC's argument that it is the parent organization's costs that are increasing Florida ratepayers costs without giving any benefit to Florida ratepayers.

(1) Evidentiary Support for Affiliate Services

As noted above, the standard to use in evaluating affiliate transactions is whether the cost of those transactions exceeds the going market rate or is otherwise inherently unfair.[56] We further note that it is a utility's burden to prove that its costs are reasonable.[57] This burden is even greater when the transaction is between related parties for two reasons: (1) affiliate transactions raise the concern of self-dealing where market forces do not necessarily drive prices, and (2) utilities have a natural business incentive to shift costs from non-regulated operations to regulated monopoly operations since recovery is more certain with captive ratepayers. Although

[55] See Keystone Water Co. v. Bevis, 278 So. 2d 606, 609 (Fla. 1973).
[56] See GTE Florida, Inc. v. Deason, 642 So. 2d 545 (Fla. 1994).
[57] See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982).

a transaction between related parties is not per se unreasonable, related party transactions require closer scrutiny. To address the benefit to customers from affiliate-provided services, we find it is appropriate to address AUF witness Szczygiel's market-based study and the peer group comparison offered by OPC witness Dismukes.

(a) Szczygiel's Market-Based Study

For purposes of its review of AUF's affiliate transactions, our staff requested that the Utility provide any and all documents in its possession, custody or control that demonstrate whether charges from all affiliates are provided to AUF at the lower of cost or market. In its response, AUF provided a recent study prepared by the Utility's sister company, Aqua Virginia, which was submitted to the Virginia Public Service Commission. This study compared the fully-loaded hourly rates, including all benefits and applicable taxes, of ASI employees with the hourly rates charged by engineering, accounting, and other consultants from the private sector. According to that study, the hourly rates of ASI employees were lower than consultants from the private sector.

In its supplemental response, AUF provided a similar analysis comparing the hourly rates of ASI employees to hourly rates of private sector consultants in Florida. Witness Szczygiel argued that the Florida-specific analysis revealed that the hourly rates of ASI employees were lower than consultants from the private sector. The Utility further stated that ASI is a service company formed by AAI to provide centralized management, accounting, engineering, human resources, information technology support, legal, and rate case support to AAI's operating subsidiaries. AUF asserted that ASI allows all of its operating subsidiaries to take advantage of the economies of scale provided by common ownership of numerous companies. For example, the Utility contended that affiliated companies like AUF can share accounting software, asset software, and billing and customer information software, thus saving the individual companies from the cost of acquiring such software on their own.

If operated as a stand-alone company, AUF asserted it would have to hire and retain additional employees and/or outside contractors to provide the many services now being provided by ASI. For example, the Utility stated that ASI offers a centralized staff of professional engineers to AUF and other AAI operating subsidiaries. The Utility indicated that these professional engineers provide services such as obtaining and preparing requests for proposals and evaluating submitted proposals from various engineering firms and are available to AUF as needed. AUF contended that the cost of sharing the expense of an engineering staff is far less than contracting outside engineering firms, which not only bill to cover the fully loaded cost of their engineering staff, but also to include a profit margin. The Utility stated that the average hourly cost of engineering services allocated to AUF from ASI, including overhead, is approximately $82 an hour. AUF asserted that two Florida engineering firms were surveyed for their billing rates, and the rates ranged from $110 per hour for entry level professional staff to $140 per hour for principals. Based on these billing rates, AUF calculated that the per hour cost savings ranges from approximately 25 to 41 percent by using ASI.

Likewise, if operated as a stand-alone company, AUF asserted it would have to hire an attorney or attorneys, or contract out legal services to outside law firms, for recurring general matters. As a subsidiary of AAI, AUF stated it can access legal services from the legal staff at ASI. The average 2009 billing rate for Florida law firms, as published in the "2010 Economics & Law Office Management Survey" conducted by the Florida Bar, was approximately $247 an hour.[58] The Utility stated that the hourly rate, including overhead, for legal services in the test year charged to AUF by ASI was approximately $140 an hour, which represents a savings of approximately 43 percent compared to the Florida Bar average rate.

AUF also contended it has access to a full accounting staff at ASI with experience in all phases of accounting, including accounts payable, property, tax, general ledger, payroll, purchasing, and accounts receivable. The Utility stated that the average hourly rate billed from ASI was approximately $57 an hour. AUF stated that the "2008 PCPS/TSCPA National MAP Survey" conducted by the American Institute of Certified Public Accountants showed national average rates for accounting professionals. The Utility asserted that these hourly rates, adjusted for inflation, are Directors - $161, Managers - $137, Senior Associates - $110, and Associates - $88. AUF contended that the average rate charged by ASI, which includes all levels of personnel, is approximately 35 percent less at the low end and 65 percent less at the high end when compared to the national averages.

AUF further asserted that as a subsidiary of AAI, it has access to a full range of management professionals. The Utility contended that some, but not all, of the services provided by AAI professionals include human resources, information processing, investor relations, financial planning, internal audit, regulatory affairs, and corporate governance. AUF stated that the "Operating Ratios for Management Consulting Firms, 2007 Edition" survey conducted by the Association of Management Consulting Firms shows the range of billing rates of management consultants in the U.S. The Utility asserted that those rates, adjusted for inflation, are $115 an hour for an entry level consultant at a small firm to $468 per hour for the highest level consultant at a large firm. AUF contended that the average hourly rate charged by ASI for the test year was approximately $128, which is approximately 73 percent less than the high end of the national average.

As for customer service provided by ACO, the Utility contended that AAI had total customer service charges of $15,485,729 during the test year in this rate case. AUF stated that AAI's total cost of $15,485,729 translates to a per customer cost of $18.12 per year. The Utility

[58] Please see the following table for calculation of the average $247 hourly rate.

Percentage	Hourly Rate	Amount
13%	150	$20
27%	200	54
25%	250	63
5%	275	14
14%	300	42
2%	325	7
14%	350	49
100%		$247

asserted that the "Benchmarking Performance Indicators for Water and Wastewater Utilities: 2007 Annual Survey Data and Analyses Report" released by the American Water Works Association listed an average customer service cost per account, adjusted for inflation, of approximately $44, which is more than double the AAI per customer service charge. AUF concluded that the per hour costs for services and costs per customer confirm that operating AUF as an affiliate of AAI is beneficial to Florida customers.

In its brief, OPC argued that AUF's market analysis had numerous shortcomings such that it should not be used in support of AUF's position that its affiliate costs do not exceed market rates. OPC witness Dismukes expressed numerous concerns with AUF's Florida Market Based Study, such as: (1) the study did not consider services provided by ASI to the other entities included in the Utility's study; (2) the Utility used only two firms to compare its engineering costs; (3) AUF's comparison appeared to assume that every hour spent by ASI personnel could be billed at a rate comparable to a skilled lawyer, consultant, certified public accountant or professional engineer regardless of the level of expertise of the ASI employee; (4) the comparison failed to consider that companies typically use outside counsel or consultants for specialized areas of law or professional services, not the day-to-day operations of a business; and (5) AUF's comparison failed to consider that outsourcing of this magnitude would likely be frowned upon by regulators due to the high costs that would be passed to ratepayers.

In response to OPC witness Dismukes' concerns that the initial study only included two engineering firms, AUF witness Szczygiel testified that AUF added two more engineering firms for a total of four engineering firms to update the Utility's Market Based Study. In addition, witness Szczygiel stated he revised the study to exclude all ASI employees that hold less than a Bachelors' degree in the categories of accountants and management professionals to address witness Dismukes' concern that the level of expertise of ASI employees relative to third party certified public accountants and skilled consultants.

(b) Peer Group Comparison Offered by OPC witness Dismukes

In contrast to AUF's market based study approach, OPC witness Dismukes developed a peer group of Commission-regulated utilities to compare their expenses with AUF's expenses in an effort to test the reasonableness of affiliate-provided services. Specifically, this peer group consisted of 15 Class B utilities and 29 Class C utilities. Witness Dismukes pointed out that her peer group consisted of only Class B and Class C utilities because AUF's systems included in this rate case would all be considered Class B or Class C utilities on a stand-alone basis. When developing the Class B/Class C peer group, she weighted the Class B and C utilities' data in proportion to the revenue of the systems in each rate band. For the individual systems, witness Dismukes matched each system's Class ranking to the Class comparison. For example, she considered Breeze Hill a Class C utility on a stand-alone basis; therefore, its affiliate charges were compared only to Class C utilities. Witness Dismukes' peer group only compared administrative and general expenses, which consist of salaries and wages for employees and officers, contractual services expenses, and miscellaneous expenses. Based on the total for all rate bands and stand-alone systems, under the peer group approach, OPC witness Dismukes

testified that the administrative and general expenses should be reduced by $664,023 for water and $312,822 for wastewater.[59]

AUF witness Szczygiel disagreed with making financial adjustments to any business entity using a peer group comparison like the one developed by OPC witness Dismukes. He explained that the source data relied on by OPC witness Dismukes does not permit an apples-to-apples comparison with AUF. Witness Szczygiel contended that the varying levels of services provided by the service companies to their individual affiliates, the different allocation methodologies, and the lack of detail in the data submitted prevented a clear determination of the amount of costs charged or the prudency of those charges. Witness Szczygiel stated that there is no indication that witness Dismukes has audited the source documents of the utilities in her peer group, nor is there any indication that she has a baseline understanding of the condition of their facilities. He also asserted that there is no showing of whether the utilities in witness Dismukes' peer group are in need of rate relief, whether they are operating at a loss, or whether they have a service company. Moreover, witness Szczygiel testified that the corporate structures, expenses, operating standards, and environmental compliance records of the utilities in witness Dismukes' peer group are not considered.

(c) Commission Analysis of Two Studies

While we agree with OPC witness Dismukes that AUF's Market Based Study does not offer a realistic comparison of market based rates, we also agree with AUF witness Szyzgiel that the peer group analysis presented by witness Dismukes does not provide an adequate comparison. We note that in AUF's 2008 rate case we also disagreed with witness Dismukes' previous recommendation to use a comparison of Commission-regulated utilities to AUF in evaluating affiliate-provided services. In the Utility's 2008 rate case, we specifically found "[t]hat the comparison analysis proposed by witness Dismukes does not provide an appropriate basis to warrant an adjustment being made."[60] As acknowledged by witness Dismukes, there are complexities associated with determining the reasonableness of affiliate transactions. To that point, we find that witness Dismukes' peer group comparison does not adequately compare the duties, activities, and responsibilities for the Utility's affiliate-provided services.

If we were to approve OPC's proposed adjustment of $976,845 ($664,023 + $312,822), it would represent a disallowance of approximately 67 percent[61] of AUF's proposed allocated overhead. We are concerned with removing such a significant portion of costs unless there is a sufficient evidentiary record to support the removal of those costs. Thus, we find an evaluation of the justified costs to operate the Utility's systems, which is discussed in detail below, is necessary to resolve this issue.

---

[59] With the approved O&M expense adjustments in other issues and before any other adjustments to affiliate-provided services, we note that OPC's proposed adjustment in this issue would result in the approval of total O&M expense that is approximately six percent less than the total O&M expense approved in the Utility's 2008 rate case.

[60] See Order No. PSC-09-0385-FOF-WS, p. 78.

[61] This percentage is calculated by using the proposed adjustment of $976,845 divided by total intercompany allocation for this case of $1,468,020.

(2) Cost of Operating AUF's Systems

OPC challenged AUF's claim that being part of a large organization in which management, operations, and regulatory support provided by the Utility's parent and sister companies reduces costs to customers. Based on its review of O&M expense for Class C utilities, OPC stated that the layers of management associated with the Utility's allocated overhead has not produced any cost savings for customers. OPC contended that AUF's operating expenses are too high when compared to other Class C utilities.

To test OPC's assertion, our staff performed an analysis that compared the long-term debt cost of the utilities in OPC witness Dismukes' peer group which had long-term debt to AUF's cost rate for long-term debt provided by AAI. The following table depicts the calculation of a weighted cost of long-term debt for all the utilities in OPC witness Dismukes' peer group that had long-term debt at the time this Commission last established those utilities' ROEs.

Weighted Cost of Long-Term Debt Calculation

Utility Name	Balance	% of Total	Effective Interest Rate	Weighted Cost Rate
Continental Utility, Inc.[62]	$930,630	15.64%	11.50%	1.80%
Rainbow Springs Utilities, L.C.[63]	939,052	15.78%	9.30%	1.47%
Tradewinds Utilities, Inc.[64]	782,218	13.14%	5.23%	0.69%
Venture Associates Utilities Corp.[65]	28,780	0.48%	7.68%	0.04%
Allen LaFortune and Otis Fonder[66]	31,560	0.53%	10.00%	0.05%
Buccaneer Water Service[67]	211,966	3.56%	7.45%	0.27%
Crestridge Utility Corporation[68]	8,499	0.14%	11.00%	0.02%
Damon Utilities, Inc.[69]	12,705	0.21%	5.00%	0.01%
Keen Sales, Rentals and Utilities, Inc.[70]	54,944	0.92%	7.00%	0.06%

[62] See Order No. 25347, p. 24, issued November 14, 1991, in Docket No. 910093-WS, In re: Request for rate increase in Sumter County by Continental Utility, Inc.
[63] See Order No.PSC-96-1229-FOF-WS, p. 38, issued September 30, 1996, in Docket No. 950828-WS, In re: Application for rate increase in Marion County by Rainbow Springs Utilities, L.C.
[64] See Order No. PSC-11-0385-PAA-WS, p. 27, issued September 13, 2011, in Docket No. 100127-WS, In re: Application for increase in water and wastewater rates in Marion County by Tradewinds Utilities, Inc.
[65] See Order No. PSC-96-0790-FOF-WU, p. 37, issued June 18, 1996, in Docket No. 930892-WU, In re: Application for amendment of Certificate No. 488-W in Marion County by Venture Associates Utilities Corp.
[66] See Order No. 21652, p. 17, issued August 2, 1989, in Docket No. 881601-WU, In re: Application of Allen LaFortune and Otis Fonder for a staff-assisted rate case in Pasco County.
[67] See Order No. PSC-96-1466-FOF-WU, p. 8, issued December 3, 1996, in Docket No. 960133-WU, In re: Application for staff-assisted rate case in Lee County by MHC-DeAnza Financing Limited Partnership d/b/a Buccaneer Water Service.
[68] See Order No. 21919, p. 16, issued September 19, 1989, in Docket No. 890170-WU, In re: Application of Crestridge Utility Corporation for staff-assisted rate case in Pasco County.
[69] See Order No. PSC-09-0618-PAA-WS, p. 25, issued September 11, 2009, in Docket No. 080709-WS, In re: Application for staff-assisted rate case in Highlands County by Damon Utilities, Inc.
[70] See Order No. PSC-09-0716-PAA-WU, p. 33, issued October 28, 2009, in Docket No. 090072-WU, In re: Application for staff-assisted rate case in Polk County by Keen Sales, Rentals and Utilities, Inc.

Utility Name	Balance	% of Total	Effective Interest Rate	Weighted Cost Rate
River Ranch Water Management, L.L.C.[71]	376,642	6.33%	10.00%	0.63%
Shangri-La by The Lake Utilities, Inc.[72]				
Barnett Bank Loan	1,150,000	19.32%	10.75%	2.08%
Barnett Bank Money Mortgage	300,000	5.04%	10.00%	0.50%
Tymber Creek Utilities, Incorporated[73]				
Shirah Builders, Inc.	35,340	0.59%	3.25%	0.02%
Sun Trust	26,759	0.45%	3.25%	0.01%
Environmental Protection Systems of Pine Island, Inc.[74]				
Notes Payable Cheery Estates	11,187	0.19%	8.00%	0.02%
Notes Payable KRS Land Dev.	40,491	0.68%	8.00%	0.05%
Environmental Protection Systems of Pine Island (cont.)				
Notes Payable KRS Resort	5,478	0.09%	8.00%	0.01%
Notes Payable Cheery Builders	17,850	0.30%	8.00%	0.02%
Line of Credit-SunTrust	205,061	3.45%	8.00%	0.28%
County Loan	480,036	8.07%	4.50%	0.36%
BFF CORP.[75]				
Wachovia Bank	81,391	1.37%	9.25%	0.13%
MIRA International, Inc.	47,791	0.80%	9.00%	0.07%
B.J. Roaderick	4,959	0.08%	9.00%	0.01%
Fairmount Utilities, The 2nd, Inc.[76]	45,974	0.77%	7.25%	0.06%
Sebring Ridge Utilities, Inc.[77]				
Loan 1 from Fairmount Utilities The 2nd, Inc.	1,500	0.03%	10.60%	0.00%
Loan 2	17,582	0.30%	10.00%	0.03%
Loan 3	12,459	0.21%	11.50%	0.02%
Loan 4	90,990	1.53%	11.25%	0.17%
TOTAL	$5,951,844	100.00%		8.88%

Based on the table above, the weighted average cost rate for long-term debt of the utilities in OPC witness Dismukes' peer group is 8.88 percent. As approved earlier, the Utility's cost rate for debt is 5.10 percent. Therefore, AUF's cost of debt is 378 basis points less than the calculated weighted average cost of debt for the utilities in OPC witness Dismukes peer group.

[71] See Order No. PSC-03-0740-PAA-WS, p. 58, issued June 23, 2003, in Docket No. 021067-WS, In re: Application for staff-assisted rate case in Polk County by River Ranch Water Management, L.L.C.

[72] See Order No. PSC-96-0062-FOF-WS, p. 8, issued January 12, 1996, in Docket No. 940653-WS, In re: Application for certificates to provide water and wastewater services in Lake County by Shangri-La by The Lake Utilities, Inc.

[73] See Order No. PSC-11-0345-PAA-WS, p. 35, issued August 16, 2011, in Docket No. 100359-WS, In re: Application for staff-assisted rate case in Volusia County by Tymber Creek Utilities, Incorporated.

[74] See Order No. PSC-03-1119-PAA-SU, p. 58, issued October 7, 2003, in Docket No. 030106-SU, In re: Application for staff-assisted rate case in Lee County by Environmental Protection Systems of Pine Island, Inc.

[75] See Order No. PSC-02-0487-PAA-SU, p. 44, issued April 8, 2002, in Docket No. 010919-SU, In re: Application for staff-assisted rate case in Marion County by BFF Corp.

[76] See Order No. PSC-09-0628-PAA-SU, p. 21, issued September 17, 2009, in Docket No. 080668-SU, In re: Application for staff-assisted rate case in Highlands County by Fairmount Utilities, The 2nd, Inc.

[77] See Order No. PSC-96-0869-FOF-WS, p.10.

Using AUF's cost structure, this incremental difference in the cost of debt would equate to approximately $600,000 in additional revenue requirement. Based on this analysis, it appears that AUF customers are benefitting from the Utility's association with AAI through a lower cost of long-term debt.

Moreover, just because the costs to operate a utility are high, this does not necessarily mean that a utility is operating inefficiently. Other factors may influence the costs to provide service to customers. Therefore, we believe a review of this particular Utility's history is helpful in understanding the costs associated with providing service. AUF acquired the majority of its system from Florida Water Services Corporation (FWSC). FWSC was formerly known as Southern States Utilities, Inc. (SSU). SSU rates were last established in 1996.[78] At that time, SSU provided water and wastewater service to approximately 102,500 water and 43,000 wastewater customers. In SSU's last rate case, this Commission approved a capband rate structure that was affirmed later by the First DCA.[79] The capband rate structure approved in Docket No. 950495-WS combined 95 water systems and 43 wastewater systems into eight rate groups for the water systems and six rate groups for the wastewater systems. Each of these groups consisted of systems with similar costs, but cross subsidies did exist within each group. When the groups were fragmented after the break up of FWSC, the loss of subsidy resulted in the remaining systems failing to produce revenues that covered their costs on a stand-alone basis.

Before these numerous smaller, higher-cost water and wastewater systems were acquired by AUF, several of SSU's larger, lower-cost systems were sold to municipalities and governmental entities. Under the approved capband rate structure, SSU had very large water and wastewater systems that were subsidizing numerous smaller water and wastewater systems.[80] As a result, SSU's rates for the smaller, higher-cost systems were considerably lower than if the smaller systems had to pay their true cost of service. AUF purchased the collection of smaller, higher-cost systems without the benefit of the larger systems that previously subsidized the higher-cost systems. Without the benefit of subsidization by larger systems, there is an upward pressure on rates for these smaller systems. This becomes evident when a comparison is made of a small system, Beecher's Point. Taking data from AUF's 2008 rate case, the stand-alone cost to serve a residential customer of Beecher's Point, based on a gallonage cap of 6,000, results in a monthly bill of $384. Our capband rate structure approved in the 2008 case resulted in a monthly bill of $82.

b. Adjustments to Affiliate Costs

(1) Executive Salary Increases

AUF included AAI Executive Salaries for its four top executives of $72,166 as part of its MFRs. This represents an increase of 22 percent over the amount approved in the 2008 rate case

[78] See Order No. PSC-96-1320-FOF-WS.
[79] See Southern States Utilities, n/k/a Florida Water Services Corporation v. Fla. Public Service Commission, 714 So. 2d 1046 (Fla. 1st DCA 1998).
[80] In 1996, SSU's four largest water systems served approximately 47,000 customers, which is more than double the present total number of AUF water customers.

for this line item. We find AUF did not provide sufficient record evidence to support an increase of 22 percent, particularly in light of the economic downturn.

Exhibit 197 includes an article from the April 2011 issue of Electricity Journal titled "Recovery of Executive Compensation Expenses in Utility Rate Cases." As explained by the authors of this article, due to the recent economic downturn, there is greater scrutiny of executive pay across the country, including within the utility sector. As further explained in this article, utilities seeking recovery of executive compensation should explain the significant variances in year-over-year executive pay. In its proxy statement, AAI reflected a table of the various types of compensation for its top five officers from 2008 to 2010.[81] Based on a review of AAI's proxy statement and the record in this case, we find that AAI has not adequately explained the significant year-over-year salary increases for AAI's top five executives or how these significant increases are related to Florida utility operations.

Based on the evidence presented by witnesses at the technical and service hearings, it appears the economic downturn is still being felt in Florida. There was a significant amount of testimony provided at numerous service hearings regarding the impact the depressed economy has had on AUF customers. In addition, Pasco County witness Mariano stated that citizens in his county are experiencing economic struggles. OPC witnesses Woodcock and Vandiver also testified regarding the difficult economic conditions in the State of Florida. Moreover, AUF witness Szczygiel acknowledged that the state of the economy may be a driver impacting the Utility's level of bad debt expense.

Given the state of the economy and the failure of AUF to adequately support its request for a 22-percent increase for AAI's top executives, we find that the incremental salary increases for AAI's top executives requested in this case shall not be passed on to ratepayers. In further support of this finding, we note the following finding from a recent rate case:[82]

> In its filing, LUSI made two adjustments to the salaries and wages expense for the current test year. The first adjustment annualized the salaries and wages expense, and the second adjustment was a pro forma increase for salary increases of 3.5 percent in April 2011. Given the tumultuous state of the economy, we find that any pay increase at this time shall not be borne by the ratepayers. As such, we find that the Utility's annualization adjustment and pro forma pay increase shall be disallowed.

(Emphasis added)[83] This PAA Order was made final by Consummating Order No. PSC-11-0548-CO-WS, issued November 29, 2011.

---

[81] Although AUF only sought recovery of the costs associated four of its top executives, the AAI proxy statement refers to five top executives.

[82] See Order No. PSC-11-0514-PAA-WS, pp. 20-21, issued November 2, 2011, in Docket No. 100426-WS, In re: Application for increase in water and wastewater rates in Lake County by Lake Utility Services, Inc.

[83] This PAA Order was made final by Consummating Order No. PSC-11-0548-CO-WS, issued November 29, 2011.

We recognize there have been two recent Commission decisions where a 3-percent salary increase was granted. However, we note that in those instances the utility's last rate case was several years ago or it was the utility's first rate case.[84] We further note that AUF's circumstances are distinguishable from these cases in that the Utility's last rate case was less than three years ago. Accordingly, O&M expense shall be reduced by $17,457 to remove the amount associated with executive salary increases. This amount represents the jurisdictional portion of the requested 22 percent salary increase for the top executives.

(2) Normalization and Pro Forma Adjustments for ASI and ACO

In its filing, AUF requested a 2.9 percent salary increase in its normalization and pro forma adjustments for Contractual Services – Management Fees. This request relates to allocated costs from ASI. The Utility also requested a 2.9 percent salary increase in its normalization and pro forma adjustments for Contractual Services – Other. This request relates to allocated costs from ACO. Based on lack of support documentation, we find AUF has failed to justify its 2.9-percent normalization and pro forma salary increases. Therefore, we have removed the requested incremental amount above this level associated with the requested normalization and pro forma adjustments. This results in a reduction to O&M expense of $37,482.

(3) Indexing of Affiliate Costs

In general, we agree with OPC witness Dismukes that administrative and general expenses of the Utility should be explored to determine the reasonableness of AUF's allocated affiliate costs for all the rate bands in order to make an apples-to-apples comparison. Witness Dismukes defined administrative and general expenses as salary and wages for employees and officers, Contractual Services – Accounting, Contractual Services – Management Fees, Contractual Services – Other, and miscellaneous expenses. Further, administrative and general expenses should also include pensions and benefits, Contractual Services – Engineering, Contractual Services – Legal, and Contractual Services – Testing.

OPC witness Dismukes asserted that Contractual Services – Management Fees increased by 281 percent since the 2008 rate case, significantly more than the reduction seen in miscellaneous expenses due to the shifting of costs as alleged by AUF. AUF witness Szczygiel stated that OPC witness Dismukes overstated the change in AUF affiliate costs because the Utility now records all In-State Administrative Costs, which are not affiliate costs, in Contractual Services – Management Fees, Account Nos. 634 and 734, for water and wastewater, respectively. Witness Szczygiel testified that the Utility recorded $2,164,049 as miscellaneous expenses in the 2008 rate case and $2,116,558 as Contractual Services – Management Fees in the test year for the instant case. This represents a decrease of $47,491 ($2,164,049 - $2,116,558), which witness Szczygiel stated was not protested by any party. Witness Szczygiel also testified

[84] See Order No. PSC-11-0010-SC-WU, pp. 3, 20-21, issued January 3, 2011, in Docket No. 100104-WU, In re: Application for increase in water rates in Franklin County by Water Management Services, Inc. (Although this Final Order was appealed to the First District Court of Appeals, our decision for the granting of a 3-percent increase was not a part of Water Management Services, Inc.'s appeal. See also Order No. PSC-11-0385-PAA-WS, p. 9.

that AUF recorded $1,298,024 of total affiliate expenses in the 2008 rate case and $1,293,040 in the test year for the instant case. This represents a decrease of $4,984 ($1,298,024 - $1,293,040). Witness Szczygiel acknowledged that this issue was protested.

We are unable to reconcile AUF witness Szczygiel's reclassification from miscellaneous expenses to Contractual Services - Management Fees contained in Exhibit 208 with the Utility's MFRs. First, using the jurisdictional factor of 60.17 percent for the bands and systems included in the instant case, we calculated the In-State Administrative Costs reclassified to Contractual Services – Management Fees to be approximately $1,273,532 ($2,116,558 x .6017). However, according to the Utility's MFRs, the reduction in total miscellaneous expenses was only $167,975. We realize that there would be direct charges of miscellaneous expenses for each regulated and non-regulated rate band and system, but we could not find in the record any direct charges that would explain the significant difference between the calculated amount of $1,273,532 and the $167,975 amount reflected in the Utility's MFRs. Given the Utility's failure to reconcile this major reclassification with the actual decrease in miscellaneous expenses from AUF's 2008 rate case, we find it is appropriate to examine the changes in Contractual Services – Management Fees and Contractual Services – Other where ASI and ACO allocated costs are recorded, as well as miscellaneous expenses. Based on a review of AUF's filing, it appears that the Utility's requested Contractual Services – Management Fees, Contractual Services – Other, and miscellaneous expenses combined have increased by approximately $1.25 million, or 69 percent over the combined amount of Contractual Services – Management Fees, Contractual Services – Other, and miscellaneous expenses approved in AUF's 2008 rate case.

Having previously found that both the AUF market-study approach and the OPC peer group comparison fail to adequately support the positions of the respective parties, we turn to an alternative approach in evaluating the affiliate costs. We have indexed the costs using our approved price indices that were established pursuant to Section 367.081(4)(a), F.S. Using the resulting amounts from all the other expense adjustments for the above noted administrative and general expenses, the total cost per customer is approximately $210. Utilizing the approved price indices from 2008 through 2011, and taking into account the actual decline in the total number of customers of AUF since its 2008 rate case, we calculated an index factor of approximately 5.93 percent. Applying the index factor of 1.0593 to the approved amounts from the 2008 rate case for the above-noted administrative and general expenses, we calculate a total cost per customer of approximately $200. This represents a difference of approximately $10 per customer. Applying this $10 difference to the total number of customers of the existing eight rate bands, we find that O&M expense shall be reduced by $227,762.[85] In support of this approach, we note that there are two similar, recent Commission decisions. In each of those decisions, the utility failed to meet its burden of proof for requested salaries increases, and we indexed their salaries using the same methodology.[86]

---

[85] Based on this total adjustment of $227,762 results in the approval of total O&M expense that is approximately three percent greater than the total O&M expense approved in the Utility's 2008 rate case.

[86] See Order Nos. PSC-10-0423-PAA-WS, pp. 13-14, issued July 1, 2010, in Docket No. 090402-WS, In re: Application for increase in water and wastewater rates in Seminole by Sanlando Utilities Corporation; and PSC-10-0407-PAA-SU, pp. 10-11, issued June 21, 2010, in Docket No. 090381-SU, In re: Application for increase in

3. Commission Conclusion

AUF's argument that its allocated affiliate costs are less than the level approved in the 2008 rate case is not supported by the record. Similarly, OPC's argument that AUF has not demonstrated any benefit to customers from its association with AAI is also not supported by the record. Based on a balanced comparison of the cost level approved in the 2008 case to the cost level requested in the instant case, we find the adjustments to O&M expense shall be as summarized below.[87]

Based on the discussion above, O&M expense shall be reduced by $283,806 ($17,457 + $37,482 + $227,762). The amount of allocated overhead from affiliated companies represents approximately 13 percent of the total approved O&M expense and 7 percent of the approved revenue requirement of $15,871,146. The specific rate band and system adjustments are set forth in the table below.

Breakdown of Rate Band and Stand-alone Systems Adjustments	
Rate Band/System	Adjustments
Water Band 1	($66,895)
Wastewater Band 1	(26,074)
Water Band 2	(20,378)
Wastewater Band 2	(75,857)
Water Band 3	(13,122)
Wastewater Band 3	(44,730)
Water Band 4	(21,298)
Wastewater Band 4	(2,851)
Breeze Hill Water	(1,413)
Breeze Hill Wastewater	(1,391)
Fairways Water	(4,859)
Fairways Wastewater	(2,775)
Peace River Water	(1,101)
Peace River Wastewater	(1,062)
Total	($283,806)

wastewater rates in Seminole County by Utilities Inc. of Longwood. These PAA Orders were made final by Consummating Order Nos. PSC-10-0472-CO-WS, issued July 27, 2010 and PSC-10-0456-CO-SU, issued July 16, 2010, respectively.

[87] See Order Nos. PSC-11-0010-SC-WU, p. 55; and PSC-04-0712-PAA-WS, issued July 20, 2004, in Docket Nos. 020896-WS and 010503-WU, In re: Petition by customers of Aloha Utilities, Inc. for deletion of portion of territory in Seven Springs area in Pasco County, and In re: Application for increase in water rates in Seven Springs System in Pasco County by Aloha Utilities, Inc.

E. Corporate IT Charges

1. Parties' Arguments

a. AUF

AUF witness Szczygiel testified that ASI provides AUF and other AAI operating subsidiaries IT software and software support services, which allows AUF to take advantage of the economies of scale provided by AAI's common ownership of numerous companies. AUF witness Szczygiel argued that the record shows that this structure allows AUF to share IT software and support costs with other affiliated companies, thus saving AUF from the cost of acquiring such IT software and support services on its own. Witness Szczygiel testified that the major IT systems that ASI provides to AUF include required asset tracking, customer service, billing, collections, and service delivery management. Witness Szczygiel stated that the cost of these Corporate IT services are allocated to AUF based on the number of customers.

The PAA Order noted that, following the filing of this rate case, AAI divested itself of eight operating subsidiaries. Witness Szczygiel testified that the PAA Order mistakenly assumed that AAI had previously allocated Corporate IT costs to those "divested" subsidiaries, and thereafter "reallocated" those Corporate IT costs to AUF and other surviving operating utilities. Witness Szczygiel asserted that AAI's cost distribution method allocates project costs only to those subsidiaries that benefit from the project.

In its brief, the Utility contended that Hearing Exhibit 293 provides the 13-month average balance of the Corporate IT Asset before and after the referenced divestment, and confirms that AAI did not reallocate the Corporate IT costs to the remaining systems. In addition, while witness Szczygiel initially disagreed with our proposal to change the amortization period for Corporate IT assets from six to ten years, in its brief, AUF said it no longer disagrees with our proposal to change the amortization period to ten years. With this exception, AUF respectfully submitted that the Corporate IT allocations set forth in the MFRs should be restored.

b. OPC

In its brief, OPC pointed out that AUF witness Szczygiel testified that during the past three years, AAI had made IT investments and these costs were allocated to AUF through a sundry allocation that assigned the costs based on the number of customers. OPC also pointed out that witness Szczygiel stated that these costs were allocated at the time of the project, and the allocation was not updated for new systems that were added that also benefit from the IT improvements. OPC contended that, if this logic were expanded to expenses, the Utility would never charge the management fees to any new systems acquired because the management was put into place before the system was added.

In its brief, OPC noted that witness Szczygiel further testified that, because the Utility does not re-allocate these costs, there is no need for an adjustment to remove increased allocation for systems that are divested. OPC contended that, based on the Utility's assertion that the IT

assets were allocated at the time of the 2008 rate case and there has been no updated allocation, AUF had justified that an adjustment is not necessary to remove any IT allocation due to the sale of divested systems. However, OPC noted that since the time of the last rate case, AAI has purchased 23 systems in 2010 and 18 systems in 2009. OPC asserted that AUF has not justified why IT costs should not be allocated in a similar fashion as other administrative expenses, and as such, these allocations should be updated to reflect the acquisition of new systems that will benefit from the services. Lastly, in its brief, OPC agreed that we should adjust depreciation expense to reflect a 10-year depreciation life.

c. Other Intervenors

YES, Pasco County and AG either deferred to or adopted the position of OPC on this issue. None of these parties included any argument on this issue in their respective briefs.

2. Commission Analysis

In its response to a request to describe the purpose of its major software systems, AUF asserted that AAI's information systems are well recognized and proven products with a utility focus. The three major systems are Powerplant (Asset Tracking & Rate Case Support), Banner (Customer Service, Billing, and Collections), and Itron Service Link (Service Delivery Management). During the past three years, the Utility stated that AAI has made significant investments to help ensure that Banner, Powerplant, and the systems supporting customer service and field operations are capable of effectively supporting AAI's customers.

Recently, in several rate cases for Utilities, Inc. (UI) subsidiaries, we reduced the amount of information technology plant allocated from UI's parent to its Florida subsidiaries.[88] By Order No. PSC-10-0585-PAA-WS, we found that the allocation of corporate software costs from the parent company to its subsidiaries should be based on equivalent residential connections (ERCs).[89] However, if subsidiaries are sold, the cost previously allocated to the subsidiaries should not be re-allocated to the surviving utilities because no added benefit was realized by the remaining subsidiaries. The rationale for this adjustment is that customers receive no additional benefit from this investment. While the decision cited is a final order, we note that UI has protested this adjustment in a case from a sister utility.[90]

We believe it is not fair, just or reasonable for ratepayers to bear any additional allocated Corporate IT plant costs. Thus, we find an adjustment similar to the adjustment made in the UI cases is appropriate for AUF's Corporate IT plant costs. However, there is a distinguishable

[88] See Order Nos. PSC-10-0407-PAA-SU, issued June 21, 2010, in Docket No. 090381-SU, In re: Application for increase in wastewater rates in Seminole County by Utilities Inc. of Longwood; PSC-10-0400-PAA-WS; PSC-10-0423-PAA-WS; and PSC-11-0015-PAA-WS, issued January 5, 2011, in Docket No. 090531-WS, In re: Application for staff-assisted rate case in Highlands County by Lake Placid Utilities, Inc.

[89] Issued September 22, 2010, in Docket No. 090462-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas and Seminole Counties by Utilities, Inc. of Florida, pp. 9-11.

[90] See Order No. PSC-11-0587-PAA-SU, issued December 21, 2011, in Docket No. 110153-SU, In re: Application for increase in wastewater rates in Lee County by Utilities, Inc. of Eagle Ridge.

difference in the way AAI allocates its IT assets and the method UI employs to allocate its IT assets.

In late-filed deposition Exhibit 2, AUF witness Szczygiel stated that, when there is a divestiture of a system within a subsidiary, each subsidiary would have to evaluate what portion if any of these assets need to be written off. For the divestitures made by AUF between 2008 and 2010, witness Szczygiel asserted that there was no write off of IT assets due to the fact that the divestitures were not material to the subsidiary. As mentioned by OPC witness Dismukes, AUF's Fountain Lakes irrigation and wastewater systems were recently sold. As a result of this divestiture, we disagree with AUF witness Szczygiel that the effect is immaterial. Based on Fountain Lakes irrigation and wastewater system customer counts, we calculate a plant reduction of $68,670 with corresponding reductions to accumulated depreciation and depreciation expense of $4,578 each.

Also, by Order No. PSC-10-0585-PAA-WS, we determined that the amortization period of UI's Phoenix Project software should be increased.[91] While we originally approved a six-year amortization period for the Phoenix Project software, we later determined in a subsequent UI case that a more appropriate amortization period was ten years. Major software programs, such as the Phoenix Project, are not "off the shelf" software, but software tailored specifically for a particular utility. Software projects of such magnitude are costly and intended to have a useful life much greater than off-the shelf software. UI's prior customer and billing software was used in excess of 21 years.

Based on AUF witness Szczygiel's late-filed deposition Exhibit 2, AAI's 13-month average test year Corporate IT investment is over $115 million. Given the magnitude of its Corporate IT investment, we believe that AAI will not be replacing its major IT components any sooner than ten years. Thus, we find that ten years is a reasonable amortization period in the instant case. AUF does not disagree with our proposal to change the amortization period for Corporate IT assets from six to ten years. Accordingly, we find that accumulated depreciation and depreciation expense shall both be decreased by $136,910.

3. Commission Conclusion

In its position, the Utility states that the appropriate amount of Corporate IT charges allocated from AAI to AUF is $2,406,888, as reflected in the MFRs. However, based on each rate band and stand-alone system's MFR Schedule A-3, our staff calculated a total Corporate IT allocation of $2,053,657. With our plant adjustment of $68,670, we find that the appropriate amount of Corporate IT charges allocated from AAI to AUF is $1,984,987 ($2,053,657 - $68,670).

Based on the discussion above, we find that plant, accumulated depreciation, and depreciation expense shall be reduced by $68,670, $141,488 ($4,578 + $136,910), and $141,488,

[91] See Order No. PSC-10-0585-PAA-WS, p. 12.

respectively. The following table reflects the adjustments to each rate band and stand-alone system.

Approved Corporate IT Reductions			
Rate Band/System	Plant	Accum. Depr.	Depr. Exp.
Water Band 1	($19,433)	$33,480	($33,480)
Wastewater Band 1	(8,194)	6,583	(6,583)
Water Band 2	(14,247)	15,630	(15,630)
Wastewater Band 2	1,054	25,042	(25,042)
Water Band 3	(9,972)	9,716	(9,716)
Wastewater Band 3	(2,435)	3,416	(3,416)
Water Band 4	(18,806)	40,668	(40,668)
Wastewater Band 4	14,776	(438)	438
Breeze Hill Band Water	(1,168)	805	(805)
Breeze Wastewater	(906)	771	(771)
Fairways Water	(5,204)	3,065	(3,065)
Fairways Wastewater	(2,426)	1,547	(1,547)
Peace River Water	(829)	614	(614)
Peace River Wastewater	(880)	588	(588)
Total	($68,670)	$141,488	($141,488)

F. Incentive Compensation

In its MFRs, AUF included $70,211 in bonus and dividend compensation of AAI's corporate management.

1. Parties' Arguments

a. AUF

AUF witness Szczygiel testified that the incentive compensation in the Utility's MFRs is a pay-for-performance program, and is a necessary component of the AAI executive compensation to attract and retain qualified management. He stated that AAI has an outside consultant annually benchmark the Utility's executive compensation package against the market. Witness Szczygiel testified that, according to the benchmarks, AAI's executive compensation level is currently at or below market, and to remove the incentive compensation would cause executive compensation to be significantly below market, thereby making it difficult to attract and retain qualified management. He stated that the incentive compensation model is designed to benefit customers by "improving customer service, enhancing customer service, enhancing environmental compliance, controlling costs, and improving efficiencies and productivity." In support of his position on incentive compensation, witness Szczygiel cited Order No. PSC-09-0411-FOF-GU, where we recognized that incentive compensation is "an appropriate tool to motivate employees to work efficiently and effectively. The incentive portion of salary gives the

employee the opportunity to earn the market average salary."[92] In its brief, AUF also cited Order No. PSC-09-0283-FOF-EI, where we recognized that reducing or eliminating incentive compensation would result in salaries falling below market level, thus affecting the Utility's ability to compete for qualified employees.[93]

Witness Szczygiel stated that although AAI's proxy statement does not specifically use the words "customer satisfaction," the metrics listed lead to customer satisfaction. In support of this position, he stated that metrics such as water quality, customer and revenue growth, and operation controls lead to reduced rates for customers. Witness Szczygiel asserted that although the Utility has not performed any surveys, the management team strives to "deliver the lowest cost and the most efficient cost of providing service." Witness Szczygiel related this back to the operating efficiency ratios, saying that as the Utility strives for efficiency, its rates become more affordable. Witness Szczygiel testified that although some incentive compensation goals also relate to financial results, the goals are highly customer-oriented. In its brief, AUF noted that "neither the OPC nor any other intervener filed testimony attempting to rebut Mr. Szczygiel's testimony that AUF's incentive compensation is needed and appropriate."

b. OPC

OPC witness Vandiver testified that no increases in salaries are appropriate in this economic climate. OPC stated that the CPI was less than two percent and no increases have been granted to Social Security for 2009 and 2010, and unemployment has increased. In its brief, OPC stated that "[p]eriods of high unemployment are not the time that a company typically loses employees to other companies," implying that the Utility should have no trouble retaining employees. OPC argued that AAI's proxy statement does not include criteria for customer satisfaction. OPC stated that the Utility's annual report indicates that the operating ratio is a performance measure for incentive compensation, thereby aligning it with shareholder interest rather than customer interests. In support of its position on executive incentive compensation, OPC referred to AAI's proxy statement filed with the SEC to show that salaries for its top four executives have increased significantly in the past three years, and cited a recent order issued by the North Carolina Utilities Commission on September 13, 2011, in Docket No. W-218(319). The order reflects a decision by the North Carolina Utilities Commission to reduce executive salaries and wages and compensation, basing its decision on its view that the dramatic increase in executive compensation for the top four executives was "unreasonable and overstated."

c. Other Intervenors

YES, Pasco County, and AG either deferred to or adopted the position of OPC on this issue. None of these parties included any argument on this issue in their respective briefs.

---

[92] See Order No. PSC-09-0411-FOF-GU, issued June 9, 2009, in Docket No. 080318-GU, In re: Petition for rate increase by Peoples Gas System, p. 27.
[93] See Order No. PSC-09-0283-FOF-EI, issued April 30, 2009, in Docket No. 080317-EI, In re: Petition for rate increase by Tampa Electric Company, p. 58.

2. Commission Analysis

We have previously treated a portion of the costs allocated from a parent company as management costs with the remainder disallowed as investor costs.[94] In doing so, we found that some management costs do benefit the ratepayer, while other costs serve to benefit the shareholder. Based on the concept that activities of executive management benefit both the ratepayer and the shareholder, we disallowed one-half of the costs allocated from the executive departments. AAI rewards its executive management through bonus and dividend compensation and allocates this cost to its operating companies.

As stated in its 2010 Annual Report, AAI considers a number of key measures such as the ratio of O&M expense to operating revenue, also called the "operating expense ratio" or "efficiency ratio," to evaluate its utility business performance within AAI's regulated segment. Efficiency ratios are important because an improvement in the ratios usually translates to improved profitability. AAI reported operating expense ratios of 41.8, 40.3, and 38.6 percent in 2008, 2009, and 2010, respectively. AAI asserted it reviews this and other ratios regularly and compares them to historical periods, to its operating budget as approved by the AAI's Board of Directors, and to other publicly-traded water utilities.

Decreases in the "operating expense ratio" would be looked upon favorably since the lower the operating expense ratio, the greater the profit for the shareholder. We believe that the bonus and dividend compensation of executives provides them an incentive to achieve financial performance measures that increase shareholder value. Because this type of executive compensation aligns the interests of executives with that of shareholders, we find that bonus and dividend compensation shall be borne by shareholders. As discussed above, we reduced O&M expense $17,475 to remove the incremental amount associated with executive salary increases since 2008. Thus, we find that O&M expense shall be reduced by $45,478 to reflect removal of the 2008 incentive compensation associated with these executives.

3. Commission Conclusion

For the reasons set forth above, O&M expense shall be reduced by $45,478 to reflect removal of the allocated incentive compensation associated with AAI executives. The adjustments to each rate band and stand-alone system are reflected in the table below.

[94] See Order No. PSC-92-0708-FOF-TL, issued July 24, 1992, in Docket Nos. 910980-TL, In re: Application for a rate increase by United Telephone Company of Florida, and 910027-TL, In re: Petition by Bonita Springs residents for extended area service between Bonita Springs and the Fort Myers and Naples exchange, and 910529-TL, In re: Request by Pasco County Board of County Commissioners for extended area service between all Pasco County exchanges, p. 32.

Breakdown of Rate Band and Stand-alone Systems Adjustments	
Rate Band/System	Adjustments
Water Band 1	($10,771)
Wastewater Band 1	(2,011)
Water Band 2	(4,898)
Wastewater Band 2	(8,397)
Water Band 3	(3,031)
Wastewater Band 3	(1,088)
Water Band 4	(13,182)
Wastewater Band 4	(174)
Breeze Hill Water	(242)
Breeze Hill Wastewater	(242)
Fairways Water	(461)
Fairways Wastewater	(612)
Peace River Water	(182)
Peace River Wastewater	(189)
Total	($45,478)

G. Salaries and Wages

1. Parties' Arguments

a. AUF

AUF witness Rendell testified that the Utility's requested merit-based and pro forma market-based salary increases are necessary to attract and retain qualified employees. He stated that, because of its current pay scale, the Utility has had difficulty retaining qualified employees. In support of his position on the Utility's merit-based increase, witness Rendell cited several orders showing our support of increasing salaries for the purposes of remaining competitive in hiring and retaining qualified employees. He stated that the Utility has consolidated functions and duties and reduced employees, thereby lowering the total amount of salary expense in the instant case compared to the level from its last rate case.

Witnesses Rendell and Szczygiel testified that the merit-based increases are performance-based increases, rather than across-the-board increase given to all employees. Also, witness Rendell asserted that for AUF to continue to provide its customers with quality services, the market-based pro forma increases are necessary to attract and retain qualified operators and field technicians. Witness Rendell stated that to do this, the Utility must be competitive in its salaries by having salaries at the level other utilities provide. He testified that the market-based increase is based on an updated market study conducted by Saje Consulting Group Inc. that compared AUF's salary structure to that of other similar utilities, as well as the general industry. In support of the study, witness Rendell cited the Utility's last rate case, where we granted the market-based

increase, based on a market study conducted by Saje Consulting Group Inc. and Commission precedence.

b. OPC

OPC witness Vandiver testified that AUF's customers should not have to pay for an increase in salaries during the current economic conditions. She stated that the CPI was less than two percent, and there have been no increases for cost of living granted to Social Security recipients in 2009 or 2010. OPC argued that the economic market is poor, unemployment rates are high, and customers are struggling to pay the current bills. In its brief, OPC stated that Florida's unemployment has continued to rise, indicating that AUF should have no trouble retaining employees. OPC does not believe it is appropriate to base salary increases on a dated market study that fails to consider the unemployment level and economic climate. Based on the above, OPC recommends we deny any increase.

c. YES

YES argued that from 2008-2010, AAI unjustifiably increased the salaries of its executive officers and is now seeking to impose these costs on the rate payers of AUF. In its brief, YES stated "[i]n years in which this nation has been experiencing one of the greatest economic downturns since the Great Depression, AUF is increasing the salary of its Executives by over 60% and hundreds of thousands of dollars and then seeking a rate increase for the same."

YES argues that the magnitude of the requested salary increases is egregious. It concluded that "consequently, AUF should not be awarded a rate increase due to AUF's own decision to increase its Executives' salaries even though these Executives failed to meet AUF's own employment objectives."

d. Pasco County

Pasco County argued that, for many reasons, wages and salaries should not be increased. It believes the economic climate does not support increased salaries. Although AUF claims it needs the increase to retain employees, Pasco County argued the Utility provided no evidence that they are having trouble with retention. In addition, there is no evidence that their retention rates differ from other utilities. Pasco County stated that AUF also failed to present any evidence that its salaries are low for the areas in which its employees are located. Pasco County asserted that AUF's market study only looked at job descriptions and not at geographic cost of living. Also, AUF provided no numbers or examples of employees that left due to low pay. Pasco County concluded that, with high unemployment in Florida, AUF should have little problem finding qualified employees.

e. AG

AG has adopted the position of OPC on this issue but did not provide any argument on this issue in its brief.

2. Commission Analysis

In its MFRs, AUF requested the following increases in Salaries and Wages expense:

Requested Salaries and Wages Increase			
	Normalization	Pro Forma	Total
Net Terminations & New Hires	$46,601	$136,910	$183,511
4% Wage Increase – Direct	50,109	41,338	91,447
4% Wage Increase – Admin.	31,033	41,753	72,786
Market –Based Study Increase	0	60,670	60,670
Total:	$127,743	$280,671	$408,414

Our staff Audit Finding No. 6 addressed expenses for terminations and new hires. Issue 2 of PAA Order No. PSC-11-0544-PHO-WS, deemed stipulated, ordered a reduction of $100,087 to AUF's requested expense for net terminations and new hires.[95] This reduction results in a revised requested amount of $83,424, compared to AUF's initial request of $183,511, shown on the table above.

With regard to AUF's requested four percent normalization increase, four percent pro forma increase, and pro forma market-based study increases totaling $224,903 ($50,109 + $31,033 + $41,338 + $41,753 + $60,670), we believe the Utility should be granted a portion of the requested increases. When compared to the salaries and wages amounts approved in the Utility's 2008 rate case, the salary and wages amounts requested in the instant case are less. As shown in the table below, the Utility has requested $268,823 less than what was approved in the 2008 rate case.

Comparison of Salaries and Wages from Last Rate Case to Requested in Current Case			
Summary of Salaries & Wages By Rate Band & System	Last Rate Case Amount Approved	AUF MFR Amount	Difference
Water Bands			
Water Band 1	$262,001	$270,576	$8,575
Breeze Hill - Water	0	6,316	$6,316
Fairways - Water	0	21,390	$21,390
Peace River - Water	0	10,868	$10,868
Total Water:	$1,182,976	$951,823	($231,153)

[95] See Order No. PSC-11-0544-PHO-WS, p. 63.

Summary Of Salaries & Wages By Rate Band & System	Approved Last Rate Case Amount	AUF MFR Amount	Difference
Wastewater Bands			
Wastewater Band 1	105,329	60,319	($45,010)
Wastewater Band 2	315,554	326,458	$10,904
Wastewater Band 3	66,090	41,525	($24,565)
Wastewater Band 4	97,449	79,372	($18,077)
Breeze Hill - Wastewater	0	14,534	$14,534
Fairways - Wastewater	0	13,670	$13,670
Peace River - Wastewater	0	10,874	$10,874
Total Wastewater:	$584,422	$546,752	($37,670)
Total:	$1,767,398	$1,498,575	($268,823)

Our staff indexed Commission-approved hourly rates for maintenance workers to compare with the requested annual salaries of AUF's Utility Tech positions.[96] Based on this indexing, it appears the requested pro forma market-based study increase is reasonable. We believe that to deny AUF any increase would be a disincentive for the Utility to continue to cut expenses. However, recognizing the sensitivity of the economic climate in Florida and throughout the U.S., we find it would be unreasonable to allow the Utility both the four percent normalization and four percent pro forma salary increases. Therefore, we deny the requested four percent normalization and pro forma salary increases. Based on the above, our adjustments shall be as shown in Table 10 below.

In response to staff data requests, AUF agreed that the $3,869 related to the salary of the Senior Vice President of Corporate Development should be treated below-the-line because it related to the acquisitions of new systems, which should be borne by shareholders. This treatment is consistent with our decision in the Utility's 2008 rate case.[97] Neither OPC nor the other parties addressed Corporate Development and Acquisitions. The allocated share for the instant case is $714. Accordingly, salaries and wages shall be reduced by $714, with a corresponding adjustment made to reduce payroll taxes, as shown in Table 10.

Table 10 -- Salaries and Wages Adjustments	
Normalization Adj.	($81,142)
Pro Forma Adj.	(83,091)
Acq. & Corp. Dev. Sal Adj.	(714)
Total:	($167,225)

[96] See Order No. PSC-01-2511-PAA-WS, issued December 24, 2001, in Docket No. 010396-WS, In re: Application for staff-assisted rate case in Brevard County by Burkim Enterprises, Inc., p. 33.
[97] Id., pp. 89-90.

3. Commission Conclusion

Based on the above, Salaries and Wages – Employees expense shall be reduced by $167,225. Accordingly, a corresponding adjustment shall be made to reduce Payroll Taxes by $12,793. The specific adjustments to each rate band and system are set forth in Table 11 below:

Table 11 – Total Salary and Wage Reduction & Elimination of Corporate Development and Acquisitions

Rate Band/System	Salaries	Taxes
Water Rate Band 1	($32,530)	($2,489)
Water Rate Band 2	(18,785)	(1,437)
Water Rate Band 3	(9,489)	(726)
Water Rate Band 4	(47,196)	(3,611)
Peace River - Water	(926)	(71)
Fairways - Water	(2,769)	(212)
Breeze Hill - Water	(754)	(58)
Total Water:	($112,449)	($8,602)
Wastewater Rate Band 1	($6,439)	($493)
Wastewater Rate Band 2	(28,827)	(2,205)
Wastewater Rate Band 3	(9,832)	(752)
Wastewater Rate Band 4	(6,092)	(466)
Peace River - Sewer	(908)	(69)
Fairways - Sewer	(1,367)	(105)
Breeze Hill - Sewer	(1,312)	(100)
Total Wastewater:	($54,776)	($4,190)
Total:	($167,225)	($12,793)

H. Bad Debt Expense

The Utility recorded bad debt expense of $389,420 for the test year.

1. Parties' Arguments

a. AUF

Witness Szczygiel asserted that our policy is to set bad debt expense using a 3-year average. AUF's 3-year average calculation of bad debt expense is $386,221. In its brief, the Utility argued that the record shows that AUF's bad debt expense during the test year was not abnormal, and there is no legitimate basis for adjusting those expenses.

In its brief, the Utility contended that witness Dismukes failed to demonstrate that the utilities in the comparison group have service areas with economic conditions similar to AUF, and fails to consider the credit worthiness of AUF's customers compared to other systems.

Moreover, AUF asserted that witness Dismukes made no effort to show that the utilities in the comparison group have rate structures similar to AUF's unique cap-band structure. To this point, the Utility cited to pages 192 and 193 of Order No. PSC-96-1320-FOF-WS, wherein this Commission recognized that utilities without uniform rates are likely to have higher bad debt expenses. Finally, the Utility argued that imputing historic bad debt factors of other utilities to AUF ignores the likelihood that the current economic downturn will have a significant impact on bad debt expense, wherein AUF cited to page 31 of Order No. PSC-92-0580-FOF-GU[98] which expressly noted that an overall economic downturn will have a pronounced impact on bad debt expense regardless of increased collection efforts.

b. OPC

OPC witness Dismukes testified that AUF has experienced billing problems from as far back as 2007. In its brief, OPC pointed out that the customer testimony at the Service Hearings is replete with complaints about billing problems. OPC also argued that a review of the number of back-bills shown in Hearing Exhibit 300 shows that the Utility had 141 backbills in 2009, 186 in 2010, and 97 in the first three months of 2011. Although AUF witness Szczygiel testified that all the residential meters had been installed prior to the last rate case, OPC noted that the Utility continues to have billing problems.

OPC witness Dismukes argued that AUF's requested test year bad debt level of $389,421 is significantly greater than the average for comparable water utilities and results from its poor service and billing practices. Witness Dismukes asserted that the difference is substantial enough that we should place the burden on AUF to demonstrate why the ratepayers should be burdened with the additional costs. Witness Dismukes provided a comparative analysis of the Utility's bad debt to a peer group of water and wastewater utilities and recommends an adjustment of $310,816 to reduce the test year expense to $78,605.

c. YES

YES argued that "AUF's poor water quality, poor customer service, bad billing practices, and unaffordable rates all contribute to and exacerbate a bad debt expense by compelling customers to default on their AUF bills and vacate properties where AUF supplies water and wastewater services for alternative housing that offers more affordable utility rates while providing a higher quality of water, efficient customer service, and affective billing practices." YES concluded that, "AUF's excessive bad debt expense is merely a result of AUF's own mismanagement and, therefore, should be discounted."

d. Pasco County and AG

Pasco County and AG adopted the position of OPC on this issue. Neither party included any argument on this issue in their respective briefs.

---

[98] Issued June 29, 1992, in Docket No. 910778-GU, In re: Petition for a rate increase by West Florida Natural Gas Company.

2. Commission Analysis

In its filing, the Utility recorded Bad Debt expense of $389,420 for the test year, as well as a pro forma bad debt expense increase of $55,411. This represents a total request of $444,832 for bad debt expense.

We find there are four reasons why we should use the three-year average to determine the appropriate bad debt expense level rather than OPC's arguments for using a peer group analysis to determine the amount. First, OPC witness Dismukes conceded that she could not quantify how AUF's alleged billing, customer service or meter-reading practices impacted the Utility's level of bad debt expense. Second, we recognize that utilities without uniform rates are likely to have higher bad debt expenses. Third, an overall economic downturn will have a pronounced impact on bad debt expense regardless of increased collection efforts. Fourth, numerous Commission orders support the convention that Bad Debt expense should be based on a 3-year average. We have set bad debt expense using the three-year average in multiple electric,[99] gas,[100] and water and wastewater cases.[101] We approved a 3-year average in these cases based on the premise that a three-year average fairly represented the expected bad debt expense. Overall, the basis for determining bad debt expense has been whether the amount is representative of the bad debt expense to be incurred by the Utility.

However, we do agree with OPC witness Dismukes that a true 3-year average should be used. For PAA purposes, the amount of bad debt expense was based on a 3-year average of the year prior to the test year, the test year itself, and the 12-month period that included some months in the test year. However, we find the bad debt expense shall be based on a true 3-year average with no duplicative months included in the calculation. In addition, it has been determined that AUF included an amount of $116,069 in its calculation related to a dispute over the payment for reuse from the South Seas WWTP. Because we have approved a zero rate for the reuse from this facility,[102] this amount shall not be included in the calculation of Bad Debt expense.

Based on the 3-year average calculation, AUF shall be entitled to bad debt expense of $265,457 which we believe is representative of AUF's bad debt expense on a going-forward basis. As a result, AUF's bad debt expense shall be reduced by $179,375 ($444,832 - $265,457). The table below shows the adjustment for each rate band and stand-alone system.

---

[99] See Order Nos. PSC-94-0170-FOF-EI, issued February 10, 1994, in Docket No. 930400-EI, In re: Application for a Rate Increase for Marianna electric operations by Florida Public Utilities Company, p. 20; PSC-93-0165-FOF-EI, issued February 2, 1993, in Docket No. 920324-EI, In re: Application for a rate increase by Tampa Electric Company, pp. 69-70; and PSC-92-1197-FOF-EI, issued October 22, 1992, in Docket No. 910890-EI, In re: Petition for a rate increase by Florida Power Corporation, p. 48.

[100] See Order Nos. PSC-92-0924-FOF-GU, issued September 3, 1992, in Docket No. 911150-GU, In re: Application for a rate increase by Peoples Gas System, Inc., p. 6; and PSC-92-0580-FOF-GU, pp. 30-31.

[101] See Order Nos. PSC-10-0407-PAA-SU, PSC-10-0423-PAA-WS, PSC-09-0385-FOF-WS, pp. 92-96; and PSC-10-0585-PAA-WS, pp. 43-44.

[102] See Order No. PSC-10-0602-TRF-WS, issued October 1, 2010, in Docket No. 100049-WS, In re: Petition for approval of change in reuse rate by Aqua Utilities Florida, Inc., p. 4.

Appropriate Reductions to Bad Debt Expense	
Rate Band/System	Total
Water Band 1	($18,134)
Wastewater Band 1	(2,900)
Water Band 2	(22,027)
Wastewater Band 2	16,602
Water Band 3	(22,987)
Wastewater Band 3	(11,052)
Water Band 4	(108,563)
Wastewater Band 4	740
Breeze Hill Water	(458)
Breeze Hill Wastewater	(769)
Fairways Water	(154)
Fairways Wastewater	(1,925)
Peace River Water	(5,165)
Peace River Wastewater	(2,581)
Total:	($179,375)

I. Rate Case Expense

On September 1, 2010, AUF submitted MFRs requesting $670,268 for rate case expense. Based on documented rate case expense actually incurred, we approved rate case expense of $778,269 at the PAA Commission Conference held on May 24, 2011.[103] Due to timely protests filed on July 1, 2011, by OPC and Ms. Lucy Wambsgan, the issue of rate case expense is being relitigated.

1. Parties' Arguments

a. AUF

AUF asserted that the appropriate amount of rate case expense is $1,584,791. AUF asserted that it attempted to use our PAA process to minimize rate case expense in this rate case. However, AUF alleged that OPC propounded excessive discovery, ignored precedent, and attempted to relitigate a number of settled issues. AUF further states that it responded to over 991 interrogatories and 347 requests for production of documents, including subparts. Of that discovery, AUF estimates that OPC propounded 796 interrogatories and 299 requests for production of documents. AUF asserted that OPC's massive discovery has caused AUF to incur a significant amount of rate case expense. AUF stated that its requested level of rate case expense "has been properly documented and shown to be reasonable in light of the issues, the number of parties, the discovery, and the litigation tactics employed by interveners and other interested third parties."

[103] See Order No. PSC-11-0256-PAA-WS, p. 84.

b. OPC

OPC claimed that rate case expense is overstated and should be reduced by $265,000. OPC witness Dismukes asserted that ratepayers should not have to pay any more than those costs that are reasonable and necessary. The MFRs included $670,268 for rate case expense. As of July 31, 2011, AUF reported a revised expense amount of $1,249,320. OPC argued that the expense requested by the Utility is inflated with costs that ratepayers should not have to bear. In addition, OPC asserted that AUF should be required to share rate case expense 50/50 between ratepayers and stockholders, the same as in a 2007 case for an AUF affiliate in New Jersey.

OPC's recommended adjustments bring the revised requested rate case expense of $1,249,320 to $809,275. If this adjusted amount is split 50/50 between the ratepayers and shareholders, the amount that should be allowed for purpose of setting rates is $404,638. Finally, OPC contended that we should order that rate case expense approved in this proceeding should not be permitted for recovery until the rate case expense from the prior proceeding has been fully amortized.

c. YES

YES argued that "the evidence is overwhelming that AUF's rate case expense is exorbitant and unreasonable." YES stated that the hourly rate of AUF's outside legal counsel of $315 per hour is unreasonable. YES argued that the amount of legal expense associated with the incremental difference between the hourly rate charged to AUF and the average hourly rate for attorneys in the State of Florida as shown in the Florida Bar Rate Survey should be stricken from rate case expense. In addition, YES stated that AUF's outside counsel and in-house counsel failed to provide adequate detail of the work performed in this case. Finally, YES argued that AUF's outside consultants, in-house counsel, and outside counsel each "billed tens of thousands of dollars to review the same discovery responses." YES concluded that "AUF should not be allowed to churn this file at the expense of Florida's rate payers," and recommended that this practice merits a reduction to rate case expense.

d. Pasco County and AG

Pasco County and AG have adopted OPC's position on this issue. Neither party included any argument on this issue in their respective briefs.

2. Commission Analysis

Our staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as an estimate of the projected amount to complete the case. On November 22, 2011, AUF updated its actual and estimated rate case expense and submitted revised totals in late-filed deposition Exhibit 12. In its update, AUF summarized expenses incurred through October 31, 2011 of $1,381,622, and projected expenses through completion of the case of $203,169, for a total requested rate case expense of $1,584,791. However, the tabulation of several different categories of expenses incurred through October 31, 2011 in the lead table of late-filed deposition Exhibit 12 appear to be incorrect. The $1,381,622 expenses

incurred through October 31, 2011 and projected expenses through the completion appear to be overstated by $952. The components of the corrected rate case expense are in Table 12 below.

Table 12 -- Corrected LFE 12 Schedule					
	Per EXH 340	Additional Estimated Per EXH 340	Total Per EXH 340	Variance	Corrected EXH 340
Legal	$668,494	$118,556	$787,050	($180)	$786,870
Consultants	415,471	19,009	434,480	66	434,546
Service Company (ASI)	181,959	34,244	216,203	(838)	215,366
Other	115,698	31,360	147,058	0	147,058
Total:	$1,381,622	$203,169	$1,584,791	($952)	$1,583,839

Pursuant to Section 367.081(7), F.S., we shall determine the reasonableness of rate case expenses and disallow all rate case expenses determined to be unreasonable. Also, it is the Utility's burden to justify its requested costs.[104] Further, we have broad discretion with respect to allowance of rate case expense; however, it would constitute an abuse of discretion to automatically award rate case expense without reference to the prudence of the costs incurred in the rate case proceeding.[105] As such, we have examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. Based on our review, we find several adjustments are necessary to the revised rate case expense estimate.

a. Legal

AUF included $786,870 in its late-filed deposition Exhibit 12 for legal representation from Holland & Knight law firm. Based on review of the invoices for actual expenses, we find the following adjustments listed in Table 13 below are appropriate.

Table 13 -- Adjustments to Legal Expenses	
Description	Amount
Unsupported by Invoices	($8,793)
Unrelated Rate Case Expense	(13,182)
ROE Issue	(611)
Pertaining to Deficiencies	(2,881)
Quality Service Monitoring Program	(7,541)
Motion Subsequently Withdrawn by Utility	(1,434)
Commission Ruled Against Motion	(7,139)
Remove Hourly Rate Increase for Lead Attorney	(27,083)
Total:	($68,664)

[104] See Florida Power Corp v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982).
[105] See Meadowbrook Util. Sys., Inc. v. FPSC, 518 So. 2d 326, 327 (Fla. 1st DCA 1987).

First, the calculation of invoices incurred through October 31, 2011, total $659,701. As shown on the summary page of AUF's late-filed deposition Exhibit 12, the Utility included total incurred costs through October 31, 2011 of $668,494. Therefore, we have reduced the amount of legal expense by $8,793 for the unsupported difference. Second, as listed above, $13,182 of legal expenses were unrelated to the instant docket. These include: calls made to and from staff regarding certification requirements, issues related to an acquisition workshop, legislative issues, researching the test year approval letter for Chuluota, and reviewing case law on municipalities acting against private utilities. Therefore, legal rate case expense shall be reduced by $13,182 for work unrelated to this rate case.

Prior to AUF filing its MFRs, the Utility incurred legal costs of $611 for research and analysis associated with presenting an ROE witness. However, AUF used the Commission ROE leverage formula as opposed to sponsoring an ROE witness in this case. Therefore, the cost of $611 related to this exercise shall be removed in light of the fact that the Commission ROE leverage formula was used in the MFRs.

Through the direct testimony of OPC witness Vandiver and the rebuttal testimony of AUF witness Szczygiel, both parties have agreed that $3,313 should be removed from rate case expense for MFR deficiencies. Of this total, witness Vandiver recommended $2,335 and $978 be removed from legal and consultants, respectively. In addition, we note that there are legal invoices totaling $546 that are also related to MFR deficiencies. Therefore, legal expense shall be reduced by $2,881 ($2,335 + $546) and consultant expense shall be reduced by $978 for work associated with MFR deficiencies.

Pursuant to Order No. PSC-09-0385-FOF-WS,[106] the Utility's overall quality of service was found to be marginal, except for Chuluota, which was deemed unsatisfactory. As a result, AUF was required to implement a quality of service monitoring plan. The Utility has included $7,541 in legal expenses related to the monitoring plan. These charges shall be removed from rate case expense because these costs are not related to the processing of this rate case. Accordingly, we have reduced legal expenses by $7,541.

On July 11, 2011, AUF filed a cross-petition to protest the following eight portions of the PAA Order: 1) AUF's quality of service, 2) pro forma plant additions in AUF's rate base, 3) rate case expense, 4) the Commission leverage formula used, 5) the ROE penalty applied in the PAA, 6) salary expense, 7) adjustments to IT project cost allocations, and 8) incentive compensation. On August 24, 2011, the Utility filed a Withdrawal of Distinct Cross-Petition Issue, related to the pro forma plant addition issue. We find the legal costs associated with withdrawing a motion that was initially presented by the Utility shall be removed from rate case expense. These costs are calculated to be $1,434. As such, we have reduced legal expense by $1,434.

On October 10, 2011, YES served a subpoena and notice for deposition on Mr. Grisham, a field employee of AUF. YES asserted that Mr. Grisham's testimony was necessary to attest to AUF's quality of service. Further, YES stated, "No other employee of Aqua has such extensive,

[106] See Order No. PSC-11-0256-PAA-WS, p. 21.

unique, singular, and first hand knowledge of the quality of service provided to Aqua's customers residing at Arredondo Farms or Aqua's Monitoring Program violations at the property." On October 18, 2011, AUF and Mr. Grisham filed a Joint Motion to Quash Subpoena and Notice of Deposition served by YES. Subsequently, AUF and Mr. Grisham's Joint Motion to Quash Subpoena and Notice of Deposition was denied by this Commission.[107] As a result of the motion being denied, the legal costs of $7,139 related to AUF and Mr. Grisham's Joint Motion shall be removed.

Also, we note that the outside lead counsel for AUF received a $25 per hour increase over the hourly rate paid in the 2008 rate case. Again, because of the economic conditions, we find that this increase was neither prudent nor reasonable. Because we calculate he worked 1,083.3 hours on this case, the incremental increase equals $27,083. Accordingly, legal rate case expense shall be reduced by this amount.

Finally, we find that AUF's estimated legal costs to complete the case of $118,440 are excessive. Holland & Knight did not provide a detailed breakdown of the activities or duties to be performed in the 376 projected hours, nor any time allocations. In AUF's 2008 rate case, we found the total amount of estimated hours to complete that case was 287. We believe this is a more appropriate amount of hours for post-hearing procedures. Therefore, the 376 projected hours shall be reduced by 89 hours. At $315 per hour, the total reduction is $28,035 (89 hours x $315), and that amount shall be removed from rate case expense.

The amount, including projected completion costs, submitted by AUF in late-filed deposition Exhibit 12 for legal representation from Holland & Knight totaled $787,050. Based on staff's calculation of the amounts shown on the summary page of late-filed deposition Exhibit 12, this total was overstated by $180 as shown on Table 12 above. Thus, the corrected legal expense submitted by the Utility in late-filed deposition Exhibit 12 is $786,870.

Our adjustments to legal expense total $96,879 ($68,664 + $28,035 + $180).

b. Consultants

Based on review of the rate case expense support documentation provided by AUF, we find several adjustments are necessary for the cost of consultants that were retained by the Utility. First, Table 11 shows the variance in AUF's calculation of fees incurred for consultants as compared to our calculation of fees incurred for consultants supported by invoices. Accordingly, consultants expense shall be increased by $66 for calculation errors on the summary page of late-filed deposition Exhibit 12.

AUF utilized the services of the following four consultants: 1) Timothy P. Ward, 2) Ronald J. Pasceri, 3) AUF witness Seidman, and 4) Daniel Franceski. The summary page of late-filed deposition Exhibit 12 shows hourly rates for Mr. Ward, Mr. Pasceri, and Mr. Franceski that are somewhat different than the hourly rates included on the invoices of each consultant. No

[107] See Order No. PSC-11-0501-PCO-WS, issued October 26, 2011, in this docket.

party took issue with the rate at which the consultants charged AUF. However, we find only the amounts shown on invoices shall be allowed for recovery. Table 14 below shows the hourly rate variances and the calculation of our $8,283 adjustment.

Table 14 -- Hourly Rate Adjustment					
Consultant	Hourly Rate on EXH 340 Summary	Hourly Rate on EXH 340 Invoices	Variance	Number of Hours	Adjustment
Timothy P. Ward	$109	$107	($2)	1,767.2	($3,534)
Ronald J. Pasceri	$87	$85	($2)	1,308.0	($2,616)
Daniel T. Franceski	$87	$85	($2)	1,066.4	($2,133)
Total:					($8,283)

A review of the total consulting invoices submitted by AUF shows that AUF overstated the number of hours billed for consultants by 177.4 hours. Therefore, we have removed the overstated hours and associated costs of $15,581 from consulting expense. A detailed breakdown of this calculation is below in Table 15.

Table 15 – Number of Hours Adjustment					
Consultant	No. of Hours in EXH 340 Summary	No. of Hours in EXH 340 Invoices	Variance	Hourly Rate	Adjustment
Timothy P. Ward	1,790.0	1,767.2	(22.8)	$107	($2,440)
Ronald J. Pasceri	1,463.0	1,308.0	(155.0)	$85	($13,175)
Daniel T. Franceski	1,066.0	1,066.4	0.4	$85	$34
Total:	4,319.0	4,141.6	(177.4)		($15,581)

As discussed above, both OPC witness Vandiver and AUF witness Szczygiel agreed to remove $3,313 from rate case expense for MFR deficiencies, of which, $2,335 is for legal expense and $978 is for consultants. The $978 consultant portion is related to two separate invoices: one for Daniel T. Franceski for $638 and one for Ronald Pasceri for $340. In addition to the $978, we find that $1,258 for invoices from Daniel Franceski related to deficiency responses shall be removed. Based on removal of $978 which was discussed earlier, plus removal of an additional $1,258, we find that consultants' expense for costs pertaining to MFR deficiencies of $2,236 shall be removed.

AUF included $1,488 in consulting expenses for Mr. Pasceri that were related to reviewing a Virginia Commission order and preparing rate base analyses. Because Mr. Pasceri was working on AAI systems in a different state, this rate case consulting expense of $1,488 shall be removed, and consulting expense is reduced by this amount. In addition, our staff calculated $2,168 in consulting expenses for Mr. Pasceri that were related to the Sarasota system. Because the Sarasota system is in a non-jurisdictional county and not part of this rate case, we have removed this expense and reduced consulting expense by $2,168.

The Utility's projected number of hours for future expenses for consultants total: 56 hours for Mr. Ward, 3 hours for Mr. Pasceri, $7,500 for witness Seidman, and 59 hours for Mr. Franceski. The discovery actions completion date was scheduled for November 22, 2011. Mr. Ward, Mr. Pasceri, and Mr. Franceski dealt with discovery related responses. Late-filed deposition Exhibit 12 included hours worked and expenses incurred through October 31, 2011. Therefore, both consultants would have had approximately one more month of consulting work to complete before the discovery completion deadline. Considering a typical eight-hour day, the consultants would have worked approximately seven days for Mr. Ward, a half day for Mr. Pasceri, and seven and a half days for Mr. Franceski. We find these estimates are reasonable. However, based on calculation errors, we find a reduction of $246 for estimate to completion is appropriate, and we have reduced future expenses for consultants by this amount.

Based on the above, we find rate case expense for consultants shall be reduced by $29,936 ($66 + $8,283 + $15,581 + $2,236 + $1,488 + $2,168 + $246).

c. ASI

After reviewing timesheets provided by the Utility in late-filed deposition Exhibit 12, we find that adjustments are needed. First, the $838 adjustment shown on Table 11 above should be made due to AUF's calculation errors. Second, the following ASI employees have rate case expense associated with hours worked that are not supported by a detailed description: Kimberly Joyce (30 hours at $109 per hour totaling $3,270) and Kelly Burns (27 hours at $39 per hour totaling $1,053). It is our practice to rely on time records and descriptions to support Utility time spent on rate cases.[108] As such, rate case expense shall be reduced by $4,323.

Also, we note that ASI employees Brian Devine, Kimberly Joyce, Kelly Burns and Mary Hopper all received hourly rate increases of $6, $29, $1, and $16, respectively, over the hourly rates allowed in 2008. Because of the economic conditions, we find that these increases were neither prudent nor reasonable. Based on hours worked of 36, 122, 30, and 148. respectively, the incremental increases are calculated to be $216, $3,538, $30, and $2,368, respectively. Therefore, the total amount of the increase for these four ASI employees is $6,152, and rate case expense shall be reduced by this amount.

In addition, we find the Utility's amount of estimated future expense for ASI needs to be adjusted. AUF projected 439 hours through completion. Our review of the Utility's supporting documentation indicates that ASI employees worked 2,800 hours as of October 31, 2011. Based on timesheets provided, ASI employees began work on the instant docket five months prior to the MFR filing date. This equates to approximately 156 hours per month (2,800 hours/18 months). At this rate, with approximately two months remaining in the case, ASI employees would need 312 hours and not the 439 hours projected to complete this case. Using the 312 hours reduces the hours to complete the case by 127 hours. We have adjusted the amount of

[108] See Order Nos. PSC-11-0256-PAA-WS, p. 102; PSC-07-0130-SC-SU, issued February 15, 2007, in Docket No. 060256-SU, In re: Application for increase in wastewater rates in Seminole County by Alafaya Utilities, Inc., p. 31; and PSC-07-0205-PAA-WS, issued March 6, 2007, in Docket No. 060258-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities, Corp., p. 27

hours based on the average monthly hours that have been incurred for each employee and applied to the estimated future duration of this case. These adjustments are as follows: Brian Devine – reasonable estimate to complete the case is approximately 26 hours at $46 per hour versus the 38 hours estimated by the Utility resulting in an adjustment of 12 hours and a reduction of $553; Kim Joyce - reasonable estimate to complete the case is approximately 81 hours at $109 per hour versus the 122 hours estimated by the Utility resulting in an adjustment of 41 hours and a reduction of $4,444; Kelly Burns - reasonable estimate to complete the case is approximately 20 hours at $39 per hour versus the 30 hours estimated by the Utility resulting in an adjustment of 10 hours and a reduction of $391; Mary Hopper - reasonable estimate to complete the case is approximately 99 hours at $94 per hour versus the 148 hours estimated by the Utility resulting in an adjustment of 49 hours and a reduction of $4,650; Nameer Bhatti - reasonable estimate to complete the case is approximately 72 hours at $39 per hour versus the 79 hours estimated by the Utility resulting in an adjustment of 7 hours and a reduction of $287; Allison McVicker - reasonable estimate to complete the case is approximately 15 hours at $42 per hour versus the 22 hours estimated by the Utility resulting in an adjustment of 7 hours and a reduction of $309. These adjustments result in an adjustment of 127 hours and a reduction of $10,633. As such, rate case expense shall be reduced by $21,946 ($838 + $4,323 + $6,152 + $10,633).

d. Other

In late-filed deposition Exhibit 12, the Utility recorded incurred costs of $8,193 for "printer – filing," $2,500 for PWC Review, and $3,530 for other expenses. However, no documentation supporting a detailed description of these expenses has been provided. Accordingly, the full $14,223 shall be disallowed from rate case expense. Also, while the Utility recorded $60,114 incurred for noticing requirements, the invoices for noticing total only $59,209. Therefore, we have removed $904 from rate case expense for the unsupported balance.

AUF estimated future travel expenses of $11,860. Because there is no detailed description of what these charges represent, nor any indication as to how the Utility arrived at this estimate, the entire $11,860 shall be disallowed. In total, we find that "Other" rate case expense shall be reduced by $26,987 ($14,223 + $904 + $11,860).

e. Treatment of Rate Case Expense

OPC witness Dismukes testified that the reasonable amount of rate case expense allowed in this case should be shared between the ratepayers and AUF's shareholders. Based on decisions in New Jersey, Illinois, and Minnesota, she recommended that only 50 percent of the allowed amount of rate case expense be considered for purposes of setting rates in the instant case.

Witness Dismukes also testified that we should discourage utilities from filing rate cases "one on top of another with little time in between, such as happened with this case." She recommended we defer recovery of the rate case expense approved in this case until the unamortized balance of rate case expense from the 2008 proceeding has been fully recovered.

In its brief, AUF argued that there is no statutory or precedential support in Florida to either deny the Utility recovery of documented rate case expense or to defer recovery of same. AUF believes OPC's recommendation on these points is without legal merit and is inequitable. AUF concluded that "[h]aving caused rate case expense to increase with its voluminous discovery, it is unfair for OPC to now recommend that the FPSC deny AUF its lawful right to recover all of its reasonable rate case expense in this case."

Based on review of the record in this case, we find that there is no statutory basis or precedential support in Florida to adjust the amount of rate case expense the Utility may be permitted to recover through rates in the manner recommended by OPC. Thus, neither of OPC's approaches shall be implemented in this case.

3. Commission Conclusion

In summary, we find that AUF's revised rate case expense shall be decreased by $175,748, for a total rate case expense of $1,409,043. Table 16 below illustrates our calculation of rate case expense.

Table 16 – Approved Rate Case Expense

Expenses	MFR B-10 Estimate	Expense Incurred Per EXH 340	Addit'l Estimated	Total Per Utility	Comm'n Adjustments	Comm'n Approved
Legal Fees	$70,350	$668,494	$118,556	$787,050	($96,879)	$690,171
Consultants	224,062	415,471	19,009	434,480	(29,936)	404,544
Service Company (ASI)	162,344	181,959	34,244	216,203	(21,946)	194,257
Travel and Other	213,512	115,698	31,360	147,058	(26,987)	120,071
Total Rate Case Expense	$670,268	$1,381,622	$203,169	$1,584,791	($175,748)	$1,409,043

Based on the four-year amortization of rate case expense pursuant to Section 367.0816, F.S., we calculate the annual rate case expense to be $352,261 ($1,409,043 divided by 4), and this amount shall be recovered over four years. Table 17 reflects the annual amortization adjustments of rate case expense for each rate band and stand-alone system.

Table 17 – Annual Amortization Adjustments

Bands	Allocated %	MFR B-10 Estimate	Total Approved	Total Adjustment	Amortization Adjustment
Water Band 1	23.34%	$156,453	$328,871	$172,418	$43,104
WW Band 1	4.15%	27,808	58,475	30,667	7,667
Water Band 2	10.38%	69,547	146,259	76,712	19,178
WW Band 2	19.03%	127,549	268,141	140,592	35,148
Water Band 3	6.34%	42,480	89,333	46,853	11,713
WW Band 3	2.34%	15,659	32,972	17,313	4,328
Water Band 4	28.84%	193,284	406,368	213,084	53,271
WW Band 4	1.16%	7,761	16,345	8,584	2,146

Bands (cont.)	Allocated %	MFR B-10 Estimate	Total Approved	Total Adjustment	Amortization Adjustment
Breeze Hill - Water	0.49%	3,291	6,904	3,613	903
Breeze Hill - WW	0.49%	3,291	6,904	3,613	903
Fairways Water	1.79%	12,012	25,222	13,210	3,302
Fairways - WW	0.92%	6,198	12,963	6,765	1,691
Peace River - Water	0.38%	2,550	5,354	2,804	701
Peace River - WW	0.36%	2,386	5,073	2,687	672
Total:	100.00%	$670,269	$1,409,184	$738,915	$184,729

J. Pre-Repression Operating Income

Based on the stipulated adjustments and our adjustments approved above, we calculate the test year pre-repression water operating income to be $166,868, and the test year pre-repression wastewater operating income to be $764,933. The test year operating income or loss before any provision for increased revenues is shown in the attached Schedule 4-A and 4-B, as well as the table below.

Operating Income/(Loss)	
Rate Band/System	Operating Income or (Operating Loss)
Water Band 1	$214,765
Wastewater Band 1	(422)
Water Band 2	126,332
Wastewater Band 2	515,084
Water Band 3	65,442
Wastewater Band 3	(91,336)
Water Band 4	55,006
Wastewater Band 4	105,697
Breeze Hill Water	(11,575)
Breeze Hill Wastewater	(10,710)
Fairways Water	(1,702)
Fairways Wastewater	(32,683)
Peace River Water	(8,303)
Peace River Wastewater	6,207
Total:	$931,800

VIII. REVENUE REQUIREMENT

A. Pre-Repression Revenue Requirement

Consistent with the stipulated adjustments and our approved rate base, cost of capital, and net operating income adjustments, we find the total pre-repression revenue requirement to be $10,106,338 for water and $5,764,808 for wastewater. The pre-repression revenue requirement for each rate band and stand-alone system are reflected in Schedules 2, 4-A, and 4-B.

IX. RATES AND CHARGES

A. Rate Cap Thresholds

1. Parties' Arguments

a. AUF

AUF did not address this issue in its brief.

b. OPC and AG

OPC and AG changed their position to DELETED in their respective briefs.

c. YES and Pasco County

YES and Pasco County either deferred to or adopted the position of OPC on this issue, and presented no argument on this issue.

2. Commission Analysis and Conclusion

As listed in the Prehearing Order in this case, this is a fallout issue,[109] and no party presented any argument in its brief on this issue. Rates are a function of both the revenue requirement and billing determinants. A subsidy limit of $12.50 (applicable only to the residential class, based upon usage levels of seven kgals per month for the water systems and six kgals per month for the wastewater systems) has been stipulated to by the parties.[110] Our findings regarding billing determinants and the approved revenue requirements are set out earlier in this Order. Using the stipulated subsidy limit of $12.50 in conjunction with our approved billing determinants and revenue requirements for the existing rate bands and stand-alone systems, the appropriate rate cap thresholds represent fallout calculations. Based on the above, the appropriate rate cap thresholds to be used to cap residential customer bills are $68.30 for the water system and $87.53 for the wastewater system.

B. Rate Structures

1. Parties' Arguments

a. AUF, OPC, AG, and YES

AUF did not address this issue in its brief. OPC and AG took no position on this issue. YES deferred to the position of OPC on this issue. Other than Pasco County, no other party presented argument on this issue in their respective briefs.

---

[109] See Prehearing Order, Order No. PSC-11-0544-PHO-WS, issued November 23, 2011, in this case.
[110] Ibid.

b. Pasco County

Pasco County argued that AUF's move toward uniform rates unfairly discriminates against the customers of certain systems in violation of Section 367.081(2)(a)1., F.S., and Southern States Utilities, n/k/a Florida Water Services Corporation v. Fla. Public Service Commission, 714 So. 2d 1046 (Fla 1st DCA 1998). For the 84 percent of the AUF customers in Pasco County, those of the Jasmine Lakes and Palm Terrace systems, the $12.50 subsidy and accompanying rate increase have resulted in rate shock. Pasco County believes this rate shock comes largely due to the subsidy that numerous systems have to pay to support the more costly systems.

Pasco County acknowledged that a move back to stand-alone rates is likely not practical at this point. However, it believes that the record in this case shows that "any further rate increase, or a move to uniform rates, is unfairly discriminatory." Pasco County charged that "this discrimination is the mere whim of a non-responsive corporation from another state that either buys new systems without regard to the rate impact to its other customers or for the direct purpose of supporting its desire to move to uniform rates." Pasco County cited the addition of the Breeze Hill and Peace River systems as examples of how AUF's business model forces existing customers to subsidize the customers of newly acquired systems.

Pasco County argued that the move to rate band consolidation is driven by AUF's practice of buying unrelated systems. Pasco County concluded that "[b]and consolidation (from 4 to 2), or creating uniform rates, is not appropriate because these disparate systems have no uniformity in water quality, there is no interconnection and the rates become ever-increasingly discriminatory in violation of Section 376.081, F.S."

2. Commission Analysis

As listed in the Prehearing Order in this case, this is a fallout issue.[111] The Utility's current residential water rate structure consists of a three-tiered inclining block rate structure, with usage blocks for monthly consumption of 0 to 5 kgals, 5.001 to 10 kgals, and all usage in excess of 10 kgals. The current usage block rate factors are 1.00, 1.25, and 3.00, respectively. The Utility is requesting that the current rate structure be changed to a three-tiered inclining block rate structure with usage blocks for monthly consumption of 0 to 6 kgals, 6.001 to 12 kgals, and all usage in excess of 12 kgals, with usage block rate factors of 1.0, 1.5, and 2.0, respectively.

We have a Memorandum of Understanding (MOU) with the five Water Management Districts (WMDs or Districts). A guideline of the five Districts is to set the base facility charges (BFCs) such that the utilities recover no more than 40 percent of the revenues to be generated from monthly service.[112] We comply with this guideline whenever possible.[113] This 40 percent

[111] See Order No. PSC-11-0544-PHO-WS, issued November 23, 2011, in this case.
[112] See Order No. PSC-02-0593-FOF-WS, issued April 30, 2002, in Docket No. 010503-WU, In re: Application for increase in water rates for Seven Springs system in Pasco County by Aloha Utilities, Inc.; and Order No. PSC-03-1440-FOF-WS.

BFC guideline is consistent with the results of the statewide Water Conservation Initiative's (WCI) final report, issued in April 2002.[114] We have also cooperated with the WMDs regarding requests for conservation rate structures, implementing the inclining-block rate structure as our rate structure of choice.[115]

Our staff, using its calculated revenue requirements for the respective water rate bands and stand-alone systems, evaluated the Utility's request to change the residential usage blocks and usage block rate factors. This involved performing an analysis of AUF's billing data contained in MFR Schedule E-14, and evaluating the conservation signals that would be sent to the residential customer class. Based on this analysis, our staff believes that AUF's requested usage blocks and proposed rate factors of 1.0, 1.5, and 2.0 are reasonable because these rate factors will allow our staff to continue designing an effective water conserving rate structure. We agree. However, as will be discussed below, the Utility's rate factor proposal does not reflect the methodology currently used by this Commission regarding the application of repression adjustments. As will also be discussed below, no repression is expected to occur in water Rate Band 2, and, as a result, no repression will be applied to that rate band in Table 24. Based on the above, the resulting usage block rate factors are: a) 1.0, 1.754 and 2.631 for usage blocks 1 through 3, respectively, for Rate Band 1; and b) 1.0, 1.5 and 2.0 for usage blocks 1 through 3, respectively, for (the capped) Rate Band 2.

Our traditional wastewater rate structure is the BFC/gallonage charge rate structure. In order to recognize the capital intensive nature of wastewater facilities, the wastewater BFC shall be set to recover 50 percent of the revenue requirement.[116] Residential billed consumption shall be capped at six kgals, and the general service kgal charge shall be 1.2 times the corresponding residential kgal charge. The residential and general service gallonage charge portions of both the Utility's requested wastewater rate structure and our approved wastewater rate structure are consistent with our prior decisions.[117]

3. Commission Conclusion

Based on the foregoing, the appropriate rate structure for the Utility's residential water customers is a three-tiered inclining block rate structure with usage blocks for monthly

---

[113] See Order Nos. PSC-09-0385-FOF-WS; PSC-02-0593-FOF-WS; PSC-94-1452-FOF-WU, issued November 28, 1994, in Docket No. 940475-WU, In re: Application for rate increase in Martin County by Hobe Sound Water Company; PSC-01-0327-PAA-WU, issued January 6, 2001, in Docket No. 000295-WU, In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.; and PSC-00-2500-PAA-WS, issued December 26, 2000, in Docket No. 000327-WS, In re: Application for staff-assisted rate case in Putnam County by Buffalo Bluff Utilities, Inc.

[114] Id.

[115] See Order Nos. PSC-09-0385-FOF-WS; PSC-03-0647-PAA-WS, issued May 28, 2003, in Docket No. 020407-WS, In re: Application for rate increase in Polk County by Cypress Lakes Utilities, Inc.; PSC-00-0248-PAA-WU; PSC-01-0327-PAA-WU; PSC-02-0593-FOF-WS; and PSC-03-1440-FOF-WS.

[116] See Order Nos. PSC-11-0385-PAA-WS; and PSC-09-0101-PAA-WS, issued February 16, 2009, in Docket No. 070693-WS, In re: Application for increase in water and wastewater rates in Lake County by Lake Utility Services, Inc.

[117] See Order No. PSC-07-0199-PAA-WS, issued March 5, 2007, in Docket No. 060257-WS, In re: Application for increase in water and wastewater rates in Polk County by Cypress Lakes Utilities, Inc.

consumption of: (a) 0-6 kgals, (b) 6.001-12 kgals, and (c) usage in excess of 12 kgals. The usage block rate factors for Rate Band 1 shall be 1.0, 1.754 and 2.631, respectively; and for the capped rate band 2 shall be 1.0, 1.5 and 2.0, respectively. The appropriate rate structure for the Utility's general service water customers is a continuation of the BFC/uniform gallonage charge rate structure, with the general service gallonage charge rate based on the average overall water rate per kgal. The BFC cost recovery allocation for the water systems shall be set at 40 percent.

The appropriate rate structure for the Utility's wastewater systems is a continuation of the current BFC/gallonage charge rate structure. Residential billed monthly consumption shall be capped at six kgals, and the general service kgal charge shall be 1.2 times the corresponding residential kgal charge. The BFC cost recovery allocation for the wastewater systems shall be set at 50 percent.

C. Rate Consolidation for Water

1. Parties' Arguments

AUF did not address this issue in its brief. OPC and AG took no position on this issue. YES deferred to the position of OPC on this issue. In its brief, Pasco County consolidated its argument on the appropriate rate structure and appropriate rate consolidation for water and wastewater. Pasco County's consolidated argument was summarized in Section IX. B. Rate Structures, immediately preceding this section. Other than Pasco County, no other party presented argument on this issue in their respective briefs.

2. Commission Analysis

As listed in the Prehearing Order in this case, this is a fallout issue. Furthermore, as discussed in the Prehearing Order, a subsidy limit of $12.50, applicable only to the residential class, based on usage levels of seven kgals per month for the water systems and six kgals per month for the wastewater systems, has been stipulated to by the parties.[118] The Utility's current rate consolidation consists of seven rate groups: 1) four water rate bands (Rate Bands 1 through 4) and 2) three stand-alone systems (Breeze Hill, Fairways and Peace River) acquired subsequent to AUF's last rate case. An analysis of the monthly bills and percentage increases based on the approved billing determinants, revenue requirements, rate structure and current rate groupings is shown in Table 18 below.

[118] See Order No. PSC-11-0544-PHO-WS, issued November 23, 2011, in this case.

Table 18 – Comparative Analysis of Current Rate Groupings – Water[119] Based on Seven Kgals of Consumption per Month[120]								
Line Nos.		Current Band 1	Current Band 2	Current Band 3	Current Band 4	Breeze Hill	Fairways	Peace River
1	BFC	$14.43	$18.71	$19.12	$22.37	$17.42	$24.89	$38.81
2	0 - 6 kgals	$2.75	$5.08	$4.88	$8.96	$12.09	$1.73	$6.32
3	6+ - 12 kgals	$4.33	$8.47	$7.39	$14.27	$12.09	$3.69	$10.91
4	12+ kgals	$5.77	$11.29	$9.85	$19.03	$12.09	$4.92	$14.54
5	Bill at Current Banding and Approved Rev. Required	$35.27	$57.68	$55.81	$90.39	$102.03	$38.96	$87.67
6	Max Subsidy	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
7	Bill at Current Rates	$29.15	$44.93	$54.25	$70.22	$34.41	$19.98	$53.48
8 = 5 – 7	Bill Incr - $$	$6.12	$12.75	$1.56	$20.17	$67.62	$18.98	$34.19
9 = 8/7	Bill Incr - %	21.0%	28.4%	2.9%	28.7%	196.5%	95.0%	63.9%

Leaving the current capband rate groupings and stand-alone systems in place results in no rate band or stand-alone system subsidizing another rate band or stand-alone system. As shown in Table 18, the monthly bill increases for the current capband systems range from 2.9 percent to 28.7 percent. However, the monthly bill increases for the stand-alone systems of Breeze Hill, Fairways, and Peace River range would be 196.5 percent, 95.0 percent and 63.9 percent, respectively. We believe the increases for the three stand-alone systems are especially problematic, and any rate grouping shall address this concern.

AUF has proposed fully consolidating all of its current rate band and stand-alone systems into a single water system with a single set of rates applicable to all water customers. Our analysis of AUF's consolidation request is shown in Table 19.

[119] Based on the approved billing determinants, revenue requirements, and rate structures. Also, within each tier, the amount shown is for each kgal consumed within that tier.
[120] May not calculate to amounts shown due to rounding.

Table 19 – Analysis of AUF's Full Rate Consolidation Request – Water[121] Based on Seven Kgals of Consumption per Month [122]								
Line Nos.		Current Band 1	Current Band 2	Current Band 3	Current Band 4	Breeze Hill	Fair-ways	Peace River
1	BFC	$18.82	$18.82	$18.82	$18.82	$18.82	$18.82	$18.82
2	0 - 6 kgals	$4.76	$4.76	$4.76	$4.76	$4.76	$4.76	$4.76
3	6+ - 12 kgals	$9.75	$9.75	$9.75	$9.75	$9.75	$9.75	$9.75
4	12+ kgals	$13.00	$13.00	$13.00	$13.00	$13.00	$13.00	$13.00
5	Bill Resulting From AUF's Requested Full Consolidation at Approved Rev. Requirement	$57.10	$57.10	$57.10	$57.10	$57.10	$57.10	$57.10
6	Bill Resulting From Current Banding at Approved Rev. Requirement	$35.27	$57.68	$55.81	$90.39	$102.03	$38.96	$87.67
7 = 5 – 6	Max Subsidy	$21.84	($0.58)	$1.30	($33.28)	($44.93)	$18.15	($30.56)
8	Bill at Current Rates	$29.15	$44.93	$54.25	$70.22	$34.41	$19.98	$53.48
Line Nos.		Current Band 1	Current Band 2	Current Band 3	Current Band 4	Breeze Hill	Fair-ways	Peace River
9 = 5 – 8	Bill Incr - $$	$27.95	$12.17	$2.85	($13.12)	$22.69	$37.12	$3.62
10 = 9 / 8	Bill Incr - %	95.9%	27.1%	5.3%	(18.7%)	66.0%	185.8%	6.8%

As shown above, current Rate Band 4 would see a decrease in its monthly water bill of approximately 18.7 percent. There are three rate groups whose resulting bills would increase between 5.3 percent (current Rate Band 3) to 95.9 percent (current Rate Band 1). The bills for

[121] Based on the approved billing determinants, revenue requirements, and rate structures. Also, within each tier, the amount shown is for each kgal consumed within that tier.
[122] May not calculate to amounts shown due to rounding.

the Breeze Hill and Peace River systems would increase by 66.0 percent and 6.8 percent, respectively. However, the Fairways system would see an increase of 185.8 percent, and, as discussed above, we believe any rate grouping should address increases of this magnitude. Furthermore, AUF's proposed consolidation method would result in customers of the Fairways system paying a subsidy of $18.15, approximately 45 percent greater than the parties' stipulated subsidy level of $12.50. The subsidy that would be paid by current Rate Band 1 is even more problematic. Current Rate Band 1 would be paying a subsidy of $21.84, approximately 75 percent greater than the parties' stipulated subsidy level of $12.50. Therefore, we find AUF's proposed rate consolidation methodology shall be rejected because: a) it results in exceeding the stipulated subsidy level for two of its current rate groups, and b) it does not result in a consolidation that mitigates problematic increases to current Rate Band 1, plus the Breeze Hill and Fairways systems.

One way to mitigate the increases discussed above is to cap the rates at some threshold, thereby increasing the rates for the remaining rate bands and systems. As discussed in the case of Southern States Utilities, n/k/a Florida Water Services Corporation v. Fla. Public Service Commission, 714 So. 2d at 1053, "Nothing inherent in the capband methodology runs afoul of the statute. . . . Although using stepped rates or "capbands" requires offsetting increases and does not spread offsets perfectly evenly among households paying less than maximum rates, such use need not lead to unfairly discriminatory rates." Therefore, we analyzed three combinations of water system consolidation methodologies, including utilizing a capband methodology that: a) combines the Fairways system with current Rate Band 1, and b) combines current Rate Bands 2, 3, and 4 with the Breeze Hill and Peace River systems. This analysis results in the water rate consolidation methodology, as shown in Table 20 on the following page.

Table 20 – Analysis of Capband Rate Consolidation – Water[123]
Based on 7 Kgals of Consumption per Month [124]

Line Nos.	Approved Rate Band Groupings →	Current Band 1	Fairways	Current Band 2	Current Band 3	Current Band 4	Breeze Hill	Peace River
		New Rate Band 1		New Rate Band 2 = Capped Band				
1	BFC	$18.57	$18.57	$19.17	$19.17	$19.17	$19.17	$19.17
2	0 - 6 kgals	$3.33	$3.33	$6.55	$6.55	$6.55	$6.55	$6.55
3	6+ - 12 kgals	$5.84	$5.84	$9.83	$9.83	$9.83	$9.83	$9.83
4	12+ kgals	$8.76	$8.76	$13.10	$13.10	$13.10	$13.10	$13.10
5	Bill Resulting From Apprvd. Capband Consol. & Approved Rev. Required	$44.37	$44.37	$68.30	$68.30	$68.30	$68.30	$68.30
6	Bill Resulting From Current Banding and Apprvd. Rev. Requirement	$35.27	$38.96	$57.68	$55.81	$90.39	$102.03	$87.67
7 = 5 – 6	Max Subsidy	$9.10	$5.41	$10.62	$12.49	($22.09)	($33.73)	($19.37)
8	Bill at Current Rates	$29.15	$19.98	$44.93	$54.25	$70.22	$34.41	$53.48
9 = 5 – 8	Bill Incr - $$	$15.22	$24.39	$23.37	$14.05	($1.92)	$33.89	$14.82
10 = 9 / 8	Bill Incr - %	52.2%	122.1%	52.0%	25.9%	(2.7%)	98.5%	27.7%

[123] Based on the approved billing determinants, revenue requirements, and rate structures, plus the $12.50 subsidy limit that was stipulated to by all parties.
[124] May not calculate to amounts shown due to rounding.

As discussed in the analysis following Table 18, we believe any rate grouping should address the high percentage increases for the Breeze Hill, Fairways and Peace River systems. Our approved rate consolidation, while it does not mitigate the increase for the Fairways system, does reduce the percentage increase for the Breeze Hill system from 196.5 percent to 98.5 percent, while the percentage increase for the Peace River system is reduced from 63.9 percent to 27.7 percent. Furthermore, current Rate Band 4, which is the capped band containing the higher-cost systems, would also experience a decrease based on our approved consolidation.[125] Although our rate consolidation did result in increases for the remaining rate bands or systems ranging from 13.9 percent (the Fairways system) to 25.8 percent (current Rate Band 1), we find these deviations are reasonable and necessary in order to mitigate the increases for the Breeze Hill and Peace River systems. Furthermore, no customer will pay more than the approved threshold of $68.30.

3. Commission Conclusion

Based on the foregoing, we find that the appropriate level of rate consolidation for the water systems is to: (1) combine the current water Rate Band 1 with the Fairways water system, into a single, new Rate Band 1; and (2) combine current Rate Bands 2, 3, and 4 with the Breeze Hill and Peace River water systems into a single, new Rate Band 2. The new Rate Band 2 shall be capped at the approved water rate cap threshold amount of $68.30 as discussed above.

D. Rate Consolidation for Wastewater

1. Parties' Arguments

AUF did not address this issue in its brief. OPC and AG took no position on this issue. YES deferred to the position of OPC on this issue. Also, while Pasco County did not specify a position on this issue in its brief, it did combine a discussion on rate structure and rate consolidation in its brief. A summary of that discussion is set out in Section IX. B. Rate Structures of this Order. Other than Pasco County, no other party presented argument on this issue in their respective briefs.

2. Commission Analysis

As listed in the Prehearing Order in this case, rate consolidation is a fallout issue, and a subsidy limit of $12.50 has been stipulated to by the parties.[126] This subsidy limit applies only to the residential class, and is based upon usage levels of seven kgals per month for the water systems and six kgals per month for the wastewater systems. The Utility's current wastewater rate consolidation consists of four wastewater rate bands (residential Rate Bands 1 through 3, plus general service wastewater-only customers in Band 4) and three stand-alone systems (Breeze Hill, Fairways and Peace River).

[125] See Order No. PSC-09-0385-FOF-WS.
[126] See Order No. PSC-11-0544-PHO-WS, issued November 23, 2011, in this case.

An analysis of the monthly bills and percentage increases based on the approved billing determinants, revenue requirements, rate structure and current rate groupings is shown in Table 21 below.

Table 21 - - Comparative Analysis of Current Rate Groupings – Wastewater [127]

Based on 6 Kgals of Consumption per Month [128]

Line Nos.		Current Band 1	Current Band 2	Current Band 3	Breeze Hill	Fairways	Peace River	Current Band 4 (GS Only)
1	BFC	$19.00	$32.02	$64.86	$21.91	$33.34	$45.47	$77.89
2	0 - 6 kgals	$6.42	$8.04	$19.60	$12.41	$8.58	$9.65	$7.84
3	Bill at Current Banding and Recom. Rev. Require-ment	$57.51	$80.25	$182.49	$96.36	$84.85	$103.36	$134.33
4	Max Subsidy	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
5	Bill at Current Rates	$45.63	$78.10	$83.35	$39.38	$35.45	$82.25	$142.97
6 = 3 – 5	Bill Incr. - $$	$11.88	$2.15	$99.14	$56.98	$49.40	$21.11	($8.64)
7 = 6 / 5	Bill Incr. - %	26.0%	2.8%	118.9%	144.7%	139.4%	25.7%	(6.0%)

As shown in Table 21, leaving the current capband rate groupings and stand-alone systems in place results in no rate band or stand-alone system subsidizing another rate band or system. Although the general service-only class (Rate Band 4) would see a decrease in their bill, all residential classes would experience increases of varying magnitude in their bills. For

[127] May not calculate to totals due to rounding.
[128] Based on the approved billing determinants and revenue requirements.

example, based on the current rate groupings, the monthly bill increases for current Rate Bands 1 and 2, plus the Peace River system, would range from 2.8 percent to 26.0 percent. However, the increase for current Rate Band 3 would be 118.9 percent. The monthly bill increases for the Fairways and Breeze Hill systems are equally concerning, at 139.4 percent and 144.7 percent, respectively. As with the water systems, we find the magnitude of these increases are especially problematic, and any rate grouping shall address these concerns.

AUF has proposed fully consolidating all of these systems into a single wastewater system with a single set of rates applicable to all wastewater customers. Our analysis of AUF's consolidation request is shown in Table 22 below.

Table 22 – Analysis of AUF's Full Rate Consolidation Request – Wastewater[129]
Based on 6 Kgals of Consumption per Month [130]

Line Nos.		Current Band 1	Current Band 2	Current Band 3	Breeze Hill	Fairways	Peace River	Current Band 4 (GS Only)
1	BFC	$34.39	$34.39	$34.39	$34.39	$34.39	$34.39	$34.39
2	0 - 6 kgals	$8.65[131]	$8.65	$8.65	$8.65	$8.65	$8.65	$8.65
3	Bill Resulting From AUF's Requested Full Consolidation at Rev. Required	$86.27	$86.27	$86.27	$86.27	$86.27	$86.27	$86.27
4	Bill at Current Banding at Rev. Requirement	$57.51	$80.25	$182.49	$96.36	$84.85	$103.36	$134.33
5 = 3 – 4	Max Subsidy	$28.76	$6.02	($96.22)	($10.09)	$1.42	($17.19)	($48.06)
6	Bill at Current Rates	$45.63	$78.10	$83.35	$39.38	$35.45	$82.25	$142.97
7 = 3 – 6	Bill Incr - $$	$40.64	$8.17	$2.92	$46.89	$50.82	$4.02	($56.70)

[129] May not calculate to totals due to rounding.
[130] Based on approved billing determinants and revenue requirements.
[131] Per Kgal.

Line Nos.		Current Band 1	Current Band 2	Current Band 3	Breeze Hill	Fairways	Peace River	Current Band 4 (GS Only)
8 = 7 / 6	Bill Incr - %	89.1%	10.5%	3.5%	119.1%	143.4%	4.9%	(39.7%)

As shown in Table 22, AUF's requested full rate consolidation would result in customers of current Rate Band 4 (the general service-only rate band) receiving a decrease of approximately 39.7 percent. More importantly, current Rate Band 1 would pay a subsidy greater than the stipulated level of $12.50. Therefore, we reject AUF's proposed consolidation methodology.

As discussed above concerning Rate Consolidation for Water, one way to mitigate excessive rate increases is to cap the rates at some threshold, while not unduly increasing the rates for the remaining rate bands. A third analysis was conducted utilizing a capband methodology that: (a) left current Rate Band 1 intact; (b) combined current Rate Bands 2 and 3 with the Breeze Hill, Fairways and Peace River systems into a new, capped Rate Band 2; and 3) made current Rate Band 4 (applicable to general service-only wastewater providers) the new Rate Band 3. Furthermore, when we apply the approved rate cap threshold and rate structure, along with the stipulated subsidy limit of $12.50, to the approved billing determinants and revenue requirements, we get the results as shown on Table 23 on the next page.

Table 23 -- Analysis of Capband Rate Consolidation -- Wastewater[132] Based on 6 Kgals of Consumption per Month[133]								
		Current Band 1	Current Band 2	Current Band 3	Breeze Hill	Fairways	Peace River	Current Band 4 (GS Only)
Rate Band Groupings: →		New Rate Band 1	New Rate Band 2 = Capped Band					New Rate Band 3
1	BFC	$23.11	$34.38	$34.38	$34.38	$34.38	$34.38	$77.89
2	0 - 6 kgals	$7.81	$8.86	$8.86	$8.86	$8.86	$8.86	$7.84
3	Bill Resulting From Appvd. Capband Consolidation and Approved Revenue Requirement	$69.97	$87.53	$87.53	$87.53	$87.53	$87.53	$134.33
4	Bill at Current Banding and Approved Revenue Requirement	$57.51	$80.25	$182.49	$96.36	$84.85	$103.36	$134.33
5 = 3 – 4	Max Subsidy	$12.45	$7.28	($94.96)	($8.83)	$2.68	($15.83)	$0.00
6	Bill at Current Rates	$45.63	$78.10	$83.35	$39.38	$35.45	$82.25	$142.97
7 = 3 – 6	Bill Incr - $$	$24.34	$9.43	$4.18	$48.15	$52.08	$5.28	($8.64)
8 = 7 / 6	Bill Incr - %	53.3%	12.1%	5.0%	122.3%	146.9%	6.4%	(6.0%)

[132] May not calculate to totals due to rounding.
[133] Based on approved billing determinants, revenue requirements, and rate structures, plus the $12.50 subsidy limit that was stipulated to by all parties.

In order to fairly compare the effects of this capband methodology and resulting rate bands to the current rate bands and stand-alone systems, we analyzed the subsidy information contained on line 4 of Table 23. A review of this information indicates that subsidies paid by systems ranged from a low of $2.68 (Fairways system) to a high of $12.45 (Rate Band 1). However, these subsidies were of benefit to the Breeze Hill, Peace River and current Rate Band 3 customers, because they received subsidies of $8.83, $15.83 and $94.96, respectively. Therefore, we find the subsidies discussed above are reasonable and necessary in order to mitigate rate impacts of other customers.

3. Commission Conclusion

Therefore, based on the foregoing, we find that the appropriate level of rate consolidation for the residential wastewater systems is: (1) leave current Band 1 intact, and (2) combine current Rate Bands 2 and 3, plus the stand-alone systems of Breeze Hill, Fairways and Peace River, into a new capped Band 2. The new Rate Band 2 shall be capped at the approved wastewater rate cap threshold amount of $87.53. As shown above, the general service-only wastewater providers shall be in new Band 3. We do not consider rate cap thresholds for general service-only wastewater providers.

E. Repression Adjustments

The appropriate repression adjustments for the water systems are shown in Table 24 below. No repression adjustment is appropriate for the wastewater systems.

Table 24 – Repression Adjustments Based on Approved Water System Capband Methodology and Rate Cap Threshold

	Rate Band 1	Rate Band 2 (Capped)
WATER		
Kgals Repressed	(39,342)	(7,900)
Expense Adjustments:		
Purchased Power	($19,062)	($2,171)
Chemicals	($4,688)	($731)
Purchased Water	($1,953)	($12,047)
Regulatory Assessment Fees	($1,157)	($673)
Total	($26,860)	($15,622)

1. Commission Analysis

As listed in the Prehearing Order in this case, this is a fallout issue.[134] The Utility's rate factor proposal does not reflect the methodology currently used by this Commission where we do not apply repression adjustments to nondiscretionary consumption.[135] Based on the above, this results in usage block rate factors of: a) 1.0, 1.754, and 2.631 for usage blocks 1 through 3, respectively, for Rate Band 1; and b) 1.0, 1.5k, and 2.0 for usage blocks 1 through 3, respectively, for (the capped) Rate Band 2.

2. Commission Conclusion

Based on the approved billing determinants, revenue requirements, rate cap thresholds, rate structures, and consolidation for the respective water systems, the repression adjustments are shown in Table 24 above. Because wastewater rates are based on a cap of six kgals, which represents nondiscretionary consumption, there is no repression adjustment for the wastewater systems.

F. Water and Wastewater Rates

The appropriate post-repression revenue requirement, excluding miscellaneous service charges, is $10,063,856 for the water system and $5,764,808 for the wastewater system. As discussed earlier, the appropriate rate structure for the water system's residential class is a three-tier inclining block rate structure, with usage blocks for monthly consumption of: a) 0-6 kgals, b) 6.001-12 kgals, and 3) all usage in excess of 12 kgals. The approved usage block rate factors for Rate Bands 1 and 2 shall be: a) 1.0, 1.754 and 2.631, respectively for Rate Band 1, and b) 1.0, 1.5 and 2.0, respectively, for Rate Band 2. The BFC cost recovery percentage shall be set at 40 percent. The appropriate rate structure for the water system's non-residential classes is the traditional BFC/uniform gallonage charge rate structure. As discussed above, a repression adjustment shall be made to the water systems as indicated. Applying these findings to the approved pre-repression revenue requirements results in the final water rates contained in Schedule 5-A. These rates are designed to recover a post-repression revenue requirement of $10,063,856 for the water system.

The appropriate rate structure for the wastewater systems is a BFC/gallonage charge rate structure, with the general service gallonage charge set at 1.2 times the corresponding residential gallonage charge. The BFC cost recovery percentage shall be set at 50 percent. As discussed earlier, no repression adjustment shall be made to the wastewater systems. Applying these findings to the approved pre-repression revenue requirements result in the final wastewater rates contained in Schedule 5-B. These rates are designed to recover a revenue requirement of $5,764,808 for the wastewater system.

---

[134] See Order No. PSC-11-0544-PHO, issued November 23, 2011, in this case.
[135] See Order No. PSC-03-1140-FOF-WS, issued December 22, 2003, in Docket No. 020071-WS, In re: Application for rate increase in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida; Order No. PSC-10-0117-PAA-WU, issued February 26, 2010, in Docket No. 080695-WU, In re: Application for general rate increase by Peoples Water Service Company of Florida, Inc.; and Order No. PSC-11-0385-PAA-WS.

The Utility shall file revised water and wastewater tariff sheets and a proposed customer notice to reflect the approved rates for the water and wastewater systems. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates shall not be implemented until our staff has approved the proposed customer notice. The Utility shall provide proof of the date notice was given no less than ten days after the date of the notice.

G. Are Rates Affordable

1. Parties' Arguments

a. AUF

AUF argues that the capband rate structure in the PAA Order and the uniform rate structure proposed by AUF produce affordable rates and benefit customers by ensuring that rates are kept as low as possible. Further, AUF notes that we have recognized those benefits by adopting uniform rates for electric and natural gas utilities in the state, and there is no legal impediment to the adoption of uniform rates for AUF's customers.

AUF argues that OPC's efforts to inject a new and undefined "affordability" criterion are nothing more than an attempt to reduce AUF's revenue requirement and divert our attention from the evidence supporting the need for rate relief, and are in contravention of the Florida Statutes and case law.[136] AUF notes that pursuant to Section 367.081(1), F.S., we must fix water and wastewater utility rates that are just, reasonable, compensatory, and not unfairly discriminatory. Further, pursuant to the holdings in United Telephone Co. v. Mayo, 403 So. 2d 962, 966 (Fla. 1981); and Keystone Water Co. v. Bevis, 278 So. 2d 606 (Fla. 1973), those rates must be established such that a utility is given the opportunity to recover its prudently incurred expenses and to earn a fair return on its investments. In determining a utility's rates, AUF argues that we must consider whether rates are confiscatory and deprive a utility of a fair return on capital investment, and failure to allow a fair rate of return would violate the utility's due process rights. See Westwood Lake, Inc. v. Dade County, 264 So. 2d 7 (Fla. 1972); and Gulf Power Co. v. Bevis, 289 So. 2d 401 (Fla. 1974).

Citing Southern States Utilities, n/k/a Florida Water Services Corporation v. Fla. Public Service Commission, 714 So. 2d at 1053 (Southern States), AUF notes that the First District Court of Appeal (First DCA) "confirmed that 'in the aggregate, rates and charges' must assure a water and wastewater utility an opportunity to recover its 'revenue requirement,' which it described as 'the cost of the service the utility provides, operating expenses as well as the cost of capital.'" Moreover, in that same case, AUF argues that the First DCA accepted that "an 'affordability' criterion may be used to design a utility's rate structure," but that "[b]efore setting rates for separate classes of customers, the utility must establish and the PSC must approve a determination of the utility's overall revenue requirements." Id. AUF argues that to the extent

[136] OPC and YES witnesses made anecdotal claims that AUF's rates and services had devalued homes and businesses. However, AUF argues there is no showing in the record that AUF's rates and services have any correlation to home or business values, foreclosures, or occupancy rates.

that the rates of certain systems are capped at a certain level to address "affordability" criterion, any resulting "shortfall" of revenues would need to be recovered from the remaining ratepayers of the utility to ensure the utility is afforded an opportunity to recover its "revenue requirement" as required by law. Thus, AUF concludes that if "affordability" is to be made part of this rate case, under Florida law, its pertinence must be confined to determining the appropriate design of AUF's rate structure.

AUF notes that Chapter 367, F.S., provides clear direction on how to establish rates for a water and wastewater utility, and that OPC's own witnesses concede that there is no "affordability" test in that Chapter or our rules for setting a utility's revenue requirement as "affordable," "affordability," or "unaffordable." Moreover, AUF argues that the Legislature has not included any such term in Chapter 367, despite knowing precisely how to do so.[137]

AUF concludes its argument by stating that if it is deprived of its revenue requirement based on the novel, undefined and unsupported "affordability" criteria, it "would constitute an unconstitutional taking and a gross betrayal of the regulatory compact." Further, AUF argues that "OPC's attempts to inject a new 'affordability' criterion in rate setting were properly rejected in the Prehearing Order, which struck OPC's proposed Issue 24 and included Issue 31A as a 'rate structure' issue." See Prehearing Order, Order No. PSC-11-0544-PHO-WS, pp. 81-83.

b. OPC

OPC argues that pursuant to Sections 367.081 and 367.121, F.S., rates must be fair, just and reasonable, as well as compensatory and nondiscriminatory. OPC witness Poucher noted that the dictionary definition of compensatory includes the concept of providing payment equivalent to the value of the service or product sold and should consider the value of the product and services the customers are receiving from AUF. Witness Poucher also testified that the above-noted language included the concept that the resulting rates be affordable.

OPC argues that the final rates approved must be such that they are affordable to customers and not cause an undue hardship to the customers. OPC witness Vandiver "testified that the Merriam Webster dictionary defines affordable as 'to manage to bear without serious detriment.'" OPC argues that both we on our webpage, and AUF, through its witness Szczygiel, agree that investor-owned water utilities should provide quality and reliable water service at an affordable price to customers while earning a fair return for shareholders.

---

[137] AUF notes the Legislature chose in Ch. 364, F.S., to make "affordability" relevant to the development of telecommunications rates. But, even there, AUF argues that "affordability" has never been used to deprive a telephone company of its right to recover its revenue requirement. Rather, federal and state law provide for a telecommunications company offering below-cost rates to low-income customers to receive subsidies from the Universal Service Fund thus making the company "whole." In Florida, AUF states that no similar scheme even remotely exists for water and wastewater utilities. See, e.g., Maddox v. State, 923 So. 2d 442, 446-47 (Fla. 2006) (stating that the Legislature's use of different terms in different statutory sections indicates that different meanings were intended); and Leisure Resorts, Inc. v. Frank J. Rooney, Inc., 654 So. 2d 911, 914 (Fla. 1995) (holding that where the Legislature has used a term in one section of a statute but omitted the term in another section, the court will not read the term into the sections where it was omitted).

OPC notes that its witness Vandiver testified the affordability of rates should be a critical component of our determination of the prudency of the Utility's costs. OPC argues that "while an individual cost on its own may be prudently incurred, that same cost may not be considered prudently incurred when evaluated as part of a group of costs." OPC argues that just because all individual costs appear to be prudent when taken alone does not mean that the end result must be prudent. OPC likens the process to the calculation of a state budget whereby individual expenditures may have been considered reasonable on their own, but where the end result would cause taxes (or rates) to go higher than Floridians can afford, then the Legislature (Commission) must go back and adjust those individual expenditures (expenses).

OPC notes that both its witnesses Poucher and Vandiver testified that because of AUF's high rates, customers could not afford to water their lawns, use water for hygienic purposes, pay their bills, remain in their homes, or maintain their standard of living. Witness Poucher also testified that the concept of affordability in the telephone industry for universal service meant two standard deviations above and below the nationwide average. Both he and OPC witness Dismukes thought we should compare the typical monthly bills approved in the PAA Order with the rates of other water and wastewater companies operating in the same counties as shown in her Schedule 22. Witness Dismukes testified that of the 26 AUF water systems and 17 wastewater systems she compared, 25 of AUF's water system and all of the wastewater systems had higher rates than the average of the remaining utilities' rates in the same county.

Citing Order No. 23186, issued July 13, 1990,[138] witness Vandiver noted that we have recognized that the regulatory framework can provide a disincentive to keep costs low and encourage utilities to practice what is known as "gold plating." Witness Vandiver testified that we "should consider evaluating the utility's operations to determine that the utility does not have just such a perverse incentive to continue to raise expense so that it may continue to increase its corporate revenues." Witness Vandiver also noted that while staff witness Stallcup thought the rates were higher than would be expected, he nevertheless appeared to think or imply that this Commission was constrained by the statutory requirement that the rates be compensatory to give AUF's all of its requested expenses. Using witness Poucher's definition of the term compensatory, she did not believe this was necessarily so. Further, although AUF witness Szczygiel claimed that the rate case is driven in large part by efforts to improve water quality and environmental compliance, witness Vandiver noted that a large portion of the requested revenue requirement increase is being driven by ASI affiliate costs, which costs have increased by over 200 percent in less than two years.

OPC concludes its argument by citing Order No. PSC-09-0385-FOF-WS, issued May 29, 2009.[139] In that Order, we found that based on the respective system averages plus 1.96 standard deviations (which captures approximately 95 percent of the variation), the affordability limits were $65.25 for water systems and $82.25 for the wastewater systems. (Order No. PSC-09-0385-FOF-WS, p. 127) Noting that these rate caps ("affordability limits") were determined less than

[138] Docket No. 870347-TL, In re: Petition of AT&T Communications of the Southern states for Commission forbearance from earnings regulation and waiver of Rules 25-4.495(1) and 25-24.480(1)(b), F.A.C., for a trial period.
[139] Docket No. 080121-WS, pp. 126-127.

two years ago, OPC states that it is reasonable to conclude that AUF's current increase request will only result in rates that further exceed these limits.

Based on all the above, OPC notes that AUF's current rates show that AUF has some of the highest rates in the state without any increases. Moreover, OPC alleges that AUF has overstated its rate base and net operating expenses which will lead to rates that are not fair, just, or reasonable. OPC concludes that AUF's buying of small, troubled systems, supposedly to bring better management and economies of scale, has not delivered these benefits to its customers. OPC contends that the overall rates requested by AUF are overstated, and there should be a total reduction of $2.3 million from the amount approved in the PAA Order.

c. YES

YES argues that its witness Harpin testified that an average customer of AUF residing at Arredondo Farms pays approximately $135-150 for AUF's water and wastewater services, and that this figure is $76 higher per month than an existing utility operator in the Gainesville market. YES further notes that lot rent at Arredondo Farms averages only $270, and lot rent with a mobile home averages $630 per month. YES notes that this results in the average resident paying water and wastewater bills to AUF which represent 55 percent of their lot rent or 21 percent of their entire home rent, respectively. YES argues that because of these excessive rates, customers of AUF residing at Arredondo Farms are simply priced out of the housing market in Gainesville.

YES argues that its witness Starling presented a photograph of a home that was literally torn down and thrown into a dumpster when the owner could not afford to pay the AUF bills, and the home could not be moved due to its age. YES also notes that its witness Harpin testified that since the beginning of 2011, 59 residents have left Arredondo Farms and of those, 35, or 59 percent, cited AUF's rates and service as the reason they vacated.

YES argues that it is the only party and only property to put on evidence regarding the cost of AUF service compared to that of other utility providers in the same market and the harmful effects of AUF's exorbitant pricing in relation to the local housing market. Based on the rates already being unaffordable, YES argues that if there is any rate increase granted to AUF, we should reduce Arredondo Farm's rate tier so that the rates for Arredondo Farms will be more affordable as compared to the local housing market. YES also notes that AUF has never performed any sort of market study of the affordability of its rates in the individual geographical regions, in spite of the fact that AUF purports that its "Industry Mission" is to "provide quality and reliable water service at an affordable price to customers, while earning a fair return for shareholders."

Finally, YES noted that AUF witness Szczygiel attempted to discredit YES witness Harpin's testimony. YES argues that AUF witness Szczygiel had originally testified that witness Harpin's testimony was merely an attempt to harm AUF and seize its water and wastewater business at Arredondo Farms. However, upon cross-examination, witness Szczygiel was compelled to change his rebuttal testimony to state that he has no knowledge of whether YES is

in the water or wastewater business and, therefore, his written rebuttal testimony in that regard was false.

d. Pasco County

Pasco County argues that numerous customers at the New Port Richey service hearing testified of their inability to pay AUF's exorbitant rates. Pasco County also notes that there were similar comments about the impact of the high rates on real estate in AUF's areas, and the ability of property owners to rent houses or having to drop rents due to AUF's rates.

Pasco County argues that this results in a downward spiral where high rates lead to less usage, and less usage means less revenue for the utility, which then leads to the need for another rate increase. Also, Pasco County argues that high rates can lead to customers not watering their lawns and plants, which causes "brown lawns and dead landscaping." Pasco County argues that all the above depresses real estate values, increases vacancy rates, and causes even less usage and less revenues for the utility. Pasco County notes that AUF witness Szczygiel admitted that AUF's high rates contributed to less water usage, and argues that poor water quality also contributes to less use.

Finally, Pasco County notes that "the rates are not affordable because they are not in line with comparable systems, especially in Pasco County." Pasco County argues that the county rates are about 2.5 times less than AUF's rates. As regards FGUA'S rates, Pasco County admits that some of that agency's rates are comparable, but argues that FGUA is forced to maintain Commission approved rates when it buys a system formerly regulated by this Commission.

e. AG

The AG adopts the position of the OPC and adds that many customers testified they could not afford this rate increase. Moreover, the AG argues that "[t]his rate increase comes less than a year after the effective date of the last unprecedented increase granted AUF," and "[i]n these difficult economic circumstances, this kind of rate increase cannot be borne by the customers."

2. Commission Analysis

This issue was included by decision of the Prehearing Officer, following deletion of OPC's requested Issue 24. OPC initially proposed that Issue 24 be included in the net operating income portion of the case, and requested that the issue read as follows:

> 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?

AUF objected to the inclusion of Issue 24, and the Prehearing Officer allowed parties to file briefs and present oral argument on the suitability of inclusion of the issue. After

deliberation, the Prehearing Officer determined that the issue as stated was neither needed nor appropriate, and issued his ruling as a part of the Prehearing Order.[140] In his ruling in the Prehearing Order, the Prehearing Officer stated in pertinent part:

> OPC's argument that the prudency of any expense is a position that OPC may take in each of the issues dealing with revenue requirements. . . . OPC and any party to this proceeding may challenge an expense item because that expense was imprudent. The prudence or imprudence of that expense may be argued by each party, and may include the appropriateness of the individual expense. The parties may present such testimony or arguments as they deem relevant to the issue, including OPC's argument that affordability is a component of determining fair, just, reasonable, and not unduly discriminatory rates. Based on the testimony and subsequent briefs of the parties, the Commission determines the legitimate and prudent expense to be allowed in each individual issue and will determine the revenue requirements for the utility. Therefore, as regarding expenses, I find that OPC's concerns may be addressed as the Commission comes to each of the requested expenses in dispute, and that, therefore, the issue of whether the expenses are legitimate and prudent is subsumed in the individual issues. Therefore, in consideration of the above, and having reviewed the memoranda of OPC and AUF, the applicable case law, and statutes, I find that proposed Issue 24 is neither required nor appropriate, and it shall be excluded and stricken.
>
> Moreover, the issue proposed by OPC, placed at the conclusion of the revenue requirements section, could jeopardize the ultimate decision of the Commission. If the Commission were to first determine the revenue requirements and then reduce those requirements because it determined that the results were unaffordable, the Commission could run afoul of a long line of cases regarding ratesetting. Pursuant to the holdings in Gulf Power Company v. Wilson; Bluefield Water Works & Improvement Company v. Public Service Commission of West Virginia, 262 U.S. 679 (1923); and Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591 (1944), a utility must be given an opportunity to recover its legitimate and prudent expenses, and a fair rate of return on its investment that is used and useful in the public service.
>
> Having found that Issue 24, as worded by OPC, should not be included, I do note that Commission staff's proposed rewording of the issue as a rate issue is appropriate. As noted in the Southern States case cited above, it appears that the appropriate place to address "affordability" is in the rate structure portion of the issues. Once revenue requirements have been established, the rate structure is determined. Therefore, proposed Issue 24 is stricken, and an issue concerning affordability shall be added. The issue concerning affordability is a rate structure issue and shall be numbered as Issue 31A and worded as follows:

[140] See Order No. PSC-11-0544-PHO-WS, issued November 23, 2011, in this docket.

> Are the resulting rates affordable within the meaning of fair, just and reasonable pursuant to Sections 367.081 and 367.121, Florida Statutes?"

Despite this ruling and the wording of the issue, it appears from OPC's (and the other Intervenors) position statement and the conclusion of its argument that OPC's basic request is, because OPC believes the rates contained in the PAA Order are "unaffordable," we should make OPC's recommended adjustments and reduce AUF's revenues by $2.3 million. We find that the ruling of the Prehearing Officer was correct and accurately stated the appropriate case law. Further, we believe OPC's position on Issue 31A is simply an attempt at making Issue 31A fit its original Issue 24, which was appropriately stricken. It appears that OPC is advocating for a method of reducing expenses on the back end without providing any legal, procedural, or even practical justification for the as yet undescribed process.

Section 367.081(2)(a)1., F.S., sets forth our responsibility in rate setting, and states in pertinent part:

> The commission shall, either upon request or upon its own motion, fix rates which are just, reasonable, compensatory, and not unfairly discriminatory. In every such proceeding, the commission shall consider the value and quality of the service and the cost of providing the service, which shall include, but not be limited to, debt interest; the requirements of the utility for working capital; maintenance, depreciation, tax, and operating expenses incurred in the operation of all property used and useful in the public service; and a fair return on the investment of the utility in property used and useful in the public service . . . .

(Emphasis added.)

Chapter 367, F.S., does not include a definition of "just," "reasonable," "compensatory," or "unfairly discriminatory." However, the courts have always read these terms broadly, and have recognized that we have broad discretion when setting rates. Also, Chapter 367, F.S., does not contain the term "affordable." However, provisions in the statute do require that we consider the cost of providing service which includes operating expenses incurred in the operation of all property used and useful in the public service, as well as a fair return on the investment of the utility in property used and useful in the public service.

In Section VII. D. Affiliate Revenues and Charges of this Order, OPC contended that AUF's operating expenses were too high when compared to other Class C utilities. In that issue, we discussed why making an adjustment based on that comparison was improper. Now, in this issue, based in large part on a comparison of rates, OPC is requesting that the revenue requirement be reduced by $2.3 million. Based on essentially the same rationale expressed in the above-noted section, we find that making this adjustment would represent a departure from sound regulatory philosophy and be contrary to our practice and case law. Furthermore, we rejected a similar adjustment by an OPC witness in 1992 for a wastewater utility in Lee County,

wherein we found that it was inappropriate to make a reduction when the record did not support an argument that any specific [affiliate] charge is unreasonable.[141]

Florida courts have made it clear that it would be improper to rely solely on OPC's comparative analysis to reduce the revenue requirement. In Sunshine Utilities of Central Florida v. Florida Public Service Commission, 624 So. 2d 306 (Fla. 1st DCA 1993), the First DCA held that a comparative analysis of the salaries of other utility executives did not constitute competent, substantial evidence to support a downward adjustment to the utility president's salary in a rate case. The First DCA stated that: "[i]n determining whether an executive's salary is reasonably compared to salaries paid to other company executives, the comparison must, at the minimum, be based on a showing of similar duties, activities, and responsibilities in the person receiving the salary."[142] Similarly, OPC's rates comparison does not address the costs, expenses, investment, and specific problems of each of AUF's individual systems. We find that to reduce the revenue requirement based on these rate comparisons would ignore the actual costs incurred by AUF and violate fundamental principles of cost-of-service regulation.

In all cases, we are charged with the responsibility to balance the interests of ratepayers and shareholders. Rates should be established to allow a utility the opportunity to recover its prudently incurred expenses and to earn a fair return on its investments, not to guarantee that it will do so.[143] In determining a utility's rates by use of a prudent investments theory or original cost basis, we must consider whether rates are confiscatory and deprive a utility of a fair return.[144] In rate cases, we are free to follow such methods as we may choose so long as the "end result" of such methods is the establishment of just and reasonable rates, and so long as such methods do not go so far astray that they violate Florida Statutes or run afoul of constitutional guarantees.[145]

To this point, the U.S. Supreme Court (Court) has addressed utility claims of unconstitutional takings in the rate of return regulation environment on several occasions.[146] The Court has held in those cases that rates set so low as to deny an adequate rate of return are confiscatory. The statutory principles for determining the appropriate rate of return for a regulated utility are set forth by the U.S. Supreme Court in its Bluefield decision.[147] This decision defines the fair and reasonable standards for determining a rate of return for regulated enterprises. Namely, this decision holds that the authorized return for a public utility should be

---

[141] See Order No. PSC-93-1288-FOF-SU, issued September 9, 1993, in Docket No. 920808-SU, In re: Application for Rate Increase by South Fort Myers Division of Florida Cities Water Company in Lee County.

[142] In reaching its decision, the First DCA cited Metropolitan Dade County Water & Wastewater Bd. v. Community Utilities Corp., 200 So. 2d 831, 833 (Fla. 3d DCA 1967).

[143] See United Telephone Co. v. Mayo, 403 So. 2d 962, 966 (Fla. 1981); and Keystone Water Co. v. Bevis, 278 So. 2d 606 (Fla. 1973). (The Court held that the rate base upon which a utility should be afforded an opportunity to earn return is not every dollar of investment made but only that investment in assets devoted to public service at the time rate base is quantified.)

[144] See Westwood Lake, Inc. v. Dade County, 264 So. 2d 7 (Fla. 1972).

[145] See General Telephone Company of Florida v. Carter, 115 So. 2d 554, 559 (Fla. 1959).

[146] See, e.g., Chicago, Milwaukee & St. Paul Railway Co. v. Minnesota, 134 U.S. 418, 10 S.Ct. 462, 33 L.Ed. 970 (1890); Wilcox v. Consolidated Gas Co., 212 U.S. 19, 29 S.Ct. 192, 53 L.Ed. 382 (1909); Board of Public Utility Commissioners v. New York Telephone Co., 271 U.S. 23, 46 S.Ct. 363, 70 L.Ed. 808 (1926).

[147] See Bluefield Co. v. Public Service Commission, 262 U.S. 679, 43 S.Ct. 675, 67 L.Ed. 1176 (1923).

commensurate with returns on investments in other companies of comparable risk, sufficient to maintain the financial integrity of the company, and sufficient to maintain its ability to attract capital under reasonable terms. Moreover, the Florida Supreme Court held that a regulated public utility is entitled to earn a fair rate of return on capital investment and failure to allow a fair rate of return is a violation of due process rights.[148] Further, the Florida Supreme Court held that a utility is entitled to a fair rate of return on property used or useful in public service, and rates which do not yield a fair rate of return are unjust, unreasonable, and confiscatory and their enforcement deprives a utility of due process.[149]

We are unable to determine any previous docket in which we have taken the approach recommended by OPC (or the Intervenors). Also, when our staff asked in OPC witness Vandiver's deposition about this concept of affordable rates, she was unable to offer a methodology or a process in order to implement this request. Therefore, we find that OPC has failed to suggest any mechanism by which we could use the concept of "affordability" of rates to retroactively reduce costs or expenses previously determined to be reasonable and prudent. We believe such action would result in rates that were by definition unjust and unreasonable, in that they would be noncompensatory, a term defined by case law in the water and wastewater rate setting context.

Given that the accepted practice for determining rates is to first determine a revenue requirement, then rates are developed to meet that requirement, we are at a loss as to how to legally implement OPC's request. Once we have determined the reasonableness and prudency of an individual cost or expense, it is not clear by what method we could subsequently reduce that cost or expense to lower the overall revenue requirement by some arbitrary amount to achieve a desired rate level without violating due process requirements and accepted ratemaking practice and procedure.

OPC's analogy between a rate case and the state's budget is fundamentally flawed, in that when formulating the state budget, the legislature has the ability to reduce or eliminate discretionary spending. While we clearly have the ability to reduce discretionary costs of a utility, a utility must be given an opportunity to recover its legitimate and prudent expenses, and a fair rate of return on its investment that is used and useful in the public service. Nowhere does Florida law provide this Commission with discretion to reduce or deny prudently incurred costs in order to reduce the resulting revenue requirement and thus the rate increase.[150]

OPC's argument regarding the use of comparative rates is of interest, but provides no legal basis to grant the relief requested by OPC, that is, a post hoc reduction of costs or expenses to reduce an overall revenue requirement determined to be reasonable and prudent. While the

[148] See Gulf Power Co. v. Bevis, 289 So. 2d 401 (Fla. 1974)
[149] See Keystone Water Co. v. Bevis, 278 So. 2d 606 (Fla. 1973).
[150] We note that OPC (and the intervenors) are requesting that AUF's ROE be reduced by 100 basis points for unsatisfactory quality of service. However, at the same time, it appears that OPC is requesting that some of the costs or investments incurred by AUF above a certain level should not be allowed because the rates will become unaffordable. This could put AUF in a "catch 22" position. AUF may need to incur additional costs or make further investments to improve quality of service, but these additional costs or investment might not be allowed because the rates are deemed unaffordable.

record does support OPC's contention that AUF's rates are higher than the rates of most other water and wastewater utilities, we do not believe the record supports the unprecedented departure from recognized ratemaking theory suggested by OPC. OPC has not demonstrated that based on the record before us, that we should determine the reasonableness and prudency of costs in individual issues, but then consider the resulting revenue requirement with an eye towards some arbitrary reduction simply because the result is "unaffordable." It is through the rate structure that we balance the ideas of the appropriate level of subsidies versus the appropriate rate cap. Although the term "affordability" was used in AUF's last rate case, it was used in the context of what is the appropriate rate cap. When talking about affordability, we believe that the real issue is what is the appropriate rate cap (and appropriate degree of subsidization).

We are not unsympathetic to the record evidence adduced through customer testimony at the ten service hearings and nine customer meetings. However, we believe we are bound by the requirements of law as set forth in Chapter 367, F.S., and established by legal precedent. As staff witness Stallcup testified, we find that the approved rates are as affordable as they can be given the requirements of Section 367.081, F.S., that rates be compensatory. Witness Stallcup testified that the Capband Rate Consolidation methodology was designed to help restrain excessively high stand-alone customer bills and make them more affordable. Further, using the Capband Rate Structure as opposed to the stand-alone rates that existed prior to the May 24, 2011, Commission Agenda Conference, witness Stallcup noted that Breeze Hill water customers would have their bills reduced from $95.03 to $65.00, and wastewater customers of the old Rate Band 3 would have their bills reduced from $204.66 to $91.55. Finally, witness Stallcup stated that use of the inclining block rate structure would enable customers to have lower total customer bills for all usage less than 12,000 gallons per month.

3. Commission Conclusion

Based on all the above, first, we note there is no "affordability" test for setting a utility's revenue requirement under Chapter 367, F.S. Therefore, based on the stipulated subsidy limit of $12.50, the approved rate cap thresholds, rate structures, rate consolidation and repression adjustments in prior issues, we find the resulting rates are as affordable as possible. Finally, this is a rate structure issue, and we believe it is not appropriate to use this issue to justify any decrease in the revenue requirement.

X. OTHER ISSUES

A. Allowance for Funds Prudently Invested Charges (AFPI)

In the instant case, the Utility has requested AFPI charges for its Breeze Hill wastewater treatment plant. This issue is a fall-out issue based on decisions related to non-used and useful plant, depreciation expense and property taxes, as well as the return on equity and overall cost of capital.

An AFPI charge is a mechanism designed to allow a utility to earn a fair rate of return on prudently constructed plant held for future use from the future customers that will be served by

that plant, in the form of a charge paid by those customers. This charge allows the recovery of carrying costs on the non-used and useful plant. Future customers bear their equitable share of the carrying costs related to the facilities being constructed. This one-time connection charge is based on the number of ERCs and is applicable to all future customers who have not already prepaid a connection charge, CIAC charge, or customer advance. The charge is based on the date the future customers make some such prepayment or on the date the customer connects to the system, whichever comes first.

We find it is prudent for AUF to seek collection of AFPI charges from future customers. Therefore, consistent with our approved non-used and useful plant, depreciation expense and property taxes, as well as the return on equity and overall cost of capital, we calculate AFPI charges for the Breeze Hills wastewater treatment plant to be as shown in the table below.

Breeze Hill Wastewater Treatment Plant APFI Charges					
Allowance for Funds Prudently Invested					
Calculation of Carrying Cost Per ERC Per Month:					
Month	2011	2012	2013	2014	2015
January	1.18	15.46	30.62	46.72	63.83
February	2.37	16.72	31.95	48.14	65.34
March	3.55	17.97	33.29	49.55	66.84
April	4.73	19.23	34.62	50.97	68.35
May	5.92	20.49	35.96	52.39	69.86
June	7.10	21.74	37.29	53.81	71.37
July	8.28	23.00	38.63	55.23	72.88
August	9.47	24.26	39.96	56.65	74.39
September	10.65	25.51	41.29	58.06	75.89
October	11.84	26.77	42.63	59.48	77.40
November	13.02	28.03	43.96	60.90	78.91
December	14.20	29.28	45.30	62.32	80.42

B. Customer Deposits

As a result of its requested uniform rates, AUF has requested uniform customer deposits for its rate bands and stand-alone systems as well. Some of the Utility's stand-alone systems do not presently have any customer deposits authorized in their tariffs. The discussion below addresses initial customer deposits and new or additional customer deposits.

1. Commission Analysis

a. Initial Customer Deposits

The purpose of initial customer deposits is to establish credit with the utility. Rule 25-30.311(1), F.A.C., sets out the criteria for establishment of credit for customers. The criteria include: (a) furnishing a satisfactory guarantor, (b) paying a cash deposit, or (c) furnishing an

irrevocable letter of credit from a bank or a surety bond. Specifically, Rule 25-30.311(1), F.A.C., states:

> Each company's tariff shall contain their specific criteria for determining the amount of initial deposit. Each utility may require an applicant for service to satisfactorily establish credit, but such establishment of credit shall not relieve the customer from complying with the utilities' rules for prompt payment of bills.

Further, Rule 25-30.311, F.A.C., also provides guidelines for collecting, administering, and refunding customer deposits. Pursuant to Rule 25-30.311(5), F.A.C.:

> After a customer has established a satisfactory payment record and has had continuous service for a period of 23 months, the utility shall refund the residential customer's deposits . . ., providing the customer has not, in the preceding 12 months, (a) made more than one late payment of a bill (after the expiration of 20 days from the date of mailing or delivery by the utility), (b) paid with check refused by a bank, (c) been disconnected for nonpayment, or at any time, (d) tampered with the meter, or (e) used service in a fraudulent or unauthorized manner.

In addition, the utility is required to pay interest on all customer deposits pursuant to Rule 25-30.311(4), F.A.C.

We have recognized that customer deposits may be required to encourage payment of bills or recovery of past due amounts. Customer deposits are designed to minimize the exposure of bad debt expense for the utility, and ultimately the general body of ratepayers. Historically, we have set customer deposits equal to two month's bills based on average consumption. For the initial deposit, the amount is based on the average consumption per residential customer, calculated on the total residential usage divided by the number of residential bills. Therefore, the deposits are calculated specifically by the customer class.

The reason the deposit is based on a two-month average is that at the point in time the water meter is actually read by a meter reader, typically a full month of consumption has already passed. Consumption-based charges are based on past consumption. The consumption period is referred to as the service period, or the period of time from the previous meter reading to the current meter reading. Typically, this period of time is approximately thirty days, if the utility has a monthly billing cycle. However, the cycle time may vary between 27 to 33 days.

Once the meter is read, a bill is prepared and rendered. The time between the meter read and the bill preparation varies among utilities, but is usually between five to seven days. Payment is due twenty days from the date the bill has been mailed or presented, consistent with Rule 25-30.335(4), F.A.C. Therefore, the actual payment is due approximately two months after the service is actually rendered.

If payment is not received by the twentieth day, it is considered delinquent pursuant to Rule 25-30.335(4), F.A.C. At that point in time, the utility may begin disconnection of services.

Pursuant to Rule 25-30.320(2)(g), F.A.C., a utility may discontinue service for nonpayment of bills, provided the customer has been provided "at least 5 working days' written notice," and there has been a diligent attempt to have the customer comply. Thus, the service cannot be disconnected until well after two months subsequent to the bill being rendered. Also, an additional month of usage has already been provided to the delinquent customer, and presumably another month's bill has been issued by the time service can be disconnected.

Not only is collecting a customer deposit to recover this two-month period of service consistent with our past practice, it is also consistent with one of the fundamental principals of ratemaking-ensuring that the cost of providing service is recovered from the cost causer.[151]

The methodology addressed above for calculating initial customer deposits is also consistent with the methodologies for natural gas utilities pursuant to Rule 25-7.083, F.A.C., and electric utilities pursuant to Rule 25-6.097, F.A.C.

b. New or Additional Deposits

In the Utility's application, AUF requested approval of new or additional customer deposits in its water and wastewater rate bands. Pursuant to Rule 25-30.311(7), F.A.C.:

> A utility may require, upon reasonable written notice of not less than 30 days, such request or notice being separate and apart from any bill for service, a new deposit, where previously waived or returned, or an additional deposit, in order to secure payment of current bills; provided, however, that the total amount of the required deposit should not exceed an amount equal to the average actual charge for water and/or wastewater service for two billing periods for the 12-month period immediately prior to the date of notice. In the event the customer has had service less than 12 months, then the utility shall base its new or additional deposit upon the average monthly billing available.

Although subsection 7 does not provide specific guidance as to when a utility collects a new or additional deposit, historically, utilities have applied this rule to current customers who would not qualify for a refund of a deposit pursuant to Rule 25-30.311(5), F.A.C.

We agree with this industry-wide application and believe the utility may request a new or additional deposit when a current customer, in the preceding 12 months: (a) made more than one late payment of a bill (after expiration of 20 days from the date of mailing or delivery by the utility), (b) paid with a check refused by a bank, (c) has been disconnected for nonpayment, (d) has at any time tampered with the meter, or (e) used service in a fraudulent or unauthorized manner. Therefore, current customers will not be charged a new or additional deposit unless they come under one of the preceding categories. If the utility decides to require a deposit from current customers, it must do so consistent with the conditions spelled out in its tariff. This new or additional deposit shall be calculated using the specific average actual water and/or

[151] See Order No. PSC-96-1147-FOF-WS, issued September 12, 1996, in Docket No. 951258-WS, In re: Application for rate increase in Brevard County by Florida Cities Water Company (Barefoot Bay Division).

wastewater charges for two billing periods for the individual customer. Because the utility has this billing information specifically for its customers, the new or additional deposit shall be based on the customer's actual usage over the preceding 12-month period. In comparison, the initial deposits requested by the utility are based on the average consumption of the rate class, since there is no billing history for new customers.

The methodology of basing new or additional deposits on the actual average of two months is also consistent with the methodologies for determining customer deposits for natural gas utilities (Rule 25-7.083, F.A.C.), and electric utilities (Rule 25-6.097, F.A.C.). In response to a complaint over customer deposits between Sears/K-Mart and FPL, as stated in Order No. PSC-07-0813-TRF-WU, our staff initiated a Review of Customer Deposit Procedures for the five investor-owned electric utilities which was completed in March 2007.[152] The purpose was to determine whether utilities were complying with Commission rules and whether the internal procedures were fair and non-discriminatory with respect to customer deposits. It also included an evaluation of new and additional deposits. The electric utilities use similar procedures in the determination of whether new or additional deposits are necessary. This methodology is also consistent with other regulated water and wastewater utilities throughout the State of Florida.

2. Commission Conclusion

In light of the above, we find that the appropriate customer deposits shall be the actual average two months bills of the approved rate structure and rates in this case. The Utility shall submit revised tariff sheets to include a provision for customer deposits, as discussed in our analysis above. Our staff shall be given authority to administratively approve these tariff sheets upon verification they are consistent with our decision. The revised tariff sheets shall be implemented on or after the stamped approval date on the revised tariff sheet, if no protest is filed and once the proposed customer notice has been approved by our staff as adequate, and the customers have received the approved notice. The notice may be combined with the notice for the approved service rates.

C. Four-Year Reduction for Docket No. 080121-WS

Section 367.0816, F.S., requires rates to be reduced immediately following the expiration of the four-year amortization period by the amount of the rate case expense previously included in the rates. In Docket No. 080121-WS, we approved rate case expense for the current water and wastewater rate bands, as well as the rate reduction to occur pursuant to Section 367.0816, F.S. The rates became effective April 1, 2009, and the four-year rate case expense reduction will not occur until March 31, 2013. As such, the previously-approved rate case expense for the current rate bands are embedded in the approved revenue requirements. Because we are consolidating the current rate bands and the stand-alone systems into three water and three wastewater rate bands, we believe it necessitates a recalculation of the four-year rate reduction. Also, the across-the-board rate decrease shall be calculated by taking the grossed-up rate case expense approved

[152] See Order No. PSC-07-0813-TRF-WU, issued October 10, 2007, in Docket No. 070366-WU, In re: Application to amend water tariff to allow collection of customer deposits by O&S Water Company, Inc., p. 5.

in the last case divided by the corresponding approved revenue requirement in this instant case, as illustrated in the table immediately below.

Calculation Four-Year Rate Case Expense (RCE) Reduction for Docket No. 080121-WS						
		Annual RCE Amort.	RAF Factor	Grossed-up RCE	Approved Revenue Req.	Across-the-Board Decrease
New Water Band 1	Old Water Band 1	$82,218	0.955	$86,092	$2,556,973	3.37%
New Water Band 2	Old Water Band 2	$36,565	0.955	$38,288	$1,474,868	
	Old Water Band 3	22,333	0.955	23,386	916,643	
	Old Water Band 4	101,592	0.955	106,379	462,187	
		$160,490		$168,052	$2,853,698	5.89%
New WW Band 1	Old WW Band 1	$14,619	0.955	$15,308		3.31%
New WW Band 2	Old WW Band 2	$67,035	0.955	$70,194		
	Old WW Band 3	8,243	0.955	8,631		
		$75,278		$78,825	$4,467,120	1.76%
New WW Band 3	Old WW Band 4	$4,086	0.955	$4,279	$495,850	0.86%

Based on the above across-the-board decreases, the rate reductions effective as of March 31, 2013, for the rate case expense approved in Docket No. 080121-WS, for water and wastewater are shown on Tables 25 and 26, respectively.

Table 25

WATER	New Rate Band One (1)	080121-WS 4-Yr Reduction	New Rate Band Two (2)	080121-WS 4-Yr Reduction
RS, GS, Multi, Irrig	BFC		BFC	
5/8" x 3/4"	$18.57	$0.63	$19.17	$1.13
3/4"	$27.86	$0.94	$28.76	$1.69
1"	$46.43	$1.56	$47.93	$2.82
1 1/2"	$92.85	$3.13	$95.85	$5.64
2"	$148.56	$5.00	$153.36	$9.03
3"	$297.12	$10.00	$306.72	$18.06
4"	$464.25	$15.63	$479.25	$28.22
6"	$928.50	$31.26	$958.50	$56.45
8"	$1,485.60	$50.02	$1,533.60	$90.31
10"	$2,135.55	$71.90	$2,204.55	$129.82
Residential kgal chgs:				
0-6 kgals	$3.33	$0.11	$6.55	$0.39
6.001 - 12 kgals	$5.84	$0.20	$9.83	$0.58
12.001 +	$8.76	$0.29	$13.10	$0.77
Gen. Service kgal chg:	$4.64	$0.16	$7.35	$0.43
Private Fire Protection				
BFC by Meter Size				
2"	$12.38	$0.42	$12.78	$0.75
3"	$24.76	$0.83	$25.56	$1.51
4"	$38.69	$1.30	$39.94	$2.35
6"	$77.38	$2.61	$79.88	$4.70
8"	$123.80	$4.17	$127.80	$7.53
10"	$177.96	$5.99	$183.71	$10.82
Typical Residential Bills				
3,000 gallons	$28.56	$0.96	$38.82	$2.29
5,000 gallons	$35.22	$1.19	$51.92	$3.06
10,000 gallons	$61.91	$2.08	$97.79	$5.76

(1) Rate Band 1 includes Old Rate Band 1 and Fairways.
(2) Rate Band 2 includes Old Rate Band 2, 3, and 4, as well as Breeze Hill and Peace River.

Table 26

WASTEWATER	New Rate Band One (1)	080121-WS 4-Yr Reduction	New Rate Band Two (2)	080121-WS 4-Yr Reduction	New Rate Band Three (3)	080121-WS 4-Yr Reduction
Residential						
BFC - All Meter Sizes	$23.11	$0.77	$34.38	$0.61	$77.89	$0.67
Kgal Charge - 6,000 Cap	$7.81	$0.26	$8.86	$0.16	$7.84	$0.07
General Service						
5/8" x 3/4"	$23.11	$0.77	$34.38	$0.61	$77.89	$0.67
3/4"	$34.67	$1.15	$51.57	$0.91	$116.84	$1.01
1"	$57.78	$1.91	$85.95	$1.52	$194.73	$1.68
1 1/2"	$115.55	$3.83	$171.90	$3.03	$389.45	$3.36
2"	$184.88	$6.12	$275.04	$4.85	$623.12	$5.38
3"	$369.76	$12.25	$550.08	$9.71	$1,246.24	$10.75
4"	$577.75	$19.14	$859.50	$15.17	$1,947.25	$16.80
6"	$1,155.50	$38.27	$1,719.00	$30.33	$3,894.50	$33.61
8"	$1,848.80	$61.23	$2,750.40	$48.53	$6,231.20	$53.77
10"	$2,657.65	$88.02	$2,750.40	$48.53	$8,957.35	$77.29
Kgal Charge	$9.37	$0.31	$10.63	$0.19	$9.41	$0.08
Flat Rate Res.						
Valencia Terrace	$40.46	$1.34	N/A	N/A	N/A	N/A
Sunny Hills	N/A	N/A	$60.01	$1.06	N/A	N/A
Zephyr Shores	N/A	N/A	$50.00	$0.88	N/A	N/A
Jungle Den	N/A	N/A	$86.07	$1.52	N/A	N/A
Lake Gibson Est.	N/A	N/A	$180.52	$3.19	N/A	N/A
Reuse per Sprinkler Head	N/A	N/A	N/A	N/A	$0.49	$0.00
Typical Residential Bills						
3,000 gallons	$46.54	$1.54	$60.96	$1.08	$101.41	$0.88
5,000 gallons	$62.16	$2.06	$78.68	$1.39	$117.09	$1.01
10,000 gallons (WW Gallonage Cap - 6,000 gallons)	$69.97	$2.32	$87.54	$1.54	$124.93	$1.08

(1) Rate Band 1 consists of Old Rate Band 1 only.
(2) Rate Band 2 consists of Old Rate Bands 2 and 3, and the Breeze Hill, Fairways, and Peace River Systems.
(3) Rate Band 3 consists of Old Rate Band 4 (GS Only).

AUF shall file revised tariff sheets for each system to reflect the approved rates no later than one month prior to the actual date of the required rate reduction. The Utility shall also be required to file a proposed customer notice for each system setting forth the lower rates and the reason for the reduction with the revised tariffs. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The rates shall not be implemented until our staff has approved the proposed customer notice, and the notice has been received by the customers. The Utility shall provide proof of the date notices were given within ten days of the date the notices were sent.

If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease, and for the reduction in the rates due to the amortized rate case expense. The appropriate reduction was calculated by taking the annual amount of rate case expense and the return on the provision included in working capital allowance by system, as well as grossed-up for regulatory assessment fees.

D. Interim Refund Calculation

By Order No. PSC-10-0707-FOF-WS, we approved interim water and wastewater rates subject to refund, pursuant to Section 367.082, F.S. In this proceeding, the test period for establishment of interim rates was the historical 13-month average period ended April 30, 2010. The approved interim rates did not include any provisions for pro forma operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs, and the floor of the last authorized range for equity earnings.

Consistent with Section 367.082(4), F.S., any refund must be calculated to reduce the rate of return of the Utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in the rate case test period that do not relate to the period that interim rates are in effect shall be removed. To establish the proper refund amount, we calculated a revised revenue requirement for the interim period using the same data used to establish final rates. Rate case expense was excluded because it was not an actual expense during the interim collection period. Applying the requirements of the interim statute, we find that interim refunds are required for certain rate bands and stand-alone systems because the calculated interim period revenue requirement was less than the interim revenue requirement approved in Order No. PSC-10-0707-FOF-WS. Our calculations are shown on Table 27 below.

Table 27 – Interim Refund Calculation						
	Rev. Req. Excluding	RAF Grossed	Interim Period	Interim Rev. Req.	Interim	
Band/System	Reg. Assets	RCE	Rev. Req.	Per Order	Excess	Refund %
Water Band 1	$2,556,973	$175,094	$2,381,879	$2,559,477	$177,598	7.46%
Water Band 2	1,474,868	79,249	$1,395,619	1,432,357	36,738	2.63%
Water Band 3	916,643	48,810	$867,833	930,090	62,257	7.17%
Water Band 4	4,576,670	214,829	$4,361,840	3,816,182	(545,658)	No Refund
WW Band 1	462,187	32,302	$429,885	473,692	43,807	10.19%
WW Band 2	3,572,176	138,156	$3,434,020	3,546,600	112,580	3.28%
WW Band 3	764,799	17,657	$747,142	484,040	(263,102)	No Refund
WW Band 4	495,850	4,376	$491,474	533,651	42,177	8.58%
Breeze Hill Water	60,074	1,879	$58,195	53,069	(5,126)	No Refund
Breeze Hill WW	63,181	1,856	$61,325	73,949	12,624	20.59%
Fairways Water	177,686	6,942	$170,744	189,399	18,655	10.93%
Fairways WW	181,253	3,547	$177,706	181,739	4,033	2.27%
Peace River Water	104,374	1,450	$102,924	82,317	(20,607)	No Refund
Peace River WW	95,217	1,382	$93,835	97,667	3,832	4.08%
TOTAL	$15,501,950	$727,528	$14,774,421	$14,454,229	($320,192)	

E. PAA Refund Calculation

By Order No. PSC-11-0336-PCO-WS, we approved the implementation of PAA water and wastewater rates subject to refund, pursuant to Section 367.081(8), F.S. Consistent with Section 367.082(4), F.S., any refund must be calculated to reduce the rate of return of the Utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in this period that do not relate to the period that PAA rates are in effect shall be removed. To establish the proper refund amount, our staff calculated a revised revenue requirement for this period using the same data used to establish final rates. The incremental rate case expense above that which was embedded in PAA rates was excluded because it was not an actual expense during the collection period. Applying the requirements of the interim statute, we find that PAA rate refunds are required for certain rate bands and stand-alone systems because the calculated period revenue requirement was less than the PAA revenue requirement approved in Order No. PSC-11-0336-PCO-WS. Our calculations are shown in the table below.

Table 28
PAA Rate Refund Calculations

Band/System	PAA Revenue Requirement	Final Approved Rev. Req.	Incremental Rate Case Expense	Gross-Up Factor	Grossed- Up Rate Case Expense	PAA Period Rev. Req.	PAA Excess	Refund %
Water Band 1	$2,583,658	$2,556,973	$82,218	0.955	$86,779	$2,470,194	$113,464	4.59%
WW Band 1	480,026	462,187	14,619	0.955	15,430	446,758	33,268	7.45%
Water Band 2	1,475,934	1,474,868	36,565	0.955	38,593	1,436,275	39,659	2.76%
WW Band 2	3,677,914	3,572,176	67,035	0.955	70,754	3,501,421	176,493	5.04%
Water Band 3	916,643	916,643	22,333	0.955	23,572	893,071	23,572	2.64%
WW Band 3	910,394	894,944	8,243	0.955	8,700	886,244	24,150	2.72%
Water Band 4	4,815,858	4,807,804	101,592	0.955	107,228	4,700,576	115,282	2.45%
WW Band 4	496,555	495,850	4,086	0.955	4,313	491,537	5,018	1.02%
Breeze Hill Water	63,157	62,926	1,726	0.955	1,822	61,104	2,053	3.36%
Breeze Hill Sewer	65,943	63,181	1,726	0.955	1,822	61,359	4,584	7.47%
Fairways Water	178,157	177,686	6,305	0.955	6,655	171,031	7,126	4.17%
Fairways WW	181,504	181,253	3,241	0.955	3,421	177,833	3,671	2.06%
Peace River Water	100,722	109,438	1,339	0.955	1,413	108,026	(7,304)	No Refund
Peace River WW	97,982	95,217	1,268	0.955	1,338	93,879	4,103	4.37%
TOTAL	$16,044,446	$15,871,146	$352,296		$371,841	$15,499,304	$545,141	

F. Four-Year Rate Reduction (this docket)

Section 367.0816, F.S., requires rates to be reduced immediately following the expiration of the four-year amortization period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of total company revenues of $293,508 for water and $128,356 for wastewater associated with the amortization of rate case expense and the return on the provision included in working capital, as well as the gross-up for regulatory assessment fees. The reduction in revenues will result in the rate reduction shown on Schedules 5-A and 5-B.

OPC has requested that amortization of the rate case expense incurred in the instant case not begin until after the amortization of the rate case expense from the 2008 case has been fully recovered. As noted above, this will occur after March 31, 2013. However, OPC was unable to identify any statutory or rule support for this treatment. While we are sympathetic to the parties' concerns over the "pancaking" of rate case expense, there is no justification or legal basis to implement OPC's recommended treatment. Therefore, this request is denied.

AUF shall file revised tariff sheets to reflect the approved rates no later than one month prior to the actual date of the required rate reduction. The Utility shall also file a proposed customer notice setting forth the lower rates and the reason for the reduction with the revised tariffs. The approved rates shall be effective for service rendered on or after the stamped

approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), F.A.C. The rates shall not be implemented until our staff has approved the proposed customer notice, and the notice has been received by the customers. The Utility shall provide proof of the date notices were given within ten days of the date the notices were sent.

If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease, and for the reduction in the rates due to the amortized rate case expense. The appropriate reduction was calculated by taking the annual amount of rate case expense and the return on the provision included in working capital allowance, as well as grossed-up for RAFs.

G. Deferred Interim Revenues

In order to minimize the impact of the interim increase on its customers, AUF proposed to defer recovery of a portion of its entitled interim rate relief. By Order No. PSC-10-0707-FOF-WS, we approved AUF's request to recognize the difference between capped and uncapped interim rates over the interim collection period as a regulatory asset to be recovered over a two-year period once final rates are determined. A regulatory asset typically involves a cost incurred by a regulated utility that would normally be expensed currently but for an action by the regulator or legislature to defer the cost as an asset on the balance sheet. This allows a utility to amortize the regulatory asset over a period greater than one year. Further, the Utility stated that it would neither seek to recover interest on this deferred recovery, nor have this amount included in working capital.[153]

Consistent with the approved interim refunds, the approved rate bands and stand-alone systems addressed in previous issues, and an estimated cessation date for the interim collection period of three weeks after the final rate order is issued in this case, we find that total regulatory assets for water and wastewater are $680,222 and $370,331, respectively. Accordingly, the total annual amortization amount for water and wastewater is $228,294 and $124,289, respectively. This is consistent with our decision in the Utility's last case regarding regulatory assets generated from the deferral of interim revenues the Utility was entitled to collect but elected to defer.[154] Each rate band or stand-alone system that generated the regulatory assets shall receive the reduction in annual amortization of their respective regulatory assets. Annual amortization for the applicable systems are reflected on the respective Schedule 4-C. Finally, upon the expiration of the two-year amortization period, the respective systems' rates shall be reduced across-the-board to remove the respective grossed-up annual amortization of the regulatory assets.

The Utility shall file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than 30 days prior to the actual date of the required rate reduction. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), F.A.C. The rates shall not be implemented until our staff has approved the proposed customer notice. AUF shall provide proof of the date notice was given within ten days of the date the notice were sent.

---

[153] See Order No. PSC-10-0707-FOF-WS, p. 4.
[154] See Order No. PSC-09-0385-FOF-WS, pp. 153-155.

If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease, and for the reduction in the rates due to the amortized regulatory asset.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the water and wastewater increase application of Aqua Utilities Florida, Inc., is granted in part and denied in part as set forth in the body of this Order. It is further

ORDERED that each of the findings made in the body of this Order are hereby approved in every respect. It is further

ORDERED that all matters contained in the appendix, attachments and schedules appended hereto are incorporated herein by reference. It is further

ORDERED that Aqua Utilities Florida, Inc. is authorized to charge the new rates and charges as set forth in the body of this Order and the attachments and schedules attached hereto. It is further

ORDERED that Aqua Utilities Florida, Inc. shall file revised water and wastewater tariff sheets and a proposed customer notice to reflect the approved water and wastewater rates. It is further

ORDERED that the approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. It is further

ORDERED that the approved water and wastewater rates shall not be implemented until our staff has approved the proposed customer notice, and Aqua Utilities Florida, Inc. shall provide proof of the date notice was given no less than ten days after the date of the notice. It is further

ORDERED that for the three pro forma projects that were not completed as of the end of the technical testimony, Aqua Utilities Florida, Inc. shall provide certification from the Department of Environmental Protection as to the completion date or date the projects were placed into service. It is further

ORDERED that Aqua Utilities Florida, Inc. shall file a proposed customer notice to reflect the Commission-approved customer deposits. It is further

ORDERED that the approved charges for customer deposits shall be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(1), F.A.C., provided the notice has been approved by staff. It is further

ORDERED that within ten days of the date of the order, Aqua Utilities Florida, Inc. shall provide notice of the tariff changes to all customers. It is further

ORDERED that Aqua Utilities Florida, Inc. shall provide proof the customers have received notice within ten days after the date the notice was sent. It is further

ORDERED that this notice may be combined with the notice for the approved service rates. It is further

ORDERED that the Utility shall refund the excessive water and wastewater interim rates collected for the systems indicated in Table 27 in the body of this Order. It is further

ORDERED that the Utility shall refund the excessive water and wastewater rates collected for having implemented the PAA rates for the systems indicated in Table 28 in the body of this Order. It is further

ORDERED that both these refunds shall be made with interest in accordance with Rule 25-30.360(4), F.A.C. It is further

ORDERED that the Utility shall submit proper refund reports pursuant to Rule 25-30.360(7), F.A.C. The Utility shall treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C. It is further

ORDERED that the corporate undertaking shall be released upon our staff's verification that all the required refunds have been made. It is further

ORDERED that the water and wastewater rates shall be reduced as shown on Tables 25 and 26, respectively, for the rate case expense approved in Docket No. 080121-WS. It is further

ORDERED that the rate reductions for the rate case expense in Docket No. 080121-WS shall be effective as of March 31, 2013. It is further

ORDERED that the water and wastewater rates shall be reduced as shown on Schedules Nos. 5-A and 5-B for each system to remove $293,508 of water and $128,356 of wastewater rate case expense incurred in this docket, grossed up for regulatory assessment fees. It is further

ORDERED that the decrease in rates shall become effective immediately following the expiration of the four-year rate case expense recovery period in this docket. It is further

ORDERED that the individual systems that generated the regulatory assets shall be entitled to receive the benefit of the annual amortization of their respective regulatory assets and that upon the expiration of the two-year amortization period, the respective systems' rates shall be reduced across-the-board to remove the grossed-up annual amortization of the regulatory assets. It is further

ORDERED that for all three reductions, the Utility shall file revised tariff sheets and a proposed customer notice setting forth the lower rates and the reason for the reduction to reflect the approved reduction in rates no later than 30 days prior to the actual date of the required rate reduction. It is further

ORDERED that the approved reductions in rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), F.A.C. It is further

ORDERED that the reductions in rates shall not be implemented until staff has approved the proposed customer notice. The Utility shall provide proof of the date notice was given no less than ten days after the date of the notice. It is further

ORDERED that if the Utility files these reductions in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease, and for the reduction in the rates due to the amortized rate case expense. It is further

ORDERED that the Utility shall be allowed to charge the Allowance for Funds Prudently Invested charge for the Breeze Hill wastewater treatment plant as shown on the table set out in the body of this Order. It is further

ORDERED that Aqua Utilities Florida, Inc., shall submit: (1) the four monthly reports noted in the body of this Order; (2) all warning letters, consent orders, and notices of violation; and (3) the Precautionary Boil Water Notice reports on a quarterly basis for a period of one year from the date of this Final Order as set forth in the body of this order. It is further

ORDERED that if this Final Order is not appealed, this docket shall be closed upon our staff's approval of the tariffs, verification of the required refunds, and the expiration of the time for filing an appeal.

By ORDER of the Florida Public Service Commission this 5th day of March, 2012.

/s/ Ann Cole
ANN COLE
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399
(850) 413-6770
www.floridapsc.com

Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

RRJ

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water and/or wastewater utility by filing a notice of appeal with the Office of Commission Clerk, and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

Appendix

A. Issues Not in Dispute Deemed Stipulated Pursuant to S. 120.80(13)(b), Florida Statutes

(The issues are numbered as designated in the staff proposed agency action recommendation dated May 12, 2011, and approved by this 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.

Rate Band/System	Land	Working Capital	O&M Expense
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	$160,093	$79,006	($255,390)

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 shall be decreased by $137,060 for water and by $565,288 for wastewater. Accordingly, accumulated depreciation shall be increased by $102,867 for water and $85,016 for wastewater, and depreciation expense shall be decreased by $21,698 for water and $36,524 for wastewater. Moreover, the Utility's

property taxes shall be decreased by $6,399 for water and $11,972 for wastewater. The specific rate band and system adjustments are set forth below.

Trucks			
Rate Band/System	MFR Amount	Documented Amount	Adjustment
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	$200,278	$176,667	($23,611)

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

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

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

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

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.

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

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

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
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
Valencia Terrace	100
Wootens	100

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.

PAA 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 the table below:

Band	Adjustment
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)

Band	Adjustment
Fairways - Water	(11,701)
Fairways - Wastewater	(15,527)
Peace - Water	(4,606)
Peace - Wastewater	(4,792)
Total:	($1,153,548)

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 shall 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:

Rate Band/System	O&M Expense
Water Band 1	($2,136)
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:

System	Sludge	Accounting	Legal
Water Band 1	N/A	($713)	($3,794)
Water Band 2	N/A	(133)	(708)
Water Band 3	N/A	(324)	(1,725)
Water Band 4	N/A	(556)	(2,958)
Wastewater Band 1	(985)	(201)	(1,068)
Wastewater Band 2	(8,313)	(72)	(383)
Wastewater Band 3	(102)	(872)	(4,644)
Wastewater Band 4	(744)	(12)	(61)
Breeze Hill - Water	N/A	(16)	(85)
System	Sludge	Accounting	Legal
Breeze Hill - Wastewater	(59)	(16)	(85)
Fairways - Water	N/A	(41)	(216)
Fairways - Wastewater	(534)	(31)	(162)
Peace River - Water	N/A	(13)	(67)
Peace River - Wastewater	(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:

System	Health Insurance	Purchased Water	Sludge Hauling
Water Rate Band 1	$2,185	$0	N/A
Water Rate Band 2	791	0	N/A
Water Rate Band 3	442	0	N/A
Water Rate Band 4	2,867	(40,121)	N/A
Wastewater Rate Band 1	236	N/A	0
Wastewater Rate Band 2	2,325	N/A	0
Wastewater Rate Band 3	203	N/A	0
Wastewater Rate Band 4	615	N/A	0
Breeze Hill - Water	22	0	N/A
Breeze Hill - Wastewater	30	N/A	(1,688)
Fairways - Water	48	0	N/A
Fairways - Wastewater	33	N/A	0
Peace River - Water	19	0	N/A
Peace River - Wastewater	14	N/A	0
Total	$9,831	($40,121)	($1,688)

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

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

B. Type B Stipulations Are Issues to Which AUF and Staff Agree and the Intervenors Take No Position

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

STIPULATION: AUF and staff agree that the appropriate leverage formula to use is the leverage formula in effect when the Commission makes its final decision.

Attachment 1
(Page 1 of 2)

		Water Treatment Plant U&U															
		FRC (gpm or gpd)		Peak Day (gpm or gpd)		EUW (gpm or gpd)		FF (gpm or gpd)		Growth		U&U Percentages				Commission Approved	Comments
		AUF	OPC	AUF	OPC	AUF	OPC	AUF	OPC	AUF	OPC	DKT 080121	PAA/AUF	AUF calc.	OPC calc.		
1	Jasmine Lakes															100	Stipulation
	Kings Cove															100	Stipulation
	Ocala Oaks															100	Stipulation
	Picciola Island	150	150	79	79	0.00	0.00	0	0	1.06	1.06	75.00	75.00	52.73	56.00	75	Prior Order; Growth
	Silver Lake Est/Western Sh	1,944,000	1,944,000	1,440,000	1,440,100	0	0	90,000	0	1.00	1.00	93.71	94.00	77.18	74.00	94	Prior Order; AUF
	Tangerine															100	Stipulation
	Band 1																
	Composite U&U%												97.58			97.55	
2	Carlton Village	200	200	153	153	0.00	0.00	0	0	1.19	1.19	95.00	95.00	76.72	91.00	95	Prior Order; Growth
	Fern Terrace	0	180	122	122	0	0	0	0	1.00	1.00	100.00	100.00	0.00	66.00	100	One well system
	Grand Terrace															100	Stipulation
	Lake Gibson Estates															100	Stipulation
	Piney Woods															100	Stipulation
	Sunny Hills															91	Stipulation
	Valencia Terrace															100	Stipulation
	Band 2																
	Composite U&U%												97.31			97.31	
3	48 Estates															100	Stipulation
	Gibsonia Estates															61	Stipulation
	Interlachen/Pk Manor	172,800	172,800	131,770	131,764	136	136	0	0	1.00	1.00	100.00	100.00	76.26	76.00	100	Prior Order
	Lake Osborne Estates															NA	Purchased water
	Orange Hill/Sugar Crk															100	Stipulation
	Quail Ridge															100	Stipulation
	Ravenswood															100	Stipulation
	Venetian Village	100	100	58	58	0.00	0.00	0	0	1.08	1.08	74.00	74.00	57.72	83.00	74	Prior Order; Growth
	Band 3																
	Composite U&U%												89.22			89.16	

Attachment 1
(Page 2 of 2)

		Water Treatment Plant U&U															
		FRC (gpm or gpd)		Peak Day (gpm or gpd)		IUW (gpm or gpd)		FF (gpm or gpd)		Growth		U&U Percentages				Commission Approved	
		AUF	OPC	AUF	OPC	AUF	OPC	AUF	OPC	AUF	OPC	DKT 080121	PAA/AUF	AUF calc.	OPC calc.		Comments
4	Arredondo Estates	480	120	97	98	1.53	1.50	0	0	1.00	1.00	100.00	100.00	19.81	80.00	100	Prior Order; OPC capacity
	Arredondo Farms	250	250	151	151	0.00	0.00	0	0	1.00	1.00	100.00	100.00	60.56	61.00	100	Prior Order
	Beecher's Point															NA	Purchased Water
	East Lake Harris/Friendly Cir	0	100	41	41	0.00	0.00	0	0	1.00	1.00	100.00	100.00	0.00	41.00	100	Prior Order; Built out
	Haines Creek															100	Stipulation
	Harmony Homes															100	Stipulation
	Hermits Cove/St. Johns High															31	Stipulation
	Hobby Hills	150	150	62	62	0.00	0.00	41.67	0	1.00	1.00	100.00	100.00	41.12	41.00	100	Prior Order; Built out
	Holiday Haven															NA	Purchased Water
	Imperial Mobile															100	Stipulation
	Jungle Den															NA	Purchased Water
	Kingswood															NA	Purchased Water
	Lake Josephine/Sebring Lakes	1,180,800	1,564,800	398,760	398,760	0	0	0	0	1.00	1.00	92/45	85.00	35.97	25.00	85	Prior Order Weighted Average
	Lake Suzy															NA	Purchased Water
	Leisure Lakes															100	Stipulation
	Morningview															100	Stipulation
	Oakwood															NA	Purchased Water
	Palm Port															100	Stipulation
	Palm Terrace															NA	Purchased Water
	Palms Mobile Home Park															100	Stipulation
	Pomona Park															100	Stipulation
	River Grove															100	Stipulation
	Roselle Oaks	250	177	22	22	0.01	0	41.67	0	1.00	1.00	100.00	100.00	0.00	12.00	100	One well system
	Silver Lake Oaks															100	Stipulation
	Skycrest															100	Stipulation
	Stone Mountain															100	Stipulation
	Summit Chase															100	Stipulation
	The Woods															100	Stipulation
	Tomoka	264,000	267,280	113,100	113,100	2,160	2,160	0	0	1.00	1.00	100.00	100.00	42.02	43.00	100	Prior Order
	Twin Rivers	0	267,280	61,131	61,131	442	669		0	1.00	1.00	100.00	100.00	0.00	24.00	100	One well system
	Village Water															NA	Purchased Water
	Welaka	72,960	72,960	49,940	49,940	0	0	0	0	1.08	1.08	79.72	80.00	73.78	74.00	80	Prior Order; Growth
	Wootens															100	Stipulation
	Zephyr Shores	530	500	131	130	1.16	1.2	0	0	1.00	1.00	100.00	100.00	26.16	26.00	100	Prior Order; Built out; OPC capacity
	Bank 4																
	Composite U&U%												94.43			93.02	
	Breeze Hill	0	177	48	48	0.48	0.50	0	0	1.00	1.00	NA	100.00	0.00	28.00	100	One well system
	Fairways															100	Stipulation
	Peace River															100	Stipulation

Attachment 2
(Page 1 of 2)

Water Distribution										
					U&U Percentages				Commission	
		Customers	Lots with lines	Growth	Dkt 080121	PAA /AUF	AUF calc.	OPC calc.	Approved	Comments
1	Jasmine Lakes	1,511							100	Stipulation
	Kings Cove	204							100	Stipulation
	Ocala Oaks	1,785							100	Stipulation
	Picciola Island	160							80	Stipulation
	Silver Lake Est/Western Sh	1,596	1,764	1.00	100.00	100.00	90.50	88.00	100	Prior Order
	Tangerine	289							60	Stipulation
	Total Customers Band 1	5,545								
	Composite U&U%					97.46			97.34	
2	Carlton Village	283							47	Stipulation
	Fern Terrace	123							100	Stipulation
	Grand Terrace	111							100	Stipulation
	Lake Gibson Estates	826							100	Stipulation
	Piney Woods	180	213	1.00	100.00	100.00	84.50	89.00	100	Prior Order
	Sunny Hills	578	6,384	1.14	13.00	13.00	10.30	11.00	10	AUF Calculation
	Valencia Terrace	359							100	Stipulation
	Total Customers Band 2	2,460								
	Composite U&U%					73.48			72.76	
3	48 Estates	87							85	Stipulation
	Gibsonia Estates	202	206	1.00	100.00	100.00	98.10	84.00	100	Prior Order
	Interlachen/Pk Manor	292	375	1.00	83.00	83.00	77.90	79.00	78	AUF Calculation
	Lake Osborne Estates	461							100	Stipulation
	Orange Hill/Sugar Crk	246	273	1.00	100.00	100.00	90.10	94.00	100	Prior Order
	Quail Ridge	94							100	Stipulation
	Ravenswood	46	54	1.00	100.00	100.00	85.20	88.00	100	Prior Order
	Venetian Village	172	219	1.08	72.63	85.00	84.80	81.00	85	AUF Calculation
	Total Customers Band 3	1,600								
	Composite U&U%					94.59			93.66	

Attachment 2
(Page 2 of 2)

					Water Distribution					
					U&U Percentages				Commission	
		Customers	Lots with lines	Growth	Dkt 080121	PAA /AUF	AUF calc.	OPC calc.	Approved	Comments
4	Arredondo Estates	252	538	1.00	100.00	100.00	46.80	90.00	100	Prior Order; AUF customers
	Arredondo Farms	352							88	Stipulation
	Beecher's Point	52	93	1.00	100.00	100.00	58.90	58.00	100	Prior Order
	East Lake Harris/Friendly Ctr	200							100	Stipulation
	Haines Creek	108							100	Stipulation
	Harmony Homes	60							100	Stipulation
	Hermits Cove/St. Johns High	284							80	Stipulation
	Hobby Hills	96							100	Stipulation
	Holiday Haven	125							76	Stipulation
	Imperial Mobile	247							100	Stipulation
	Jungle Den	114							100	Stipulation
	Kingswood	66	66	1.00	100.00	100.00	100.00	98.00	100	Prior Order
	Lake Josephine/Sebring Lake	561							55	Stipulation
	Lake Suzy	566							100	Stipulation
	Leisure Lakes	281							84	Stipulation
	Morningview	40							100	Stipulation
	Oakwood	281	282	1.00	97.00	100.00	83.90	98.00	100	Built out
	Palm Port	109	120	1.00	100.00	100.00	90.80	94.00	100	Prior Order
	Palm Terrace	1,194							100	Stipulation
	Palms Mobile Home Park	84	79	1.00	88.00	88.00	81.00	79.00	88	Prior Order
	Pomona Park	159							51	Stipulation
	River Grove	113	114	1.00	100.00	100.00	99.10	99.00	100	Prior Order
	Roselle Oaks	100	125	1.00	100.00	100.00	80.00	80.00	100	Prior Order
	Silver Lake Oaks	46	53	1.00	66.00	87.00	86.80	83.00	87	AUF Calculation
	Skycrest	122	135	1.00	100.00	100.00	90.40	93.00	100	Prior Order
	Stone Mountain	10	22	1.00	54.00	54.00	45.50	48.00	46	AUF Calculation
	Summit Chase	215							100	Stipulation
	The Woods	80	106	1.00	46.00	76.00	75.50	70.00	76	AUF Calculation
	Tomoka	186							100	Stipulation
	Twin Rivers	78	80	1.00	100.00	100.00	97.50	98.00	100	Prior Order
	Village Water	190	220	1.00	100.00	100.00	86.40	86.00	100	Prior Order
	Welaka	164	343	1.08	49.00	52.00	51.50	51.00	52	AUF Calculation
	Wootens	23	54	1.00	66.00	66.00	42.60	43.00	66	Prior Order
	Zephyr Shores	525							100	Stipulation
	Total Customers Band 4	7,073								
	Composite U&U%					91.10			91.10	
	Breeze Hill	126	132	1.00	NA	100.00	97.00	92.00	100	Prior Order
	Fairways	241							100	Stipulation
	Peace River	107	131	1.00	NA	100.00	81.70	79.00	100	Built out
	Total Customers	17,154								

Attachment 3

Wastewater Treatment Plant Used and Useful															
Rate	System	Capacity		Demand		E I/I		Growth		U&U Percentages				Commission	
Band		AUF	OPC	AUF	OPC	AUF	OPC	AUF	OPC	Dkt 080121	PAA/AUF	AUF calc.	OPC calc.	Approved	Comments
	Kings Cove	55,000	55,000	25,880	25,500	0	0	1.00	1.00	100.00	100	47.05	46.00	100	Prior Order
	Leisure Lakes	50,000	50,000	16,129	16,117	0	0	1.00	1.00	39.00	39	32.26	32.00	38	Prior Order
	Summit Chase	54,000	54,000	19,895	18,333	0	0	1.00	1.00	100.00	100	36.47	36.00	100	Prior Order
	Valencia Terrace	80,000	80,000	30,862	30,333	0	0	1.06	1.06	100.00	100	41.03	40.00	100	Prior Order; Growth
	Total Customers Band 1														
	Composite										83.35			83.23	
2	Arredondo Farms	60,000	60,000	40,485	39,667	0	0	1.00	1.00	100.00	100	67.47	66.00	100	Prior Order
	Holiday Haven	25,000	25,000	19,758	19,758	4,227	4,227	1.00	1.00	75.00	75	62.12	62.00	62	AUF/OPC Calculation
	Jasmine Lakes													100	Stipulation
	Lake Suzy													100	Stipulation
	Morningview	20,000	20,000	5,808	5,750	0	0	1.14	1.15	100.00	100	32.97	33.00	100	Prior Order; Growth
	Palm Port	30,000	30,000	17,566	17,333	2,085	2,054	1.00	1.00	58.00	58	58.62	51.00	58	Prior Order
	Palm Terrace													100	Stipulation
	Park Manor													100	Stipulation
	Silver Lake Oaks	15,000	12,000	4,528	4,417	348	340	1.00	1.00	42.00	42	27.87	34.00	42	Prior Order; OPC capacity
	South Seas	264,000	264,000	103,726	104,917	0	0	1.00	1.00	100.00	100	39.29	40.00	100	Prior Order
	Sunny Hills	50,000	50,000	11,622	11,583	0	0	1.00	1.00	49.00	49	23.24	23.00	49	Prior Order
	The Woods	15,000	15,000	12,000	10,000	753	911	1.00	1.00	100.00	100	74.98	61.00	100	Prior Order
	Venetian Village	36,000	36,000	29,039	28,667	11,193	11,051	1.00	1.00	100.00	100	49.57	49.00	100	Prior Order
	Zephyr Shores													NA	Purchased wastewater
	Total Customers Band 2														
	Composite										95.38			94.58	
3	Beecher's Point													NA	Purchased wastewater
	Jungle Den	21,000	21,000	15,153	15,083	0	7,391	1.00	1.00	100.00	100	72.16	37.00	100	Prior Order
	Lake Gibson Estates													NA	Purchased wastewater
	Rosalie Oaks	15,000	15,000	11,969	11,333	3,460	3,770	1.00	1.00	100.00	100	56.72	50.00	100	Prior Order
	Total Customers Band 3														
	Composite										100.00			100.00	
4	Florida Central Comm Pk	95,000	95,000	44,418	41,917	3,154	3,154	1.00	1.00	100.00	100	43.43	41.00	100	Prior Order
	Village Water	75,000	75,000	55,828	45,667	0	0	1.06	1.06	45.00	79	76.93	64.00	79	AUF calculation
	Total Customers Band 4														
	Composite										92.40			93.12	
	Breeze Hill	40,000	40,000	38,344	27,417	17,912	17,931	1.00	1.00	NA	56	95.86	24.00	56	Prior Order
	Fairways	75,000	75,000	29,959	31,500	0	0	1.00	1.00	NA	100	39.95	42.00	100	Built out
	Peace River	40,000	40,000	27,367	34,333	5,595	6,773	1.00	1.00	NA	100	54.43	56.00	100	Built out; OPC demand

Attachment 4

	Wastewater Collection									
						U&U Percentages			Commission	
		Customers	Lots with lines	Growth	Dkt 080121	PAA/AUF	AUF calc.	OPC calc.	Approved	Comments
1	Kings Cove	195							100	Stipulation
	Leisure Lakes	283							86	Stipulation
	Summit Chase	213							100	Stipulation
	Valencia Terrace	355							100	Stipulation
	Total Customers Band 1	1,046								
	Composite U&U%					95.91			95.94	
2	Arredondo Farms	344							100	Stipulation
	Holiday Haven	111	162	1.00	75.00	75.00	68.50	69.00	69	Prior Order
	Jasmine Lakes	1,503							100	Stipulation
	Lake Suzy	264							100	Stipulation
	Morningview	36							100	Stipulation
	Palm Port	109							91	Stipulation
	Palm Terrace	993							100	Stipulation
	Park Manor	28							100	Stipulation
	Silver Lake Oaks	46	53	1.00	66.00	87.00	66.80	83.00	87	
	South Seas	78							100	Stipulation
	Sunny Hills	186	517	1.00	36.00	55.00	55.30	36.00	55	AUF customers
	The Woods	73	103	1.00	60.00	71.00	70.90	61.00	71	
	Venetian Village	94							100	Stipulation
	Zephyr Shores	526							100	Stipulation
	Total Customers Band 2	4,391								
	Composite U&U%					98.93			98.47	
3	Beecher's Point	17	46	1.00	100.00	100.00	37.00	45.00	100	Prior Order
	Jungle Den	143	102	1.00	100.00	100.00	140.20	87.00	100	Prior Order
	Lake Gibson Estates	316							100	Stipulation
	Rosalie Oaks	99	125	1.00	100.00	100.00	79.20	93.00	100	Prior Order
	Total Customers Band 3	575								
	Composite U&U%					100.00			100.00	
4	Florida Central Comm Pk	78							100	Stipulation
	Village Water	38	70	1.06	47.00	58.00	57.60	42.00	58	
	Total Customers Band 4	116								
	Composite U&U%					84.81			86.24	
	Breeze Hill	127	132	1.00	100.00	100.00	96.20	94.00	100	
	Fairways	240	244	1.00	NA	100.00	98.40	99.00	100	
	Peace River	100	126	1.00	NA	100.00	80.00	79.00	100	
	Total Customers	6,595								

Aqua Utilities Florida, Inc. **Schedule No. 1**
Capital Structure- 13-Month Average **Docket No. 100330-WS**
Test Year Ended 4/30/10

	Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	% Ratio	Cost Rate	Weighted Cost
Per Utility									
1	Long-term Debt	$26,952,309	$0	$26,952,309	($13,447,035)	$13,505,274	37.16%	5.10%	1.89%
2	Short-term Debt	0	0	0	0	$0	0.00%	0.00%	0.00%
3	Preferred Stock	0	0	0	0	$0	0.00%	0.00%	0.00%
4	Common Equity	42,549,814	0	42,549,814	(21,228,937)	$21,320,877	58.66%	9.76%	5.73%
5	Customer Deposits	84,294	0	84,294	(33,594)	$50,700	0.14%	6.00%	0.01%
6	Deferred Income Taxes	1,456,472	0	1,456,472	14,449	$1,470,921	4.05%	0.00%	0.00%
7	**Total Capital**	$71,042,890	$0	$71,042,890	($34,695,117)	$36,347,773	100.00%		7.63%
Per Commission									
8	Long-term Debt	$26,952,309	$0	$26,952,309	($14,272,236)	$12,680,073	36.27%	5.10%	1.85%
9	Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%
11	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
11	Common Equity	42,549,814	160,093	42,709,907	(22,616,462)	20,093,445	57.48%	9.26%	5.32%
12	Customer Deposits	84,294	(33,594)	50,700	0	50,700	0.15%	6.00%	0.01%
13	Deferred Income Taxes	1,456,472	677,431	2,133,903	0	2,133,903	6.10%	0.00%	0.00%
14	**Total Capital**	$71,042,889	$803,930	$71,846,819	($36,888,697)	$34,958,122	100.00%		7.18%

	LOW	HIGH
RETURN ON EQUITY	8.76%	10.76%
OVERALL RATE OF RETURN	6.89%	8.04%

Aqua Utilities Florida, Inc. **Schedule No. 2**
Docket No. 100330-WS

SUMMARY OF OPERATING REVENUES BY RATE BAND & SYSTEM	Test Year Per Utility	Utility Requested $ Increase	Utility Requested % Increase	Utility Requested Rev Req	Comm Adjusted Test Year	Comm Approved $ Increase	Comm Approved % Increase	Comm Approved Rev Req
Water Rate Band 1	$2,275,576	$590,657	25.96%	$2,866,233	$2,199,070	$357,902	16.28%	$2,556,973
Water Rate Band 2	1,219,629	400,459	32.83%	$1,620,088	1,200,915	273,953	22.81%	1,474,868
Water Rate Band 3	910,056	6,587	0.72%	$916,643	907,847	8,796	0.97%	916,643
Water Rate Band 4	3,618,129	1,454,330	40.20%	$5,072,459	3,816,247	991,557	25.98%	4,807,804
Breeze Hill - Water	30,232	36,525	120.82%	66,757	30,953	31,973	103.29%	62,926
Fairways - Water	136,226	73,075	53.64%	209,301	134,652	43,034	31.96%	177,686
Peace River - Water	65,818	45,228	68.72%	111,046	67,825	41,614	61.35%	109,438
TOTAL WATER	$8,255,666	$2,606,861	31.58%	$10,862,527	$8,357,510	$1,748,828	20.93%	$10,106,338
Wastewater Rate Band 1	$375,720	$151,076	40.21%	$526,796	$377,734	$84,454	22.36%	$462,187
Wastewater Rate Band 2	3,360,115	556,647	16.57%	$3,916,762	3,404,103	168,073	4.94%	3,572,176
Wastewater Rate Band 3	401,648	523,730	130.40%	$925,378	420,068	474,876	113.05%	894,944
Wastewater Rate Band 4	490,352	70,073	14.29%	$560,425	510,420	(14,570)	-2.85%	495,850
Breeze Hill - Sewer	35,049	60,183	171.71%	95,232	36,088	27,093	75.08%	63,181
Fairways - Sewer	79,634	115,633	145.21%	195,267	80,439	100,815	125.33%	181,253
Peace River - Sewer	82,013	21,614	26.35%	103,627	79,287	15,930	20.09%	95,217
TOTAL WASTEWATER	$4,824,531	$1,498,956	31.07%	$6,323,487	$4,908,138	$856,670	17.45%	$5,764,808
TOTAL WATER AND WASTEWATER	$13,080,197	$4,105,817	31.39%	$17,186,014	$13,265,648	$2,605,499	19.64%	$15,871,146

Aqua Utilities Florida, Inc. - Water Band 1 **Schedule No. 3-A**
Schedule of Water Rate Base **Docket No. 100330-WS**
Test Year Ended 4/30/10

	Description	Test Year Per Utility	Utility Adjust-ments	Adjusted Test Year Per Utility	Comm. Adjust-ments	Comm. Adjusted Test Year
1	Plant in Service	$8,198,647	$955,509	$9,154,156	($259,305)	$8,894,851
2	Land and Land Rights	133,696	0	133,696	0	133,696
3	Non-used and Useful Components	0	(74,835)	(74,835)	1,356	(73,479)
4	Accumulated Depreciation	(2,745,485)	(139,641)	(2,885,126)	9,306	(2,875,820)
5	CIAC	(1,889,160)	0	(1,889,160)	0	(1,889,160)
6	Amortization of CIAC	1,144,561	1,742	1,146,303	0	1,146,303
7	Working Capital Allowance	0	752,658	752,658	(127,840)	624,818
8	Rate Base	$4,842,259	$1,495,433	$6,337,692	($376,483)	$5,961,209

Aqua Utilities Florida, Inc. - Wastewater Band 1 **Schedule No. 3-B**
Schedule of Wastewater Rate Base **Docket No. 100330-WS**
Test Year Ended 4/30/10

	Description	Test Year Per Utility	Utility Adjustments	Adjusted Test Year Per Utility	Commission Adjustments	Commission Adjusted Test Year
1	Plant in Service	$1,484,256	$193,113	$1,677,369	($17,418)	$1,659,951
2	Land and Land Rights	108,974	0	108,974	0	108,974
3	Non-used and Useful Components	0	(53,635)	(53,635)	(7,748)	(61,383)
4	Accumulated Depreciation	(910,328)	(45,039)	(955,367)	(6,353)	(961,720)
5	CIAC	(619,088)	0	(619,088)	0	(619,088)
6	Amortization of CIAC	436,809	0	436,809	0	436,809
7	Working Capital Allowance	0	155,468	155,468	(24,168)	131,300
8	Rate Base	$500,623	$249,907	$750,530	($55,687)	$694,843

Aqua Utilities Florida, Inc. - Band 1 for Water and Wastewater | **Schedule No. 3-C**
Adjustments to Rate Base | **Docket No. 100330-WS**
Test Year Ended 4/30/10

	Explanation	Water	Wastewater
	Plant In Service		
1	Type A Approved Stipulations.	($239,872)	($9,224)
2	Reflect the appropriate amount of pro forma projects. (Issue 3)	0	0
3	Appropriate affiliate-allocation plant costs. (Issue 18)	(19,433)	(8,194)
	Total	($259,305)	($17,418)
	Non-used and Useful		
	To reflect net non-used and useful adjustment. (Issues 4-7)	$1,356	($7,748)
	Accumulated Depreciation		
1	Type A Approved Stipulations.	($24,174)	($12,936)
2	Reflect the appropriate amount of pro forma projects. (Issue 3)	0	0
3	Appropriate affiliate-allocation plant costs. (Issue 18)	33,480	6,583
	Total	$9,306	($6,353)
	Working Capital		
1	Type A Approved Stipulations.	($269,868)	($50,381)
2	To amortize Phase I Monitoring Plan Costs. (Issue 1)	14,047	2,497
3	Reflect appropriate deferred rate case expense. (Issue 8)	127,981	23,716
	Total	($127,840)	($24,168)

Aqua Utilities Florida, Inc. - Water Band 1
Statement of Water Operations
Test Year Ended 4/30/10

Schedule No. 4-A
Docket No. 100330-WS

	Description	Test Year Per Utility	Utility Adjustments	Adjusted Test Year Per Utility	Comm. Adjustments	Comm. Adjusted Test Year	Revenue Increase	Revenue Requirement
1	**Operating Revenues:**	$2,275,576	$590,657	$2,866,233	($667,163)	$2,199,070	$357,902 16.28%	$2,556,973
	Operating Expenses							
2	Operation & Maintenance	$1,302,923	$244,702	$1,547,625	($157,130)	$1,390,495		$1,390,495
3	Depreciation	269,400	103,592	372,992	(46,910)	326,082		326,082
4	Amortization	0	10,667	10,667	0	10,667		10,667
5	Taxes Other Than Income	228,179	3,370	231,549	(37,216)	194,333	16,106	210,439
6	Income Taxes	183,260	41,636	224,896	(162,167)	62,729	128,618	191,347
7	**Total Operating Expense**	1,983,762	403,967	2,387,729	(403,423)	1,984,306	144,724	2,129,029
8	**Operating Income**	$291,814	$186,690	$478,504	($263,739)	$214,765	$213,179	$427,943
9	**Rate Base**	$4,842,259		$6,337,692		$5,961,209		$5,961,209
10	**Rate of Return**	6.03%		7.55%		3.60%		7.18%

Aqua Utilities Florida, Inc. - Wastewater Band 1 | **Schedule No. 4-B**
Statement of Wastewater Operations | **Docket No. 100330-WS**
Test Year Ended 4/30/10

	Description	Test Year Per Utility	Utility Adjustments	Adjusted Test Year Per Utility	Comm. Adjustments	Comm. Adjusted Test Year	Revenue Increase	Revenue Requirement
1	**Operating Revenues:**	$375,720	$151,076	$526,796	($149,062)	$377,734	$84,454 22.36%	$462,187
	Operating Expenses							
2	Operation & Maintenance	$329,918	$45,771	$375,689	($42,368)	$333,321		$333,321
3	Depreciation	5,577	20,252	25,829	(7,887)	17,942		17,942
4	Amortization	0	3,423	3,423	0	3,423		3,423
5	Taxes Other Than Income	23,402	15,504	38,906	(7,390)	31,516	3,800	35,317
6	Income Taxes	6,490	20,015	26,505	(34,551)	(8,046)	30,350	22,304
7	**Total Operating Expense**	365,387	104,965	470,352	(92,196)	378,156	34,150	412,306
8	**Operating Income**	$10,333	$46,111	$56,444	($56,866)	($422)	$50,304	$49,881
9	**Rate Base**	$500,623		$750,530		$694,843		$694,843
10	**Rate of Return**	2.06%		7.52%		-0.06%		7.18%

	Aqua Utilities Florida, Inc. - Band 1 for Water and Wastewater Adjustment to Operating Income Test Year Ended 4/30/10	Schedule No. 4-C Docket No. 100330-WS	
	Explanation	Water	Wastewater
	Operating Revenues		
1	Remove requested final revenue increase.	($567,301)	($151,605)
2	Reflect appropriate amount of annualized revenues. (Issue 15)	(99,862)	2,543
	Total	($667,163)	($149,062)
	Operation and Maintenance Expense		
1	Type A Approved Stipulations.	($54,035)	($8,863)
2	To amortize Phase I Monitoring Plan Costs. (Issue 1)	(14,047)	(2,497)
3	Reflect effect of additional AAI customers. (Issue 16)	(6,970)	(1,251)
4	Reflect appropriate affiliate-allocation expenses. (Issue 17)	(63,748)	(26,074)
5	Remove executive incentive compensation. (Issue 19)	(10,771)	(2,011)
6	Reflect amount of salaries & wages. (Issue 20)	(32,530)	(6,439)
7	Reflect appropriate amount of bad debt expense. (Issue 21)	(18,134)	(2,900)
8	Reflect appropriate amount of rate case expense. (Issue 22)	43,104	7,667
	Total	($157,130)	($42,368)
	Depreciation Expense - Net		
1	Type A Approved Stipulations.	($13,756)	($1,074)
2	Reflect the appropriate amount of pro forma projects. (Issue 3)	0	0
3	Reflect appropriate non-U&U depreciation expense. (Issues 4-7)	326	(231)
4	Appropriate affiliate-allocation plant costs. (Issue 18)	(33,480)	(6,583)
	Total	($46,910)	($7,887)
	Amortization-Other Expense		
	Appropriate Regulatory Asset. (Issue 38)	$0	$0
	Taxes Other Than Income		
1	RAFs on revenue adjustments above.	($30,022)	($6,708)
2	Type A Approved Stipulations.	(4,275)	(174)
3	Reflect the appropriate amount of pro forma projects. (Issue 3)	0	0
4	Reflect appropriate non-U&U property taxes. (Issues 4-7)	(430)	(15)
5	Reflect corresponding payroll taxes on salaries & wages adjustment. (Issue 20)	(2,489)	0
	Total	($37,216)	($6,897)

Aqua Utilities Florida, Inc. - Water Band 1
Water Monthly Service Rates
Test Year Ended 4/30/10

Schedule No. 5-A
Docket No. 100330-WS

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final	2-year Rate Reduction	4-year Rate Reduction
Residential, General Service and Multi-Family						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	$14.13	$15.64	$17.66	$18.57	N/A	$0.72
3/4"	$21.19	$23.45	$26.48	$27.86	N/A	$1.08
1"	$35.31	$39.08	$44.14	$46.43	N/A	$1.80
1-1/2"	$70.63	$78.16	$88.28	$92.85	N/A	$3.59
2"	$113.01	$125.06	$141.24	$148.56	N/A	$5.75
3"	$226.03	$250.14	$282.49	$297.12	N/A	$11.50
4"	$353.17	$390.84	$441.39	$464.25	N/A	$17.97
6"	$706.33	$781.67	$882.78	$928.50	N/A	$35.93
8"	$1,130.13	$1,250.68	$1,412.44	$1,485.60	N/A	$57.49
10"	$1,624.57	$1,797.86	$2,030.39	$2,135.55	N/A	$82.64
Gallonage Charge RS Tier One	$2.00	$2.21	$6.49	$3.33	N/A	$0.13
Gallonage Charge RS Tier Two	$2.51	$2.78	$9.73	$5.84	N/A	$0.23
Gallonage Charge RS Tier Three	$6.01	$6.65	$12.98	$8.76	N/A	$0.34
Gallonage Charge GS	$3.34	$3.70	$6.98	$4.64	N/A	$0.18
Irrigation						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	$0.00	$0.00	$17.66	$18.84	N/A	$0.73
3/4"	$0.00	$0.00	$26.48	$28.26	N/A	$1.09
1"	$0.00	$0.00	$44.14	$47.10	N/A	$1.82
1-1/2"	$0.00	$0.00	$88.28	$94.20	N/A	$3.65
2"	$0.00	$0.00	$141.24	$150.72	N/A	$5.83
3"	$0.00	$0.00	$282.49	$301.44	N/A	$11.66
4"	$0.00	$0.00	$441.39	$471.00	N/A	$18.23
Gallonage Charge Tier one	$0.00	$0.00	$6.49	$3.33	N/A	$0.13
Gallonage Charge Tier two	$0.00	$0.00	$9.73	$5.84	N/A	$0.23
Gallonage Charge Tier three	$0.00	$0.00	$12.98	$8.76	N/A	$0.34
Private Fire Protection						
Base Facility Charge by Meter Size:						
2"	$9.42	$10.42	$11.77	$12.38	N/A	$0.48
3"	$18.84	$20.85	$23.54	$24.76	N/A	$0.96
4"	$29.44	$32.58	$36.78	$38.69	N/A	$1.50
6"	$58.86	$65.14	$73.57	$77.38	N/A	$2.99
8"	$94.18	$104.23	$117.70	$123.80	N/A	$4.79
10"	$135.38	$149.82	$169.20	$177.96	N/A	$6.89
		Typical Residential Bills 5/8" x 3/4" Meter				
3,000 Gallons	$20.13	$22.27	$37.13	$28.56		
5,000 Gallons	$24.13	$26.69	$50.11	$35.22		
10,000 Gallons	$36.68	$40.59	$95.52	$61.91		

Aqua Utilities Florida, Inc. - Wastewater Band 1
Wastewater Monthly Service Rates
Test Year Ended 4/30/10

Schedule No. 5-B
Docket No. 100330-WS

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final	2-year Rate Reduction	4-year Rate Reduction
Residential						
Base Facility Charge All Meter Sizes:	$17.13	$21.50	$37.87	$23.11	N/A	$0.88
Gallonage Charge - Per 1,000 gallons (6,000 gallon cap)	$4.75	$5.96	$9.53	$7.81	N/A	$0.30
General Service						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	$17.13	$21 .50	$37.87	$0.88	N/A	$0.90
3/4"	$25.70	$32.25	$56.81	$1.32	N/A	$1.35
1"	$42.84	$53.76	$94.68	$2.20	N/A	$2.25
1-1/2"	$85.66	$107.49	$189.36	$4.40	N/A	$4.50
2"	$137.07	$172 .01	$302.97	$7.04	N/A	$7.19
3"	$274.12	$343.99	$605.94	$14.08	N/A	$14.39
4"	$428.00	$537.48	$946.78	$21.99	N/A	$22.48
6"	$856.63	$1 ,074 .98	$1,893.57	$43.99	N/A	$44.96
8"	$1,370.61	$1 ,719.97	$3,029.70	$70.38	N/A	$71.93
10"	$1,970.24	$2,472.44	$4,355.20	$101.17	N/A	$103.40
Gallonage Charge, per 1,000 Gallons	$5.69	$7.14	$11.43	$9.37	N/A	$0.36
Flat Rate Residential						
Valencia Terrace	$32.72	$32.72	$0.00	$1.54	N/A	$1.56
Flat Rate Residential	N/A	N/A	$73.91	N/A	N/A	N/A
Flat Rate General Service	N/A	N/A	$475.78	N/A	N/A	N/A
Reuse per Sprinkler Head	N/A	N/A	$0.50	N/A	N/A	N/A
Typical Residential Bills 5/8" x 3/4" Meter						
3,000 Gallons	$31.38	$39.38	$66.46	$46.54		
5,000 Gallons	$40.88	$51.30	$85.52	$62.16		
10,000 Gallons	$45.63	$57.26	$95.05	$69.97		
(Wastewater Gallonage Cap - 6,000 Gallons)						

Aqua Utilities Florida, Inc. - Water Band 2
Schedule of Water Rate Base
Test Year Ended 4/30/10

Schedule No. 1-A
Docket No. 100330-WS

	Description	Test Year Per Utility	Utility Adjustments	Adjusted Test Year Per Utility	Commission Adjustments	Commission Adjusted Test Year
1	Plant in Service	$6,627,158	$507,678	$7,134,836	$23,352	$7,158,188
2	Land and Land Rights	55,132	0	55,132	0	55,132
3	Non-used and Useful Components	0	(616,233)	(616,233)	(45,682)	(661,915)
4	Accumulated Depreciation	(1,932,975)	(57,867)	(1,990,842)	61,717	(1,929,125)
5	CIAC	(1,231,111)	0	(1,231,111)	0	(1,231,111)
6	Amortization of CIAC	324,656	0	324,656	0	324,656
7	Working Capital Allowance	0	375,622	375,622	(58,639)	316,983
8	**Rate Base**	$3,842,860	$209,200	$4,052,060	($19,252)	$4,032,808

Aqua Utilities Florida, Inc. - Wastewater Band 2 **Schedule No. 3-A**
Schedule of Wastewater Rate Base **Docket No. 100330-WS**
Test Year Ended 4/30/10

	Description	Test Year Per Utility	Utility Adjustments	Adjusted Test Year Per Utility	Commission Adjustments	Commission Adjusted Test Year
1	Plant in Service	$13,928,482	$1,528,184	$15,456,666	($358,486)	$15,098,180
2	Land and Land Rights	490,698	(105,812)	384,886	160,093	544,979
3	Non-used and Useful Components	0	(173,991)	(173,991)	(128,717)	(302,708)
4	Accumulated Depreciation	(6,540,493)	40,349	(6,500,144)	150,203	(6,349,941)
5	CIAC	(2,878,828)	0	(2,878,828)	0	(2,878,828)
6	Amortization of CIAC	1,910,455	0	1,910,455	0	1,910,455
7	Working Capital Allowance	0	607,703	607,703	(60,247)	547,456
8	**Rate Base**	$6,910,314	$1,896,433	$8,806,747	($237,155)	$8,569,592

	Aqua Utilities Florida, Inc. - Band 2 for Water and Wastewater Adjustments to Rate Base Test Year Ended 4/30/10		Schedule No. 3-C Docket No. 100330-WS
	Explanation	Water	Wastewater
	Plant In Service		
1	Type A Approved Stipulations.	$16,594	($359,540)
2	Reflect the appropriate amount of pro forma projects. (Issue 3)	21,004	0
3	Appropriate affiliate-allocation plant costs. (Issue 18)	(14,247)	1,054
	Total	$23,352	($358,486)
	Land		
	Type A Approved Stipulations.	$0	$160,093
	Non-used and Useful		
	To reflect net non-used and useful adjustment. (Issues 4-7)	($45,682)	($128,717)
	Accumulated Depreciation		
1	Type A Approved Stipulations.	$46,180	$125,161
2	Reflect the appropriate amount of pro forma projects. (Issue 3)	(93)	0
3	Appropriate affiliate-allocation plant costs. (Issue 18)	15,630	25,042
	Total	$61,717	$150,203
	Working Capital		
1	Type A Approved Stipulations.	($122,724)	($131,400)
2	To amortize Phase I Monitoring Plan Costs. (Issue 1)	6,244	11,452
3	Reflect appropriate deferred rate case expense. (Issue 8)	57,841	59,701
	Total	($58,639)	($60,247)

Aqua Utilities Florida, Inc. - Water Band 2 | **Schedule No. 4-A**
Statement of Water Operations | **Docket No. 100330-WS**
Test Year Ended 4/30/10

	Description	Test Year Per Utility	Utility Adjustments	Adjusted Test Year Per Utility	Comm. Adjustments	Comm. Adjusted Test Year	Revenue Increase	Revenue Requirement
1	**Operating Revenues:**	$1,219,629	$400,459	$1,620,088	($419,173)	$1,200,915	$273,953 22.81%	$1,474,868
	Operating Expenses							
2	Operation & Maintenance	$693,596	$115,399	$808,995	($82,705)	$726,290		$726,290
3	Depreciation	142,446	32,326	174,772	(17,305)	157,467		157,467
4	Amortization	0	9,125	9,125	0	9,125		9,125
5	Taxes Other Than Income	210,070	(32,147)	177,923	(27,221)	150,702	12,328	163,030
6	Income Taxes	66,934	76,751	143,685	(112,686)	30,999	98,449	129,448
7	**Total Operating Expense**	1,113,046	201,454	1,314,500	(239,917)	1,074,583	110,777	1,185,360
8	**Operating Income**	$106,583	$199,005	$305,588	($179,256)	$126,332	$163,175	$289,507
9	**Rate Base**	$3,842,860		$4,052,060		$4,032,808		$4,032,808
10	**Rate of Return**	2.77%		7.54%		3.13%		7.18%

Aqua Utilities Florida, Inc. - Wastewater Band 2 | **Schedule No. 4-A**
Statement of Wastewater Operations | **Docket No. 100330-WS**
Test Year Ended 4/30/10

	Description	Test Year Per Utility	Utility Adjustments	Adjusted Test Year Per Utility	Comm. Adjustments	Comm. Adjusted Test Year	Revenue Increase	Revenue Requirement
1	**Operating Revenues:**	$3,360,115	$556,647	$3,916,762	($512,659)	$3,404,103	$168,073 4.94%	$3,572,176
	Operating Expenses							
2	Operation & Maintenance	$1,836,745	$184,348	$2,021,093	($170,946)	$1,850,147		$1,850,147
3	Depreciation	439,738	119,387	559,125	(55,199)	503,926		503,926
4	Amortization	0	11,604	11,604	0	11,604		11,604
5	Taxes Other Than Income	225,313	117,092	342,405	(33,737)	308,668	7,563	316,231
6	Income Taxes	331,096	(16,813)	314,283	(99,610)	214,673	60,400	275,073
7	**Total Operating Expense**	2,832,892	415,618	3,248,510	(359,492)	2,889,018	67,963	2,956,982
8	**Operating Income**	$527,223	$141,029	$668,252	($153,168)	$515,084	$100,110	$615,194
9	**Rate Base**	$6,910,314		$8,806,747		$8,569,592		$8,569,592
10	**Rate of Return**	7.63%		7.59%		6.01%		7.18%

	Aqua Utilities Florida, Inc. - Band 2 for Water and Wastewater	**Schedule No. 4-C**	
	Adjustment to Operating Income	**Docket No. 100330-WS**	
	Test Year Ended 4/30/10		
	Explanation	**Water**	**Wastewater**
	Operating Revenues		
1	Remove requested final revenue increase.	($394,294)	($393,645)
2	Reflect appropriate amount of annualized revenues. (Issue 15)	(24,879)	(119,014)
	Total	($419,173)	($512,659)
	Operation and Maintenance Expense		
1	Type A Approved Stipulations.	($26,439)	($92,531)
2	To amortize Phase I Monitoring Plan Costs. (Issue 1)	(6,244)	(11,452)
3	Reflect effect of additional AAI customers. (Issue 16)	(3,113)	(5,632)
4	Reflect appropriate affiliate-allocation expenses. (Issue 17)	(20,378)	(75,857)
5	Remove executive incentive compensation. (Issue 19)	(4,898)	(8,397)
6	Reflect amount of salaries & wages. (Issue 20)	(18,785)	(28,827)
7	Reflect appropriate amount of bad debt expense. (Issue 21)	(22,027)	16,602
8	Reflect appropriate amount of rate case expense. (Issue 22)	19,178	35,148
	Total	($82,705)	($170,946)
	Depreciation Expense - Net		
1	Type A Approved Stipulations.	($424)	($19,609)
2	Reflect the appropriate amount of pro forma projects. (Issue 3)	93	0
3	Reflect appropriate non-U&U depreciation expense. (Issues 4-7)	(1,343)	(10,548)
4	Appropriate affiliate-allocation plant costs. (Issue 18)	(15,630)	(25,042)
	Total	($17,305)	($55,199)
	Amortization-Other Expense		
	Appropriate Regulatory Asset. (Issue 38)	$0	$0
	Taxes Other Than Income		
1	RAFs on revenue adjustments above.	($18,863)	($23,070)
2	Type A Approved Stipulations.	(855)	(6,171)
3	Reflect the appropriate amount of pro forma projects. (Issue 3)	671	0
4	Reflect appropriate non-U&U property taxes. (Issues 4-7)	(6,737)	(2,291)
5	Reflect corresponding payroll taxes on salaries & wages adjustment. (Issue 20)	(1,437)	0
	Total	($27,221)	($31,532)

Aqua Utilities Florida, Inc. - Water Band 2
Water Monthly Service Rates
Test Year Ended 4/30/10

Schedule No. 5-A
Docket No. 100330-WS

	Rate on Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final	2-year Rate Reduction	4-year Rate Reduction
Residential, General Service and Multi-Family						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	$16.29	$18.91	$17.66	$19.17	N/A	$0.57
3/4"	$24.44	$28.37	$26.48	$28.76	N/A	$0.86
1"	$40.73	$47.29	$44.14	$47.93	N/A	$1.43
1-1/2"	$81.46	$94.57	$88.28	$95.85	N/A	$2.86
2"	$130.34	$151.32	$141.24	$153.36	N/A	$4.58
3"	$260.69	$302.66	$282.49	$306.72	N/A	$9.15
4"	$407.31	$472.88	$441.39	$479.25	N/A	$14.30
6"	$814.63	$945.77	$882.78	$958.50	N/A	$28.60
8"	$1,303.41	$1,513.24	$1,412.44	$1,533.60	N/A	$45.76
10"	$1,873.65	$2,175.27	$2,030.39	$2,204.55	N/A	$65.78
Gallonage Charge RS Tier One	$3.82	$4.43	$6.49	$6.55	N/A	$0.20
Gallonage Charge RS Tier Two	$4.77	$5.54	$9.73	$9.83	N/A	$0.29
Gallonage Charge RS Tier Three	$11.46	$13.30	$12.98	$13.10	N/A	$0.39
Gallonage Charge GS	$5.33	$6.19	$6.98	$7.35	N/A	$0.22
Irrigation						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	$0.00	$0.00	$17.66	$19.17	N/A	$0.57
3/4"	$0.00	$0.00	$26.48	$28.76	N/A	$0.86
1"	$0.00	$0.00	$44.14	$47.93	N/A	$1.43
1-1/2"	$0.00	$0.00	$88.28	$95.85	N/A	$2.86
2"	$0.00	$0.00	$141.24	$153.36	N/A	$4.58
3"	$0.00	$0.00	$282.49	$306.72	N/A	$9.15
4"	$0.00	$0.00	$441.39	$479.25	N/A	$14.30
Gallonage Charge Tier one	$0.00	$0.00	$6.49	$6.55	N/A	$0.20
Gallonage Charge Tier two	$0.00	$0.00	$9.73	$9.83	N/A	$0.29
Gallonage Charge Tier three	$0.00	$0.00	$12.98	$13.10	N/A	$0.39
Private Fire Protection						
Base Facility Charge by Meter Size:						
2"	$10.86	$12.61	$11.77	$12.78	N/A	$0.38
3"	$21.72	$25.22	$23.54	$25.56	N/A	$0.76
4"	$33.94	$39.41	$36.78	$39.94	N/A	$1.19
6"	$67.89	$78.81	$73.57	$79.88	N/A	$2.38
8"	$108.61	$126.09	$117.70	$127.80	N/A	$3.81
10"	$156.14	$181.27	$169.20	$183.71	N/A	$5.48
	Typical Residential Bills 5/8" x 3/4" Meter					
3,000 Gallons	$27.75	$32.20	$37.13	$38.82		
5,000 Gallons	$35.39	$41.06	$50.11	$51.92		
10,000 Gallons	$59.24	$68.76	$95.52	$97.79		

Aqua Utilities Florida, Inc. - Wastewater Band 2 | **Schedule No. 5-B**
Wastewater Monthly Service Rates | **Docket No. 100330-WS**
Test Year Ended 4/30/10

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final	2 year Rate Reduction	4 year Rate Reduction
Residential						
Base Facility Charge All Meter Sizes:	$35.44	$35.44	$37.87	$34.38	N/A	$0.78
Gallonage Charge - Per 1,000 gallons (6,000 gallon cap)	$7.11	$7.11	$9.53	$8.86	N/A	$0.20
General Service						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	$35.44	$35.44	$37.87	$34.38	N/A	$0.78
3/4"	$53.16	$53.16	$56.81	$51.57	N/A	$1.16
1"	$88.60	$88.60	$94.68	$85.95	N/A	$1.94
1-1/2"	$177.19	$177.19	$189.36	$171.90	N/A	$3.88
2"	$283.52	$283.52	$302.97	$275.04	N/A	$6.21
3"	$567.03	$567.03	$605.94	$550.08	N/A	$12.42
4"	$885.99	$885.99	$946.78	$859.50	N/A	$19.41
6"	$1,771.89	$1,771.89	$1,893.57	$1,719.00	N/A	$38.83
8"	$2,835.19	$2,835.19	$3,029.70	$2,750.40	N/A	$62.12
10"	$4,075.58	$4,075.58	$4,355.20	$3,953.70	N/A	$89.30
Gallonage Charge, per 1,000 Gallons	$8.53	$8.53	$11.43	$10.63	N/A	$0.24
Flat Rate Residential						
Sunny Hills	$56.44	$56.44	$0.00	$60.01	N/A	$1.36
Zephyr Shores	$47.02	$47.02	$0.00	$50.00	N/A	$1.13
Flat Rate Residential	N/A	N/A	$73.91	N/A	N/A	N/A
Flat Rate General Service	N/A	N/A	$475.78	N/A	N/A	N/A
Reuse per Sprinkler Head	N/A	N/A	$0.50	N/A	N/A	N/A
Typical Residential Bills 5/8" x 3/4" Meter						
3,000 Gallons	$56.77	$56.77	$66.46	$60.96		
5,000 Gallons	$70.99	$70.99	$85.52	$78.68		
10,000 Gallons	$78.10	$78.10	$95.05	$87.54		
(Wastewater Gallonage Cap - 6,000 Gallons)						

Aqua Utilities Florida, Inc. - Water Band 3
Schedule of Water Rate Base
Test Year Ended 4/30/10

Schedule No. 3-A
Docket No. 100330-WS

	Description	Test Year Per Utility	Utility Adjustments	Adjusted Test Year per Utility	Commission Adjustments	Commission Adjusted Test Year
1	Plant in Service	$1,796,771	$189,991	$1,986,762	($8,062)	$1,978,700
2	Land and Land Rights	32,752	0	32,752	0	32,752
3	Non-used and Useful Components	0	(38,983)	(38,983)	(403)	(39,386)
4	Accumulated Depreciation	(552,604)	(54,170)	(606,774)	14,663	(592,111)
5	CIAC	(436,206)	0	(436,206)	0	(436,206)
6	Amortization of CIAC	211,746	0	211,746	0	211,746
7	Working Capital Allowance	0	225,478	225,478	(36,277)	189,201
8	Rate Base	$1,052,459	$322,316	$1,374,775	($30,079)	$1,344,696

Aqua Utilities Florida, Inc. - Wastewater Band 3
Schedule of Wastewater Rate Base
Test Year Ended 4/30/10

Schedule No. 3-B
Docket No. 100330-WS

	Description	Test Year Per Utility	Utility Adjustment	Adjusted Test Year Per Utility	Commission Adjustment	Commission Adjusted Test Year
1	Plant in Service	$3,677,330	$199,857	$3,877,187	($127,183)	$3,750,004
2	Land and Land Rights	155,033	0	155,033	0	155,033
3	Non-used and Useful Components	0	0	0	0	0
4	Accumulated Depreciation	(1,089,003)	(25,821)	(1,114,824)	(4,681)	(1,119,505)
5	CIAC	(422,578)	0	(422,578)	0	(422,578)
6	Amortization of CIAC	207,858	0	207,858	0	207,858
7	Working Capital Allowance	0	72,153	72,153	24,834	96,987
8	Rate Base	$2,528,640	$246,189	$2,774,829	($107,029)	$2,667,800

Aqua Utilities Florida, Inc. - Band 3 for Water and Wastewater Adjustments to Rate Base Test Year Ended 4/30/10		Schedule No. 3-C Docket No. 100330-WS	
	Explanation	Water	Wastewater
	Plant In Service		
1	Type A Approved Stipulations.	$1,910	($124,748)
2	Reflect the appropriate amount of pro forma projects. (Issue 3)	0	0
3	Appropriate affiliate-allocation plant costs. (Issue 18)	(9,972)	(2,435)
	Total	($8,062)	($127,183)
	Non-used and Useful		
	To reflect net non-used and useful adjustment. (Issues 4-7)	($403)	$0
	Accumulated Depreciation		
1	Type A Approved Stipulations.	$4,947	($8,097)
2	Reflect the appropriate amount of pro forma projects. (Issue 3)	0	0
3	Appropriate affiliate-allocation plant costs. (Issue 18)	9,716	3,416
	Total	$14,663	($4,681)
	Working Capital		
1	Type A Approved Stipulations.	($75,939)	($27,264)
2	To amortize Phase I Monitoring Plan Costs. (Issue 1)	3,814	1,406
3	Reflect appropriate deferred rate case expense. (Issue 8)	35,848	50,692
	Total	($36,277)	$24,834

Aqua Utilities Florida, Inc. - Water Band 3
Statement of Water Operations
Test Year Ended 4/30/10

Schedule No. 4-A
Docket No. 100330-WS

	Description	Test Year Per Utility	Utility Adjustments	Adjusted Test Year Per Utility	Comm. Adjustments	Comm. Adjusted Test Year	Revenue Increase	Revenue Requirement
1	**Operating Revenues:**	$910,056	$6,587	$916,643	($8,796)	$907,847	$8,796 0.97%	$916,643
	Operating Expenses							
2	Operation & Maintenance	$565,731	$65,967	$631,698	$66,298	$697,996		$697,996
3	Depreciation	36,515	27,206	63,721	(10,482)	53,239		53,239
4	Amortization	0	2,275	2,275	0	2,275		2,275
5	Taxes Other Than Income	65,436	428	65,864	(1,372)	64,492	396	64,887
6	Income Taxes	93,496	(44,565)	48,931	(24,526)	24,405	3,161	27,566
7	**Total Operating Expense**	761,178	51,311	812,489	29,916	842,405	3,557	845,962
8	**Operating Income**	$148,878	($44,724)	$104,154	($38,712)	$65,442	$5,239	$70,681
9	**Rate Base**	$1,052,459		$1,374,775		$1,344,696		$1,344,696
10	**Rate of Return**	14.15%		7.58%		4.87%		5.26%

Aqua Utilities Florida, Inc. - Wastewater Band 3 | **Schedule No. 4-B**
Statement of Wastewater Operations | **Docket No. 100330-WS**
Test Year Ended 4/30/10

	Description	Test Year Per Utility	Utility Adjustments	Adjusted Test Year Per Utility	Commission Adjustments	Commission Adjusted Test Year	Revenue Increase	Revenue Requirement
1	**Operating Revenues:**	$401,648	$523,730	$925,378	($505,310)	$420,068	$474,876 113.05%	$894,944
	Operating Expenses							
2	Operation & Maintenance	$365,583	$11,692	$377,275	($115,128)	$262,147		$262,147
3	Depreciation	124,914	14,149	139,063	(7,001)	132,062		132,062
4	Amortization	0	871	871	124,289	125,160		125,160
5	Taxes Other Than Income	21,394	81,175	102,569	(25,512)	77,057	21,369	98,426
6	Income Taxes	(42,526)	140,310	97,784	(182,806)	(85,022)	170,655	85,633
7	**Total Operating Expense**	469,365	248,197	717,562	(206,158)	511,404	192,024	703,428
8	**Operating Income**	($67,717)	$275,533	$207,816	($299,152)	($91,336)	$282,852	$191,516
9	**Rate Base**	$2,528,640		$2,774,829		$2,667,800		$2,667,800
10	**Rate of Return**	-2.68%		7.49%		-3.42%		7.18%

	Aqua Utilities Florida, Inc. - Band 3 for Water and Wastewater Adjustment to Operating Income Test Year Ended 4/30/10	Schedule No. 4-C Docket No. 100330-WS	
	Explanation	Water	Wastewater
	Operating Revenues		
1	Remove requested final revenue increase.	$6,525	($506,211)
2	Reflect appropriate amount of annualized revenues. (Issue 15)	(15,321)	901
	Total	($8,796)	($505,310)
	Operation and Maintenance Expense		
1	Type A Approved Stipulations.	$108,934	($50,649)
2	To amortize Phase I Monitoring Plan Costs. (Issue 1)	(3,814)	(1,406)
3	Reflect effect of additional AAI customers. (Issue 16)	(1,906)	(699)
4	Reflect appropriate affiliate-allocation expenses. (Issue 17)	(13,122)	(44,730)
5	Remove executive incentive compensation. (Issue 19)	(3,031)	(1,088)
6	Reflect amount of salaries & wages. (Issue 20)	(9,489)	(9,832)
7	Reflect appropriate amount of bad debt expense. (Issue 21)	(22,987)	(11,052)
8	Reflect appropriate amount of rate case expense. (Issue 22)	11,713	4,328
	Total	$66,298	($115,128)
	Depreciation Expense - Net		
1	Type A Approved Stipulations.	($973)	($3,585)
2	Reflect the appropriate amount of pro forma projects. (Issue 3)	0	0
3	Reflect appropriate non-U&U depreciation expense. (Issues 4-7)	207	0
4	Appropriate affiliate-allocation plant costs. (Issue 18)	(9,716)	(3,416)
	Total	($10,482)	($7,001)
	Amortization-Other Expense		
	Appropriate Regulatory Asset. (Issue 38)	$0	$124,289
	Taxes Other Than Income		
1	RAFs on revenue adjustments above.	($396)	($22,739)
2	Type A Approved Stipulations.	(261)	(2,021)
3	Reflect the appropriate amount of pro forma projects. (Issue 3)	0	0
4	Reflect appropriate non-U&U property taxes. (Issues 4-7)	10	0
5	Reflect corresponding payroll taxes on salaries & wages adjustment. (Issue 20)	(726)	0
	Total	($1,372)	($24,760)

Aqua Utilities Florida, Inc. - Water Band 3
Water Monthly Service Rates
Test Year Ended 4/30/10

Schedule 5-A
Docket No. 100330-WS

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final	2-YEAR Rate Reduction	4-Year Rate Reduction
Residential, General Service and Multi-Family						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	$16.68	$16.68	$17.66	$19.17	N/A	$0.56
3/4"	$25.02	$25.02	$26.48	$28.76	N/A	$0.84
1"	$41.71	$41.71	$44.14	$47.93	N/A	$1.41
1-1/2"	$83.42	$83.42	$88.28	$95.85	N/A	$2.81
2"	$133.47	$133.47	$141.24	$153.36	N/A	$4.50
3"	$266.92	$266.92	$282.49	$306.72	N/A	$8.99
4"	$417.07	$417.07	$441.39	$479.25	N/A	$14.05
6"	$834.14	$834.14	$882.78	$958.50	N/A	$28.11
8"	$1,334.62	$1,334.62	$1,412.44	$1,533.60	N/A	$44.97
10"	$1,918.52	$1,918.52	$2,030.39	$2,204.55	N/A	$64.64
Gallonage Charge Tier one	$5.01	$5.01	$6.49	$6.55	N/A	$0.19
Gallonage Charge Tier two	$6.26	$6.26	$9.73	$9.83	N/A	$0.29
Gallonage Charge Tier three	$15.03	$15.03	$12.98	$13.10	N/A	$0.38
Gallonage Charge GS	$6.14	$6.14	$6.98	$7.35	N/A	$0.22
Irrigation						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	$0.00	$0.00	$17.66	$19.17	N/A	$0.56
3/4"	$0.00	$0.00	$26.48	$28.76	N/A	$0.84
1"	$0.00	$0.00	$44.14	$47.93	N/A	$1.41
1-1/2"	$0.00	$0.00	$88.28	$95.85	N/A	$2.81
2"	$0.00	$0.00	$141.24	$153.36	N/A	$4.50
3"	$0.00	$0.00	$282.49	$306.72	N/A	$8.99
4"	$0.00	$0.00	$441.39	$479.25	N/A	$14.05
Gallonage Charge Tier one	$0.00	$0.00	$6.49	$6.55	N/A	$0.19
Gallonage Charge Tier two	$0.00	$0.00	$9.73	$9.83	N/A	$0.29
Gallonage Charge Tier three	$0.00	$0.00	$12.98	$13.10	N/A	$0.38
Private Fire Protection						
Base Facility Charge by Meter Size:						
2"	$11.12	$11.12	$11.77	$12.78	N/A	$0.37
3"	$22.24	$22.24	$23.54	$25.56	N/A	$0.75
4"	$34.76	$34.76	$36.78	$39.94	N/A	$1.17
6"	$69.51	$69.51	$73.57	$79.88	N/A	$2.34
8"	$111.22	$111.22	$117.70	$127.80	N/A	$3.75
10"	$159.88	$159.88	$169.20	$183.71	N/A	$5.39
Typical Residential Bills 5/8" x 3/4" Meter						
3,000 Gallons	$31.71	$31.71	$37.13	$58.25		
5,000 Gallons	$41.73	$41.73	$50.11	$77.91		
10,000 Gallons	$73.03	$73.03	$95.52	$97.79		

Aqua Utilities Florida, Inc. - Wastewater Band 3 **Schedule 5-B**
Wastewater Monthly Service Rates **Docket No. 100330-WS**
Test Year Ended 4/30/10

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final	2-year Rate Reduction	4-year Rate Reduction
Residential						
Base Facility Charge All Meter Sizes:	$29.41	$33.82	$37.87	$34.38	$5.85	$0.38
Gallonage Charge - Per 1,000 gallons (6,000 gallon cap)	$8.99	$10.34	$9.53	$8.869	$1.51	$0.10
General Service						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	$29.41	$33.82	$37.87	$34.38	$5.85	$0.38
3/4"	$44.12	$50.74	$56.81	$51.57	$8.78	$0.57
1"	$73.53	$84.57	$94.68	$85.95	$14.63	$0.95
1-1/2"	$147.07	$169.14	$189.36	$171.90	$29.25	$1.91
2"	$235.31	$270.63	$302.97	$275.04	$46.80	$3.05
3"	$470.63	$541.26	$605.94	$550.08	$93.61	$6.10
4"	$735.35	$845.71	$946.78	$859.50	$146.26	$9.53
6"	$1,470.70	$1,691.42	$1,893.57	$1,719.00	$292.52	$19.05
8"	$2,353.13	$2,706.29	$3,029.70	$2,750.40	$468.04	$30.49
10"	$3,382.61	$3,890.27	$4,355.20	$3,953.70	$672.80	$43.83
Gallonage Charge, per 1,000 Gallons	$10.78	$12.40	$11.43	$10.63	$1.81	$0.12
Flat Rate Residential						
Jungle Den	$39.73	$45.69	N/A	$86.07	N/A	$0.95
Lake Gibson Estates	$83.33	$95.84	N/A	$180.52	N/A	$2.00
Flat Rate General Service						
Lake Gibson Estates	$518.69	$596.54	$0.00	N/A	N/A	N/A
Flat Rate Residential	N/A	N/A	$73.91	N/A	N/A	N/A
Flat Rate General Service	N/A	N/A	$475.78	N/A	N/A	N/A
Reuse per Sprinkler Head	N/A	N/A	$0.50	N/A	N/A	N/A
		Typical Residential Bills 5/8" x 3/4" Meter				
3,000 Gallons	$56.38	$64.84	$66.46	$60.96		
5,000 Gallons	$74.36	$85.52	$85.52	$78.68		
10,000 Gallons	$83.35	$95.86	$95.05	$87.54		
(Wastewater Gallonage Cap - 6,000 Gallons)						

Aqua Utilities Florida, Inc. - Water Band 4
Schedule of Water Rate Base
Test Year Ended 4/30/10

Schedule No. 3-A
Docket No. 100330-WS

	Description	Test Year Per Utility	Utility Adjustments	Adjusted Test Year Per Utility	Comm. Adjustments	Comm. Adjusted Test Year
1	Plant in Service	$10,516,464	$1,260,629	$11,777,093	($71,779)	$11,705,314
2	Land and Land Rights	127,298	0	127,298	0	127,298
3	Non-used and Useful Components	0	(203,268)	(203,268)	(115,072)	(318,340)
4	Accumulated Depreciation	(2,356,969)	(143,751)	(2,500,720)	120,172	(2,380,548)
5	CIAC	(2,303,726)	36,394	(2,267,332)	0	(2,267,332)
6	Amortization of CIAC	1,229,588	(4,104)	1,225,484	0	1,225,484
7	Working Capital Allowance	0	1,060,448	1,060,448	(159,041)	901,407
8	**Rate Base**	$7,212,655	$2,006,348	$9,219,003	($225,720)	$8,993,283

Aqua Utilities Florida, Inc. - Wastewater Band 4 **Schedule No. 1-B**
Schedule of Wastewater Rate Base **Docket No. 100330-WS**
Test Year Ended 4/30/10

	Description	Test Year Per Utility	Utility Adjustments	Adjusted Test Year per Utility	Commission Adjustments	Commission Adjusted Test Year
1	Plant in Service	$2,683,843	$260,253	$2,944,096	($202,102)	$2,741,994
2	Land and Land Rights	149,000	0	149,000	0	149,000
3	Non-used and Useful Components	0	(113,923)	(113,923)	(46,155)	(160,078)
4	Accumulated Depreciation	(1,174,028)	(17,559)	(1,191,587)	(16,728)	(1,208,315)
5	CIAC	(620,692)	0	(620,692)	0	(620,692)
6	Amortization of CIAC	382,728	0	382,728	0	382,728
7	Working Capital Allowance	0	68,270	68,270	(1,452)	66,818
8	Rate Base	$1,420,851	$197,041	$1,617,892	($266,437)	$1,351,455

Aqua Utilities Florida, Inc. - Band 4 for Water and Wastewater Adjustments to Rate Base Test Year Ended 4/30/10		Schedule No. 3-C Docket No. 100330-WS	
	Explanation	Water	Wastewater
	Plant In Service		
1	Type A Approved Stipulations.	($29,051)	($216,878)
2	Reflect the appropriate amount of pro forma projects. (Issue 3)	(23,922)	0
3	Appropriate affiliate-allocation plant costs. (Issue 18)	(18,806)	14,776
	Total	($71,779)	($202,102)
	Non-used and Useful		
	To reflect net non-used and useful adjustment. (Issues 4- 7)	($115,072)	($46,155)
	Accumulated Depreciation		
1	Type A Approved Stipulations.	$79,314	($16,290)
2	Reflect the appropriate amount of pro forma projects. (Issue 3)	190	0
3	Appropriate affiliate-allocation plant costs. (Issue 18)	40,668	(438)
	Total	$120,172	($16,728)
	Working Capital		
1	Type A Approved Stipulations.	($330,285)	($4,349)
2	To amortize Phase I Monitoring Plan Costs. (Issue 1)	17,354	697
3	Reflect appropriate deferred rate case expense. (Issue 8)	153,890	2,201
	Total	($159,041)	($1,452)

Aqua Utilities Florida, Inc. - Water Band 4
Statement of Water Operations
Test Year Ended 4/30/10

Schedule No. 4-A
Docket No. 100330-WS

	Description	Test Year Per Utility	Utility Adjustments	Adjusted Test Year Per Utility	Commission Adjustments	Commission Adjusted Test Year	Revenue Increase	Revenue Requirement
1	**Operating Revenues:**	$3,618,129	$1,454,330	$5,072,459	($1,256,212)	$3,816,247	$991,557 25.98%	$4,807,804
	Operating Expenses							
2	Operation & Maintenance	$2,888,518	$360,534	$3,249,052	($308,635)	$2,940,417		$2,940,417
3	Depreciation	201,621	140,536	342,157	(50,464)	291,693		291,693
4	Amortization	0	22,937	22,937	220,733	243,670		243,670
5	Taxes Other Than Income	404,493	23,586	428,079	(74,958)	353,121	44,620	397,741
6	Income Taxes	47,639	281,807	329,446	(397,105)	(67,659)	356,332	288,673
7	**Total Operating Expense**	3,542,271	829,400	4,371,671	(610,429)	3,761,242	400,952	4,162,194
8	**Operating Income**	$75,858	$624,930	$700,788	($645,782)	$55,006	$590,604	$645,610
9	**Rate Base**	$7,212,655		$9,219,003		$8,993,283		$8,993,283
10	**Rate of Return**	1.05%		7.60%		0.61%		7.18%

Aqua Utilities Florida, Inc. - Wastewater Band 4 **Schedule No. 3-A**
Statement of Wastewater Operations **Docket No. 100330-WS**
Test Year Ended 4/30/10

	Description	Test Year per Utility	Utility Adjustments	Adjusted Test Year Per Utility	Commission Adjustments	Commission Adjusted Test Year	Revenue Increase	Revenue Requirement
1	**Operating Revenues:**	$490,352	$70,073	$560,425	($50,005)	$510,420	($14,570) -2.85%	$495,850
	Operating Expenses							
2	Operation & Maintenance	$268,984	$6,979	$275,963	($6,410)	$269,553		$269,553
3	Depreciation	25,126	10,878	36,004	(11,357)	24,647		24,647
4	Amortization	0	817	817	0	817		817
5	Taxes Other Than Income	48,154	19,329	67,483	(6,392)	61,091	(656)	60,435
6	Income Taxes	57,125	531	57,656	(9,040)	48,616	(5,236)	43,380
7	**Total Operating Expense**	399,389	38,534	437,923	(33,200)	404,723	(5,892)	398,832
8	**Operating Income**	$90,963	$31,539	$122,502	($16,805)	$105,697	($8,679)	$97,018
9	**Rate Base**	$1,420,851		$1,617,892		$1,351,455		$1,351,455
10	**Rate of Return**	6.40%		7.57%		7.82%		7.18%

Aqua Utilities Florida, Inc. - Band 4 for Water and Wastewater | **Schedule No. 4-C**
Adjustment to Operating Income | **Docket No. 100330-WS**
Test Year Ended 4/30/10

	Explanation	Water	Wastewater
	Operating Revenues		
1	Remove requested final revenue increase.	($1,368,020)	($26,887)
2	Reflect appropriate amount of annualized revenues. (Issue 15)	111,808	(23,118)
	Total	($1,256,212)	($50,005)
	Operation and Maintenance Expense		
1	Type A Approved Stipulations.	($145,719)	$816
2	To amortize Phase I Monitoring Plan Costs. (Issue 1)	(17,354)	(697)
3	Reflect effect of additional AAI customers. (Issue 16)	(8,594)	(298)
4	Reflect appropriate affiliate-allocation expenses. (Issue 17)	(21,298)	(2,851)
5	Remove executive incentive compensation. (Issue 19)	(13,182)	(174)
6	Reflect amount of salaries & wages. (Issue 20)	(47,196)	(6,092)
7	Reflect appropriate amount of bad debt expense. (Issue 21)	(108,563)	740
8	Reflect appropriate amount of rate case expense. (Issue 22)	53,271	2,146
	Total	($308,635)	($6,410)
	Depreciation Expense - Net		
1	Type A Approved Stipulations.	($5,413)	($12,106)
2	Reflect the appropriate amount of pro forma projects. (Issue 3)	(190)	0
3	Reflect appropriate non-U&U depreciation expense. (Issues 4-7)	(4,193)	311
4	Appropriate affiliate-allocation plant costs. (Issue 18)	(40,668)	438
	Total	($50,464)	($11,357)
	Amortization-Other Expense		
	Appropriate Regulatory Asset. (Issue 38)	$220,733	$0
	Taxes Other Than Income		
1	RAFs on revenue adjustments above.	($56,530)	($2,250)
2	Type A Approved Stipulations.	(1,008)	(3,606)
3	Reflect the appropriate amount of pro forma projects. (Issue 3)	(9,658)	0
4	Reflect appropriate non-U&U property taxes. (Issues 4-7)	(4,152)	(70)
5	Reflect corresponding payroll taxes on salaries & wages adjustment. (Issue 20)	(3,611)	0
	Total	($74,958)	($5,926)

Aqua Utilities Florida, Inc. - Water Band 4
Water Monthly Service Rates
Test Year Ended 4/30/10

Schedule No. 5-A
Docket No. 100330-WS

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final	2 Year Rate Reduction	4 Year Rate Reduction
Residential, General Service and Multi-Family						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	$15.71	$15.71	$17.66	$19.17	$0.97	$0.49
3/4"	$23.58	$23.58	$26.48	$28.76	$1.45	$0.73
1"	$39.29	$39.29	$44.14	$47.93	$2.42	$1.22
1-1/2"	$78.58	$78.58	$88.28	$95.85	$4.84	$2.44
2"	$125.73	$125.73	$141.24	$153.36	$7.75	$3.90
3"	$251.46	$251.46	$282.49	$306.72	$15.49	$7.80
4"	$392.91	$392.91	$441.39	$479.25	$24.20	$12.19
6"	$785.82	$785.82	$882.78	$958.50	$48.41	$24.38
8"	$1,257.32	$1,257.32	$1,412.44	$1,533.60	$77.45	$39.00
10"	$1,807.40	$1,807.40	$2,030.39	$2,204.55	$111.34	$56.07
Gallonage Charge Tier one	$7.31	$7.31	$6.49	$6.55	$0.33	$0.17
Gallonage Charge Tier two	$8.98	$8.98	$9.73	$9.83	$0.50	$0.25
Gallonage Charge Tier three	$20.67	$20.67	$12.98	$13.10	$0.66	$0.33
Gallonage Charge GS	$8.42	$8.42	$6.98	$7.35	$0.37	$0.19
Irrigation						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	$0.00	$0.00	$17.66	$19.17	$0.97	$0.49
3/4"	$0.00	$0.00	$26.48	$28.76	$1.45	$0.73
1"	$0.00	$0.00	$44.14	$47.93	$2.42	$1.22
1-1/2"	$0.00	$0.00	$88.28	$95.85	$4.84	$2.44
2"	$0.00	$0.00	$141.24	$153.36	$7.75	$3.90
3"	$0.00	$0.00	$282.49	$306.72	$15.49	$7.80
4"	$0.00	$0.00	$441.39	$479.25	$24.20	$12.19
Gallonage Charge Tier one	$0.00	$0.00	$6.49	$6.55	$0.33	$0.17
Gallonage Charge Tier two	$0.00	$0.00	$9.73	$9.83	$0.50	$0.25
Gallonage Charge Tier three	$0.00	$0.00	$12.98	$13.10	$0.66	$0.33
Private Fire Protection						
Base Facility Charge by Meter Size:						
2"	$10.48	$10.48	$11.77	$12.78	$0.65	$0.33
3"	$20.96	$20.96	$23.54	$25.56	$1.29	$0.65
4"	$32.74	$32.74	$36.78	$39.94	$2.02	$1.02
6"	$65.48	$65.48	$73.57	$79.88	$4.03	$2.03
8"	$104.77	$104.77	$117.70	$127.80	$6.45	$3.25
10"	$150.61	$150.61	$169.20	$183.71	$9.28	$4.67
Typical Residential Bills 5/8" x 3/4" Meter						
3,000 Gallons	$37.64	$37.64	$37.13	$58.25		
5,000 Gallons	$52.26	$52.26	$50.11	$77.91		
10,000 Gallons	$97.16	$97.16	$98.76	$97.79		

Aqua Utilities Florida, Inc. - Wastewater Band 4
Wastewater Monthly Service Rates
Test Year Ended 4/30/10

Schedule No. 5-B
Docket No. 100330-WS

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final	4 Year Rate Reduction	4 Year Rate Reduction
Residential						
Base Facility Charge All Meter Sizes:	$75.47	$75.47	$37.87	$77.89	N/A	$0.77
Gallonage Charge - Per 1,000 gallons (6,000 gallon cap)	$9.37	$9.37	$9.53	$7.84	N/A	$0.08
General Service						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	$75.47	$75.47	$37.87	$77.89	N/A	$0.77
3/4"	$113.22	$113.22	$56.81	$116.84	N/A	$1.16
1"	$188.69	$188.69	$94.68	$194.73	N/A	$1.93
1-1/2"	$377.39	$377.39	$189.36	$389.45	N/A	$3.86
2"	$603.82	$603.82	$302.97	$623.12	N/A	$6.18
3"	$1,207.65	$1,207.65	$605.94	$1,246.24	N/A	$12.36
4"	$1,886.95	$1,886.95	$946.78	$1,947.25	N/A	$19.31
6"	$3,773.89	$3,773.89	$1,893.57	$3,894.50	N/A	$38.62
8"	$6,038.22	$6,038.22	$3,029.70	$6,231.20	N/A	$61.80
10"	$8,679.95	$8,679.95	$4,355.20	$8,957.35	N/A	$88.84
Gallonage Charge, per 1,000 Gallons	$11.25	$11.25	$11.43	$9.415	N/A	$0.09
General Service Wastewater Only						
Flat Rate Residential	N/A	N/A	N/A	N/A	N/A	N/A
Flat Rate General Service	N/A	N/A	N/A	N/A	N/A	N/A
Sprinkler Heads	$0.10	$0.10	$0.50	$0.49	N/A	$0.00
Typical Residential Bills 5/8" x 3/4" Meter						
3,000 Gallons	$103.58	$103.58	$66.46	$101.41		
5,000 Gallons	$122.32	$122.32	$85.52	$117.09		
10,000 Gallons	$131.69	$131.69	$95.05	$124.93		
(Wastewater Gallonage Cap - 6,000 Gallons)						

Aqua Utilities Florida, Inc. - Breeze Hill
Schedule of Water Rate Base
Test Year Ended 4/30/10

Schedule No. 3-A
Docket No. 100330-WS

	Description	Test Year Per Utility	Utility Adjustments	Adjusted Test Year Per Utility	Commission Adjustments	Commission Adjusted Test Year
1	Plant in Service	$43,489	$136,550	$180,039	($1,780)	$178,259
2	Land and Land Rights	0	2,997	2,997	0	2,997
3	Non-used and Useful Components	0	0	0	0	0
4	Accumulated Depreciation	(1,599)	(85,750)	(87,349)	84	(87,265)
5	CIAC	(681)	(32,023)	(32,704)	0	(32,704)
6	Amortization of CIAC	33	32,023	32,056	0	32,056
7	Working Capital Allowance	0	15,184	15,184	(4,488)	10,696
8	**Rate Base**	$41,242	$68,981	$110,223	($6,183)	$104,040

Aqua Utilities Florida, Inc. - Breeze Hill
Schedule of Wastewater Rate Base
Test Year Ended 4/30/10

Schedule No. 3-B
Docket No. 100330-WS

	Description	Test Year Per Utility	Utility Adjustments	Adjusted Test Year Per Utility	Company Adjustments	Company Adjusted Test Year
1	Plant in Service	$15,169	$367,187	$382,356	($23,294)	$359,062
2	Land and Land Rights	0	18,519	18,519	0	18,519
3	Non-used and Useful Components	0	(310)	(310)	(46,205)	(46,515)
4	Accumulated Depreciation	(530)	(248,771)	(249,301)	544	(248,757)
5	CIAC	(692)	(118,503)	(119,195)	0	(119,195)
6	Amortization of CIAC	39	118,503	118,542	0	118,542
7	Working Capital Allowance	0	0	0	(4,527)	(4,527)
8	Rate Base	$13,986	$136,625	$150,611	($73,484)	$77,127

Aqua Utilities Florida, Inc. - Breeze Hill | **Schedule No. 3-C**
Adjustments to Rate Base | **Docket No. 100330-WS**
Test Year Ended 4/30/10

	Explanation	Water	Wastewater
	Plant In Service		
1	Type A Approved Stipulations.	($612)	($553)
2	Reflect the appropriate amount of pro forma projects. (Issue 3)	0	(21,835)
3	Appropriate affiliate-allocation plant costs. (Issue 18)	(1,168)	(906)
	Total	($1,780)	($23,294)
	Non-used and Useful		
	To reflect net non-used and useful adjustment. (Issues 4 through 7)	$0	($46,205)
	Accumulated Depreciation		
1	Type A Approved Stipulations.	($721)	($712)
2	Reflect the appropriate amount of pro forma projects. (Issue 3)	0	485
3	Appropriate affiliate-allocation plant costs. (Issue 18)	805	771
	Total	$84	$544
	Working Capital		
1	Type A Approved Stipulations.	($6,055)	($6,055)
2	To amortize Phase I Monitoring Plan Costs. (Issue 1)	295	295
3	Reflect appropriate deferred rate case expense. (Issue 8)	1,272	1,232
	Total	($4,488)	($4,527)

Aqua Utilities Florida, Inc. - Breeze Hill | **Schedule No. 4-A**
Statement of Water Operations | **Docket No. 100330-WS**
Test Year Ended 4/30/10

	Description	Test Year Per Utility	Utility Adjustments	Adjusted Test Year Per Utility	Comm Adjustments	Comm Adjusted Test Year	Revenue Increase	Revenue Requirement
1	**Operating Revenues:**	$30,232	$36,525	$66,757	($35,804)	$30,953	$31,973 103.29%	$62,926
	Operating Expenses							
2	Operation & Maintenance	$28,149	$3,867	$32,016	($3,471)	$28,545		$28,545
3	Depreciation	1,876	12,839	14,715	(906)	13,809		13,809
4	Amortization	0	0	0	2,724	2,724		2,724
5	Taxes Other Than Income	6,628	642	7,270	(1,669)	5,601	1,439	7,040
6	Income Taxes	(2,477)	6,555	4,078	(12,228)	(8,150)	11,490	3,340
7	**Total Operating Expense**	34,176	23,903	58,079	(15,551)	42,528	12,929	55,457
8	**Operating Income**	($3,944)	$12,622	$8,678	($20,253)	($11,575)	$19,044	$7,469
9	**Rate Base**	$41,242		$110,223		$104,040		$104,040
10	**Rate of Return**	-9.56%		7.87%		-11.13%		7.18%

Aqua Utilities Florida, Inc. - Breeze Hill **Schedule No. 4-B**
Statement of Wastewater Operations **Docket No. 100330-WS**
Test Year Ended 4/30/10

	Description	Test Year Per Utility	Utility Adjustments	Adjusted Test Year For Utility	Comm Adjustments	Comm Adjusted Test Year	Revenue Increase	Revenue Requirement
1	**Operating Revenues:**	$35,049	$60,183	$95,232	($59,144)	$36,088	$27,259 75.54%	$63,347
	Operating Expenses							
2	Operation & Maintenance	$45,222	$6,367	$51,589	($10,509)	$41,080		$41,080
3	Depreciation	596	15,415	16,011	(5,940)	10,071		10,071
4	Amortization	0	0	0	0	0		0
5	Taxes Other Than Income	2,762	5,740	8,502	(5,545)	2,957	1,227	4,183
6	Income Taxes	(5,219)	11,336	6,117	(13,437)	(7,320)	9,796	2,476
7	**Total Operating Expense**	43,361	38,858	82,219	(35,432)	46,787	11,023	57,810
8	**Operating Income**	($8,312)	$21,325	$13,013	($23,713)	($10,700)	$16,236	$5,537
9	**Rate Base**	$13,986		$150,611		$77,127		$77,127
10	**Rate of Return**	-59.43%		8.64%		-13.87%		7.18%

Aqua Utilities Florida, Inc. - Breeze Hill
Adjustment to Operating Income
Test Year Ended 4/30/10

Schedule No. 4-C
Docket No. 100330-WS

	Explanation	Water	Wastewater
	Operating Revenues		
1	Remove requested final revenue increase.	($36,321)	($59,746)
2	Reflect appropriate amount of annualized revenues. (Issue 15)	517	602
	Total	($35,804)	($59,144)
	Operation and Maintenance Expense		
1	Type A Approved Stipulations.	($1,063)	($7,254)
2	To amortize Phase I Monitoring Plan Costs. (Issue 1)	(295)	(295)
3	Reflect effect of additional AAI customers. (Issue 16)	(149)	(149)
4	Reflect appropriate affiliate-allocation expenses. (Issue 17)	(1,413)	(1,391)
5	Remove executive incentive compensation. (Issue 19)	(242)	(242)
6	Reflect amount of salaries & wages. (Issue 20)	(754)	(1,312)
7	Reflect appropriate amount of bad debt expense. (Issue 21)	(458)	(769)
8	Reflect appropriate amount of rate case expense. (Issue 22)	903	903
	Total	($3,471)	($10,509)
	Depreciation Expense - Net		
1	Type A Approved Stipulations.	($101)	($92)
2	Reflect the appropriate amount of pro forma projects. (Issue 3)	0	(485)
3	To remove net depreciation on non-U&U adjustment above. (Issues 4 through 7)	0	(4,593)
4	Appropriate affiliate-allocation plant costs. (Issue 18)	(805)	(771)
	Total	($906)	($5,940)
	Amortization-Other Expense		
	Appropriate Regulatory Asset. (Issue 38)	$2,724	$0
	Taxes Other Than Income		
1	RAFs on revenue adjustments above.	($1,611)	($2,661)
2	Reflect the appropriate amount of pro forma projects. (Issue 3)	0	(2,136)
3	Reflect appropriate non-U&U property taxes. (Issues 4 through 7)	0	(647)
4	Reflect corresponding payroll taxes on salaries & wages adjustment. (Issue 20)	(58)	(100)
	Total	($1,669)	($5,545)

Aqua Utilities Florida, Inc. - Breeze Hill
Water Monthly Service Rates
Test Year Ended 4/30/10

Schedule No. 5-A
Docket No. 100330-WS

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final	2 Year Rate Reduction	4 Year Rate Reduction
Residential, General Service and Multi-Family						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	$15.51	$26.79	$17.66	$19.17	$0.91	$0.63
3/4"	$23.27	$40.20	$26.48	$28.76	$1.37	$0.95
1"	$38.77	$66.97	$44.14	$47.93	$2.28	$1.58
1-1/2"	$77.53	$133.92	$88.28	$95.85	$4.55	$3.16
2"	$124.06	$214.29	$141.24	$153.36	$7.28	$5.06
3"	$248.11	$428.57	$282.49	$306.72	$14.56	$10.13
4"	$387.68	$669.65	$441.39	$479.25	$22.75	$15.82
6"	$775.37	$1,339.32	$882.78	$958.50	$45.51	$31.64
8"	$0.00	$0.00	$1,412.44	$1,533.60	$72.81	$50.63
10"	$0.00	$0.00	$2,030.39	$2,204.55	$104.67	$72.78
Gallonage Charge RS Tier One	$2.70	$4.66	$6.49	$6.55	$0.31	$0.22
Gallonage Charge RS Tier Two	$2.70	$4.66	$9.73	$9.83	$0.47	$0.32
Gallonage Charge RS Tier Three	$2.70	$4.66	$12.98	$13.10	$0.62	$0.43
Gallonage Charge GS	$2.70	$4.66	$6.98	$7.35	$0.35	$0.24
Irrigation						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	$15.51	$26.79	$17.66	$19.17	$0.91	$0.63
3/4"	$15.51	$26.79	$26.48	$28.76	$1.37	$0.95
1"	$15.51	$26.79	$44.14	$47.93	$2.28	$1.58
1-1/2"	$15.51	$26.79	$88.28	$95.85	$4.55	$3.16
2"	$15.51	$26.79	$141.24	$153.36	$7.28	$5.06
3"	$15.51	$26.79	$282.49	$306.72	$14.56	$10.13
4"	$15.51	$26.79	$441.39	$479.25	$22.75	$15.82
Gallonage Charge Tier one	$2.70	$4.66	$6.49	$6.55	$0.31	$0.22
Gallonage Charge Tier two	$2.70	$4.66	$9.73	$9.83	$0.47	$0.32
Gallonage Charge Tier three	$2.70	$4.66	$12.98	$13.10	$0.62	$0.43
Private Fire Protection						
Base Facility Charge by Meter Size:						
2"	$0.00	$0.00	$11.77	$12.78	$0.61	$0.42
3"	$0.00	$0.00	$23.54	$25.56	$1.21	$0.84
4"	$0.00	$0.00	$36.78	$39.94	$1.90	$1.32
6"	$0.00	$0.00	$73.57	$79.88	$3.79	$2.64
8"	$0.00	$0.00	$117.70	$127.80	$6.07	$4.22
10"	$0.00	$0.00	$169.20	$183.71	$8.72	$6.07
	Typical Residential Bills 5/8" x 3/4" Meter					
3,000 Gallons	$23.61	$40.77	$37.13	$38.82		
5,000 Gallons	$29.01	$50.09	$50.11	$51.92		
10,000 Gallons	$42.51	$73.39	$95.52	$97.79		

Aqua Utilities Florida, Inc. - Breeze Hill
Wastewater Monthly Service Rates
Test Year Ended 4/30/10

Schedule No. 5-B
Docket No. 100330-WS

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final	2 Year Rate Reduction	4 Year Rate Reduction
Residential						
Base Facility Charge All Meter Sizes:	$19.04	$39.02	$37.87	$34.38	N/A	$1.13
Gallonage Charge - Per 1,000 gallons (6,000 gallon cap)	$3.39	$6.95	$9.53	$8.86	N/A	$0.29
General Service						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	$19.04	$39.02	$37.87	$34.38	N/A	$1.13
3/4"	$28.57	$58.55	$56.81	$51.57	N/A	$1.69
1"	$47.59	$97.52	$94.68	$85.95	N/A	$2.82
1-1/2"	$95.21	$195.10	$189.36	$171.90	N/A	$5.64
2"	$152.34	$312.17	$302.97	$275.04	N/A	$9.02
3"	$304.70	$624.39	$605.94	$550.08	N/A	$18.04
4"	$476.02	$975.46	$946.78	$859.50	N/A	$28.19
6"	$952.05	$1,950.94	$1,893.57	$1,719.00	N/A	$56.37
8"	$0.00	$0.00	$3,029.70	$2,750.40	N/A	$90.20
10"	$0.00	$0.00	$4,355.20	$3,953.70	N/A	$129.66
Gallonage Charge, per 1,000 Gallons	$4.05	$8.30	$11.43	$10.63	N/A	$0.35
Flat Rate Residential						
Flat Rate Residential	N/A	N/A	$73.91	N/A	N/A	N/A
Flat Rate General Service	N/A	N/A	$475.78	N/A	N/A	N/A
Reuse per Sprinkler Head	N/A	N/A	$0.50	N/A	N/A	N/A
Typical Residential Bills 5/8" x 3/4" Meter						
3,000 Gallons	$29.21	$59.87	$66.46	$60.96		
5,000 Gallons	$35.99	$73.77	$85.52	$78.68		
10,000 Gallons (Wastewater Gallonage Cap - 6,000 Gallons)	$39.38	$80.72	$95.05	$87.54		

Aqua Utilities Florida, Inc. - Fairways
Schedule of Water Rate Base
Test Year Ended 4/30/10

Schedule No. 3-A
Docket No. 100330-WS

	Description	Test Year Per Utility	Utility Adjustments	Adjusted Test Year Per Utility	Commission Adjustments	Commission Adjusted Test Year
1	Plant in Service	$748,337	$50,006	$798,343	($10,888)	$787,455
2	Land and Land Rights	27,737	0	27,737	0	27,737
3	Non-used and Useful Components	0	0	0	0	0
4	Accumulated Depreciation	(89,576)	(18,230)	(107,806)	935	(106,871)
5	CIAC	(562,950)	0	(562,950)	0	(562,950)
6	Amortization of CIAC	134,937	0	134,937	0	134,937
7	Working Capital Allowance	0	58,822	58,822	(5,786)	53,036
8	Rate Base	$258,485	$90,598	$349,083	($15,739)	$333,344

Aqua Utilities Florida, Inc. - Fairways **Schedule No. 3-B**
Schedule of Wastewater Rate Base **Docket No. 100330-WS**
Test Year Ended 4/30/10

	Description	Test Year Per Utility	Utility Adjustments	Adjusted Test Year Per Utility	Commission Adjustments	Commission Adjusted Test Year
1	Plant in Service	$2,170,983	$25,485	$2,196,468	($2,424)	$2,194,044
2	Land and Land Rights	24,904	0	24,904	0	24,904
3	Non-used and Useful Components	0	0	0	0	0
4	Accumulated Depreciation	(683,191)	(9,290)	(692,481)	(21)	(692,502)
5	CIAC	(1,531,656)	(9,290)	(1,540,946)	0	(1,540,946)
6	Amortization of CIAC	379,919	0	379,919	0	379,919
7	Working Capital Allowance	0	28,150	28,150	(12,369)	15,781
8	Rate Base	$360,959	$35,055	$396,014	($14,814)	$381,200

Aqua Utilities Florida, Inc. - Fairways | **Schedule No. 3-C**
Adjustments to Rate Base | **Docket No. 100330-WS**
Test Year Ended 4/30/10

	Explanation	Water	Wastewater
	Plant In Service		
1	Type A Approved Stipulations.	($5,684)	$2
2	Reflect the appropriate amount of pro forma projects. (Issue 3)	0	0
3	Appropriate affiliate-allocation plant costs. (Issue 18)	(5,204)	(2,426)
	Total	($10,888)	($2,424)
	Non-used and Useful		
	To reflect net non-used and useful adjustment. (Issues 4-7)	$0	$0
	Accumulated Depreciation		
1	Type A Approved Stipulations.	($2,130)	($1,568)
2	Reflect the appropriate amount of pro forma projects. (Issue 3)	0	0
3	Appropriate affiliate-allocation plant costs. (Issue 18)	3,065	1,547
	Total	$935	($21)
	Working Capital		
1	Type A Approved Stipulations.	($11,559)	($15,338)
2	To amortize Phase I Monitoring Plan Costs. (Issue 1)	$1,078	$556
3	Reflect appropriate deferred rate case expense. (Issue 8)	4,694	2,413
	Total	($5,786)	($12,369)

Aqua Utilities Florida, Inc. - Fairways **Schedule No. 4-A**
Statement of Water Operations **Docket No. 100330-WS**
Test Year Ended 4/30/10

	Description	Test Year Per Utility	Utility Adjustments	Adjusted Test Year Per Utility	Comm Adjustments	Comm Adjusted Test Year	Revenue Increase	Revenue Requirement
1	**Operating Revenues:**	$136,226	$73,075	$209,301	($74,649)	$134,652	$43,034 31.96%	$177,686
	Operating Expenses							
2	Operation & Maintenance	$83,654	$13,759	$97,413	($21,516)	$75,897		$75,897
3	Depreciation	5,982	8,479	14,461	(4,013)	10,448		10,448
4	Amortization	3,340	0	3,340	0	3,340		3,340
5	Taxes Other Than Income	51,630	3,376	55,006	(3,571)	51,435	1,937	53,371
6	Income Taxes	(3,232)	15,726	12,494	(17,259)	(4,765)	15,465	10,700
7	**Total Operating Expense**	141,374	41,340	182,714	(46,360)	136,354	17,401	153,756
8	**Operating Income**	($5,148)	$31,735	$26,587	($28,289)	($1,702)	$25,632	$23,930
9	**Rate Base**	$258,485		$349,083		$333,344		$333,344
10	**Rate of Return**	-1.99%		7.62%		-0.51%		7.18%

Aqua Utilities Florida, Inc. - Fairways **Schedule No. 4-B**
Statement of Wastewater Operations **Docket No. 100330-WS**
Test Year Ended 4/30/10

	Description	Test Year Per Utility	Utility Adjustments	Adjusted Test Year Per Utility	Comm Adjustments	Comm Adjusted Test Year	Revenue Increase	Revenue Requirement
1	**Operating Revenues:**	$79,634	$115,633	$195,267	($114,828)	$80,439	$100,815 125.33%	$181,253
	Operating Expenses							
2	Operation & Maintenance	$87,349	$7,768	$95,117	($7,915)	$87,202		$87,202
3	Depreciation	33,898	4,321	38,219	(1,547)	36,672		36,672
4	Amortization	7,820	0	7,820	0	7,820		7,820
5	Taxes Other Than Income	4,706	5,987	10,693	(5,272)	5,421	4,537	9,958
6	Income Taxes	(20,885)	34,764	13,879	(37,872)	(23,993)	36,229	12,236
7	**Total Operating Expense**	112,888	52,840	165,728	(52,606)	113,122	40,766	153,888
8	**Operating Income**	($33,254)	$62,793	$29,539	($62,222)	($32,683)	$60,049	$27,366
9	**Rate Base**	$360,959		$396,014		$381,200		$381,200
10	**Rate of Return**	(9.21%)		7.46%		-8.57%		7.18%

Aqua Utilities Florida, Inc. - Fairways
Adjustment to Operating Income
Test Year Ended 4/30/10

Schedule No. 4-C
Docket No. 100330-WS

	Explanation	Water	Wastewater
	Operating Revenues		
1	Remove requested final revenue increase.	($75,455)	($115,345)
2	Reflect appropriate amount of annualized revenues. (Issue 15)	806	517
	Total	($74,649)	($114,828)
	Operation and Maintenance Expense		
1	Type A Approved Stipulations.	($14,990)	($2,090)
2	To amortize Phase I Monitoring Plan Costs. (Issue 1)	(1,078)	(556)
3	Reflect effect of additional AAI customers. (Issue 16)	(507)	(281)
4	Reflect appropriate affiliate-allocation expenses. (Issue 17)	(4,859)	(2,775)
5	Remove executive incentive compensation. (Issue 19)	(461)	(612)
6	Reflect amount of salaries & wages. (Issue 20)	(2,769)	(1,367)
7	Reflect appropriate amount of bad debt expense. (Issue 21)	(154)	(1,925)
8	Reflect appropriate amount of rate case expense. (Issue 22)	3,302	1,691
	Total	($21,516)	($7,915)
	Depreciation Expense - Net		
1	Type A Approved Stipulations.	($948)	$0
2	Reflect the appropriate amount of pro forma projects. (Issue 3)	0	0
3	To remove net depreciation on non-U&U adjustment above. (Issues 4-7)	0	0
4	Appropriate affiliate-allocation plant costs. (Issue 18)	(3,065)	(1,547)
	Total	($4,013)	($1,547)
	Amortization-Other Expense		
	Appropriate Regulatory Asset. (Issue 38)	$0	$0
	Taxes Other Than Income		
1	RAFs on revenue adjustments above.	($3,359)	($5,167)
2	Reflect the appropriate amount of pro forma projects. (Issue 3)	0	0
3	Reflect appropriate non-U&U property taxes. (Issues 4 through 7)	0	0
4	Reflect corresponding payroll taxes on salaries & wages adjustment. (Issue 20)	(212)	(105)
	Total	($3,571)	($5,272)

Aqua Utilities Florida, Inc. - Fairways
Water Monthly Service Rates
Test Year Ended 4/30/10

Schedule No. 5-A
Docket No. 100330-WS

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final	4-Year Rate Reduction	4-Year Rate Reduction
Residential, General Service and Multi-Family						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	$7.59	$10.68	$17.66	$18.57	N/A	$0.62
3/4"	$7.59	$10.68	$17.66	$27.86	N/A	$0.93
1"	$7.59	$10.68	$26.48	$46.43	N/A	$1.55
1-1/2"	$7.59	$10.68	$44.14	$92.85	N/A	$3.10
2"	$7.59	$10.68	$88.28	$148.56	N/A	$4.96
3"	$7.59	$10.68	$141.24	$297.12	N/A	$9.92
4"	$7.59	$10.68	$282.49	$464.25	N/A	$15.51
6"	$7.59	$10.68	$882.78	$928.50	N/A	$31.01
8"	$7.59	$10.68	$1,412.44	$1,485.60	N/A	$49.62
10"	$7.59	$10.68	$2,030.39	$2,135.55	N/A	$71.33
Gallonage Charge RS Tier One	$1.77	$2.49	$6.49	$3.33	N/A	$0.11
Gallonage Charge RS Tier Two	$1.77	$2.49	$9.73	$5.84	N/A	$0.20
Gallonage Charge RS Tier Three	$1.77	$2.49	$12.98	$8.76	N/A	$0.29
Gallonage Charge GS	$1.77	$2.49	$6.98	$4.64	N/A	$0.15
Irrigation						
Base Facility Charge by Meter Size:	$7.59	$10.68	$26.48	$18.57	N/A	$0.62
5/8" x 3/4"	$26.48	$10.68	$39.72	$27.86	N/A	$0.93
1"	$44.14	$10.68	$44.14	$46.43	N/A	$1.55
1-1/2"	$88.28	$10.68	$88.28	$92.85	N/A	$3.10
2"	$141.24	$10.68	$141.24	$148.56	N/A	$4.96
3"	$282.49	$10.68	$282.49	$297.12	N/A	$9.92
4"	$441.39	$10.68	$441.39	$464.25	N/A	$15.51
Gallonage Charge Tier one	$1.77	$2.49	$6.49	$3.33	N/A	$0.11
Gallonage Charge Tier two	$2.02	$2.84	$9.73	$5.84	N/A	$0.20
Gallonage Charge Tier three	$2.53	$3.56	$12.98	$8.76	N/A	$0.29
Gallonage Charge Tier four	$3.03	$4.28	$0.00	N/A	N/A	N/A
Private Fire Protection						
Base Facility Charge by Meter Size:						
2"	$0.00	$0.00	$11.77	$12.38	N/A	$0.41
3"	$0.00	$0.00	$23.54	$24.76	N/A	$0.83
4"	$0.00	$0.00	$36.78	$38.69	N/A	$1.29
6"	$0.00	$0.00	$73.57	$77.38	N/A	$2.58
8"	$0.00	$0.00	$117.70	$123.80	N/A	$4.13
10"	$0.00	$0.00	$169.20	$177.96	N/A	$5.94
	Typical Residential Bills 5/8" x 3/4" Meter					
3,000 Gallons	$12.90	$18.15	$56.60	$28.56		
5,000 Gallons	$16.44	$23.13	$82.56	$35.22		
10,000 Gallons	$25.29	$35.58	$95.52	$61.91		

Aqua Utilities Florida, Inc. - Fairways
Wastewater Monthly Service Rates
Test Year Ended 4/30/10

Schedule No. 5-B
Docket No. 100330-WS

	Rates Effective Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final	3-year Rate Reduction	Four-year Rate Reduction
Residential						
Base Facility Charge All Meter Sizes:	$12.65	$28.58	$37.87	$34.38	N/A	$1.15
Gallonage Charge - Per 1,000 gallons (6,000 gallon cap)	$3.80	$8.59	$9.53	$8.86	N/A	$0.30
General Service						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	$12.65	$28.58	$37.87	$34.38	N/A	$1.15
3/4"	$12.65	$28.58	$56.81	$51.57	N/A	$1.72
1"	$12.65	$28.58	$94.68	$85.95	N/A	$2.87
1-1/2"	$12.65	$28.58	$189.36	$171.90	N/A	$5.74
2"	$12.65	$28.58	$302.97	$275.04	N/A	$9.19
3"	$12.65	$28.58	$605.94	$550.08	N/A	$18.37
4"	$12.65	$28.58	$946.78	$859.50	N/A	$28.71
6"	$12.65	$28.58	$1,893.57	$1,719.00	N/A	$57.41
8"	$12.65	$28.58	$3,029.70	$2,750.40	N/A	$91.86
10"	$12.65	$28.58	$4,355.20	$3,953.70	N/A	$132.05
Gallonage Charge, per 1,000 Gallons	$3.80	$8.59	$11.43	$10.63	N/A	$0.36
Flat Rate Residential						
Flat Rate Residential	N/A	N/A	$73.91	N/A	N/A	N/A
Flat Rate General Service	N/A	N/A	$475.78	N/A	N/A	N/A
Reuse per Sprinkler Head	N/A	N/A	$0.50	N/A	N/A	N/A
Typical Residential Bills 5/8" x 3/4" Meter						
3,000 Gallons	$24.05	$54.35	$66.46	$60.96		
5,000 Gallons	$31.65	$71.53	$85.52	$78.68		
10,000 Gallons	$35.45	$80.12	$95.05	$87.54		
(Wastewater Gallonage Cap - 6,000 Gallons)						

Aqua Utilities Florida, Inc. - Peace River
Schedule of Water Rate Base
Test Year Ended 4/30/10

Schedule No. 3-A
Docket No. 100330-WS

	Description	Test Year Per Utility	Utility Adjustments	Adjusted Test Year Per Utility	Commission Adjustments	Commission Adjusted Test Year
1	Plant in Service	$112,225	$60,279	$172,504	$25,769	$198,273
2	Land and Land Rights	30,900	0	30,900	0	30,900
3	Non-used and Useful Components	0	0	0	0	0
4	Accumulated Depreciation	(5,787)	(6,022)	(11,809)	(1,164)	(12,973)
5	CIAC	(2,192)	0	(2,192)	0	(2,192)
6	Amortization of CIAC	19	0	19	0	19
7	Working Capital Allowance	0	18,909	18,909	(3,325)	15,584
8	Rate Base	$135,165	$73,166	$208,331	$21,280	$229,611

Aqua Utilities Florida, Inc. - Peace River
Schedule of Wastewater Rate Base
Test Year Ended 4/30/10

Schedule No. 3-B
Docket No. 100330-WS

	Description	Test Year Per Utility	Utility Adjustments	Adjusted Test Year Per Utility	Commission Adjustments	Commission Adjusted Test Year
1	Plant in Service	$210,236	$9,745	$219,981	($1,227)	$218,754
2	Land and Land Rights	18,634	0	18,634	0	18,634
3	Non-used and Useful Components	0	0	0	0	0
4	Accumulated Depreciation	(21,519)	(3,552)	(25,071)	46	(25,025)
5	CIAC	(1,817)	0	(1,817)	0	(1,817)
6	Amortization of CIAC	39	0	39	0	39
7	Working Capital Allowance	0	11,657	11,657	(3,602)	8,055
8	Rate Base	$205,573	$17,850	$223,423	($4,783)	$218,640

Aqua Utilities Florida, Inc. - Peace River
Adjustments to Rate Base
Test Year Ended 4/30/10

Schedule No. 3-C
Docket No. 100330-WS

	Explanation	Water	Wastewater
	Plant In Service		
1	Type A Approved Stipulations.	($501)	($347)
2	Reflect the appropriate amount of pro forma projects. (Issue 3)	27,099	0
3	Appropriate affiliate-allocation plant costs. (Issue 18)	(829)	(880)
	Total	$25,769	($1,227)
	Non-used and Useful		
	To reflect net non-used and useful adjustment. (Issues 4-7)	$0	$0
	Accumulated Depreciation		
1	Type A Approved Stipulations.	($549)	($542)
2	Reflect the appropriate amount of pro forma projects. (Issue 3)	(1,230)	0
3	Appropriate affiliate-allocation plant costs. (Issue 18)	614	588
	Total	($1,164)	$46
	Working Capital		
1	Type A Approved Stipulations.	($4,550)	($4,734)
2	To amortize Phase I Monitoring Plan Costs. (Issue 1)	229	214
3	Reflect appropriate deferred rate case expense. (Issue 8)	996	918
	Total	($3,325)	($3,602)

Aqua Utilities Florida, Inc. - Peace River
Statement of Water Operations
Test Year Ended 4/30/10

Schedule No. 4-A
Docket No. 100330-WS

	Description	Test Year Per Utility	Utility Adjustments	Adjusted Test Year Per Utility	OPC Adjustments	Comm. Adjusted Test Year	Revenue Increase	Revenue Requirement
1	**Operating Revenues:**	$65,818	$45,228	$111,046	($43,221)	$67,825	$41,614 61.35%	$109,438
	Operating Expenses							
2	Operation & Maintenance	$66,863	$3,033	$69,896	($7,546)	$62,350		$62,350
3	Depreciation	5,099	4,018	9,117	532	9,649		9,649
4	Amortization	0	0	0	4,837	4,837		4,837
5	Taxes Other Than Income	7,191	1,264	8,455	(1,579)	6,876	1,873	8,749
6	Income Taxes	(5,144)	12,687	7,543	(15,127)	(7,584)	14,955	7,370
7	**Total Operating Expense**	74,009	21,002	95,011	(18,883)	76,128	16,827	92,955
8	**Operating Income**	($8,191)	$24,226	$16,035	($24,338)	($8,303)	$24,787	$16,483
9	**Rate Base**	$135,165		$208,331		$229,611		$229,611
10	**Rate of Return**	(6.06%)		7.70%		-3.62%		7.18%

Aqua Utilities Florida, Inc. - Peace River | **Schedule No. 4-B**
Statement of Wastewater Operations | **Docket No. 100330-WS**
Test Year Ended 4/30/10

	Description	Test Year Per Utility	Utility Adjustments	Adjusted Test Year Per Utility	Commission Adjustments	Commission Adjusted Test Year	Revenue Increase	Revenue Requirement
1	**Operating Revenues:**	$82,013	$21,614	$103,627	($24,340)	$79,287	$15,930 20.09%	$95,217
	Operating Expenses							
2	Operation & Maintenance	$57,949	$1,076	$59,025	($4,740)	$54,285		$54,285
3	Depreciation	8,750	1,652	10,402	(646)	9,756		9,756
4	Amortization	0	0	0	0	0		0
5	Taxes Other Than Income	2,712	6,199	8,911	(1,165)	7,746	717	8,463
6	Income Taxes	4,861	3,228	8,089	(6,796)	1,293	5,725	7,018
7	**Total Operating Expense**	74,272	12,155	86,427	(13,347)	73,080	6,442	79,521
8	**Operating Income**	$7,741	$9,459	$17,200	($10,993)	$6,207	$9,489	$15,696
9	**Rate Base**	$205,573		$223,423		$218,640		$218,640
10	**Rate of Return**	3.77%		7.70%		2.84%		7.18%

	Aqua Utilities Florida, Inc. - Peace River **Adjustment to Operating Income** **Test Year Ended 4/30/10**	**Schedule No. 4-C** **Docket No. 100330-WS**	
	Explanation	Water	Wastewater
	Operating Revenues		
1	Remove requested final revenue increase.	($43,625)	($20,118)
2	Reflect appropriate amount of annualized revenues. (Issue 15)	404	(4,222)
	Total	($43,221)	($24,340)
	Operation and Maintenance Expense		
1	Type A Approved Stipulations.	($530)	($349)
2	To amortize Phase I Monitoring Plan Costs. (Issue 1)	(229)	(214)
3	Reflect effect of additional AAI customers. (Issue 16)	(115)	(109)
4	Reflect appropriate affiliate-allocation expenses. (Issue 17)	(1,101)	(1,062)
5	Remove executive incentive compensation. (Issue 19)	(182)	(189)
6	Reflect amount of salaries & wages. (Issue 20)	(926)	(908)
7	Reflect appropriate amount of bad debt expense. (Issue 21)	(5,165)	(2,581)
8	Reflect appropriate amount of rate case expense. (Issue 22)	701	672
	Total	($7,546)	($4,740)
	Depreciation Expense - Net		
1	Type A Approved Stipulations.	($83)	($58)
2	Reflect the appropriate amount of pro forma projects. (Issue 3)	1,230	0
3	To remove net depreciation on non-U&U adjustment above. (Issues 4-7)	0	0
4	Appropriate affiliate-allocation plant costs. (Issue 18)	(614)	(588)
	Total	$532	($646)
	Amortization-Other Expense		
	Appropriate Regulatory Asset. (Issue 38)	$4,837	$0
	Taxes Other Than Income		
1	RAFs on revenue adjustments above.	($1,945)	($1,095)
2	Reflect the appropriate amount of pro forma projects. (Issue 3)	437	0
3	Reflect appropriate non-U&U property taxes. (Issues 4 through 7)	0	0
4	Reflect corresponding payroll taxes on salaries & wages adjustment. (Issue 20)	(71)	(69)
	Total	($1,579)	($1,165)

Aqua Utilities Florida, Inc. - Peace River
Water Monthly Service Rates
Test Year Ended 4/30/10

Schedule No. 5-A
Docket No. 100330-WS

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final	2-Year Rate Reduction	4-Year Rate Reduction
Residential, General Service and Multi-Family						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	$16.44	$20.02	$17.66	$19.17	$0.93	$0.28
3/4"	$24.66	$30.04	$26.48	$28.76	$1.40	$0.42
1"	$41.10	$50.06	$44.14	$47.93	$2.33	$0.71
1-1/2"	$82.20	$100.12	$88.28	$95.85	$4.65	$1.41
2"	$131.52	$160.20	$141.24	$153.36	$7.44	$2.26
3"	$263.03	$320.38	$282.49	$306.72	$14.88	$4.52
4"	$410.99	$500.60	$441.39	$479.25	$23.25	$7.06
6"	$821.97	$1,001.19	$882.78	$958.50	$46.51	$14.11
8"	$1,315.16	$1,601.91	$1,412.44	$1,533.60	$74.41	$22.58
10"	$1,890.54	$2,302.75	$2,030.39	$2,204.55	$106.97	$32.45
Gallonage Charge, per 1,000 Gallons						
Gallonage Charge RS Tier One	$4.94	$6.02	$6.49	$6.55	$0.32	$0.10
Gallonage Charge RS Tier Two	$6.17	$7.52	$9.73	$9.83	$0.48	$0.14
Gallonage Charge RS Tier Three	$14.81	$18.04	$12.98	$13.10	$0.64	$0.19
Gallonage Charge, GS	$6.05	$7.37	$6.98	$7.35	$0.36	$0.11
Irrigation						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	$0.00	$0.00	$17.66	$19.17	$0.93	$0.28
3/4"	$0.00	$0.00	$26.48	$28.76	$1.40	$0.42
1"	$0.00	$0.00	$44.14	$47.93	$2.33	$0.71
1-1/2"	$0.00	$0.00	$88.28	$95.85	$4.65	$1.41
2"	$0.00	$0.00	$141.24	$153.36	$7.44	$2.26
3"	$0.00	$0.00	$282.49	$306.72	$14.88	$4.52
4"	$0.00	$0.00	$441.39	$479.25	$23.25	$7.06
Gallonage Charge Tier one	$0.00	$0.00	$6.49	$6.55	$0.32	$0.10
Gallonage Charge Tier two	$0.00	$0.00	$9.73	$9.83	$0.48	$0.14
Gallonage Charge Tier three	$0.00	$0.00	$12.98	$13.10	$0.64	$0.19
Private Fire Protection						
Base Facility Charge by Meter Size:						
2"	$10.96	$13.35	$11.77	$12.78	$0.62	$0.19
3"	$21.92	$26.70	$23.54	$25.56	$1.24	$0.38
4"	$34.25	$41.72	$36.78	$39.94	$1.94	$0.59
6"	$68.50	$83.44	$73.57	$79.88	$3.88	$1.18
8"	$109.60	$133.50	$117.70	$127.80	$6.20	$1.88
10"	$157.55	$191.90	$169.20	$183.71	$8.91	$2.70
	Typical Residential Bills 5/8" x 3/4" Meter					
3,000 Gallons	$34.59	$42.13	$38.60	$38.82		
5,000 Gallons	$46.69	$56.87	$52.56	$51.92		
10,000 Gallons	$71.99	$87.72	$95.52	$97.79		

Aqua Utilities Florida, Inc. - Peace River
Wastewater Monthly Service Rates
Test Year Ended 4/30/10

Schedule No. 5-B
Docket No. 100330-WS

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final	2 Year Rate Reduction	4 Year Rate Reduction
Residential						
Base Facility Charge All Meter Sizes:	$29.03	$33.04	$37.87	$34.38	N/A	$0.55
Gallonage Charge - Per 1,000 gallons (6,000 gallon cap)	$8.87	$10.09	$9.53	$8.86	N/A	$0.14
General Service						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	$29.03	$33.04	$37.87	$34.38	N/A	$0.55
3/4"	$43.55	$49.56	$56.81	$51.57	N/A	$0.83
1"	$72.58	$82.60	$94.68	$85.95	N/A	$1.38
1-1/2"	$145.17	$165.20	$189.36	$171.90	N/A	$2.76
2"	$232.27	$264.32	$302.97	$275.04	N/A	$4.41
3"	$464.54	$528.64	$605.94	$550.08	N/A	$8.82
4"	$725.84	$826.00	$946.78	$859.50	N/A	$13.78
6"	$1,451.68	$1,651.99	$1,893.57	$1,719.00	N/A	$27.55
8"	$2,322.70	$2,643.20	$3,029.70	$2,750.40	N/A	$44.09
10"	$3,338.87	$3,799.59	$4,355.20	$3,953.70	N/A	$63.38
Gallonage Charge, per 1,000 Gallons	$10.64	$12.11	$11.43	$10.63	N/A	$0.17
Flat Rate Residential						
Flat Rate Residential	N/A	N/A	$73.91	N/A	N/A	N/A
Flat Rate General Service	N/A	N/A	$475.78	N/A	N/A	N/A
Reuse per Sprinkler Head	N/A	N/A	$0.50	N/A	N/A	N/A
	Typical Residential Bills 5/8" x 3/4" Meter					
3,000 Gallons	$55.64	$63.31	$66.46	$60.96		
5,000 Gallons	$73.38	$83.49	$85.52	$78.68		
10,000 Gallons	$82.25	$93.58	$95.05	$87.54		
(Wastewater Gallonage Cap - 6,000 Gallons)						

ATTACHMENT B

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.	DOCKET NO. 100330-WS ORDER NO. PSC-12-0259-FOF-WS ISSUED: May 29, 2012

The following Commissioners participated in the disposition of this matter:

RONALD A. BRISÉ, Chairman
LISA POLAK EDGAR
ART GRAHAM
EDUARDO E. BALBIS
JULIE I. BROWN

ORDER GRANTING AUF'S MOTION FOR RECONSIDERATION AND RECONSIDERING AND CORRECTING ERRORS

BY THE COMMISSION:

I. BACKGROUND

On September 1, 2010, Aqua Utilities Florida, Inc. (AUF or Utility) filed an application for approval of an increase in rates for both its water and wastewater operations. The Utility requested that this rate application be processed using the Proposed Agency Action (PAA) procedures.

Pending our decision on final rates, AUF requested interim rates. By Order No. PSC-10-0707-FOF-WS (Interim Rate Order), issued November 29, 2010, in this docket, we approved an interim revenue requirement designed to generate annual water revenue of $9,062,892, an increase of $1,125,588[1] or 13.19 percent, and wastewater revenue of $5,391,338, an increase of $600,215[2] or 11.81 percent.

During the processing of AUF's requested rate increase, the Office of the Public Counsel (OPC), the Office of the Attorney General (AG), YES Companies, LLC d/b/a Arredondo Farms (YES), Mr. David L. Bussey (Mr. Bussey), Ms. Lucy Wambsgan (Ms. Wambsgan), and Pasco

[1] Of the total approved interim water revenue increase of $1,125,588, we allowed $529,922 to be collected though interim rates and deferred the remainder as a regulatory asset.
[2] Of the total approved interim wastewater revenue increase of $600,215, we allowed $310,041 to be collected through interim rates and deferred the remainder as a regulatory asset.

03411 MAY 29 ≥
FPSC-COMMISSION CLERK

County intervened in this docket. However, Mr. Bussey and Ms. Wambsgan subsequently withdrew their intervention.

The original five-month statutory deadline for us to vote on PAA action was March 14, 2011. By letter dated November 18, 2010, AUF waived the time to vote through May 24, 2011, and we voted on the Utility's requested rate increase on that date, and issued Order No. PSC-11-0256-PAA-WS (PAA Order)[3] on June 13, 2011. Timely protests and cross-petitions of portions of the PAA Order were filed.

Pending the resolution of these protests, AUF provided notice of implementation of PAA rates subject to refund with interest on July 1, 2011. By Order No. PSC-11-0336-PCO-WS, issued August 10, 2011, we acknowledged the implementation of the PAA rates.

Pursuant to Order No. PSC-11-0309-PCO-WS (Order Establishing Procedure), issued July 25, 2011, the protests and cross-petitions of the PAA Order were scheduled for formal hearing.[4] Ten service hearings were held throughout the state,[5] and the technical hearing was held on November 29 and 30, and December 1 and 7, 2011.

Subsequent to the close of the technical hearing, all parties filed briefs. Thereafter, on February 14, 2012, upon consideration of the evidentiary record, the post-hearing briefs of the parties, and our staff's recommendation, we issued Order No. PSC-12-0102-FOF-WS (Final Order), granting AUF an increase in its rates and charges to generate $3.8 million in additional gross annual revenues.

On March 20, 2012, AUF timely filed a Motion for Reconsideration (Motion), pointing out several perceived scrivener's errors and mistakes of fact or law in the Final Order. AUF did not request oral argument on its motion. Also, the Intervenors did not file a response to AUF's Motion.

Finally, on April 17, 2012, in addressing a customer complaint, our staff discovered an apparent allocation error of the revenue requirement within Wastewater Rate Band 2 in the Final Order. This apparent allocation error caused the rates in Wastewater Rate Band 2 to be improperly calculated with some wastewater customers being charged more than was appropriate and others being charged less.

---

[3] Although Order No. PSC-11-0256-PAA-WS, was primarily a PAA Order, as final agency action, we closed Docket No. 080121-WS. Also, although AUF's Chuluota system was not a part of the rate proceeding in Docket No. 100330-WS, we determined that any quality of service problems related to the Chuluota water and wastewater systems would be considered in Docket No. 100330-WS.

[4] Order No. PSC-11-0544-PHO-WS (Prehearing Order), issued November 23, 2011, set forth the agreements reached by the parties and the decisions of the Prehearing Officer for purposes of the formal hearing. The Prehearing Order also set out the issues in dispute and the issues deemed stipulated pursuant to Section 120.80(13)(b), F.S.

[5] Service Hearings were held in Greenacres (August 29, 2011); North Ft. Myers (August 30, 2011); Sebring (August 31, 2011); Oviedo (September 1, 2011); Gainesville (September 12, 2011); Palatka (September 13, 2011); Eustis (September 13, 2011); Chipley (September 16, 2011); New Port Richey (October 11, 2011); and Lakeland (October 12, 2011).

This Order addresses AUF's Motion for Reconsideration and the improper allocation of the revenue requirement within Wastewater Rate Band 2, with the resulting incorrect rates. We have jurisdiction over the matter pursuant to Sections 367.081 and 367.082, Florida Statutes (F.S.).

II. AUF'S MOTION FOR RECONSIDERATION

The standard of review in a motion for reconsideration is whether the motion identifies a mistake of fact or law, or a point of fact or law which was overlooked or which we failed to consider in rendering our Final Order. Stewart Bonded Warehouse, Inc. v. Bevis, 294 So. 2d 315 (Fla. 1974); Diamond Cab Co. v. King, 146 So. 2d 889 (Fla. 1962); and Pingree v. Quaintance, 394 So. 2d 161 (Fla. 1st DCA 1981). In a motion for reconsideration, it is not appropriate to reargue matters that have already been considered. Sherwood v. State, 111 So. 2d 96 (Fla. 3d DCA 1959), citing State ex. rel. Jaytex Realty Co. v. Green, 105 So. 2d 817 (Fla. 1st DCA 1958).

As noted, AUF timely filed its Motion for Reconsideration of portions of the Final Order. In its Motion, it listed the following perceived errors, miscalculations, mistakes of fact or law, and scrivener's errors:

A. Rate Reduction for Expiration of Amortization of Prior Rate Case Expense
   1. Corrections Needed Relating to the "Across-the Board Decrease" for New Water Band 2; and
   2. Additional Corrections Needed for the "Across-the-Board Decrease" for New Water Bands 1 & 2, and New Wastewater Rate Band 2
B. Regulatory Asset for the Interim Deferral
   1. New Water Rate Band 2;
   2. New Wastewater Rate Band 2
C. Scrivener's Error in Interim Refund Calculation
D. PAA Refund Calculation Error
E. Repression Adjustment to New Water Rate Band 2
F. Post-Repression Revenue Requirement
G. Miscellaneous Typographical Errors

The Intervenors did not file any responses to AUF's Motion. Each of the above-listed categories will be set out below with a brief summary of the Utility's Argument and our Analysis and Conclusion following.

A. Rate Reduction for Expiration of Amortization of Prior Rate Case Expense

1. Corrections Relating to the "Across-the Board Decrease" for New Water Band 2

a. AUF's Argument

AUF notes that the table appearing on page 164 of the Final Order sets forth the "Across-the Board Decrease" percentages that would apply to the new rate bands starting on April 1, 2013, when the four-year amortization period expires. In making those calculations, AUF notes that we used the annual revenue requirement for each of the old water and wastewater rate bands. However, for the new Water Rate Band 2, AUF states that we inadvertently used the revenue requirement for old Wastewater Rate Band 1 as the entry for old Water Band 4. AUF states that the correct revenue requirement for old Water Rate Band 4 is $4,807,804 and not $462,187 (see Water Rate Band 4, Schedule 4-A, on page 224 of Final Order). With this correction, AUF states that the "Across-the Board Decrease" percentage for new Water Rate Band 2 would be 2.33 percent and not 5.89 percent.

b. Commission Analysis and Conclusion

We agree with the Utility. The table on page 164 shall be corrected to show an approved revenue requirement of $4,807,804 for old Water Rate Band 4. The figure of $462,187 is the revenue requirement for the old Wastewater Rate Band 1 (and now new Wastewater Rate Band 1), which was inadvertently left blank. Further, the revenue requirements for old Wastewater Rate Bands 2 and 3 were inadvertently left blank and should have reflected revenue requirements of $3,572,176 and $894,944, respectively. The above-noted errors were the result of cell formula reference errors in our staff's Excel spreadsheets, and as such, these scrivener errors shall be corrected. With this first correction, the across-the-board decrease percentage for new Water Rate Band 2 would be 2.33 percent and not 5.89 percent. Further, in Section A.2., immediately below, AUF argues that a second correction is required which would further reduce the 2.33 percent figure. AUF notes that in calculating the appropriate rate case expense reductions, we improperly excluded the revenue requirements from the Breeze Hill, Fairways, and Peace River systems. This argument is discussed immediately below.

2. Additional Corrections Needed for the "Across-the-Board Decrease" for New Water Bands 1 & 2, and New Wastewater Rate Band 2

a. AUF's Argument

AUF notes that the approved capband rate structure contemplates a uniform rate structure within each band. AUF argues that to calculate the appropriate rates, the revenue requirements for all individual systems within a band are totaled to create an aggregate revenue requirement for the band. Further, AUF states that the annual rate case expense amortization amounts for all systems within each rate band must be included in the calculation of each band's "Across-the Board Decrease" percentage, and then included in Tables 25 and 26. AUF argues that in the table on page 164:

1. The revenue requirement for the Fairways System was not included in new Water Rate Band 1;
2. The revenue requirements for the Breeze Hill and Peace River Systems were not included in new Water Rate Band 2; and
3. The revenue requirements for the Breeze Hill, Fairways, and Peace River Systems were not included in new Wastewater Rate Band 2.

To properly calculate the "Across-the-Board Decrease" percentage, AUF argues that the revenue requirements for these three systems must be included. AUF created its own schedule to show the proper calculation of the "Across-the-Board Decrease" percentage as shown in Attachment A.

b. Commission Analysis and Conclusion

In calculating the appropriate across-the-board decrease for amortization of rate case expense, the Final Order only included our approved revenue requirements for the old water and wastewater rate bands. Because the stand-alone systems were consolidated with the old water and wastewater rate bands to form new bands, we agree with AUF that our approved revenue requirements for the three new systems that had stand-alone rates when this rate case was filed should be included when calculating the across-the-board decrease percentages as reflected in Table 1 below. Table 1 shall replace the table found on page 164 of the Final Order.

Table 1

Calculation of Four-Year Rate Case Expense (RCE) Reduction for Docket No. 080121-WS

		Annual RCE Amort.	RAF Factor	Grossed-up RCE	Approved Revenue Req.	Across-the-Board Decrease
New Water Band 1	Old Water Band 1	$82,218	0.955	$86,092	$2,556,973	
	Fairways				177,686	
					$2,734,659	3.16%
New Water Band 2	Old Water Band 2	$36,565	0.955	$38,288	$1,474,868	
	Old Water Band 3	22,333	0.955	23,386	916,643	
	Old Water Band 4	101,592	0.955	106,379	4,807,804	
	Breeze Hill	0	0.955	0	62,926	
	Peace River	0	0.955	0	109,438	
		$160,490		$168,052	$7,371,679	2.28%
New Wastewater (WW) Band 1	Old WW Band 1	$14,619	0.955	$15,308	$462,187	3.31%
New WW Band 2	Old WW Band 2	$67,035	0.955	$70,194	$3,572,176	
	Old WW Band 3	8,243	0.955	8,631	894,944	
	Breeze Hill	0	0.955	0	63,181	
	Fairways	0	0.955	0	181,253	
	Peace River	0	0.955	0	95,217	
		$75,278		$78,825	$4,806,771	1.64%
New WW Band 3	Old WW Band 4	$4,086	0.955	$4,279	$495,850	0.86%

Based on the above across-the-board decreases, the rate reductions effective as of March 31, 2013, for the rate case expense approved in Docket No. 080121-WS for water and wastewater that were shown on Final Order Tables 25 and 26, respectively, shall be replaced by Tables 2 and 3 below.

Table 2

WATER	New Rate Band One (1)	080121-WS 4-Yr Reduction	New Rate Band Two (2)	080121-WS 4-Yr Reduction
RS, GS, Multi, Irrig	BFC		BFC	
5/8" x 3/4"	$18.57	$0.58	$19.17	$0.44
3/4"	$27.86	$0.88	$28.76	$0.66
1"	$46.43	$1.46	$47.93	$1.09
1 ½"	$92.85	$2.92	$95.85	$2.19
2"	$148.56	$4.68	$153.36	$3.50
3"	$297.12	$9.35	$306.72	$6.99
4"	$464.25	$14.62	$479.25	$10.93
6"	$928.50	$29.23	$958.50	$21.85
8"	$1,485.60	$46.77	$1,533.60	$34.96
10"	$2,135.55	$67.23	$2,204.55	$50.26
Residential kgal chgs:				
0-6 kgals	$3.33	$0.10	$6.55	$0.15
6.001 - 12 kgals	$5.84	$0.18	$9.83	$0.22
12.001 +	$8.76	$0.28	$13.10	$0.30
Gen. Service kgal chg:	$4.64	$0.15	$7.35	$0.17
Private Fire Protection				
BFC by Meter Size				
2"	$12.38	$0.39	$12.78	$0.29
3"	$24.76	$0.78	$25.56	$0.58
4"	$38.69	$1.22	$39.94	$0.91
6"	$77.38	$2.44	$79.88	$1.82
8"	$123.80	$3.90	$127.80	$2.91
10"	$177.96	$5.60	$183.71	$4.19
Typical Residential Bills				
3,000 gallons	$28.56	$0.90	$38.82	$0.88
5,000 gallons	$35.22	$1.11	$51.92	$1.18
10,000 gallons	$61.91	$1.95	$97.79	$2.23

(1) Rate Band 1 includes old Rate Band 1 and Fairways.
(2) Rate Band 2 includes old Rate Band 2, 3, and 4, as well as Breeze Hill and Peace River.

Table 3

WASTEWATER	New Rate Band One	080121-WS 4-Yr Reduction	New Rate Band Two	080121-WS 4-Yr Reduction	New Rate Band Three	080121-WS 4-Yr Reduction
Residential						
BFC - All Meter Sizes	$23.11	$0.77	$34.66	$0.57	$77.89	$0.67
Kgal Charge - 6,000 Cap	$7.81	$0.26	$8.93	$0.15	$7.84	$0.07
General Service						
5/8" x 3/4"	$23.11	$0.77	$34.66	$0.57	$77.89	$0.67
¾"	$34.67	$1.15	$51.99	$0.85	$116.84	$1.01
1"	$57.78	$1.91	$86.65	$1.42	$194.73	$1.68
1 1/2"	$115.55	$3.83	$173.30	$2.84	$389.45	$3.36
2"	$184.88	$6.12	$277.28	$4.55	$623.12	$5.38
3"	$369.76	$12.25	$554.56	$9.09	$1,246.24	$10.75
4"	$577.75	$19.14	$866.50	$14.21	$1,947.25	$16.80
6"	$1,155.50	$38.27	$1,733.00	$28.42	$3,894.50	$33.61
8"	$1,848.80	$61.23	$2,772.80	$45.47	$6,231.20	$53.77
10"	$2,657.65	$88.02	$3,985.90	$65.36	$8,957.35	$77.29
Kgal Charge	$9.37	$0.31	$10.72	$0.18	$9.41	$0.08
Flat Rate Residential						
Valencia Terrace	$40.46	$1.34	N/A	N/A	N/A	N/A
Sunny Hills	N/A	N/A	$61.84	$1.01	N/A	N/A
Zephyr Shores	N/A	N/A	$61.84	$1.01	N/A	N/A
Jungle Den	N/A	N/A	$61.84	$1.01	N/A	N/A
Lake Gibson Estates	N/A	N/A	$61.84	$1.01	N/A	N/A
Reuse per Sprinkler Head	N/A	N/A	N/A	N/A	$0.49	$0.00
Typical Residential Bills						
3,000 gallons	$46.54	$1.54	$61.45	$1.01	$101.41	$0.88
5,000 gallons	$62.16	$2.06	$79.31	$1.30	$117.09	$1.01
10,000 gallons	$69.97	$2.32	$88.24	$1.45	$124.93	$1.08
(Wastewater Gallonage Cap - 6,000 gallons)						

(1) Rate Band 1 consists of old Rate Band 1 only.
(2) Rate Band 2 consists of old Rate Bands 2 and 3, and the Breeze Hill, Fairways, and Peace River Systems.
(3) Rate Band 3 consists of old Rate Band 4 (GS Only).

B. Regulatory Asset for the Interim Deferral

Pursuant to Order No. PSC-10-0707-FOF-WS, AUF was allowed to defer recovery of a portion of the interim rate increase to which AUF was entitled for certain systems. These deferred interim water and wastewater revenues resulted in "regulatory assets" to be recovered by AUF over a two-year period once final rates were determined. At the expiration of the two-year period, rates were to "be reduced across-the-board to remove the respective grossed-up annual amortization of the regulatory assets."

1. New Water Rate Band 2

a. AUF's Argument

AUF notes that old Water Rate Bands 2, 3, and 4, along with the Breeze Hill and Peace River water systems were all placed in the new Water Rate Band 2. Therefore, pursuant to the capband methodology, these systems were supposed to have uniform rates both now and in the future. However, AUF notes that Schedules 5-A, on pages 211 and 219, show that there would be no 2-year rate reduction for old Water Rate Bands 2 and 3. Further, Schedules 5-A on pages 227, 235, and 251 of the Final Order have three different amounts for the two-year rate reductions for old Water Rate Band 4, Breeze Hill, and Peace River. AUF argues that this is not what is intended by the capband rate structure, and that all the systems in new Water Rate Band 2 should have the same aggregate two-year rate reduction.

b. Commission Analysis and Conclusion

We agree with AUF. In the initial calculations, our staff had individual percentage reductions for those bands and stand-alone systems that were due recovery of a regulatory asset. The effect of applying individual reductions would be inconsistent with our decision to consolidate certain bands and stand-alone systems. Dividing the aggregate regulatory assets of $228,294 for the new Water Rate Band 2 by its aggregate revenue requirement yields a composite across-the-board percentage reduction of 3.20 percent, that shall be applied to our approved new Water Rate Band 2 Rates to reflect the uniform 2-year rate reduction. The correct 2-year rate reductions for new Water Rate Band 2 are reflected on Schedules 5-A (attached to this Order), respectively, for the old Water Rate Bands 2, 3, 4, as well as the stand-alone Breeze Hill and Peace River water systems.

Although not included in its Motion for Reconsideration, we find on our own motion that a similar correction shall be made for the 4-year rate reduction associated with the amortization of rate case expense approved for this docket. Accordingly, the correct 4-year rate reductions for new Water Rate Bands 1 (old Water Rate Band 1 and Fairways) and 2 (old Water Rate Bands 2 and 3, as well as the Breeze Hill and Peace River systems) are reflected on Schedules 5-A, attached.

2. New Wastewater Rate Band 2

a. AUF's Argument

AUF notes that old Wastewater Rate Bands 2, 3, and 4, along with the Breeze Hill, Fairways, and Peace River wastewater systems were all placed in the new Wastewater Rate Band 2. Therefore, pursuant to the capband methodology, these systems were supposed to have uniform rates both now and in the future. However, AUF notes that Schedules 5-B on pages 212, 220, 236, 244, and 252 of the Final Order show that there would be no 2-year rate reduction for the old Wastewater Rate Band 2, Breeze Hill, Fairways, and Peace River systems. However, Schedule 5-B on page 220 of the Final Order shows a two-year rate reduction for old Wastewater Rate Band 3. AUF argues that this is not what is intended by the capband rate structure, and that all the systems in new Wastewater Rate Band 2 should have the same aggregate two-year rate reduction.

b. Commission Analysis and Conclusion

We agree with AUF. In the initial calculations, our staff had individual percentage reductions for those bands and stand-alone systems that were due recovery of a regulatory asset. The effect of applying individual reductions would be inconsistent with our decision to consolidate certain bands and stand-alone systems. Dividing the aggregate regulatory assets of $124,289 for the new Wastewater Rate Band 2 by its aggregate revenue requirement yields a composite across-the-board percentage of 2.66 percent that shall be applied to our approved new Wastewater Rate Band 2 Rates to reflect the uniform 2-year rate reduction. The correct 2-year rate reductions for the new Wastewater Band 2 are reflected on Schedules 5-B (attached to this Order), respectively, for the old Water Rate Bands 2 and 3, as well as the stand-alone Breeze Hill, Fairways, and Peace River wastewater systems.

Although not included in AUF's Motion for Reconsideration, we find on our own motion that a similar correction shall be made for the 4-year rate reduction associated with the amortization of rate case expense approved for this docket. Accordingly, the correct 4-year rate reductions for the new Wastewater Rate Band 2 are reflected on attached Schedules 5-B, respectively, for the old Water Rate Bands 2 and 3, as well as the Breeze Hill, Fairways, and Peace River wastewater systems.

C. Scrivener's Error in Interim Refund Calculation

1. AUF's Argument

AUF notes that in calculating whether a refund of interim rates is required, this Commission calculates the interim revenue requirement excluding the rate case expense that may be incurred for the current rate proceeding. However, AUF notes that the Final Order reflects a reduction of $727,528 for the interim revenue requirement on Table 27 in the "RAF Grossed RCE" column, when the amount of annual rate case expense allowed in this docket was only $352,261 ($1,409,043 divided by 4). Grossing up for regulatory assessment fees (RAFs), AUF

calculates that the total RAF Grossed RCE amount on Table 27 should be $368,860, and not the $727,528 shown. Therefore, AUF argues that this inadvertent error overstates the refund calculation by approximately $358,668.

AUF further notes that the amount of prior rate case expense amortization approved by us in Docket No. 080121-WS was $342,528, and when grossed up for RAFs would approximate the $358,668 erroneous figure (excludes rate case expense attributable to Chuluota). AUF argues that the rate case expense from the prior rate case were "actual expenses" incurred during the interim collection period, and that this amount should not have been removed from the calculation of the appropriate interim rates. AUF concludes that this error must be corrected or the Final Order would be confiscatory and prevent AUF from recovering rate case expense approved by us in the last rate case.

2. Commission Analysis and Conclusion

We agree with AUF. In our initial calculations in the Final Order, we excluded the approved rate case expense in Docket No. 080121-WS. The rate case expense from the last case is an actual expense incurred during the interim collection period and should not have been excluded. Based on the revised calculations, the total grossed-up rate case expense that shall be excluded is $363,695. Based on the above, the following table reflects the appropriate interim refunds.

Table 4

Band/System	Recom. Rev. Req.	RAF Grossed RCE	Interim Period Rev. Req.	Interim Rev. Req. Per Order	Interim Excess	Refund %
Water Band 1	$2,556,973	$86,092	$2,470,881	$2,559,477	$88,596	3.59%
Water Band 2	1,474,868	38,288	$1,436,580	1,432,357	(4,223)	No Refund
Water Band 3	916,643	23,386	$893,257	930,090	36,833	4.12%
Water Band 4	4,576,670	106,379	$4,470,291	3,816,182	(654,109)	No Refund
Sewer Band 1	462,187	15,308	$446,880	473,692	26,812	6.00%
Sewer Band 2	3,572,176	70,194	$3,501,982	3,546,600	44,618	1.27%
Sewer Band 3	764,799	8,631	$756,167	484,040	(272,127)	No Refund
Sewer Band 4	495,850	4,279	$491,571	533,651	42,080	8.56%
Breeze Hill Water	60,074	1,807	$58,266	53,069	(5,197)	No Refund
Breeze Hill Sewer	63,181	1,807	$61,373	73,949	12,576	20.49%
Fairways Water	177,686	3,394	$174,292	189,399	15,107	8.67%
Fairways Sewer	181,253	1,402	$179,852	181,739	1,887	1.05%
Peace River Water	104,374	1,402	$102,972	82,317	(20,655)	No Refund
Peace River Sewer	95,217	1,328	$93,889	97,667	3,778	4.02%
TOTAL	$15,501,950	$363,695	$15,138,254	$14,454,229	($684,025)	

F. Post-Repression Revenue Requirement

1. AUF's Argument

On page 149 of the Final Order, AUF notes that the post-repression revenue requirement, excluding miscellaneous service charges, was listed as $10,063,856 for water and $5,764,808 for wastewater. However, AUF states that the workpapers suggest that the number $10,063,856 was a total water revenue requirement, from which $271,177 was subtracted to arrive at a post-repression water revenue requirement of $9,835,161, excluding miscellaneous charges. Similarly, AUF states that the workpapers suggest the wastewater figure of $5,764,808 was a total wastewater requirement from which $89,040 was subtracted in order to arrive at a post-repression wastewater revenue requirement of $5,675,768, excluding miscellaneous charges. AUF requests that these figures be reconciled.

2. Commission Analysis and Conclusion

We agree with AUF's argument that there is an inconsistency between the figures in the workpapers and the language found in the Order. Therefore, to ensure clarity, we find the following changes to page 149 of the Final Order shall be made, and the Order shall read in part as shown:

> The appropriate ~~post-~~ pre-repression revenue requirement, ~~excluding~~ including miscellaneous service charges, is ~~$10,063,856~~ $10,106,338 for the water system ~~and $5,764,808 for the wastewater system~~. The appropriate adjustments to the water system for metered ratesetting purposes are: 1) the removal of miscellaneous service charges of $271,177; and 2) a water system reduction of $42,482 to reflect expense reductions associated with the Commission-approved repression adjustments. . . . These resulting rates are designed to recover ~~a post-repression~~ revenues from metered rates ~~requirement~~ of ~~$10,063,856~~ $9,792,679 for the water system.
>
> The appropriate pre-repression revenue requirement, including miscellaneous service charges, is $5,764,808 for the wastewater system. The appropriate adjustment to the wastewater system for metered ratesetting purposes is the removal of $50,507 associated with miscellaneous service charges and revenues associated with residential wastewater-only flat rate charges ~~of $89,040~~. . . . These resulting rates are designed to recover revenues from metered rates ~~a revenue requirement of $5,764,808~~ of $5,714,301 for the wastewater system.

The above clarifying language does not affect the ultimate revenue requirement and the calculation of rates.

G. Miscellaneous Typographical Errors

1. AUF's Argument

In addition to the foregoing, AUF brings to our attention the following miscellaneous typographical errors appearing in the Final Order:

a. Page 93. The last sentence at the top of page 93 of the Final Order states: "As a result, water revenues shall be reduced by $110,012 and wastewater revenue shall be reduced by $58,306." AUF avers that the sentence should read: "As a result, water revenues shall be reduced by $26,527 and wastewater revenue shall be reduced by $141,791." AUF further notes that the total overall reduction is correct, and thus this error has no impact on the ultimate revenue requirements or rates.

b. Table 26. On page 166 of the Final Order (Table 26), for New Wastewater Rate Band 2 the BFC and rate reduction for the 8" meter size appears to have been inadvertently copied and inserted for the 10" meter size. AUF states that for the 10" meter size, the BFC should be $3,953.70, and the rate reduction should be $69.76.

c. Schedule 5-A. On page 203 of the Final Order, with respect to Schedule 5-A for the columns pertaining to "Commission Approved Final" and "4-year Rate Reduction" in old Water Rate Band 1, the BFC amounts in the Irrigation Section differ from those in the Residential, General Service and Multi-Family Section. AUF avers that these amounts should be the same, and that the correct BFC amounts for Residential, General Service, Multi-Family, and Irrigation should be as set forth on Table 25 on page 165 of the Final Order.

d. Schedule 5-B for Wastewater Rate Band 1. On page 204, with respect to Schedule 5-B for the column "Commission Approved Final" for WW Rate Band 1, the BFC amounts for the General Service class and the Flat Rate for Valencia Terrace are actually the "4-year Rate Reduction" amounts. The correct "Commission Approved Final" General Service BFC and Flat Rate amounts are therefore missing from the Final Order. Also, for those same lines, the amounts in the column "4-year Rate Reduction" are incorrect. The correct numbers for this table appear to be in the Commission workpaper file named "Wastewater Band 1.XLS" which was provided to all parties.

2. Commission Analysis and Conclusion

We agree that the corrections noted above appear to be scrivener errors and they shall be made. In addition, on page 220, Schedule No. 5-B, the approved final gallonage charge for residential customers showed a charge of $8.869, and on page 228, Schedule No. 5-B, the

approved final gallonage charge for GS showed a charge of $9.415. These were also scrivener errors and have been corrected in the attached Schedules 5-B.

H. Summary Conclusion

For the reasons stated above, AUF's Motion for Reconsideration shall be granted in its entirety. AUF has identified scrivener's errors, calculation errors, and points of fact that we overlooked or failed to consider when we issued our Final Order. The scrivener errors, calculation errors, and mistakes of fact shall be corrected as set out above. Further, on our own motion, we correct the additional noted scrivener's errors and approve the recalculation of the four-year rate reduction for amortization of rate case expense as shown above. Except for the additional correction of an allocation error discussed below, all other aspects of the Final Order shall be reaffirmed.

III. RECONSIDERATION ON OUR OWN MOTION TO CORRECT ALLOCATION ERROR

In determining whether we should on our own motion reconsider a finding in an order, we believe the standard remains the same as previously stated for AUF's Motion for Reconsideration, i.e., whether the motion identifies a mistake of fact or law, or a point of fact or law which was overlooked, or which we failed to consider in rendering our Final Order. In the Final Order, it appears that an arithmetical allocation error occurred in calculating the rates for Wastewater Rate Band 2.

A. Commission Analysis and Conclusion

In our Final Order, we determined that the total wastewater revenue requirement was $5,764,808. This revenue requirement was allocated among three wastewater bands. The revenues to be recovered were further allocated between the flat rate systems and metered systems in each of those bands, and rates were set accordingly.

However, upon receiving complaints from residential customers regarding extremely high wastewater rates, our staff discovered that the Final Order set wastewater residential flat rates for the Jungle Den and Lake Gibson Estates systems[6] in Rate Band 2 such that those residential customers would inappropriately pay, on an annual basis, an additional $38,533 that should have been allocated to the remaining residential customers in that rate band. This allocation error would also result in the remaining residential customers in Wastewater Rate Band 2 paying too little by that same amount. Therefore, on our own motion, we find that we shall reconsider the appropriate rates for Wastewater Rate Band 2 as set forth below.

Correctly allocating the $38,533 causes the annual revenue requirement for all but two of the residential unmetered wastewater-only (flat rate) customers in Wastewater Rate Band 2 to be reduced by $38,533, with this amount being recovered from all remaining residential customers in that band. Correcting this error results in the following changes to the residential rates in Wastewater Rate Band 2: a) a reduced flat rate for all but two residential flat rate customers, b)

[6] Lake Gibson Estates had 26 wastewater-only customers, and Jungle Den had 25 wastewater-only customers.

increased rates for all remaining residential customers, and c) a resulting increase in the rate cap threshold for residential customers. We find that the changes to the residential rates in Wastewater Rate Band 2, as well as the change in the rate cap threshold for that band, shall be as shown below:

Table 5
Summary of Approved Changes to Monthly Rates:
Residential Wastewater Rate Band 2

	Per Final Order	Commission Approved	Increase (Decrease)
Flat Rates:			
Sunny Hills	$60.01	$61.84	$1.83
Zephyr Shores	$50.00	$61.84	$11.84
Jungle Den	$86.07	$61.84	($24.23)
Lake Gibson Estates	$180.52	$61.84	($118.68)
Base Facility Charge (5/8" x 3/4")	$34.38	$34.66	$0.28
RS Kgal Charge	$8.86	$8.93	$0.07
Rate Cap Threshold (@ 6 Kgal)	$87.53	$88.24	$0.71

Because the rates set in the Final Order for Wastewater Rate Band 2 were in error, all unmetered flat rate customers, except for the one flat-rate customer in Sunny Hills and the one flat-rate customer in Zephyr Shores, shall be refunded the difference between the erroneous rates and the appropriate rates as set forth in Table 5 above. For all other wastewater customers in Wastewater Rate Band 2, AUF shall be allowed to charge a surcharge to collect the difference between the erroneous rates and the appropriate rates as set forth in Table 5.

We believe the requirement for refunds and surcharges is consistent with the holding in GTE Florida, Inc. v. Clark, 668 So. 2d 971, 972 (Fla. 1996)(GTE Florida, Inc. v. Clark). In that case, the Florida Supreme Court, set out a "fairness and equity" exception to the prohibition against retroactive ratemaking, and specifically stated: "[W]e view utility ratemaking as a matter of fairness. Equity requires that both ratepayers and utilities be treated in a similar manner."

In GTE Florida, Inc. v. Clark, the Court was addressing a Commission order implementing a remand imposed by GTE Florida, Inc. v. Deason, 642 So. 2d 545 (Fla. 1994), which resulted from our disallowance of certain costs which had been included by GTE Florida, Inc. in a prospective test year in rate case proceedings. In GTE Florida, Inc. v. Deason, the Florida Supreme Court ruled that we erred in disallowing the costs. GTE sought to impose a surcharge to recover the erroneously disallowed costs from the effective date of the original Commission order. We denied the surcharge, characterizing it as retroactive ratemaking, but were reversed by the Florida Supreme Court in GTE Florida, Inc. v. Clark, in which the Court held:

> We . . . reject the contention that GTE's requested surcharge constitutes retroactive ratemaking. This is not a case where a new rate is requested and then applied retroactively. The surcharge we sanction is implemented to allow GTE to recover costs already expended that should have been lawfully recoverable in the PSC's first order.

Id. at 973.

In the case at hand, we have determined what the appropriate wastewater revenue requirement was. However, in Wastewater Rate Band 2, the revenue requirement was erroneously allocated. This erroneous allocation resulted in some customers paying too little, and other customers paying too much. If we were to only require a refund to those customers who paid too much, AUF would not be allowed to collect the revenue requirement to which we determined it was entitled. Therefore, to correct the "error," AUF shall be required to refund the "overcharges," and be allowed to collect a surcharge from those customers whose rates were set too low based on the erroneous allocation of the revenue requirement. AUF was entitled to the revenue requirement set forth in the Final Order when it was issued and the final rates approved. Therefore, as set out above, refunds shall be required, and surcharges shall be authorized.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Aqua Utilities Florida, Inc.'s Motion for Reconsideration shall be granted in its entirety as set forth in the body of this Order. It is further

ORDERED that all attachments and schedules attached to this Order are by reference incorporated herein. It is further

ORDERED that on our own motion, we shall reconsider and correct the additional noted scrivener's errors and approve the recalculation of the four-year rate reduction for amortization of rate case expense as indicated in the body of this Order. It is further

ORDERED that on our own motion, we shall reconsider and correct the arithmetic allocation error made in calculating the appropriate rates for the customers in Wastewater Rate Band 2 as set forth in the body of this Order. It is further

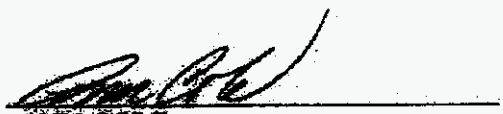
ORDERED that the rates for Wastewater Rate Band 2 shall be adjusted as shown in the body of this Order. It is further

ORDERED that Aqua Utilities Florida, Inc., shall make refunds and be authorized to collect surcharges for its Wastewater Rate Band 2 customers as set forth in the body of this Order. It is further

ORDERED that except for corrections noted above, all other aspects of the Final Order shall be reaffirmed. It is further

ORDERED that this docket shall be closed upon our staff's approval of the tariffs, verification of the required refunds, and the expiration of the time for filing an appeal.

By ORDER of the Florida Public Service Commission this 29th day of May, 2012.



ANN COLE
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399
(850) 413-6770
www.floridapsc.com

Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

RRJ

NOTICE OF JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by the Commission's final action in this matter may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

Attachment A

		Annl RCE Amort	RAF Factor	Grossed-Up RCE	In Order Wrong Approved Rev Rqmnt	In Order Wrong Acrs-Brd Decrease	Crrctn1 Approved Rev Rqmnt	Crrctn1 Acrs-Brd Decrease	Crrctn2 Approved Rev Rqmnt	Crrctn2 Acrs-Brd Decrease
New Water 1	Old Water 1	82,218	0.955	86,092	2,556,973	3.37%	2,556,973		2,556,973	
	[redacted]	-							[redacted]	
		82,218		86,092	2,556,973	3.37%	2,556,973	3.37%	[redacted]	[redacted]
New Water 2	Old Water 2	36,565	0.955	38,288	1,474,868		1,474,868		1,474,868	
	Old Water 3	22,333	0.955	23,385	916,643		916,643		916,643	
	Old Water 4	101,592	0.955	106,379	462,187		[redacted]		[redacted]	
	[redacted]	-	0.955	-					[redacted]	
	[redacted]	-	0.955	-					[redacted]	
		160,490		168,052	2,853,698	5.89%	[redacted]	[redacted]	[redacted]	[redacted]
New WW 1	Old WW 1	14,619	0.955	15,308		3.31%	[redacted]	3.31%	[redacted]	3.31%
New WW 2	Old WW 2	67,035	0.955	70,194			[redacted]		[redacted]	
	Old WW 3	8,243	0.955	8,631			[redacted]		[redacted]	
	[redacted]	-	0.955	-					[redacted]	
	[redacted]	-	0.955	-					[redacted]	
	[redacted]	-							[redacted]	
		75,278		78,825	4,467,120	1.76%	4,467,120	1.76%	[redacted]	[redacted]
New WW 3	Old WW 4	4,086	0.955	4,279	495,850	0.86%	495,850	0.86%	495,850	0.86%

Aqua Utilities Florida, Inc. - Water Band 1
Water Monthly Service Rates
Test Year Ended 4/30/10

Schedule 5-A
Docket No. 100330-WS

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final	2-Year Rate Reduction	4-Year Rate Reduction
Residential, General Service and Multi-Family						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	$14.13	$15.64	$17.66	$18.57	N/A	$0.72
3/4"	$21.19	$23.45	$26.48	$27.86	N/A	$1.09
1"	$35.31	$39.08	$44.14	$46.43	N/A	$1.81
1-1/2"	$70.63	$78.16	$88.28	$92.85	N/A	$3.62
2"	$113.01	$125.06	$141.24	$148.56	N/A	$5.79
3"	$226.03	$250.14	$282.49	$297.12	N/A	$11.58
4"	$353.17	$390.84	$441.39	$464.25	N/A	$18.09
6"	$706.33	$781.67	$882.78	$928.50	N/A	$36.17
8"	$1,130.13	$1,250.68	$1,412.44	$1,485.60	N/A	$57.88
10"	$1,624.57	$1,797.86	$2,030.39	$2,135.55	N/A	$83.20
Gallonage Charge RS Tier One	$2.00	$2.21	$6.49	$3.33	N/A	$0.13
Gallonage Charge RS Tier Two	$2.51	$2.78	$9.73	$5.84	N/A	$0.23
Gallonage Charge RS Tier Three	$6.01	$6.65	$12.98	$8.76	N/A	$0.34
Gallonage Charge GS	$3.34	$3.70	$6.98	$4.64	N/A	$0.18
Irrigation						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	$0.00	$0.00	$17.66	$18.57	N/A	$0.72
3/4"	$0.00	$0.00	$26.48	$27.86	N/A	$1.09
1"	$0.00	$0.00	$44.14	$46.43	N/A	$1.81
1-1/2"	$0.00	$0.00	$88.28	$92.85	N/A	$3.62
2"	$0.00	$0.00	$141.24	$148.56	N/A	$5.79
3"	$0.00	$0.00	$282.49	$297.12	N/A	$11.58
4"	$0.00	$0.00	$441.39	$464.25	N/A	$18.09
Gallonage Charge Tier one	$0.00	$0.00	$6.49	$3.33	N/A	$0.13
Gallonage Charge Tier two	$0.00	$0.00	$9.73	$5.84	N/A	$0.23
Gallonage Charge Tier three	$0.00	$0.00	$12.98	$8.76	N/A	$0.34
Private Fire Protection						
Base Facility Charge by Meter Size:						
2"	$9.42	$10.42	$11.77	$12.38	N/A	$0.48
3"	$18.84	$20.85	$23.54	$24.76	N/A	$0.96
4"	$29.44	$32.58	$36.78	$38.69	N/A	$1.51
6"	$58.86	$65.14	$73.57	$77.38	N/A	$3.01
8"	$94.18	$104.23	$117.70	$123.80	N/A	$4.82
10"	$135.38	$149.82	$169.20	$177.96	N/A	$6.93
			Typical Residential Bills 5/8" x 3/4" Meter			
3,000 Gallons	$20.13	$22.27	$37.13	$28.56		$1.11
5,000 Gallons	$24.13	$26.69	$50.11	$35.22		$1.37
10,000 Gallons	$36.68	$40.59	$95.52	$61.91		$2.41

Aqua Utilities Florida, Inc. - Water Band 2
Water Monthly Service Rates
Test Year Ended 4/30/10

Schedule 5-A
Docket No. 100330-WS

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final	2-Year Rate Reduction	4-Year Rate Reduction
Residential, General Service and Multi-Family						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	$16.29	$18.91	$17.66	$19.17	$0.61	$0.50
3/4"	$24.44	$28.37	$26.48	$28.76	$0.92	$0.75
1"	$40.73	$47.29	$44.14	$47.93	$1.53	$1.26
1-1/2"	$81.46	$94.57	$88.28	$95.85	$3.07	$2.51
2"	$130.34	$151.32	$141.24	$153.36	$4.91	$4.02
3"	$260.69	$302.66	$282.49	$306.72	$9.82	$8.04
4"	$407.31	$472.88	$441.39	$479.25	$15.34	$12.56
6"	$814.63	$945.77	$882.78	$958.50	$30.68	$25.11
8"	$1,303.41	$1,513.24	$1,412.44	$1,533.60	$49.09	$40.18
10"	$1,873.65	$2,175.27	$2,030.39	$2,204.55	$70.56	$57.76
Gallonage Charge RS Tier One	$3.82	$4.43	$6.49	$6.55	$0.21	$0.17
Gallonage Charge RS Tier Two	$4.77	$5.54	$9.73	$9.83	$0.31	$0.26
Gallonage Charge RS Tier Three	$11.46	$13.30	$12.98	$13.10	$0.42	$0.34
Gallonage Charge GS	$5.33	$6.19	$6.98	$7.35	$0.24	$0.19
Irrigation						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	$0.00	$0.00	$17.66	$19.17	$0.61	$0.50
3/4"	$0.00	$0.00	$26.48	$28.76	$0.92	$0.75
1"	$0.00	$0.00	$44.14	$47.93	$1.53	$1.26
1-1/2"	$0.00	$0.00	$88.28	$95.85	$3.07	$2.51
2"	$0.00	$0.00	$141.24	$153.36	$4.91	$4.02
3"	$0.00	$0.00	$282.49	$306.72	$9.82	$8.04
4"	$0.00	$0.00	$441.39	$479.25	$15.34	$12.56
Gallonage Charge Tier one	$0.00	$0.00	$6.49	$6.55	$0.21	$0.17
Gallonage Charge Tier two	$0.00	$0.00	$9.73	$9.83	$0.31	$0.26
Gallonage Charge Tier three	$0.00	$0.00	$12.98	$13.10	$0.42	$0.34
Private Fire Protection						
Base Facility Charge by Meter Size:						
2"	$10.86	$12.61	$11.77	$12.78	$0.41	$0.33
3"	$21.72	$25.22	$23.54	$25.56	$0.82	$0.67
4"	$33.94	$39.41	$36.78	$39.94	$1.28	$1.05
6"	$67.89	$78.81	$73.57	$79.88	$2.56	$2.09
8"	$108.61	$126.09	$117.70	$127.80	$4.09	$3.35
10"	$156.14	$181.27	$169.20	$183.71	$5.88	$4.81
	Typical Residential Bills 5/8" x 3/4" Meter					
3,000 Gallons	$27.75	$32.20	$37.13	$38.82	$1.24	$1.02
5,000 Gallons	$35.39	$41.06	$50.11	$51.92	$1.66	$1.36
10,000 Gallons	$59.24	$68.76	$95.52	$97.79	$3.11	$2.56

Aqua Utilities Florida, Inc. - Water Band 3
Water Monthly Service Rates
Test Year Ended 4/30/10

Schedule 5-A
Docket No. 100330-WS

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final	2-Year Rate Reduction	4-Year Rate Reduction
Residential, General Service and Multi-Family						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	$16.68	$16.68	$17.66	$19.17	$0.61	$0.50
3/4"	$25.02	$25.02	$26.48	$28.76	$0.92	$0.75
1"	$41.71	$41.71	$44.14	$47.93	$1.53	$1.26
1-1/2"	$83.42	$83.42	$88.28	$95.85	$3.07	$2.51
2"	$133.47	$133.47	$141.24	$153.36	$4.91	$4.02
3"	$266.92	$266.92	$282.49	$306.72	$9.82	$8.04
4"	$417.07	$417.07	$441.39	$479.25	$15.34	$12.56
6"	$834.14	$834.14	$882.78	$958.50	$30.68	$25.11
8"	$1,334.62	$1,334.62	$1,412.44	$1,533.60	$49.09	$40.18
10"	$1,918.52	$1,918.52	$2,030.39	$2,204.55	$70.56	$57.76
Gallonage Charge Tier one	$5.01	$5.01	$6.49	$6.55	$0.21	$0.17
Gallonage Charge Tier two	$6.26	$6.26	$9.73	$9.83	$0.31	$0.26
Gallonage Charge Tier three	$15.03	$15.03	$12.98	$13.10	$0.42	$0.34
Gallonage Charge GS	$6.14	$6.14	$6.98	$7.35	$0.24	$0.19
Irrigation						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	$0.00	$0.00	$17.66	$19.17	$0.61	$0.50
3/4"	$0.00	$0.00	$26.48	$28.76	$0.92	$0.75
1"	$0.00	$0.00	$44.14	$47.93	$1.53	$1.26
1-1/2"	$0.00	$0.00	$88.28	$95.85	$3.07	$2.51
2"	$0.00	$0.00	$141.24	$153.36	$4.91	$4.02
3"	$0.00	$0.00	$282.49	$306.72	$9.82	$8.04
4"	$0.00	$0.00	$441.39	$479.25	$15.34	$12.56
Gallonage Charge Tier one	$0.00	$0.00	$6.49	$6.55	$0.21	$0.17
Gallonage Charge Tier two	$0.00	$0.00	$9.73	$9.83	$0.31	$0.26
Gallonage Charge Tier three	$0.00	$0.00	$12.98	$13.10	$0.42	$0.34
Private Fire Protection						
Base Facility Charge by Meter Size:						
2"	$11.12	$11.12	$11.77	$12.78	$0.41	$0.33
3"	$22.24	$22.24	$23.54	$25.56	$0.82	$0.67
4"	$34.76	$34.76	$36.78	$39.94	$1.28	$1.05
6"	$69.51	$69.51	$73.57	$79.88	$2.56	$2.09
8"	$111.22	$111.22	$117.70	$127.80	$4.09	$3.35
10"	$159.88	$159.88	$169.20	$183.71	$5.88	$4.81
	Typical Residential Bills 5/8" x 3/4" Meter					
3,000 Gallons	$31.71	$31.71	$37.13	$38.82	$1.24	$1.02
5,000 Gallons	$41.73	$41.73	$50.11	$51.92	$1.66	$1.36
10,000 Gallons	$73.03	$73.03	$95.52	$97.79	$3.11	$2.56

Aqua Utilities Florida, Inc. - Water Band 4 Water Monthly Service Rates Test Year Ended 4/30/10					Schedule 5-A Docket No. 100330-WS	
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final	2-Year Rate Reduction	4-Year Rate Reduction
Residential, General Service and Multi-Family						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	$15.71	$15.71	$17.66	$19.17	$0.61	$0.50
3/4"	$23.58	$23.58	$26.48	$28.76	$0.92	$0.75
1"	$39.29	$39.29	$44.14	$47.93	$1.53	$1.26
1-1/2"	$78.58	$78.58	$88.28	$95.85	$3.07	$2.51
2"	$125.73	$125.73	$141.24	$153.36	$4.91	$4.02
3"	$251.46	$251.46	$282.49	$306.72	$9.82	$8.04
4"	$392.91	$392.91	$441.39	$479.25	$15.34	$12.56
6"	$785.82	$785.82	$882.78	$958.50	$30.68	$25.11
8"	$1,257.32	$1,257.32	$1,412.44	$1,533.60	$49.09	$40.18
10"	$1,807.40	$1,807.40	$2,030.39	$2,204.55	$70.56	$57.76
Gallonage Charge Tier one	$7.31	$7.31	$6.49	$6.55	$0.21	$0.17
Gallonage Charge Tier two	$8.98	$8.98	$9.73	$9.83	$0.31	$0.26
Gallonage Charge Tier three	$20.67	$20.67	$12.98	$13.10	$0.42	$0.34
Gallonage Charge GS	$8.42	$8.42	$6.98	$7.35	$0.24	$0.19
Irrigation						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	$0.00	$0.00	$17.66	$19.17	$0.61	$0.50
3/4"	$0.00	$0.00	$26.48	$28.76	$0.92	$0.75
1"	$0.00	$0.00	$44.14	$47.93	$1.53	$1.26
1-1/2"	$0.00	$0.00	$88.28	$95.85	$3.07	$2.51
2"	$0.00	$0.00	$141.24	$153.36	$4.91	$4.02
3"	$0.00	$0.00	$282.49	$306.72	$9.82	$8.04
4"	$0.00	$0.00	$441.39	$479.25	$15.34	$12.56
Gallonage Charge Tier one	$0.00	$0.00	$6.49	$6.55	$0.21	$0.17
Gallonage Charge Tier two	$0.00	$0.00	$9.73	$9.83	$0.31	$0.26
Gallonage Charge Tier three	$0.00	$0.00	$12.98	$13.10	$0.42	$0.34
Private Fire Protection						
Base Facility Charge by Meter Size:						
2"	$10.48	$10.48	$11.77	$12.78	$0.41	$0.33
3"	$20.96	$20.96	$23.54	$25.56	$0.82	$0.67
4"	$32.74	$32.74	$36.78	$39.94	$1.28	$1.05
6"	$65.48	$65.48	$73.57	$79.88	$2.56	$2.09
8"	$104.77	$104.77	$117.70	$127.80	$4.09	$3.35
10"	$150.61	$150.61	$169.20	$183.71	$5.88	$4.81
	Typical Residential Bills 5/8" x 3/4" Meter					
3,000 Gallons	$37.64	$37.64	$37.13	$38.82	$1.24	$1.02
5,000 Gallons	$52.26	$52.26	$50.11	$51.92	$1.66	$1.36
10,000 Gallons	$97.16	$97.16	$95.52	$97.79	$3.11	$2.56

Aqua Utilities Florida, Inc. - Breeze Hill
Water Monthly Service Rates
Test Year Ended 4/30/10

Schedule 5-A
Docket No. 100330-WS

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final	2-Year Rate Reduction	4-Year Rate Reduction
Residential, General Service and Multi-Family						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	$15.51	$26.79	$17.66	$19.17	$0.61	$0.50
3/4"	$23.27	$40.20	$26.48	$28.76	$0.92	$0.75
1"	$38.77	$66.97	$44.14	$47.93	$1.53	$1.26
1-1/2"	$77.53	$133.92	$88.28	$95.85	$3.07	$2.51
2"	$124.06	$214.29	$141.24	$153.36	$4.91	$4.02
3"	$248.11	$428.57	$282.49	$306.72	$9.82	$8.04
4"	$387.68	$669.65	$441.39	$479.25	$15.34	$12.56
6"	$775.37	$1,339.32	$882.78	$958.50	$30.68	$25.11
8"	$0.00	$0.00	$1,412.44	$1,533.60	$49.09	$40.18
10"	$0.00	$0.00	$2,030.39	$2,204.55	$70.56	$57.76
Gallonage Charge RS Tier One	$2.70	$4.66	$6.49	$6.55	$0.21	$0.17
Gallonage Charge RS Tier Two	$2.70	$4.66	$9.73	$9.83	$0.31	$0.26
Gallonage Charge RS Tier Three	$2.70	$4.66	$12.98	$13.10	$0.42	$0.34
Gallonage Charge GS	$2.70	$4.66	$6.98	$7.35	$0.24	$0.19
Irrigation						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	$15.51	$26.79	$17.66	$19.17	$0.61	$0.50
3/4"	$15.51	$26.79	$26.48	$28.76	$0.92	$0.75
1"	$15.51	$26.79	$44.14	$47.93	$1.53	$1.26
1-1/2"	$15.51	$26.79	$88.28	$95.85	$3.07	$2.51
2"	$15.51	$26.79	$141.24	$153.36	$4.91	$4.02
3"	$15.51	$26.79	$282.49	$306.72	$9.82	$8.04
4"	$15.51	$26.79	$441.39	$479.25	$15.34	$12.56
Gallonage Charge Tier one	$2.70	$4.66	$6.49	$6.55	$0.21	$0.17
Gallonage Charge Tier two	$2.70	$4.66	$9.73	$9.83	$0.31	$0.26
Gallonage Charge Tier three	$2.70	$4.66	$12.98	$13.10	$0.42	$0.34
Private Fire Protection						
Base Facility Charge by Meter Size:						
2"	$0.00	$0.00	$11.77	$12.78	$0.41	$0.33
3"	$0.00	$0.00	$23.54	$25.56	$0.82	$0.67
4"	$0.00	$0.00	$36.78	$39.94	$1.28	$1.05
6"	$0.00	$0.00	$73.57	$79.88	$2.56	$2.09
8"	$0.00	$0.00	$117.70	$127.80	$4.09	$3.35
10"	$0.00	$0.00	$169.20	$183.71	$5.88	$4.81
			Typical Residential Bills 5/8" x 3/4" Meter			
3,000 Gallons	$23.61	$40.77	$37.13	$38.82	$1.24	$1.02
5,000 Gallons	$29.01	$50.09	$50.11	$51.92	$1.66	$1.36
10,000 Gallons	$42.51	$73.39	$95.52	$97.79	$3.11	$2.56

Aqua Utilities Florida, Inc. - Fairways
Water Monthly Service Rates
Test Year Ended 4/30/10

Schedule 5-A
Docket No. 100330-WS

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final	2-Year Rate Reduction	4-Year Rate Reduction
Residential, General Service and Multi-Family						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	$7.59	$10.68	$17.66	$18.57	N/A	$0.72
3/4"	$7.59	$10.68	$26.48	$27.86	N/A	$1.09
1"	$7.59	$10.68	$44.14	$46.43	N/A	$1.81
1-1/2"	$7.59	$10.68	$88.28	$92.85	N/A	$3.62
2"	$7.59	$10.68	$141.24	$148.56	N/A	$5.79
3"	$7.59	$10.68	$282.49	$297.12	N/A	$11.58
4"	$7.59	$10.68	$441.39	$464.25	N/A	$18.09
6"	$7.59	$10.68	$882.78	$928.50	N/A	$36.17
8"	$7.59	$10.68	$1,412.44	$1,485.60	N/A	$57.88
10"	$7.59	$10.68	$2,030.39	$2,135.55	N/A	$83.20
Gallonage Charge RS Tier One	$1.77	$2.49	$6.49	$3.33	N/A	$0.13
Gallonage Charge RS Tier Two	$1.77	$2.49	$9.73	$5.84	N/A	$0.23
Gallonage Charge RS Tier Three	$1.77	$2.49	$12.98	$8.76	N/A	$0.34
Gallonage Charge GS	$1.77	$2.49	$6.98	$4.64	N/A	$0.18
Irrigation						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	$7.59	$10.68	$17.66	$18.57	N/A	$0.72
3/4"	$7.59	$10.68	$26.48	$27.86	N/A	$1.09
1"	$7.59	$10.68	$44.14	$46.43	N/A	$1.81
1-1/2"	$7.59	$10.68	$88.28	$92.85	N/A	$3.62
2"	$7.59	$10.68	$141.24	$148.56	N/A	$5.79
3"	$7.59	$10.68	$282.49	$297.12	N/A	$11.58
4"	$7.59	$10.68	$441.39	$464.25	N/A	$18.09
Gallonage Charge Tier one	$1.77	$2.49	$6.49	$3.33	N/A	$0.13
Gallonage Charge Tier two	$2.02	$2.84	$9.73	$5.84	N/A	$0.23
Gallonage Charge Tier three	$2.53	$3.56	$12.98	$8.76	N/A	$0.34
Gallonage Charge Tier four	$3.03	$4.28	$0.00	N/A	N/A	N/A
Private Fire Protection						
Base Facility Charge by Meter Size:						
2"	$0.00	$0.00	$11.77	$12.38	N/A	$0.48
3"	$0.00	$0.00	$23.54	$24.76	N/A	$0.96
4"	$0.00	$0.00	$36.78	$38.69	N/A	$1.51
6"	$0.00	$0.00	$73.57	$77.38	N/A	$3.01
8"	$0.00	$0.00	$117.70	$123.80	N/A	$4.82
10"	$0.00	$0.00	$169.20	$177.96	N/A	$6.93
			Typical Residential Bills 5/8" x 3/4" Meter			
3,000 Gallons	$12.90	$18.15	$37.13	$28.56		$1.11
5,000 Gallons	$16.44	$23.13	$50.11	$35.22		$1.37
10,000 Gallons	$25.29	$35.58	$95.52	$61.91		$2.41

Aqua Utilities Florida, Inc. - Peace River Water Monthly Service Rates Test Year Ended 4/30/10						Schedule 5-A Docket No. 100330-WS
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final	2-Year Rate Reduction	4-Year Rate Reduction
Residential, General Service and Multi-Family						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	$16.44	$20.02	$17.66	$19.17	$0.61	$0.50
3/4"	$24.66	$30.04	$26.48	$28.76	$0.92	$0.75
1"	$41.10	$50.06	$44.14	$47.93	$1.53	$1.26
1-1/2"	$82.20	$100.12	$88.28	$95.85	$3.07	$2.51
2"	$131.52	$160.20	$141.24	$153.36	$4.91	$4.02
3"	$263.03	$320.38	$282.49	$306.72	$9.82	$8.04
4"	$410.99	$500.60	$441.39	$479.25	$15.34	$12.56
6"	$821.97	$1,001.19	$882.78	$958.50	$30.68	$25.11
8"	$1,315.16	$1,601.91	$1,412.44	$1,533.60	$49.09	$40.18
10"	$1,890.54	$2,302.75	$2,030.39	$2,204.55	$70.56	$57.76
Gallonage Charge, per 1,000 Gallons						
Gallonage Charge RS Tier One	$4.94	$6.02	$6.49	$6.55	$0.21	$0.17
Gallonage Charge RS Tier Two	$6.17	$7.52	$9.73	$9.83	$0.31	$0.26
Gallonage Charge RS Tier Three	$14.81	$18.04	$12.98	$13.10	$0.42	$0.34
Gallonage Charge, GS	$6.05	$7.37	$6.98	$7.35	$0.24	$0.19
Irrigation						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	$0.00	$0.00	$17.66	$19.17	$0.61	$0.50
3/4"	$0.00	$0.00	$26.48	$28.76	$0.92	$0.75
1"	$0.00	$0.00	$44.14	$47.93	$1.53	$1.26
1-1/2"	$0.00	$0.00	$88.28	$95.85	$3.07	$2.51
2"	$0.00	$0.00	$141.24	$153.36	$4.91	$4.02
3"	$0.00	$0.00	$282.49	$306.72	$9.82	$8.04
4"	$0.00	$0.00	$441.39	$479.25	$15.34	$12.56
Gallonage Charge Tier one	$0.00	$0.00	$6.49	$6.55	$0.21	$0.17
Gallonage Charge Tier two	$0.00	$0.00	$9.73	$9.83	$0.31	$0.26
Gallonage Charge Tier three	$0.00	$0.00	$12.98	$13.10	$0.42	$0.34
Private Fire Protection						
Base Facility Charge by Meter Size:						
2"	$10.96	$13.35	$11.77	$12.78	$0.41	$0.33
3"	$21.92	$26.70	$23.54	$25.56	$0.82	$0.67
4"	$34.25	$41.72	$36.78	$39.94	$1.28	$1.05
6"	$68.50	$83.44	$73.57	$79.88	$2.56	$2.09
8"	$109.60	$133.50	$117.70	$127.80	$4.09	$3.35
10"	$157.55	$191.90	$169.20	$183.71	$5.88	$4.81
			Typical Residential Bills 5/8" x 3/4" Meter			
3,000 Gallons	$31.26	$38.08	$37.13	$38.82	$1.24	$1.02
5,000 Gallons	$41.14	$50.12	$50.11	$51.92	$1.66	$1.36
10,000 Gallons	$71.97	$87.72	$95.52	$97.79	$3.11	$2.56

Aqua Utilities Florida, Inc. - Wastewater Band 1
Wastewater Monthly Service Rates
Test Year Ended 4/30/10

Schedule 5-B
Docket No. 100330-WS

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final	2-Year Rate Reduction	4-Year Rate Reduction
Residential						
Base Facility Charge All Meter Sizes:	$17.13	$21.50	$37.87	$23.11	N/A	$0.88
Gallonage Charge - Per 1,000 gallons (6,000 gallon cap)	$4.75	$5.96	$9.53	$7.81	N/A	$0.30
General Service						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	$17.13	$21.50	$37.87	$23.11	N/A	$0.88
3/4"	$25.70	$32.25	$56.81	$34.67	N/A	$1.32
1"	$42.84	$53.76	$94.68	$57.78	N/A	$2.20
1-1/2"	$85.66	$107.49	$189.36	$115.55	N/A	$4.40
2"	$137.07	$172.01	$302.97	$184.88	N/A	$7.04
3"	$274.12	$343.99	$605.94	$369.76	N/A	$14.08
4"	$428.31	$537.48	$946.78	$577.75	N/A	$21.99
6"	$856.63	$1,074 .98	$1,893.57	$1,155.50	N/A	$43.99
8"	$1,370.61	$1,719.97	$3,029.70	$1,848.80	N/A	$70.38
10"	$1,970.24	$2,472.44	$4,355.20	$2,657.65	N/A	$101.17
Gallonage Charge, per 1,000 Gallons	$5.69	$7.14	$11.43	$9.37	N/A	$0.36
Flat Rate Residential						
Valencia Terrace	$32.72	$41.06	N/A	$40.46	N/A	$1.54
Flat Rate Residential	N/A	N/A	$73.91	N/A	N/A	N/A
Flat Rate General Service	N/A	N/A	$475.78	N/A	N/A	N/A
Reuse per Sprinkler Head	N/A	N/A	$0.50	N/A	N/A	N/A
			Typical Residential Bills 5/8" x 3/4" Meter			
3,000 Gallons	$31.38	$39.38	$66.46	$46.54		$1.77
5,000 Gallons	$40.88	$51.30	$85.52	$62.16		$2.37
10,000 Gallons	$45.63	$57.26	$95.05	$69.97		$2.66
(Wastewater Gallonage Cap - 6,000 Gallons)						

Aqua Utilities Florida, Inc. - Wastewater Band 2
Wastewater Monthly Service Rates
Test Year Ended 4/30/10

Schedule 5-B
Docket No. 100330-WS

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final	2-Year Rate Reduction	4-Year Rate Reduction
Residential						
Base Facility Charge All Meter Sizes:	$35.44	$35.44	$37.87	$34.66	$0.92	$0.71
Gallonage Charge - Per 1,000 gallons (6,000 gallon cap)	$7.11	$7.11	$9.53	$8.93	$0.24	$0.18
General Service						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	$35.44	$35.44	$37.87	$34.66	$0.92	$0.71
3/4"	$53.16	$53.16	$56.81	$51.99	$1.38	$1.06
1"	$88.60	$88.60	$94.68	$86.65	$2.30	$1.77
1-1/2"	$177.19	$177.19	$189.36	$173.30	$4.61	$3.54
2"	$283.52	$283.52	$302.97	$277.28	$7.37	$5.66
3"	$567.03	$567.03	$605.94	$554.56	$14.74	$11.32
4"	$885.99	$885.99	$946.78	$866.50	$23.03	$17.69
6"	$1,771.89	$1,771.89	$1,893.57	$1,733.00	$46.06	$35.37
8"	$2,835.19	$2,835.19	$3,029.70	$2,772.80	$73.69	$56.59
10"	$4,075.58	$4,075.58	$4,355.20	$3,985.90	$105.93	$81.35
Gallonage Charge, per 1,000 Gallons	$8.53	$8.53	$11.43	$10.72	$0.28	$0.22
Flat Rate Residential						
Sunny Hills	$56.44	$56.44	N/A	$61.84	$1.64	$1.26
Zephyr Shores	$47.02	$47.02	N/A	$61.84	$1.64	$1.26
Flat Rate Residential	N/A	N/A	$73.91	N/A	N/A	N/A
Flat Rate General Service	N/A	N/A	$475.78	N/A	N/A	N/A
Reuse per Sprinkler Head	N/A	N/A	$0.50	N/A	N/A	N/A
Typical Residential Bills 5/8" x 3/4" Meter						
3,000 Gallons	$56.77	$56.77	$66.46	$61.45	$1.63	$1.25
5,000 Gallons	$70.99	$70.99	$85.52	$79.31	$2.11	$1.62
10,000 Gallons (Wastewater Gallonage Cap - 6,000 Gallons)	$78.10	$78.10	$95.05	$88.24	$2.35	$1.80

Aqua Utilities Florida, Inc. - Wastewater Band 3
Wastewater Monthly Service Rates
Test Year Ended 4/30/10

Schedule 5-B
Docket No. 100330-WS

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final	2-Year Rate Reduction	4-Year Rate Reduction
Residential						
Base Facility Charge All Meter Sizes:	$29.41	$33.82	$37.87	$34.66	$0.92	$0.71
Gallonage Charge - Per 1,000 gallons (6,000 gallon cap)	$8.99	$10.34	$9.53	$8.93	$0.24	$0.18
General Service						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	$29.41	$33.82	$37.87	$34.66	$0.92	$0.71
3/4"	$44.12	$50.74	$56.81	$51.99	$1.38	$1.06
1"	$73.53	$84.57	$94.68	$86.65	$2.30	$1.77
1-1/2"	$147.07	$169.14	$189.36	$173.30	$4.61	$3.54
2"	$235.31	$270.63	$302.97	$277.28	$7.37	$5.66
3"	$470.63	$541.26	$605.94	$554.56	$14.74	$11.32
4"	$735.35	$845.71	$946.78	$866.50	$23.03	$17.69
6"	$1,470.70	$1,691.42	$1,893.57	$1,733.00	$46.06	$35.37
8"	$2,353.13	$2,706.29	$3,029.70	$2,772.80	$73.69	$56.59
10"	$3,382.61	$3,890.27	$4,355.20	$3,985.90	$105.93	$81.35
Gallonage Charge, per 1,000 Gallons	$10.78	$12.40	$11.43	$10.72	$0.28	$0.22
Flat Rate Residential						
Jungle Den	$39.73	$45.69	N/A	$61.84	$1.64	$1.26
Lake Gibson Estates	$83.33	$95.84	N/A	$61.84	$1.64	$1.26
Flat Rate General Service						
Flat Rate General Service	$518.69	$596.54	N/A	N/A	N/A	N/A
Flat Rate Residential	N/A	N/A	$73.91	N/A	N/A	N/A
Consolidated Flat Rate GS	N/A	N/A	$475.78	N/A	N/A	N/A
Reuse per Sprinkler Head	N/A	N/A	$0.50	N/A	N/A	N/A
		Typical Residential Bills 5/8" x 3/4" Meter				
3,000 Gallons	$56.38	$64.84	$66.46	$61.45	$1.63	$1.25
5,000 Gallons	$74.36	$85.52	$85.52	$79.31	$2.11	$1.62
10,000 Gallons	$83.35	$95.86	$95.05	$88.24	$2.35	$1.80
(Wastewater Gallonage Cap - 6,000 Gallons)						

Aqua Utilities Florida, Inc. - Wastewater Band 4
Wastewater Monthly Service Rates
Test Year Ended 4/30/10

Schedule 5-B
Docket No. 100330-WS

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Comm. Approved Final	2-Year Rate Reduction	4-Year Rate Reduction
Residential						
Base Facility Charge All Meter Sizes:	$75.47	$75.47	$37.87	$77.89	N/A	$0.77
Gallonage Charge - Per 1,000 gallons (6,000 gallon cap)	$9.37	$9.37	$9.53	$7.84	N/A	$0.08
General Service						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	$75.47	$75.47	$37.87	$77.89	N/A	$0.77
3/4"	$113.22	$113.22	$56.81	$116.84	N/A	$1.16
1"	$188.69	$188.69	$94.68	$194.73	N/A	$1.93
1-1/2"	$377.39	$377.39	$189.36	$389.45	N/A	$3.86
2"	$603.82	$603.82	$302.97	$623.12	N/A	$6.18
3"	$1,207.65	$1,207.65	$605.94	$1,246.24	N/A	$12.36
4"	$1,886.95	$1,886.95	$946.78	$1,947.25	N/A	$19.31
6"	$3,773.89	$3,773.89	$1,893.57	$3,894.50	N/A	$38.62
8"	$6,038.22	$6,038.22	$3,029.70	$6,231.20	N/A	$61.80
10"	$8,679.95	$8,679.95	$4,355.20	$8,957.35	N/A	$88.84
Gallonage Charge, per 1,000 Gallons	$11.25	$11.25	$11.43	$9.41	N/A	$0.09
General Service Wastewater Only						
Flat Rate Residential	N/A	N/A	N/A	N/A	N/A	N/A
Flat Rate General Service	N/A	N/A	N/A	N/A	N/A	N/A
Sprinkler Heads	$0.10	$0.10	$0.50	$0.49	N/A	$0.00
Typical Residential Bills 5/8" x 3/4" Meter						
3,000 Gallons	$103.58	$103.58	$66.46	$101.41		$1.01
5,000 Gallons	$122.32	$122.32	$85.52	$117.09		$1.17
10,000 Gallons	$131.69	$131.69	$95.05	$124.93		$1.25
(Wastewater Gallonage Cap - 6,000 Gallons)						

Aqua Utilities Florida, Inc. - Breeze Hill
Wastewater Monthly Service Rates
Test Year Ended 4/30/10

Schedule 5-B
Docket No. 100330-WS

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final	2-Year Rate Reduction	4-Year Rate Reduction
Residential						
Base Facility Charge All Meter Sizes:	$19.04	$39.02	$37.87	$34.66	$0.92	$0.71
Gallonage Charge - Per 1,000 gallons (6,000 gallon cap)	$3.39	$6.95	$9.53	$8.93	$0.24	$0.18
General Service						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	$19.04	$39.02	$37.87	$34.66	$0.92	$0.71
3/4"	$28.57	$58.55	$56.81	$51.99	$1.38	$1.06
1"	$47.59	$97.52	$94.68	$86.65	$2.30	$1.77
1-1/2"	$95.21	$195.10	$189.36	$173.30	$4.61	$3.54
2"	$152.34	$312.17	$302.97	$277.28	$7.37	$5.66
3"	$304.70	$624.39	$605.94	$554.56	$14.74	$11.32
4"	$476.02	$975.46	$946.78	$866.50	$23.03	$17.69
6"	$952.05	$1,950.94	$1,893.57	$1,733.00	$46.06	$35.37
8"	$0.00	$0.00	$3,029.70	$2,772.80	$73.69	$56.59
10"	$0.00	$0.00	$4,355.20	$3,985.90	$105.93	$81.35
Gallonage Charge, per 1,000 Gallons	$4.05	$8.30	$11.43	$10.72	$0.28	$0.22
Flat Rate Residential						
Flat Rate Residential	N/A	N/A	$73.91	N/A	N/A	N/A
Flat Rate General Service	N/A	N/A	$475.78	N/A	N/A	N/A
Reuse per Sprinkler Head	N/A	N/A	$0.50	N/A	N/A	N/A
Typical Residential Bills 5/8" x 3/4" Meter						
3,000 Gallons	$29.21	$59.87	$66.46	$61.45	$1.63	$1.25
5,000 Gallons	$35.99	$73.77	$85.52	$79.31	$2.11	$1.62
10,000 Gallons (Wastewater Gallonage Cap - 6,000 Gallons)	$39.38	$80.72	$95.05	$88.24	$2.35	$1.80

Aqua Utilities Florida, Inc. - Fairways
Wastewater Monthly Service Rates
Test Year Ended 4/30/10

Schedule 5-B
Docket No. 100330-WS

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final	2-Year Rate Reduction	Four-Year Rate Reduction
Residential						
Base Facility Charge All Meter Sizes:	$12.65	$28.58	$37.87	$34.66	$0.92	$0.71
Gallonage Charge - Per 1,000 gallons (6,000 gallon cap)	$3.80	$8.59	$9.53	$8.93	$0.24	$0.18
General Service						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	$12.65	$28.58	$37.87	$34.66	$0.92	$0.71
3/4"	$12.65	$28.58	$56.81	$51.99	$1.38	$1.06
1"	$12.65	$28.58	$94.68	$86.65	$2.30	$1.77
1-1/2"	$12.65	$28.58	$189.36	$173.30	$4.61	$3.54
2"	$12.65	$28.58	$302.97	$277.28	$7.37	$5.66
3"	$12.65	$28.58	$605.94	$554.56	$14.74	$11.32
4"	$12.65	$28.58	$946.78	$866.50	$23.03	$17.69
6"	$12.65	$28.58	$1,893.57	$1,733.00	$46.06	$35.37
8"	$12.65	$28.58	$3,029.70	$2,772.80	$73.69	$56.59
10"	$12.65	$28.58	$4,355.20	$3,985.90	$105.93	$81.35
Gallonage Charge, per 1,000 Gallons	$3.80	$8.59	$11.43	$10.72	$0.28	$0.22
Flat Rate Residential						
Flat Rate Residential	N/A	N/A	$73.91	N/A	N/A	N/A
Flat Rate General Service	N/A	N/A	$475.78	N/A	N/A	N/A
Reuse per Sprinkler Head	N/A	N/A	$0.50	N/A	N/A	N/A
Typical Residential Bills 5/8" x 3/4" Meter						
3,000 Gallons	$24.05	$54.35	$66.46	$61.45	$1.63	$1.25
5,000 Gallons	$31.65	$71.53	$85.52	$79.31	$2.11	$1.62
10,000 Gallons	$35.45	$80.12	$95.05	$88.24	$2.35	$1.80
(Wastewater Gallonage Cap - 6,000 Gallons)						

Aqua Utilities Florida, Inc. - Peace River Wastewater Monthly Service Rates Test Year Ended 4/30/10						Schedule 5-B Docket No. 100330-WS
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final	2-Year Rate Reduction	4-Year Rate Reduction
Residential						
Base Facility Charge All Meter Sizes:	$29.03	$33.04	$37.87	$34.66	$0.92	$0.71
Gallonage Charge - Per 1,000 Gallons (6,000 gallon cap)	$8.87	$10.09	$9.53	$8.93	$0.24	$0.18
General Service						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	$29.03	$33.04	$37.87	$34.66	$0.92	$0.71
3/4"	$43.55	$49.56	$56.81	$51.99	$1.38	$1.06
1"	$72.58	$82.60	$94.68	$86.65	$2.30	$1.77
1-1/2"	$145.17	$165.20	$189.36	$173.30	$4.61	$3.54
2"	$232.27	$264.32	$302.97	$277.28	$7.37	$5.66
3"	$464.54	$528.64	$605.94	$554.56	$14.74	$11.32
4"	$725.84	$826.00	$946.78	$866.50	$23.03	$17.69
6"	$1,451.68	$1,651.99	$1,893.57	$1,733.00	$46.06	$35.37
8"	$2,322.70	$2,643.20	$3,029.70	$2,772.80	$73.69	$56.59
10"	$3,338.87	$3,799.59	$4,355.20	$3,985.90	$105.93	$81.35
Gallonage Charge, per 1,000 Gallons	$10.64	$12.11	$11.43	$10.72	$0.28	$0.22
Flat Rate Residential						
Flat Rate Residential	N/A	N/A	$73.91	N/A	N/A	N/A
Flat Rate General Service	N/A	N/A	$475.78	N/A	N/A	N/A
Reuse per Sprinkler Head	N/A	N/A	$0.50	N/A	N/A	N/A
Typical Residential Bills 5/8" x 3/4" Meter						
3,000 Gallons	$55.64	$63.31	$66.46	$61.45	$1.63	$1.25
5,000 Gallons	$73.38	$83.49	$85.52	$79.31	$2.11	$1.62
10,000 Gallons (Wastewater Gallonage Cap - 6,000 Gallons)	$82.25	$93.58	$95.05	$88.24	$2.35	$1.80

ATTACHMENT C

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.	DOCKET NO. 100330-WS ORDER NO. PSC-11-0544-PHO-WS ISSUED: November 23, 2011

Pursuant to Notice and in accordance with Rule 28-106.209, Florida Administrative Code (F.A.C.), a Prehearing Conference was held on November 8, 2011, in Tallahassee, Florida, before Commissioner Ronald A. Brisé, as Prehearing Officer.

APPEARANCES:

D. BRUCE MAY, JR., ESQUIRE, Holland & Knight, LLP, Post Office Drawer 810, Tallahassee, Florida 32302-0810
On behalf of Aqua Utilities Florida, Inc. (AUF).

PATRICIA A. CHRISTENSEN, ESQUIRE, Office of Public Counsel, c/o The Florida Legislature, 111 West Madison Street, Room 812, Tallahassee, Florida 32399-1400
On behalf of the Citizens of the State of Florida (OPC)

DAVID S. BERNSTEIN, and KENNETH M. CURTIN, ESQUIRES, Adams and Reese, LLP, 150 Second Avenue North, Suite 1700, St. Petersburg, Florida, 33701
On behalf of YES Communities, Inc. d/b/a Arredondo Farms (YES).

JOSEPH D. RICHARDS, ESQUIRE, Pasco County Attorney's Office, Pasco County Board of County Commissioners, 8731 Citizens Drive, Suite 340, New Port Richey, Florida 34654
On behalf of the Citizens of Pasco County (Pasco County)

CECILIA BRADLEY, ESQUIRE, Office of the Attorney General, The Capitol – PL01, Tallahassee, Florida 32399-1050
On behalf of the Attorney General of the State of Florida (AG)

RALPH R. JAEGER, LISA C. BENNETT, and LARRY D. HARRIS, ESQUIRES, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850
On behalf of the Florida Public Service Commission (Staff).

DOCUMENT NUMBER-DATE
08602 NOV 23 =
FPSC-COMMISSION CLERK

MARY ANNE HELTON, Deputy General Counsel, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850
Advisor to the Florida Public Service Commission.

PREHEARING ORDER

I. CASE BACKGROUND

On September 1, 2010, Aqua Utilities Florida, Inc. (AUF or Utility) completed filing the minimum filing requirements (MFRs) for its Application for Increased Water and Wastewater Rates (Application). The Utility requested the Application be processed using the proposed agency action (PAA) procedures.

The Commission issued its PAA Order No. PSC-11-0256-PAA-WS (PAA Order) on June 13, 2011. However, Ms. Lucy Wambsgan[1] and the Office of Public Counsel, Intervenors, timely filed their protests of portions of the PAA Order. Also, AUF and Pasco County (another intervenor), timely filed their cross-petitions concerning portions of the PAA Order. Pursuant to Section 120.80(13)(b), Florida Statutes (F.S.), any issue not disputed is deemed stipulated.

By Order No. PSC-11-0309-PCO-WS (Order Establishing Procedure), issued July 25, 2011, the Application was scheduled for formal hearing[2] to be held November 29 and 30 and December 1, 7, and 8, 2011, with a Prehearing Conference scheduled for November 8, 2011. This Prehearing Order sets forth the agreements reached by the parties and the decisions reached by the Prehearing Officer for conduction of the formal hearing scheduled as set out above. This Order also lists those issues that were not disputed by the parties and are deemed stipulated pursuant to Section 120.80(13)(b), F.S.

II. CONDUCT OF PROCEEDINGS

Pursuant to Rule 28-106.211, F.A.C., this Prehearing Order is issued to prevent delay and to promote the just, speedy, and inexpensive determination of all aspects of this case.

III. JURISDICTION

This Commission is vested with jurisdiction over the subject matter by the provisions of Chapter 367, Florida Statutes (F.S.). This hearing will be governed by said Chapter and Chapter 120, F.S., and Chapters 25-22, 25-30, and 28-106, F.A.C., as well as any other applicable provisions of law.

---

[1] Ms. Wambsgan subsequently withdrew as a party.
[2] Service Hearings were held in Greenacres (August 29, 2011); North Ft. Myers (August 30, 2011); Sebring (August 31, 2011); Oviedo (September 1, 2011); Gainesville (September 12, 2011); Palatka (September 13, 2011); Eustis (September 13, 2011); Chipley (September 16, 2011); New Port Richey (October 11, 2011); and Lakeland (October 12, 2011).

IV. PROCEDURE FOR HANDLING CONFIDENTIAL INFORMATION

Information for which proprietary confidential business information status is requested pursuant to Section 367.156, F.S., and Rule 25-22.006, F.A.C., shall be treated by the Commission as confidential. The information shall be exempt from Section 119.07(1), F.S., pending a formal ruling on such request by the Commission or pending return of the information to the person providing the information. If no determination of confidentiality has been made and the information has not been made a part of the evidentiary record in this proceeding, it shall be returned to the person providing the information. If a determination of confidentiality has been made and the information was not entered into the record of this proceeding, it shall be returned to the person providing the information within the time period set forth in Section 367.156, F.S. The Commission may determine that continued possession of the information is necessary for the Commission to conduct its business.

It is the policy of this Commission that all Commission hearings be open to the public at all times. The Commission also recognizes its obligation pursuant to Section 367.156, F.S., to protect proprietary confidential business information from disclosure outside the proceeding. Therefore, any party wishing to use any proprietary confidential business information, as that term is defined in Section 367.156, F.S., at the hearing shall adhere to the following:

(1) When confidential information is used in the hearing, parties must have copies for the Commissioners, necessary staff, and the court reporter, in red envelopes clearly marked with the nature of the contents and with the confidential information highlighted. Any party wishing to examine the confidential material that is not subject to an order granting confidentiality shall be provided a copy in the same fashion as provided to the Commissioners, subject to execution of any appropriate protective agreement with the owner of the material.

(2) Counsel and witnesses are cautioned to avoid verbalizing confidential information in such a way that would compromise confidentiality. Therefore, confidential information should be presented by written exhibit when reasonably possible.

At the conclusion of that portion of the hearing that involves confidential information, all copies of confidential exhibits shall be returned to the proffering party. If a confidential exhibit has been admitted into evidence, the copy provided to the court reporter shall be retained in the Office of Commission Clerk's confidential files. If such material is admitted into the evidentiary record at hearing and is not otherwise subject to a request for confidential classification filed with the Commission, the source of the information must file a request for confidential classification of the information within 21 days of the conclusion of the hearing, as set forth in Rule 25-22.006(8)(b), F.A.C., if continued confidentiality of the information is to be maintained.

V. PREFILED TESTIMONY AND EXHIBITS; WITNESSES

Testimony of all witnesses to be sponsored by the parties (and Staff) has been prefiled and will be inserted into the record as though read after the witness has taken the stand and

affirmed the correctness of the testimony and associated exhibits. All testimony remains subject to timely and appropriate objections. Upon insertion of a witness' testimony, exhibits appended thereto may be marked for identification. Each witness will have the opportunity to orally summarize his or her testimony at the time he or she takes the stand. Summaries of testimony shall be limited to five minutes.

Witnesses are reminded that, on cross-examination, responses to questions calling for a simple yes or no answer shall be so answered first, after which the witness may explain his or her answer. After all parties and Staff have had the opportunity to cross-examine the witness, the exhibit may be moved into the record. All other exhibits may be similarly identified and entered into the record at the appropriate time during the hearing.

The Commission frequently administers the testimonial oath to more than one witness at a time. Therefore, when a witness takes the stand to testify, the attorney calling the witness is directed to ask the witness to affirm whether he or she has been sworn.

The parties shall avoid duplicative or repetitious cross-examination. Further, friendly cross-examination will not be allowed. Cross-examination shall be limited to witnesses whose testimony is adverse to the party desiring to cross-examine. Any party conducting what appears to be a friendly cross-examination of a witness should be prepared to indicate why that witness's direct testimony is adverse to its interests. It is noted that the Intervenors object to these provisions on "friendly cross-examination of witnesses," and they may be re-examined at the commencement of the technical portion of the hearing.

VI. ORDER OF WITNESSES

As a result of discussions at the prehearing conference, each witness whose name is preceded by an asterisk (*) will be excused from this hearing if no Commissioner assigned to this case seeks to cross-examine the particular witness. Parties shall be notified as soon as possible as to whether any such witness shall be required to be present at the hearing. The testimony of excused witnesses will be inserted into the record as though read, and all exhibits submitted with those witnesses' testimony shall be identified as shown in Section IX of this Prehearing Order and be admitted into the record.

The parties have agreed that several witnesses may be taken on December 1, 2011, if the Commission agrees. Each witness whose name is preceded by a plus symbol (+) may be taken on a day certain. Parties shall be notified as soon as possible as to what date any such witness shall be required to be present at the hearing.

Witness	Proffered By	Issues #
Direct		
Stan F. Szczygiel	AUF	1, 2, 8, 9, 10, 11, 14, 15, 16, 17, 18, 19, 21, 22, 23, 24 (objected) and 25
Preston Luitweiler	AUF	1, 2, 3, 10, 39
Susan Chambers	AUF	1, 2, 39
William Troy Rendell	AUF	4, 5, 6, 7, 12, 13, 20, 24 (objected), 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38
Andrew Woodcock	OPC	1, 2, 3, 4, 5, 6, 7
Denise Vandiver	OPC	1, 2, 8, 20, 22, 24, 26, 39
Earl Poucher	OPC	1, 2, 24, 26, 39
Kimberly Dismukes	OPC	1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 14, 15, 16, 17, 18, 19, 20, 21, 22, 24, 25, 26, 39
*Kim Kurz	YES	1, 2, 24
Shawn Harpin	YES	1, 2, 24
Jeremy Gray	YES	1, 2, 24
Mallory Starling	YES	1, 2, 24
Mike Green	YES	1, 2
Jack Mariano	PASCO COUNTY	1, 2, 39
Angela Chelette	STAFF	1
Jay W. Yingling	STAFF	1
+Catherine A. Walker	STAFF	1
*Stephanie Daugherty	STAFF	1
+Scott Harrison	STAFF	1

Witness	Proffered By	Issues #
+Diane Loughlin	STAFF	1
*Ryan Schwarb	STAFF	1
*Richard Lott	STAFF	1
Benjamin L. Piltz	STAFF	1
+Patricia Carrico	STAFF	1
+Tom Rauth	STAFF	1
+Caitlyn Eck	STAFF	1
+Gary P. Miller	STAFF	1
+Ginny Marie Montoya	STAFF	1
+Josie Penton	STAFF	1
+Daniela Sloan	STAFF	1
Kimberly Dodson	STAFF	1
+Jeffry S. Greenwell	STAFF	1
+Blanca Rodriguez	STAFF	1
*Rhonda L. Hicks	STAFF	1
*Kathy L. Welch	STAFF	16
Paul W. Stallcup	STAFF	14, 24, 26

Rebuttal

Witness	Proffered By	Issues #
Denise Vandiver	OPC	1, 2, 8, 20, 22, 24, 26, 39
Earl Poucher	OPC	1, 2, 24, 26, 39

Witness	Proffered By	Issues #
Stan F. Szczygiel	AUF	1,2, 8, 9, 10, 11, 14, 15, 16, 17, 18, 19, 21, 22, 23, 24 (objected) and 25
Preston Luitweiler	AUF	1, 2, 3, 10, 39
Susan Chambers	AUF	1, 2, 39
William Troy Rendell	AUF	4, 5, 6, 7, 12, 13, 20, 24 (objected), 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38
Frank Seidman	AUF	4, 5, 6, 7

Supplemental Rebuttal

Witness	Proffered By	Issues #
Preston Luitweiler	AUF	1, 2, 3, 10, 39
Susan Chambers	AUF	1, 2, 39
William Troy Rendell	AUF	4, 5, 6, 7, 12, 13, 20, 24 (objected), 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38

VII. BASIC POSITIONS

AUF: AUF currently operates 60 jurisdictional water utility systems and 27 jurisdictional wastewater systems in the following Florida counties: Alachua, Brevard, DeSoto, Hardee, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington. Since rates were last established in Docket No. 080121-WS, AUF has invested over 11 million dollars in capital to comply with Commission directives and applicable federal, state and local regulations. As a result of these investments and AUF's ongoing quality control initiatives, including aesthetic water quality improvement projects, AUF's overall quality of service has improved significantly since the last rate case.

At the same time, despite ongoing efforts to control and reduce expenses, AUF has continued to experience significant declining rates of return which necessitate rate relief. The decision to seek rate relief was not an easy one to make, but was

required in order for AUF to maintain its financial integrity. The rate relief requested is not excessive; rather, it is the minimum required to enable AUF to provide adequate and efficient service, and an opportunity to earn a fair rate of return on its investment as provided law.

Although AUF is not opposed to the implementation of the cap-band rate structure set forth in the PAA Order, the Commission may want to consider a state-wide uniform rate to address some of the affordability concerns expressed in this case. The Commission has previously found that uniform rate structures would address affordability and fairness.

OPC: AUF has requested two rate increases in less than a three year period and barely a month after the last requested rate increase had been in place for a year. AUF's back to back rate increases are unfair and unreasonable, and will cause customers to pay unaffordable rates. Several issues have contributed to AUF's unsustainable rate increase cycle. These issues are: AUF's unsatisfactory quality of service, AUF's use of higher used and useful percentages than the systems require, AUF's inclusion of pro forma plant adjustments in the test year for projects that have not been started, and AUF's requested increases in operating expenses that are too high and not justifiable.

On the Commission's website, the Commission's mission statement states that it is committed to making sure that Florida's consumers receive some of their most essential services -- electric, natural gas, telephone, water, and wastewater -- in a safe, **affordable**, and reliable manner. The Commission should exercise its regulatory authority over AUF in the key areas of rate base/economic regulation and service issues by finding that it provides unsatisfactory service at unaffordable rates.

AUF's customers have consistently testified at the customer meetings held in October and November 2010 and the Service Hearings held in August, September and October 2011 regarding their dissatisfaction with AUF's quality of product and service. But for AUF providing a monopolistic service, based on the testimony received customers, would be choosing another water and wastewater provider and AUF would be going out of business. In fact, customers have testified to installing wells to avoid paying AUF's high costs. AUF customers have reported problems with the water quality and AUF has had interactions with the Department of Environmental Protection (DEP) for 45% of its systems in the last three years. AUF customers have testified to numerous billing problems including high bills, back billing and malfunctioning meters. AUF has been under a monitoring plan since its last rate case, yet analysis of the customers' testimony from the last two years show no marked improvement. Based on AUF's persistent quality of service problems, the company's return on equity should be decreased by 100 basis points, which is consistent with past Commission practice.

Next, AUF has requested higher used and useful percentages than are justified by the amount of plant that it has in service for the current customer base. Higher used and useful percentages result in rates that are higher than they should be. Given that AUF's rates are some of the highest rates in Florida, the Commission should apply the correct used and useful percentages. In addition, all the pro forma adjustments for Lake Josephine Leisure Lakes, Peace River, and Sunny Hills should be denied if AUF cannot demonstrate it has started construction or provide other relevant documentation.

Moreover, AUF has requested operating expenditures that are too high and unjustified. AUF's affiliated allocation methodology, revenues, costs, and charges are significantly overstated. First, AUF's methodology has failed to charge its non-regulated affiliates appropriately, thereby causing AUF Florida's customers to pay higher than fair costs. Second, AUF's affiliated costs are significantly higher than Florida's average costs for equivalent services. The PAA Order included adjustments for affiliated IT costs, incentive compensation, and salaries and wages that should continue to be made. Based on Citizens' affiliate costs analysis, AUF's requested increase in affiliated costs should be denied in almost its entirety for a reduction of $976,845.

AUF's requested rate case expense is also too high. While AUF has the right to hire any attorney they want to represent them, AUF customers should not have to contribute more than the average cost for engaging such an attorney in Florida. In addition, AUF has failed to justify all of its rate case expense. Even though customers may receive some benefits from having periodic rate cases to ensure rates are based on current costs, AUF's "pancaked" rate cases are too frequent to justify the customers' bearing all of the rate case expenses. Therefore, the Commission should make Citizens' adjustments to rate case expense.

AUF has used billing determinants that are too low. Due to customers' installing wells the projected revenue from the last rate case was 16% less than expected. Given that the revenue shortfall was due to AUF's actions and its poor quality of service and product, the current customers should not be penalized. Therefore, the billing determinants should be adjusted higher. Similarly, AUF's actions have caused higher costs that have resulted in increased bad debt expense. Thus, AUF's requested bad debt expense is too high. The Commission should use the appropriate three year average and exclude the test year period which is being tested. This will result in a reduction in bad debt expense of $310,816.

Based upon Citizens' analysis of AUF's requested increases, AUF's requested used and useful percentages, pro forma plant increases and operating expenditure increases will result in rates that are not affordable within the meaning and intent of fair, just, or reasonable rates pursuant to Sections 367.081 and 367.121, Florida Statutes. These statutes require the ratemaking process to produce rates that are fair, just, and reasonable. Even if the individual components would

otherwise be reasonable when reviewed in isolation, if the end result unaffordable rates, then further cost reductions must be made under the statutory constraint that rates must be fair, just, and reasonable. The Commission should make all of Citizens' recommended adjustments resulting in further reductions of approximately $2.3 million from the PAA Order which approved a $2.6 million increase.

YES: AUF is entirely undeserving of any rate increase. AUF's quality of service, as defined in Section 367.081, Florida Statutes, is unacceptable. AUF provides poor quality water and wastewater service; commits predatory metering and billing practices against its customers resulting in exaggerated and inaccurate bills; employs rude and condescending customer service representatives; and fails to provide affordable service. AUF exemplifies everything a utility provider should not be. AUF's application for rate increase should be denied and the Monitoring Program (the "Monitoring Program") imposed by this Commission in Order No. PSC-09-0385-FOF-WS, Order No. PSC-10-0218-PAA-WS, and Order No. PSC-10-0297-PAA-WS should be continued.

Pasco County: Pasco County contends that the rate base, the net operating income (NOI), and the revenue requirement approved in Order No. PSC-11-0256-PAA-WS are overstated. Since the rate base, NOI, and the revenue requirement are overstated, the resulting rates are unjust and unreasonable. Moreover, the PAA Order approved rates are unaffordable. Pasco County protests the portions of the PAA Order relating to rate base, NOI, and revenue requirement areas and quality of service and the other issues listed in the Office of Public Counsel's Petition and Pre-hearing Statement.

The Commission's finding of marginal quality of service provided by Aqua to its customers in the PAA Order should be set aside. Aqua's quality of service should be found to be unsatisfactory. The Commission should lower Aqua's return on equity (ROE) by 100 basis points based on its less than satisfactory quality of service. Pursuant to Sections 367.081 and 367.121, Florida Statutes, the Commission has the authority and duty to prescribe and fix just and reasonable rates and charges. Adjustment should be made to rate base, NOI, and revenue requirement to make the rates and charges just and reasonable for the customers of Aqua.

AG: The AG believes that the citizens of Florida deserve clean, healthy water at a fair and reasonable rate. The testimony offered at the Public Hearings demonstrates that Aqua has failed to meet these requirements. The testimony of its customers show that Aqua has not met the water quality standards, with numerous customers testifying that they cannot drink the water or use the water to shower, wash clothes and dishes or give to their pets.

Those who can afford the cost have put in filters or use bottled water. The customers who cannot afford these costs use as little water as possible, sometimes bathing infrequently and only flushing the toilet when they have to. There was testimony from customers who collected bath water to flush the toilet and couples who used the toilet at the same time so they would only need to flush once. Some persons testified about having sewage back up in their toilets and tubs and one person testified that his plumbers traced the sewage block to the Aqua pipes. Many customers testified of the problems with rude customer service and the hardships they endured when Aqua finally billed them for several months of service totaling hundreds or thousands of dollars. Many of these customers testified that they were told they must pay the bill in full immediately or enter into a payment plan with the repeated warning that if they were a "day late or a dime short, [Aqua] would turn off their water."

Other customers testified that they could not afford the rates but when they tried to rent or sell their homes, the fact that Aqua furnished their water prevented them from getting any interest from those looking to rent or buy. Some small business persons testified that they were having trouble with their rental properties because the renters were unable to afford the Aqua bills despite the fact that they were trying to use as little water as possible. Many customers testified to the number of water heaters, coffee posts and other appliances that had to be replaced because of the water. In summary, many customers cannot afford or otherwise decide not to use the Aqua water.

STAFF: 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.

VIII. ISSUES AND POSITIONS

QUALITY OF SERVICE

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

POSITIONS

AUF: The quality of service provided by AUF is good and has significantly improved since the last rate case. In 2009, the Commission granted AUF rate relief and found that the quality of service was marginal for AUF's systems that are part of the current rate case. Since that time, the Commission and its Staff have closely monitored AUF's quality of service. At no time during this two-year monitoring period has the Commission or its Staff found AUF's quality of service to be unsatisfactory. In fact, the Commission has found that "preliminary results show substantial improvement in AUF's customer service." See Order No. PSC-10-0218-PAA-WS (emphasis added). AUF is committed to providing quality service

Eustis, Oviedo, Palatka Gainesville, Sebring, and New Port Richey service hearings testified that the water is unusable. They testified that their water smelled, tasted bad, and left residue. Of particular concern are the customer's complaints regarding the lack of timely boiled water notices and timely response to leak hazards which increase the potential for health problems.

Moreover, AUF's systems have on-going issues with DEP. Over the last three year years, AUF has had multiple DEP compliance issues. The overall view of AUF's systems related to DEP show persistent water quality problems. Since 2007, AUF has had 26 primary water quality violations, 20 total coliform violations, 15 secondary violations and 15 violations for late or not reported parameters. Over the last 18 months (January 2010 through July 2011), AUF has continued to have DEP violations: 3 primary water violations, 6 total coliform violations, 2 secondary violations, and 1 violation for late or not report parameters. The AUF wastewater systems have been out of significant compliance 39 times since 2007. And over the last 18 months (January 2010 through July 2011), AUF has been out of significant compliance 11 times. Over the last three years, DEP has identified 183 instances where the Company issued boil water notices. Contrary to the Company's self reporting that customers received timely notice of these boil water incidence, multiple customers testified that they never saw nor received a notice from the utility. Many customers testified that they only received a stop boil water notice, and never realized that a potential health hazard event had even occurred. (Woodcock, Vandiver, Poucher, Dismukes)

YES: Unsatisfactory. (Kurz, Harpin, Gray, Starling, Green)

Pasco County: Aqua's quality of service is unsatisfactory. Over the last few years, the County has received numerous complaints from Aqua customers regarding poor quality service, poor water quality and exorbitant rates. Aqua has failed repeatedly to properly and fully inform its customers of required boil water orders in the Jasmine Lakes and Palm Terrace service areas. A survey completed by 340 customers from the Palm Terrace and Jasmine Lakes service indicate that Aqua has been inconsistent in notifying customers of the need to boil water. According to the surveys, 137 customers stated that they never received any form of boil water notice; 78 received notice via letter size piece of paper and 92 received a door hanger. Only 17 received a phone call from Aqua. (Mariano)

AG: Aqua's quality of service is unsatisfactory. The AG agrees with the other interveners that Aqua has not met the standard on this issue. See the AG's position statement.

STAFF: No position pending further development of the record. (All Staff Witnesses except Welch and Stallcup)

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

POSITIONS

AUF: The quality of service provided by AUF is good and has significantly improved since the last case. No further action should be taken by the Commission. For over two years now, AUF's service quality has been the focus of a rigorous and unprecedented review by the Commission, its Staff, the OPC, and other parties. AUF has timely complied in all respects with the monitoring reporting requirements imposed by the Commission and, in so doing, has incurred significant costs. The results of that monitoring clearly show that AUF has good customer service and consistently complies with environmental requirements. The evidence also shows that AUF has been proactive in establishing quality of service performance goals to ensure that its good customer service will be maintained into the future. Additional monitoring is unnecessary and would not be cost-effective. Moreover, OPC's recommendation to penalize AUF with a return on equity reduction is unwarranted, and if adopted, would result in confiscatory rates. (Luitweiler, Chambers, Rendell)

OPC: The Commission should reduce AUF's ROE 100 basis points for its unsatisfactory service. Also, a Monitoring Plan should be reinstituted to address the quality of service problems regarding water quality, billing problems, and customer service.

Based on the testimony at the Service Hearings in August, September and October 2011, comments received at the customer meetings in October and November 2010, customer correspondence, and DEP reports, Florida customers are not getting an adequate quality water product or service that they are paying for even though they pay some of the highest water rates in the state. Not only is the water quality for many systems unsatisfactory, the customer service and billing is also unsatisfactory. The Commission should reduce AUF's ROE 100 basis points for its unsatisfactory product and service.

Section 367.111(2), Florida Statutes, provides that a public utility shall provide service and:

> . . .such service shall not be less safe, less efficient, or less sufficient than is consistent with the approved engineering design of the system and the reasonable and proper operation of the utility in the public interest. If the Commission finds that a utility has failed to provide its customers with water or wastewater service that meets the standards promulgated by the Department of Environmental Protection or the water management districts, the

> commission may reduce the utility's return on equity until the standards are met.

While the Commission is not limited to only situations where the Company has failed to meet DEP standards, there is sufficient evidence in this case to find that AUF has failed to provide over the course of many years quality water that consistently meets the DEP standards.

In AUF's last rate case, the Commission reduced AUF's ROE by 25 basis points for its marginal service for all systems, except the Chuluota system which was reduced 100 basis points for its unsatisfactory service. Based on the Commission's concerns, a Quality of Service Monitoring Plan was implemented. The Commission has a history of reducing ROE for poor customer service including a 1% or 100 basis point reduction for Pine Island Utility and Consolidated Utilities Company, 50 basis points for Aloha Utilities and Ocean Reef Club, and a 25 basis point reduction for Southern States Utilities (the predecessor for most of the AUF systems). Given AUF's on-going, and persistent poor quality of service in both product and customer service, AUF's ROE should be reduced by 100 basis points.

In a competitive market, the Company would have lost customers due to its poor customer service. In fact, some customers have testified that they have installed wells, significantly reduced their usage and in extreme circumstances sold or abandoned their homes, all because of the poor quality of product and service provided by AUF. Other customers testified that they cannot sell homes in part due to the Company's reputation for poor water quality, high bills and poor customer service. Many AUF customers have done everything they can to signal to the company their dissatisfaction short of not buying AUF's product or service which they cannot do since this is a monopoly service. Despite the customers' overall dissatisfaction with its service, AUF has not done enough to improve its product or service to change their customer's opinion. Unfortunately a 25 basis point deduction to its ROE for most of its system was not sufficient to get the Company to significantly improve its product and quality of service such that they would be acceptable to the customers.

A reduction of 25 basis points amounts to a reduction in revenue of less than $90,000 on a combined basis, which is less than .01 percent of AUF America's 2010 total revenue and .6 percent of AUF Florida's 2010 total revenue. In contrast, a 100 basis point reduction would be approximately 2.6 percent of AUF Florida's total revenues, but would still be only .05 percent of Aqua America's total revenue. The reduction of a 100 basis point is necessary to effect the change in AUF's behavior that is long overdue without creating financial jeopardy. (Woodcock, Vandiver, Poucher, Dismukes)

YES: AUF should be denied any rate increase. Further, the Monitoring Program should be continued. (Kurz, Harpin, Gray, Starling, Green)

Pasco County: The Commission should lower Aqua's return on equity (ROE) by 100 basis points because of its less than satisfactory quality of service. (Mariano)

AG: The Commission should lower Aqua's return on equity (ROE) by 100 basis points because of its less than satisfactory quality of service.

STAFF: 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?

POSITIONS

AUF: The appropriate amount of pro forma plant, and related depreciation and property taxes, for the following specific protested pro forma plant projects: Breeze Hill Wastewater I&I Project, Lake Josephine and Sebring Lakes AdEdge Water Treatment Project; Leisure Lakes AdEdge Water Treatment Project; Peace River Water Treatment Project; Tomoka Twin Rivers Water Treatment Plant Tank Lining Project; Sunny Hills Water System Water Tank Replacement Project are set forth below:

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

(Luitweiler)

OPC: A proforma plant project should not be included in this rate proceeding if the physical construction of the project has not begun. Even though a project has been planned and equipment purchased, the project for any number of reasons might not be constructed as planned or even constructed at all and placed into service. To date, construction has not begun on the Lake Josephine/Sebring Lakes Water Treatment Project and the Leisure Lakes Water Treatment Project. Construction has begun on the other protested proforma projects, and therefore, the proper documented costs should be included for recovery in this proceeding. These projects include: Breeze Hill Wastewater I&I Project, Peace River Water Treatment Project, Tomoka Twin Rivers Water Treatment Plant Tank Lining Project and the Sunny Hills Water Systems Tank Replacement Project. (Woodcock, Dismukes)

YES: Yes defers to the Office of Public Counsel's position on this issue.

Pasco County: Pasco County adopts and incorporates by reference the position statement of the Office of Public Counsel for this issue.

AG: The AG concurs with the Office of Public Counsel.

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

System	System or Rate Band	Project	MFR Amount	Supported Amount	Plant Adjustments
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			$790,000	$509,304	($199,697)

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

System	System or Rate Band	Project	Accum. Depr.	Depr. Exp.	Prop. Tax
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			($54,646)	($6,188)	($15,468)

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?

POSITIONS

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

Arredondo Estates	100.00
Arredondo Farms	100.00
Breeze Hill	100.00
Carlton Village	95.00
East Lake Harris/Friendly Center	100.00
Fairways	100.00

Fern Terrace	100.00
Hobby Hills	100.00
Interlachen/Park Manor	100.00
Lake Josephine/Sebring Lakes	85.00
Picciola Island	75.00
Rosalie Oaks	100.00
Silver Lake Estates/Western Shores	94.00
Tomoka View	100.00
Twin Rivers	100.00
Venetian Village	74.00
Welaka	80.00
Zephyr Shores	100.00

(Rendell, Seidman)

OPC: The proper calculation of the U&U percentages for water treatment and storage plant should be based upon the requirements of Section 367.081(2)(a), Florida Statutes, and Commission Rule 25-30.4325, F.A.C.

The U&U percentage of utility plant should be re-evaluated in each rate proceeding in order to account for changes to utility plant and changes to customer growth and usage of utility facilities. Over time there can be material changes in the growth of the service area, how the system is operated, and the usage patterns of the customer base. There also may be new or different information submitted in the MFR's that corrects inaccurate information from a prior case.

The growth allowance in the U&U calculations relies upon some projection of historical five year data. Since the five year historical data will change, it is not unreasonable to expect that this growth allowance will change from rate case to rate case. This will sometimes increase the U&U percentage, and sometimes decrease the U&U percentage. However, the change in system growth should be evaluated in every rate case and incorporated into the U&U calculations, whether or not the change increases or decreases the U&U percentage.

Commission Rule 25-30.4325 (2), F.A.C., requires the Commission's U&U evaluation of water treatment and storage facilities to consider whether flows have decreased due to conservation or to reduction in the number of customers. Staff has relied upon this rule to justify not adjusting flows down, which would produce a U&U percentage lower than the previous order. Ignoring a decrease in system flow data does not effectively capture the portion of the system that is actually serving customers. Capacity that is not used as result of a decline in customer usage should not be considered U&U, because it is no longer providing service to customers.

Commission Rule 25-30.4325 (4), F.A.C., provides that water treatment plants should be considered 100% U&U **if** the service territory the system was **designed** to serve is **built out** and there is **no apparent potential for expansion** of the service territory. Staff has stretched the interpretation of this rule beyond its reasonable limits in determining systems to be 100% U&U which are not built out and where a potential does exist for expansion of the service territory.

If a system is served by a single well that is greater than 150 gpm, and the calculated U&U percentage is less than 75%, the Commission should utilize an alternative calculation, as permitted by Commission Rule 25-30.4325 (3), F.A.C. For these few systems (four), the Commission should recognize the actual U&U of the treatment facilities, so that the cost of the significant stranded treatment capacity is not borne by the ratepayers.

For two systems, Silver Lake Oaks and Lake Josephine/Sebring Lakes, OPC does not recommend a fire flow allowance because there are insufficient hydrants in the system to provide complete coverage or the lines are undersized to provide fire flow.

Consistent with the requirements of Section 367.081(2)(a), Florida Statutes, and Commission Rule 25-30.4325 (3), F.A.C., the calculated U&U should be used for systems that are built out but have a calculated U&U percentage of less than 75%. This gives recognition to the fact that there is a large amount of stranded capacity in these systems that will never provide service to the customers.

Properly applying the requirements of Section 367.081 (2) (a), Florida Statutes, and Commission Rule 25-30.4325, F.A.C., results in the following U&U percentages for the protested systems:

a. Arredondo Estates -80%
b. Arredondo Farms -61%
c. Breeze Hill – 26%
d. Carlton Village – 91%
e. East Lake Harris/Friendly Center – 41%
f. Fern Terrace -68%
g. Hobby Hills -41%
h. Interlachen/Park Manor – 76%
i. Lake Josephine/Sebring Lakes – 25%
j. Picciola Island – 56%
k. Rosalie Oaks – 12%
l. Silver Lake Estates/ Western Shores – 74%
m. Tomoka View – 43%
n. Twin Rivers –24%

o. Venetian Village – 63%
p. Welaka – 74%
q. Zephyr Shores – 26%

(Woodcock, Dismukes)

YES: Yes defers to the Office of Public Counsel's position on this issue.

Pasco County: Pasco County adopts and incorporates by reference the position statement of the Office of Public Counsel for this issue.

AG: The AG concurs with the Office of Public Counsel.

STAFF: 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?

POSITIONS

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

Arredondo Estates	100.00
Beecher's Point	100.00
Breeze Hill	100.00
Gibsonia Estates	100.00
Interlachen/Park Manor	83.00
Kingswood	100.00
Oakwood	100.00
Orange Hill/Sugar Creek	100.00
Palm Port	100.00
Palms Mobile Home Park	88.00
Peace River	100.00
Piney Woods	100.00
Ravenswood	100.00

River Grove	100.00
Rosalie Oaks	100.00
Silver Lake Estates/Western Shores	100.00
Silver Lake Oaks	87.00
Skycrest	100.00
Stone Mountain	54.00
Sunny Hills	13.00
The Woods	76.00
Twin Rivers	100.00
Venetian Village	85.00
Village Water	100.00
Welaka	52.00
Wootens	66.00

(Rendell, Seidman)

OPC: The U&U percentage of water distribution systems should be calculated according to the concepts presented in Issue 4, and should be re-evaluated for each new rate case to produce the most accurate percentage. The percentage should not be inappropriately rounded up, but only rounded to the nearest full single percentage point. This level of accuracy avoids overstating, and in some cases, grossly overstating the U&U percentage of treatment facilities.

Generally, the U&U percentage should be the fraction of the total number of lots with active customers over the total number of lots served by the water distribution system. If the service territory includes commercial or multi-family customers, a comparison should be made of the active number of customers to the total number of customers to be served by the water distribution system at buildout, based upon the service area maps provided in the MFR's.
The proper U&U percentages for water distribution plant for the protested systems are as follows:

a. Arredondo Estates – 90%
b. Beecher's Point – 58%
c. Breeze Hill – 92%
d. Gibsonia Estates – 84%
e. Interlachen/Park Manor – 79%
f. Kingswood – 98%
g. Oakwood -98%
h. Orange Hill/Sugar Creek -94%
i. Palms Mobile Home Park – 79%
j. Palm Port – 94%
k. Peace River – 79%
l. Piney Woods – 89%

m. Ravenswood – 88%
n. River Grove – 99%
o. Rosalie Oaks – 80%
p. Silver Lake Estates/Western Shores – 88%
q. Silver Lake Oaks – 83%
r. Skycrest – 93%
s. Stone Mountain – 48%
t. Sunny Hills – 11%
u. Twin Rivers – 98%
v. Venetian Village – 81%
w. Village Water – 68%
x. Welaka -51%
y. Wootens – 43%
z. The Woods – 70%

(Woodcock, Dismukes)

YES: Yes defers to the Office of Public Counsel's position on this issue.

Pasco County: Pasco County adopts and incorporates by reference the position statement of the Office of Public Counsel for this issue.

AG: The AG concurs with the Office of Public Counsel.

STAFF: 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?

POSITIONS

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

Arredondo Farms	100.00
Breeze Hill	56.00
Fairways	100.00
Florida Central Commerce Park	100.00

Holiday Haven	75.00
Jungle Den	100.00
Kings Cove	100.00
Leisure Lakes	39.00
Morningview	100.00
Palm Port	58.00
Peace River	100.00
Rosalie Oaks	100.00
Silver Lake Oaks	42.00
South Seas	100.00
Summit Chase	

to its customers and has made substantial investment in order to improve service quality, including ongoing water quality improvement projects that have improved the aesthetic quality of the water. (Luitweiler, Chambers, Rendell)

OPC: AUF's overall quality of service is unsatisfactory. AUF has on-going poor water quality issues, billing problems, and poor customer service. Despite an on-going monitoring program, AUF still has persistent, deeply embedded poor quality of service issues in Florida. As testified to by AUF's customers at the service hearings and summarized by OPC's witnesses, water quality, billing problems and poor customer service are the main problems. And the testimony confirms that no significant improvements have been made.

AUF's quality of service problems affect all of its systems, which were found to have "marginal" quality of service in the last rate case (Docket No. 080121-WS) with the exception of the Chuluota system. In the previous rate case (Docket No. 080121-WS), the Chuluota system's quality of service was found to be unsatisfactory and remains unsatisfactory today. However, since the Chuluota system is not part of Aqua's Petition for rate increase in the current docket (100330-WS), it should not be included in the Commission's decision in this docket on the quality of service.

Customers at the customer meetings held in October and November 2010 complained about the poor quality of the plant maintenance, including unkempt property, odors from plant facilities, line breaks, and malfunctioning lift station alarms. They also complained about poor customer service relating to rude customer service representatives, billing problems, and difficulties in reaching a Company representative in an emergency situation. Despite the Company being under a Monitoring Plan during the historic test year, the customer complaints did not decrease significantly in 2010, only 19% when compared to the previous year.

During the Service Hearings held in August, September and October 2011, the customers still complained about the poor quality of plant maintenance, water quality, and customer service. Based on the customers' testimony at these hearings billing issues (including back billing, high bills, and malfunctioning meters) are a significant problem. Customers should be able to rely on accurate and timely billing. AUF has failed to have any meaningful plan or procedure to

e. Holiday Haven – 62%
f. Jungle Den – 37%
g. Kings Cove – 46%
h. Leisure Lakes – 32%
i. Morningview – 33%
j. Palm Port – 51%
k. Peace River – 56%
l. Rosalie Oaks – 50%
m. Silver Lake Oaks – 34%
n. South Seas – 40%
o. Summit Chase – 36%
p. Sunny Hills – 23%
q. Valencia Terrace – 40%
r. Venetian Village – 49%
s. Village Water – 64%
t. The Woods – 62%

(Woodcock, Dismukes)

YES: Yes defers to the Office of Public Counsel's position on this issue.

Pasco County: Pasco County adopts and incorporates by reference the position statement of the Office of Public Counsel for this issue.

AG: The AG concurs with the Office of Public Counsel.

STAFF: 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?

POSITIONS

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

Beecher's Point	100.00
Breeze Hill	100.00
Fairways	100.00
Holiday Haven	75.00

Jungle Den	100.00
Peace River	100.00
Rosalie Oaks	100.00
Silver Lake Oaks	87.00
Sunny Hills	55.00
The Woods	71.00
Village Water	58.00

(Rendell, Seidman)

OPC: Utilizing the same concepts presented in Issue 4, the U&U percentage for wastewater collection plant should be calculated in the same manner as calculating the U&U percentage for water distribution plant.

The proper U&U percentages for the wastewater collection systems of the protested systems are as follows:

a. Beecher's Point – 45%
b. Breeze Hill – 94%
c. Fairways – 99%
d. Holiday Haven – 69%
e. Jungle Den – 87%
f. Peace River – 79%
g. Rosalie Oaks – 93%
h. Silver Lake Oaks – 83%
i. Sunny Hills – 36%
j. Village Water – 42%
k. The Woods – 61%

(Woodcock, Dismukes)

YES: Yes defers to the Office of Public Counsel's position on this issue.

Pasco County: Pasco County adopts and incorporates by reference the position statement of the Office of Public Counsel for this issue.

AG: The AG concurs with the Office of Public Counsel.

STAFF: No position pending further development of the record.

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

POSITIONS

AUF: The appropriate amount of deferred rate case expense should be updated to include the revised rate case expense addressed in the Rebuttal Testimony of Stan Szczygiel. (Szczygiel)

OPC: Deferred Rate Case expense should be reduced by $132,500. (Vandiver, Dismukes)

YES: Yes defers to the Office of Public Counsel's position on this issue.

Pasco County: Pasco County adopts and incorporates by reference the position statement of the Office of Public Counsel for this issue.

AG: The AG concurs with the Office of Public Counsel.

STAFF: 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)

POSITIONS

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

OPC: Working capital allowance should be reduced consistent with OPC's recommended adjustments. This results in a reduction of $733,753 to water working capital and $205,108 to wastewater, for a total adjustment of $938,861. (Dismukes)

YES: Yes defers to the Office of Public Counsel's position on this issue.

Pasco County: Pasco County adopts and incorporates by reference the position statement of the Office of Public Counsel for this issue.

AG: The AG concurs with the Office of Public Counsel.

STAFF: 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)

POSITIONS

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

OPC: Rate base should be reduced consistent with OPC's recommended adjustments to Used and Useful and Pro Forma Plant Adjustments. This results in a reduction of $1,882,840 to water rate base and $3,541,976 to wastewater rate base for a total reduction of $5,424,816. (Dismukes)

YES: Yes defers to the Office of Public Counsel's position on this issue.

Pasco County: Pasco County adopts and incorporates by reference the position statement of the Office of Public Counsel for this issue.

AG: The AG concurs with the Office of Public Counsel.

STAFF: 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)

POSITIONS

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

OPC: Accumulated deferred taxes should be reduced consistent with OPC's recommended adjustments. (Dismukes)

YES: Yes defers to the Office of Public Counsel's position on this issue.

Pasco County: Pasco County adopts and incorporates by reference the position statement of the Office of Public Counsel for this issue.

AG: The AG concurs with the Office of Public Counsel.

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

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

TYPE B STIPULATION:[3] AUF and Staff agree that the appropriate leverage formula to use is the leverage formula in effect when the Commission makes its final 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)

POSITIONS

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

OPC: The appropriate weighted average cost of capital including the proper components, amounts and cost rates associated with the capital structure should reflect OPC's recommended adjustments.

YES: Yes defers to the Office of Public Counsel's position on this issue.

Pasco County: Pasco County adopts and incorporates by reference the position statement of the Office of Public Counsel for this issue.

AG: The AG concurs with the Office of Public Counsel.

STAFF: 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?

POSITIONS

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

OPC: Test year revenue should be increased to reverse the test year impact of reduced usage that is either due to the Company's high rates, poor customer service, or

[3] A Type B Stipulation is one where the Utility and Staff agree, and the Intervenors take no position.

factors beyond the control of the customers. The test year revenue should be increased by $372,925.

Test year revenues have decreased by 16 percent below the Commission's repressed consumption calculations in the last rate case. According to the Company, the majority of the reduced consumption was due to the unanticipated installation of a large number of private irrigation wells in its service areas. Only in a monopoly situation would it be unanticipated that customers would stop using a service when the pricing got beyond the ability of the customer to pay.

Moreover, the reduction in consumption due to customer financial hardship, the unreasonably high rates, and poor quality of service are factors largely beyond the control of the customers and are more in the control of the Company. Inherent risk for any company is the loss of revenue due to reasons like economic downturns, competition, conservation, and alternative suppliers. The ROE includes a component to compensate the stockholders for risk. It would be unfair to the customers to make the Company whole for lost revenue due to reduced sales, under the current circumstances. If the Commission requires the customers to bear the risk of lost revenue, then this shift in risk should be reflected in a reduction to the ROE.

Since the increased reduction in consumption has been caused by the direct actions of the Company which have resulted in the high rates and poor customer service, the customers should be held harmless. Test year revenues should be increased by $372,925. (Dismukes)

YES: Yes defers to the Office of Public Counsel's position on this issue.

Pasco County: Pasco County adopts and incorporates by reference the position statement of the Office of Public Counsel for this issue.

AG: The AG concurs with the Office of Public Counsel.

STAFF: No position pending evidence adduced at the hearing. (Stallcup)

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

POSITIONS

AUF: The appropriate test year billing determinants to be used are those contained in the MFRs and billing analysis filed in this rate case. This is a fall out calculation subject to the resolution of Issue No. 14. (Szczygiel)

OPC: The amount of test year revenues should be consistent with OPC's recommended adjustments. This results in water test year revenues of $8,756,984 and wastewater test year revenues of $4,784,757. (Dismukes)

YES: Yes defers to the Office of Public Counsel's position on this issue.

Pasco County: Pasco County adopts and incorporates by reference the position statement of the Office of Public Counsel for this issue.

AG: The AG concurs with the Office of Public Counsel.

STAFF: 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?

POSITIONS

AUF: No. The allocation methodology is a fair, reasonable and accurate method to allocate costs and charges to AUF by Aqua America, Inc. and its affiliates. In this case, AUF uses the same allocation methodology that was thoroughly analyzed, reviewed, and approved by the Commission in AUF's last rate case in Docket No. 080121-WS. Furthermore, no witness appears to have challenged AUF's allocation methodology in this case. (Szczygiel)

OPC: Yes, Aqua America should be required to allocate common costs to its non-regulated operations so that its regulated operations including AUF do not subsidize the non-regulated operations.

Given that affiliate transactions are not arms length dealings, the Commission has an obligation to closely scrutinize cost allocation techniques and methods of charging affiliates to ensure that the company's regulated operations are not subsidizing the non-regulated operations. The standard for reviewing affiliate transactions is stated in GTE Florida, Inc. v. Deason, 642 So. 2d 545 (Fla. 1994). In the GTE case, the standard the Court established was whether affiliate transactions exceed the going market rate or are otherwise inherently unfair.

Aqua America, Inc. (AAI) is the parent company of AUF and is a publically traded company with both regulated and non-regulated subsidiaries operating in 13 states. AAI has nine non-regulated subsidiaries. AUF has contracted with one of the non-regulated subsidiaries, Aqua Services, Inc. (ASI) to provide managerial, operational, and regulatory support. The costs allocated to AUF from AAI and ASI are approximately 20% of the total operations and maintenance and

Administrative and General expense included in the test year. AUF allocated some of its common costs to its Florida systems in the amount of $1.2 million.

ASI and AUF have a service contract that governs the charges to be allocated to AUF. There is a Corporate Charges Allocations Manual that describes the allocation methodology. ASI has a combined method for determining the costs charged to the affiliates. "Service expenses" are the labor and overhead of the employees of AAI and ASI charged to an affiliate or a group of affiliates based on the time related directly to work done for them. "Sundry expenses" are the remaining expenses that are direct or indirect charges and identified by activity codes. Despite the stated allocation methodology, it appears that it has not been uniformly applied between AUF and its affiliated sister companies.

First, ASI performs services for non-regulated affiliates; however, it does not consistently allocate costs to them. There are four affiliates that do not receive allocations from ASI. In the last rate case, the Company acknowledged the need to allocate costs to at least one of its non-regulated affiliates. However, all non-regulated affiliates should be consistently allocated ASI costs.
Second, certain operating companies provide contract operator services; however, no common costs are allocated for these services. Although several AAI subsidiaries provide operator and management services to non-regulated companies, neither AAI nor ASI allocates costs to these client companies. While the Company claims it does not allocate costs because no corporate services are provided directly, the Company failed to take into account that the indirect costs increase due to the additional oversight and management of the affiliates that provide these services. The failure to take these additional costs into account and allocate them accordingly, results in an over-allocation of costs to the regulated companies without similar allocations to the non-regulated operations.

Third, there is no allocation of costs made to non-regulated affiliates, even when they have common officers and directors. The Company has failed to demonstrate that the salaries and benefits of these common officers are allocated to the non-regulated companies.

The failure to allocate common costs to AAI non-regulated operations causes AAI regulated operations to subsidize the non-regulated operations. Therefore, the costs charged to AUF from AAI and ASI are overstated. (Dismukes)

YES: Yes defers to the Office of Public Counsel's position on this issue.

Pasco County: Pasco County adopts and incorporates by reference the position statement of the Office of Public Counsel for this issue.

AG: The AG concurs with the Office of Public Counsel.

STAFF: 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. (Welch)

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

POSITIONS

AUF: No. No adjustments should be made to affiliate revenues, costs and charges allocated to AUF's systems. AUF's affiliated charges are reasonable and fully supported by the evidence in the record. In fact, the total charges from affiliates to AUF have actually decreased since the last rate case. See Exhibit SS-4. Moreover, the evidence shows that (i) AUF's customers benefit by having centralized services provided by Aqua America, Inc. and affiliates, and (ii) AUF's affiliate charges do not exceed the going market rate, but in fact are below market. See Exhibits SS-2 and SS-5. OPC has not provided any credible evidence to support its recommended adjustments. The comparative analysis that OPC tries to use to set rates is impermissible under Florida law. Furthermore, OPC's comparative analysis is fundamentally flawed from an analytical perspective. (Szczygiel)

OPC: Yes. Affiliate costs and charges allocated to AUF's systems should be reduced by $976,845.

Affiliate costs and charges allocated to AUF are overstated. In the GTE case, the Florida Supreme Court established the standard for evaluating affiliate transactions as whether affiliate transactions exceed the going market rate or are otherwise inherently unfair. In the current case, AUF offered a seriously flawed market analysis to supports its position that its affiliate costs do not exceed market rates. First, the analysis does not take into account the likely discount a nonaffiliated company would offer. Second, the analysis assumes that every hour the ASI personnel work each day could be billed at a rate comparable to a skilled lawyer, consultant, certified public accountant, or professional engineer regardless of the level of expertise of the ASI employee. This is not a realistic comparison. Third, companies typically use outside counsel or consultants for specialized areas of law or professional services, not day to day operations.

Moreover, the Company's market analysis merely provided a view of the various stand alone billing rates for various professional services such as legal, engineering, accounting, and management. The analysis includes rates that are overstated, a sample that is under representative, and a failure to differentiate between levels of skills. Moreover, the comparison of professional management rates excluded normal travel and computer costs associated with day to day

operations without good cause. Correcting for just these inherent flaws in the Company's market analysis reduces the management charges included in the test year amount by $79,968.

In addition, comparing similarly situated Class A, B, and C water/wastewater utilities' management fees further demonstrates that AUF's management costs are inherently unfair. Based on this analysis, similar to a comparison of companies for purposes of establishing ROE, AUF's Administrative and General (A&G) expenses on a per customer or equivalent residential connection (ERC) basis are significantly higher than the peer group. Reviewing the typical monthly bill for AUF as compared to systems operating in the same counties shows that AUF's systems rates are 116% higher than average. Given that the layers of management associated with ownership by AAI have not produced any cost savings for customers, and, in fact, have resulted in excessive costs, test year expenses should be lowered to be consistent with costs that other water and wastewater systems incur. Using the peer group analysis, AUF's test year expense for ASI management fees should be reduced by $664,023 for water operations and $312,822 for wastewater.

Even when the peer group analysis is not used, adjusting affiliate expenses to the level consistent with customer growth and inflation would result in a reduction of $882,388 for water operations and $348,674 for wastewater operations. The Company has provided no documentation on the increases in management fees and customer operations allocations since the previous rate case. AUF has not demonstrated any economies of scale or other commensurate benefits for customers to support that Aqua's business plan of buying small, troubled systems and then seeking rate increases is viable in the long term. (Dismukes)

YES: Yes defers to the Office of Public Counsel's position on this issue.

Pasco County: Pasco County adopts and incorporates by reference the position statement of the Office of Public Counsel for this issue.

AG: The AG concurs with the Office of Public Counsel.

STAFF: 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.?

POSITIONS

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

OPC: Corporate Information Technology charges allocated to AUF by its parent, Aqua America, is included in the analysis of affiliate costs, and thus, are part of the $976,845 reduction to affiliate costs recommended by OPC.

Corporate Information Technology charges are allocated to AUF from AAI as part of its affiliated costs. Based on the peer group analysis, AUF's allocated affiliate costs are significantly overstated and have not resulted in savings for customers. Based on the peer group analysis, AUF's test year expense for ASI management fees, including IT costs, should be reduced by $664,023 for water operations and $312,822 for wastewater. Even when the peer group analysis is not used, adjusting affiliate expenses to the level consistent with customer growth and inflation would result in a reduction of $882,388 for water operations and $348,674 for wastewater operations. (Dismukes)

YES: Yes defers to the Office of Public Counsel's position on this issue.

Pasco County: Pasco County adopts and incorporates by reference the position statement of the Office of Public Counsel for this issue.

AG: The AG concurs with the Office of Public Counsel.

STAFF: No position pending evidence adduced at the hearing.

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

POSITIONS

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

OPC: The incentive compensation of $22,623 in bonus and dividend compensation for AAI's corporate management aligns the interest of management with shareholders, and therefore should be borne by shareholders. Thus, O&M expense should be reduced by $22,623.

AUF included in its MFR's incentive compensation for $22,623 in bonus and dividend compensation for its affiliate management at AAI. This type of incentive compensation aligns the interest of the executives with the shareholders. Moreover, the Company has not justified the amount of affiliate charges in this case. Incentive compensation charges are allocated to AUF from AAI as part of its affiliated costs. Based on the peer group analysis, AUF's allocated affiliate costs are significantly overstated and have not resulted in savings for customers. Based on the peer group analysis, AUF's test year expense for ASI management fees, including incentive compensation costs, should be reduced by $664,023 for water operations and $312,822 for wastewater. Even when the peer group analysis is not used, adjusting affiliate expenses to the level consistent with customer growth and inflation would result in a reduction of $882,388 for water operations and $348,674 for wastewater operations. (Dismukes)

YES: Yes defers to the Office of Public Counsel's position on this issue.

Pasco County: Pasco County adopts and incorporates by reference the position statement of the Office of Public Counsel for this issue.

AG: The AG concurs with the Office of Public Counsel.

STAFF: No position pending evidence adduced at the hearing.

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

POSITIONS

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

OPC: Yes, the Commission should deny any increase in compensation in light of the economic climate in Florida and throughout the U.S. Denying the requested increase would result in a total adjustment of $220,410 for salaries and wages and $16,861for the related payroll taxes.

AUF requested an increase in salaries and wages totaling $220,410 and $16,861 for related payroll taxes. These requested increases included five adjustments: two for normalization of the 4% increases for direct salaries and "admin" salaries; two for the pro forma effects of the 4% direct and "admin" salaries; and pro forma increases to salaries based on a utility market study.

CPI for 2010 over 2009 has been less than 2%. Numerous customers at the service hearings testified that they have had trouble paying their current bills,

much less any increases. They also testified that due to the economy they have to work more than one job to pay their bills or have had their hours cut. When ratepayers are suffering in these difficult economic times, they should not be forced to pay for Aqua's salary increases. The Commission should deny any increase in compensation in light of the economic climate in Florida and throughout the U.S. Denying the requested increase would result in a total adjustment of $220,410 for salaries and wages and $16,861 for the related payroll taxes. (Vandiver, Dismukes)

YES: Yes defers to the Office of Public Counsel's position on this issue.

Pasco County: Pasco County adopts and incorporates by reference the position statement of the Office of Public Counsel for this issue.

AG: The AG concurs with the Office of Public Counsel.

STAFF: No position pending evidence adduced at the hearing.

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

POSITIONS

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

OPC: The bad debt allowance should be reduced to $78,605 resulting in a $310,816 adjustment which is consistent with good billing, customer service, and meter reading practices. AUF's requested test year bad debt level is $389,421, significantly greater than the average for comparable water utilities and results from its poor service and billing practices.

AUF's requested test year bad debt level is $389,421. Using a three-year average of the Company's bad debt, the Commission made a reduction to the requested bad debt of $3,199. However, this methodology does not account for the Company's significant contribution to the reason bad debt is so high due to its unsatisfactory customer service, poor billing practices, and meter reading practices. Considering these specific circumstances, the three year average unjustly penalizes customers for AUF's bad service by imposing higher bad debt.

Moreover, the three year average used in the PAA Order to test the reasonableness of the bad debt level was flawed. The average included the full test year period and a second period which included six months of the test year, thereby double counting six months of the test year. In addition, the inclusion of the test year includes test year expenses that inappropriately distort the average. If the test year is abnormally high or low, it will raise or lower the comparative average. It is incorrect to include in the average the data that is being tested for reasonableness (i.e. the test year bad debt). In addition, the average used in the PAA Order included some outliers that should not have been included, such as the bad debt of $172,880 for the year ending April 2009 for wastewater Rate band 2, which is 45% of the total system bad debt for that period. The bad debt for prior and post April 2009 period was significantly less ($27,979 for 2008 and $8,746 for 2010). Correcting for the inherent problems with the time periods used in the PAA Order, the test year bad debt would be reduced by $81,633.

However, the three year average still includes the impacts of AUF's poor customer service and billing practices that have been on-going since 2007. The testimony overwhelming demonstrates that customers are still experiencing billing problems associated with untimely or inadequate information, meter reading inconsistencies, and estimated bills which undoubtedly have lead to higher bad debt expenses in the test year as compared to companies with good billing practices. In fact, comparing AUF's test year bad debt expense to the average for comparable companies' results in a reduction of bad debt of $310,816 to a level of $78,605. (Dismukes)

YES: Yes defers to the Office of Public Counsel's position on this issue.

Pasco County: Pasco County adopts and incorporates by reference the position statement of the Office of Public Counsel for this issue.

AG: The AG concurs with the Office of Public Counsel.

STAFF: No position pending evidence adduced at the hearing.

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

POSITIONS

AUF: The appropriate amount of rate case expense is $1,422,607. AUF has attempted to use the Commission's PAA process to minimize rate case expense in this rate case. OPC, however, has turned the PAA process on its head by propounding excessive discovery, ignoring precedent, and attempting to re-litigate a number of settled issues, including but not limited to Used and Useful calculations, corporate

allocations, bad debt expense calculations, and cost-of-service rate-making principles. (Szczygiel)

OPC: Rate case expense is overstated and should be reduced by $265,000. Ratepayers should not have to pay any more than those costs that are reasonable and necessary. The MFRs included $670,268 for rate case expense and further increased this amount to $1,249,320, as of July 31, 2011. This expense requested by the utility is inflated with costs that the ratepayers should not have to bear. Further, while a rate case benefits the ratepayers through the continuation of safe, adequate and proper utility service, it also benefits shareholders, because the Company has a renewed opportunity to earn a fair return on equity. Therefore, the Company should be required to share rate case expense 50/50 between ratepayers and stockholders, the same as in a 2007 case for an AUF affiliate in New Jersey.

The specific expenses that the company included in rate case expense included expenses to correct MFR deficiencies, prepare for issues that are not in the current case, and expenses that did not have any supporting documentation. These costs should be removed.

The Company also included excessive rate case expense associated with bringing unnecessary Aqua persons to the service hearings. To the extent that Aqua believes that it is necessary to have 5 or more employees attend these service hearings that is a cost the Company should bear, not the ratepayers.

The Company also frustrated the discovery process and caused unnecessary delay and costs because it produced hard copies of documents. Most if not all of these documents were available electronically. The inefficiency and intentional obfuscation should not be permitted and the Commission should disallow all costs included in the rate case associated with producing unnecessary hard copies of documents that are available electronically during the discovery process. This would include the costs of printing and compiling the documents as well as the persons that monitored the on-site reviews at the law office of Holland and Knight.

The company also included inflated costs in rate case expense due to the fact that it keeps its books and records out-of-state. The Commission has maintained in prior dockets that rate case expense should be disallowed when it is incurred due to the books and records being maintained out-of-state. The Commission has stated "We do not believe that the ratepayers should bear the related costs of having the records located out of state. This is a decision of the shareholders of the Utility, and therefore, they shall bear the related costs. Therefore, all of these costs should be removed from rate case expense." See Order No. PSC-10-0400-PAA-WS, p. 23.

Rate case expense also includes $51,817 for corporate capital charges. This includes time spent by in-house staff, which also charged time to Operation and Maintenance expenses. Without proof as to where their time was charged during the test year to verify that these are not double counting salary expense, these charges should be removed from rate case expense.

Rate case expense also included charges related to the Quality of Service issues from the last rate case. Because the commission found in the last case that the quality of service was marginal, it required a monitoring program. The Company should not be allowed to recover charges related to this monitoring program that was a result of its marginal service provided. Therefore, these costs should be removed.

Approximately 42% of the rate case expense was attributable to legal fees. These legal fees included some of the higher rates in the state based on a survey published by the Florida Bar. If a Utility chooses to hire a law firm that charges some of the higher rates in the state, the shareholders should bear some of the burden. Customers should not have to bear any unreasonable costs. If the full amount of all reasonable or unreasonable expense is passed through to the ratepayers as rate case expense, the utility has no incentive to hold costs to a reasonable level. Therefore, these excessive costs should be removed from rate case expense.
These adjustments bring the revised requested rate case expense of $1,249,320 to $809,275. If this adjusted amount is split 50/50 between the ratepayers and shareholders, the amount that should be allowed in expenses in $404,638.

The Commission should also defer the rate case expense approved in this proceeding until the rate case expense from the prior proceeding has been fully amortized. The Commission should not encourage utilities to file rate cases one on top of another with little time in between. The burden of "pancaking" rate cases is placed squarely on the shoulders of ratepayers. Yet, again, it is the stockholder that benefits the most from rate cases. (Vandiver, Dismukes)

YES: Yes defers to the Office of Public Counsel's position on this issue.

Pasco County: Pasco County adopts and incorporates by reference the position statement of the Office of Public Counsel for this issue.

AG: The AG concurs with the Office of Public Counsel.

STAFF: 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)

POSITIONS

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

OPC: The test year pre-repression water and wastewater operating income or loss before any revenue increase should reflect OPC's recommended adjustments.

YES: Yes defers to the Office of Public Counsel's position on this issue.

Pasco County: Pasco County adopts and incorporates by reference the position statement of the Office of Public Counsel for this issue.

AG: The AG concurs with the Office of Public Counsel.

STAFF: 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?

As stated in the Rulings Section of this Order, this issue is excluded and stricken, and a new issue, Issue 31A is added. The positions of the parties set out below were the positions the parties took at the Prehearing Conference on the Proposed Issue 24.

POSITIONS

AUF: AUF objects to the inclusion of this issue in this rate case. OPC improperly seeks to introduce a new rate setting criteria - "affordability" - as a backdoor attempt to reduce AUF's revenue requirement. This novel criteria is found nowhere in relevant statutes or the rules, and is not supported by Commission precedent. The courts have made it clear that this issue has no place in setting a water or wastewater utility's revenue requirement.

OPC: No. AUF has overstated its operating expenses such that the resulting rates are not affordable within the meaning and intent of fair, just, and reasonable pursuant to Sections 367.081 and 367.121, Florida Statutes. The Commission should adopt the Citizens' recommended adjustments resulting in a total reduction of $2.3 Million from the PAA Order. (Vandiver, Poucher, Dismukes)

Sections 367.081 and 367.121, Florida Statutes, require that rates are fair, just and reasonable, as well as compensatory and nondiscriminatory. The language of Sections 367.081 and 367.121, Florida Statutes, includes the concepts that the resulting rates be affordable. Rates are the end product of the ratemaking process. The construction of the statutory language requires that the Commission evaluate whether the end result of the ratemaking process produces a fair, just and reasonable result. Embedded into the language is the implicit acknowledgement that, while an individual cost on its own may be prudently incurred, that same cost may not be considered prudently incurred when evaluated as part of a group of costs. Simply reviewing the individual inputs for prudency and assuming that if the individual inputs are prudent the end result therefore must be prudent is a false assumption. As with any budgets like the state budget, if the end result would cause the rates (or in the state example - taxes) to go higher than Floridians can afford and stifles economic activity, then cuts must be made to individual expenditures that may have been considered reasonable on their own. Therefore, the Commission has an obligation to determine if the end results, i.e. final rates approved, are fair, just, and reasonable such that the rates are affordable to customers and will not cause undue hardship. In fact, the Commission already recognizes this concept in describing its mission on its webpage what it states that it "is committed to making sure that Florida's consumers receive some of their most essential services – electric, natural gas, telephone, water and wastewater – in a safe, affordable and reliable manner". (Emphasis added.)

Almost all of Aqua's customers testified that Aqua's rates are unaffordable. Customers testified that their neighbors are moving out of Aqua developments. Others testified that they or their neighbors have been unable to sell their existing properties because of the high Aqua rates. In addition, customers indicated that AUF's rates are contributing to a downward spiral in the number of occupied homes in developments served by AUF due to their high rates and poor quality of service. In fact, the combination of AUF's poor service and high rates have caused AUF customers to organize against them.

As indicated in previous issues, AUF has overstated its rate base and net operating expenses which is leading to some of the highest rates in the state. While AUF's business model has been to buy small, troubled systems and supposedly bring better management and economies of scales, the peer group analysis of comparable Class A, B, and C water and wastewater companies demonstrates that AUF has not delivered these benefits to its customers. Therefore, the Commission should make the Citizens' recommended adjustments resulting in a total reduction of $2.3 Million from the PAA Order. (Vandiver, Poucher, Dismukes)

YES: No. AUF's water and wastewater rates are unaffordable to its customers. Accordingly, AUF should be denied any rate increase. (Kurz, Harpin, Gray, Starling)

Pasco County: Pasco County adopts and incorporates by reference the position statement of the Office of Public Counsel for this issue.

AG: The AG concurs with the Office of Public Counsel.

STAFF: Staff does not believe that this issue as worded is proper. The prudency 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. (Stallcup)

REVENUE REQUIREMENT

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

POSITIONS

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

OPC: Consistent with OPC's recommended adjustments, the total water revenue requirement should be $8,933,855 and wastewater revenues requirement should be $5,185,208. (Dismukes)

YES: Yes defers to the Office of Public Counsel's position on this issue.

Pasco County: Pasco County adopts and incorporates by reference the position statement of the Office of Public Counsel for this issue.

AG: The AG concurs with the Office of Public Counsel.

STAFF: 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)

POSITIONS

AUF: The appropriate rate cap thresholds to be used to cap residential customer bills for the water and wastewater systems are those contained in the Commission's PAA Order and set forth in the direct testimony of Staff Witness Stallcup. The only entity that protested this issue in this case was Ms. Lucy Wambsgan. Ms. Wambsgan has formally withdrawn as a party from this proceeding. Therefore, this issue is deemed stipulated pursuant to Section 120.80(13)(b), Florida Statutes.

OPC: Rate cap residential customer bills should be capped at an affordable level. In the last rate case, the Commission found it appropriate to cap the rates. In Order No. PSC-09-0385-FOF-WS, issued May 29, 2009, the Commission stated on page 127:

> Implicit in the rates approved by this Commission in all cases is the determination that the resulting bills are affordable. An analysis of the results in the table based on our prior decisions reveals that the average water bill from the cases presented is $33.39, while the corresponding wastewater bill is $44.60. In the Affordability Table, the calculated standard deviation is $16.26 for the water systems and $19.16 for the wastewater systems. The standard deviation measures the spread of the data on either side of the average. Based on the respective system averages plus 1.96 standard deviations (which captures approximately 95 percent of the variation), the affordability limits are $65.26 for the water system and $82.15 for the wastewater system. Rounding each of these values to the nearest $0.25 results in affordability values of $65.25 for the water system and $82.25 for the wastewater system. All other factors being equal, we find these values, based on our historical decisions, are reasonable.

Id. at p. 127. Given that AUF's requested rate increase is less than two years later, the comparative analysis of the average water and wastewater rates are applicable in the present rate case. If less than two years ago the "affordability limits" for water was $65.25 for water and $82.25 for wastewater, it is unreasonable to conclude that AUF's current increase request will not result in rates that exceed these limits.

Irrespective of staff's previous analysis, Citizens' analysis of AUF's current rates shows that they have some of the highest rates in the state without any increases.

As indicated in previous issues, AUF has overstated its rate base and net operating expenses that is leading to some of the highest rates in the state. While AUF's business model has been to buy small, troubled systems and supposedly bring better management and economies of scales, the peer group analysis of comparable Class A, B, and C water and wastewater companies demonstrates that AUF has not delivered these benefits to its customers. Citizens contend that the overall rates requested by AUF are overstated. Therefore, the Commission should make the Citizens' recommended adjustments resulting in a total reduction of $2.3 million from the PAA Order. (Vandiver, Poucher, Dismukes)

YES: Yes defers to the Office of Public Counsel's position on this issue.

Pasco County: Pasco County adopts and incorporates by reference the position statement of the Office of Public Counsel for this issue.

AG: The AG concurs with the Office of Public Counsel.

STAFF: The appropriate rate cap thresholds are subject to the resolution of other issues. (Stallcup)

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

POSITIONS

AUF: AUF is not opposed to the implementation of the cap band rate structure set forth in the PAA Order. However, in designing the rate structure, the Commission may want to consider a state-wide consolidated rate structure to address some of the affordability concerns expressed in this case. The Commission has previously found that uniform rate structures would address affordability and fairness. (Rendell)

OPC: No Position.

YES: Yes defers to the Office of Public Counsel's position on this issue.

Pasco County: Pasco County adopts and incorporates by reference the position statement of the Office of Public Counsel for this issue.

AG: The AG concurs with the Office of Public Counsel.

STAFF: 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)

POSITIONS

AUF: AUF is not opposed to the implementation of the cap band rate structure set forth in the PAA Order. However, the Commission may want to consider a state-wide consolidated rate structure to address some of the affordability concerns expressed in this case. The Commission has previously found that uniform rate structures would address affordability and fairness. (Rendell)

OPC: No Position.

YES: Yes defers to the Office of Public Counsel's position on this issue.

Pasco County: Pasco County adopts and incorporates by reference the position statement of the Office of Public Counsel for this issue.

AG: The AG concurs with the Office of Public Counsel.

STAFF: 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)

POSITIONS

AUF: AUF is not opposed to the implementation of the cap band rate structure set forth in the PAA Order. However, in designing rate structure, the Commission may want to consider a state-wide consolidated rate structure to address some of the affordability concerns expressed in this case. The Commission has previously found that uniform rate structures would address affordability and fairness. (Rendell)

OPC: No Position.

YES: Yes defers to the Office of Public Counsel's position on this issue.

Pasco County: Pasco County adopts and incorporates by reference the position statement of the Office of Public Counsel for this issue.

AG: The AG concurs with the Office of Public Counsel.

STAFF: 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)

POSITIONS

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

OPC: No Position.

YES: Yes defers to the Office of Public Counsel's position on this issue.

Pasco County: Pasco County adopts and incorporates by reference the position statement of the Office of Public Counsel for this issue.

AG: The AG concurs with the Office of Public Counsel.

STAFF: 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)

POSITIONS

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

OPC: No Position.

YES: Yes defers to the Office of Public Counsel's position on this issue.

Pasco County: Pasco County adopts and incorporates by reference the position statement of the Office of Public Counsel for this issue.

AG: The AG concurs with the Office of Public Counsel.

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

ISSUE 31A: Are the resulting rates affordable within the meaning of fair, just and reasonable pursuant to Sections 367.081 and 367.121, Florida Statutes?"

POSITIONS (This issue was added subsequent to the Prehearing Conference and the parties have not yet had a chance to state their position.)

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)

POSITIONS

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

OPC: No Position.

YES: Yes defers to the Office of Public Counsel's position on this issue.

Pasco County: Pasco County adopts and incorporates by reference the position statement of the Office of Public Counsel for this issue.

AG: The AG concurs with the Office of Public Counsel.

STAFF: No position pending evidence adduced at the hearing.

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

POSITIONS

AUF: This is a fall out calculation issue subject to the resolution of the other protested issues in this rate case. The customer deposits should be established based on an average two month billing consistent with past Commission practice. (Rendell)

OPC: No Position.

YES: Yes defers to the Office of Public Counsel's position on this issue.

Pasco County: Pasco County adopts and incorporates by reference the position statement of the Office of Public Counsel for this issue.

AG: The AG concurs with the Office of Public Counsel.

STAFF: 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)

POSITIONS

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

OPC: No Position.

YES: Yes defers to the Office of Public Counsel's position on this issue.

Pasco County: Pasco County adopts and incorporates by reference the position statement of the Office of Public Counsel for this issue.

AG: The AG concurs with the Office of Public Counsel.

STAFF: 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)

POSITIONS

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

OPC: No Position.

YES: Yes defers to the Office of Public Counsel's position on this issue.

Pasco County: Pasco County adopts and incorporates by reference the position statement of the Office of Public Counsel for this issue.

AG: The AG concurs with the Office of Public Counsel.

STAFF: 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)

POSITIONS

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

OPC: No Position.

YES: Yes defers to the Office of Public Counsel's position on this issue.

Pasco County: Pasco County adopts and incorporates by reference the position statement of the Office of Public Counsel for this issue.

AG: The AG concurs with the Office of Public Counsel.

STAFF: 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)

POSITIONS

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

OPC: No Position.

YES: Yes defers to the Office of Public Counsel's position on this issue.

Pasco County: Pasco County adopts and incorporates by reference the position statement of the Office of Public Counsel for this issue.

AG: The AG concurs with the Office of Public Counsel.

STAFF: 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?

POSITIONS

AUF: Agrees with staff. (Rendell)

OPC: No Position.

YES: Yes defers to the Office of Public Counsel's position on this issue.

Pasco County: Pasco County adopts and incorporates by reference the position statement of the Office of Public Counsel for this issue.

AG: The AG concurs with the Office of Public Counsel.

STAFF: 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?

POSITIONS

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

OPC: No. The docket should remain open to continue the monitoring of AUF's quality of service. (Vandiver, Poucher, Dismukes)

YES: Yes defers to the Office of Public Counsel's position on this issue.

Pasco County: Pasco County defers to Office of Public Counsel.

AG: The AG concurs with the Office of Public Counsel.

STAFF: If the Commission's final order is not appealed and if another phase of monitoring is not required, this docket should be closed upon the expiration of the time for filing an appeal, the completion of the refund(s), 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.

IX. EXHIBIT LIST

Witness	Proffered By		Description
Direct			
Stan F. Szczygiel	AUF	SS-1	AAI Corporate Charges Allocations Manual
Stan F. Szczygiel	AUF	SS-2	Florida-Specific Analysis
Stan F. Szczygiel	AUF	SS-3	AUF 3-year average calculation bad debt expense
Preston Luitweiler	AUF	PL-1	List of W&WW systems included in this case
Preston Luitweiler	AUF	PL-2	Final Phase II QSM Report
Preston Luitweiler	AUF	PL-3	Pro-forma support for Lake Josephine and Sebring Lakes Project
Preston Luitweiler	AUF	PL-4	Pro-forma support for Breeze Hill Project
Preston Luitweiler	AUF	PL-5	Pro-forma support for Tomoka Twin Rivers Project
Preston Luitweiler	AUF	PL-6	Pro-forma support for Leisure Lakes Project
Preston Luitweiler	AUF	PL-7	Pro forma support for Peace River Heights Project
Preston Luitweiler	AUF	PL-8	Pro-forma support for Sunny Hills Project
Susan Chambers	AUF	SC-1	Compilation of AUF actions/customer comments

Witness	Proffered By		Description
Susan Chambers	AUF	SC-2	AUF responses/issues from Arredondo Farms System customers
Susan Chambers	AUF	SC-3	Final Phase II QSM Report
Susan Chambers	AUF	SC-4	AUF's report on complaints to Commission - 2011
Susan Chambers	AUF	SC-5	AUF's report on complaints to Commission – 2009-2010
William Troy Rendell	AUF	TR-1	Composite Schedule of U&U percentages approved by Commission
William Troy Rendell	AUF	TR-2	Schedule comparing U&U percentages
William Troy Rendell	AUF	TR-3	Confidential – Updated marked-based salary study
Andrew Woodcock	OPC	ATW-1	Resume of Andrew T. Woodcock
Andrew Woodcock	OPC	ATW-2	List of protested systems
Andrew Woodcock	OPC	ATW-3	Comparison of U&U Calculations and PAA Order Recommendations
Andrew Woodcock	OPC	ATW-4	Comparison of U&U Growth Factors 2008 Rate Case To PAA Order
Andrew Woodcock	OPC	ATW-5	Water Treatment U&U Calculations
Andrew Woodcock	OPC	ATW-6	Aerial Photograph East Lake Harris/Friendly Estates Service Area
Andrew Woodcock	OPC	ATW-7	Arial Photograph Hobby Hills Service Area
Andrew Woodcock	OPC	ATW-8	Wastewater Treatment U&U Calculations

Witness	Proffered By		Description
Andrew Woodcock	OPC	ATW-9	Water Distribution And Wastewater Collection U&U Calculations
Andrew Woodcock	OPC	ATW-10	Summary Of FDEP Compliance Databases
Denise Vandiver	OPC	DNV-1	Resume of Denise N. Vandiver
Denise Vandiver	OPC	DNV-2	Citizens Response to Aqua's Summary Report and Current Status of Aqua's Quality of Service
Denise Vandiver	OPC	DNV-3	Salary and Wages Expense and Payroll Taxes
Denise Vandiver	OPC	DNV-4	Rate Case Expense
Denise Vandiver	OPC	DNV-5	Florida Bar Survey: Results of the 2010 Economics and law Office Management Survey
Denise Vandiver	OPC	DNV-6	Listing of All Invoices Provided in Response to Staff Date Requests and OPC Discovery for Rate Case Expense
Denise Vandiver	OPC	DNV-7	AUF's Original and Supplemental Responses to Staff Date Request
Denise Vandiver	OPC	DNV-8	AUF's Response to OPC Production of Document Request No. 123
Earl Poucher	OPC	REP-1	Vitae of Earl Poucher
Earl Poucher	OPC	REP-2	Filed Testimony of Earl Poucher
Earl Poucher	OPC	REP-3	Aqua PSC Complaint Summary
Earl Poucher	OPC	REP-4	PSC Complaints Pages 1-100

Witness	Proffered By		Description
Earl Poucher	OPC	REP-5	PSC Complaints Pages 101-201
Earl Poucher	OPC	REP-6	PSC Complaints - Pages 202-303
Earl Poucher	OPC	REP-7	PSC Complaints - Pages 304-401
Earl Poucher	OPC	REP-8	PSC Complaints - Pages 402-502
Earl Poucher	OPC	REP-9	PSC Complaints - Pages 503-604
Earl Poucher	OPC	REP-10	PSC Complaints - Pages 605-700
Earl Poucher	OPC	REP-11	PSC Complaints - Pages 701-770
Earl Poucher	OPC	REP-12	OPC POD 131: AUF Back-Billed Info
Earl Poucher	OPC	REP-13	City of Atlanta Meter and Billing Accuracy Assessment
Kimberly Dismukes	OPC	Appendix 1	Kimberly H. Dismukes Qualifications
Kimberly Dismukes	OPC	KHD-1	Table of Contents
Kimberly Dismukes	OPC	KHD-1 Schedule 1	OPC's Recommended Revenue Requirement
Kimberly Dismukes	OPC	KHD-1 Schedule 2	Summary of Operating Revenues by Rate Band and System
Kimberly Dismukes	OPC	KHD-1 Schedule 3	Customer Correspondence as of September 8, 2011
Kimberly Dismukes	OPC	KHD-1 Schedule 4	Sample of Customer Bills
Kimberly Dismukes	OPC	KHD-1 Schedule 5	Customer Service Call Center Metrics

Witness	Proffered By		Description
Kimberly Dismukes	OPC	KHD-1 Schedule 6	Aqua America Organizational Chart
Kimberly Dismukes	OPC	KHD-1 Schedule 7	Affiliate Charges to AUF
Kimberly Dismukes	OPC	KHD-1 Schedule 8	List of Aqua contract Operator Contracts
Kimberly Dismukes	OPC	KHD-1 Schedule 9	Management and Consulting Services
Kimberly Dismukes	OPC	KHD-1 Schedule 10	Common Officers and Directors
Kimberly Dismukes	OPC	KHD-1 Schedule 11	Company Rates for Outside Services
Kimberly Dismukes	OPC	KHD-1 Schedule 12	Market-Based Comparison Recalculation of Company's Hourly Rates
Kimberly Dismukes	OPC	KHD-1 Schedule 13	Market-Based Comparison Adjustment of Hourly Rates for Outside Services
Kimberly Dismukes	OPC	KHD-1 Schedule 14	Market-Based Comparison Adjustment for Market Rate Difference
Kimberly Dismukes	OPC	KHD-1 Schedule 15	Company Explanation for Increase in Affiliate Expenses Over CPI
Kimberly Dismukes	OPC	KHD-1 Schedule 16	Aqua Services Management Fees – Comparison of Costs from Prior to Current Test Year
Kimberly Dismukes	OPC	KHD-1 Schedule 17	Adjustment for Unjustified Increase in Management Fees (Growth in Customers and Change in CPI)
Kimberly Dismukes	OPC	KHD-1 Schedule 18	Comparative Analysis – List of Companies Examined

Witness	Proffered By		Description
Kimberly Dismukes	OPC	KHD-1 Schedule 19	Comparative Analysis – Map of Florida
Kimberly Dismukes	OPC	KHD-1 Schedule 20	Comparative Analysis – Weighting of Classes
Kimberly Dismukes	OPC	KHD-1 Schedule 21	Comparative Analysis – Cost per Customer and Cost per ERC
Kimberly Dismukes	OPC	KHD-1 Schedule 22	Comparison of Typical Monthly Bills – FPSC Report
Kimberly Dismukes	OPC	KHD-1 Schedule 23	Bad Debt Expense Comparison
Kimberly Dismukes	OPC	KHD-1 Schedule 24	Bad Debt Expense – Alternate Adjustment
Kimberly Dismukes	OPC	KHD-1 Schedule 25	Adjustments to Billing Determinants
Kimberly Dismukes	OPC	KHD-1 Schedule 26	Rate Case Expense
Kimberly Dismukes	OPC	KHD-1 Schedule 27	Historic Florida Rate Cases with Disallowed Rate Case Expense
Kimberly Dismukes	OPC	KHD-1 Schedule 28	Documents Referenced in Testimony
Kim Kurz	YES	KK-1	Yes Water/Wastewater rate comparisons spreadsheet
Kim Kurz	YES	KK-2	Aqua rate increase analysis
Kim Kurz	YES	KK-3	Resident Complaint forms with statements and copies of bills
Kim Kurz	YES	KK-4	Photos of plumbing parts and sediment damage
Shawn Harpin	YES	SH-1	Gainesville Apartment Market Trends
Shawn Harpin	YES	SH-2	Gainesville Stick Built Market Trends

Witness	Proffered By		Description
Shawn Harpin	YES	SH-3	Arredondo Farms Repo/Lease Turn Report August 2011
Shawn Harpin	YES	SH-4	Arredondo Farms 2011 Move Out Report
Mallory Starling	YES	(14)	"Customer complaints and pictures," as introduced at the Customer Service Hearing in Gainesville, Florida on September 12, 2011, and subsequently filed on September 20, 2011
Jack Mariano	Pasco County	JM-1	Collection of Boil Water Notice Surveys completed by Aqua customers in the Jasmine Lakes and Palm Terrace service areas
Jack Mariano	Pasco County	JM-2	Collection of e-mails and letters received from Aqua customers
Jack Mariano	Pasco County	JM-3	Collection of pictures of the repaired effluent pipe, discarded pipe and location map
Jack Mariano	Pasco County	JM-4	June 23, 2011, Department of Environmental Protection (DEP) Warning Letter
Jack Mariano	Pasco County	JM-5	Collection of pictures of an overflow pipe and plan sheet showing the location of the pipe
Jack Mariano	Pasco County	JM-6	Copy of Mike Garrett letter to Aqua regarding overflow pipe.
Jay W. Yingling	STAFF	JWY-1	Water Use Permit Table for AUF Systems in DeSoto, Highlands, Pasco and Polk County

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

Witness	Proffered By		Description
Rhonda L. Hicks	STAFF	RLH-2	Summary Listing of 2010 Complaints Filed With the Commission
Rhonda L. Hicks	STAFF	RLH-3	Summary Listing of 2011 Complaints Filed With the Commission (Thru 9/30/11)
Rhonda L. Hicks	STAFF	RLH-4	Listing of Complaint Close-Out Codes
Kathy L. Welch	STAFF	KLW-1	History of Testimony
Kathy L. Welch	STAFF	KLW-2	Affiliated Transactions Audit Report
Kathy L. Welch	STAFF	KLW-3	Summary of Aqua Corporate Allocations by Rate Band
Kathy L. Welch	STAFF	KLW-4	Audit Workpaper 48-4 (Detail of Aqua Corporate Charges by Rate Band)
Kathy L. Welch	STAFF	KLW-5	Volume 5 of 5 of the AUF Affiliate Audit No. 10-181-4-1 (Confidential)

Rebuttal

Witness	Proffered By		Description
Denise Vandiver	OPC	DNV-9	Systems Quality Issues 2009-2011
Denise Vandiver	OPC	DNV-10	Summary of Quality Issues
Denise Vandiver	OPC	DNV-11	Summary of Boil Water Notices
Denise Vandiver	OPC	DNV-12	Summary of Service Hearings
Stan F. Szczygiel	AUF	SS-4	Affiliated Costs
Stan F. Szczygiel	AUF	SS-5	Updated Market Study

Witness	Proffered By		Description
Stan F. Szczygiel	AUF	SS-6	Comparative Analysis of Administrative and General Costs per ERC
Stan F. Szczygiel	AUF	SS-7	Customer Service Cost Schedules
Stan F. Szczygiel	AUF	SS-8	AUF's Second Supplemental Response to OPC Areas of Concern
Stan F. Szczygiel	AUF	SS-9	Rate "Peer Group" Deficiencies
Stan F. Szczygiel	AUF	SS-10	Average consumption per customer
Stan F. Szczygiel	AUF	SS-11	Rate Case Expense
Preston Luitweiler	AUF	PL-9	Additional support for Lake Josephine and Sebring Lakes Project (primarily Lake Josephine)
Preston Luitweiler	AUF	PL-10	Additional support for Lake Josephine and Sebring Lakes Project (primarily Sebring Lakes)
Preston Luitweiler	AUF	PL-11	Additional support for Sunny Hills Project
Preston Luitweiler	AUF	PL-12	Additional support for the Peace River Heights Project
Preston Luitweiler	AUF	PL-13	Additional support for the Leisure Lakes Project
Preston Luitweiler	AUF	PL-14	Cost projections for Village Water/Wastewater "Solutions"
Preston Luitweiler	AUF	PL-15	South Seas Compliance
Susan Chambers	AUF	SC-6	July 12, 2010 Letter and attachments

Witness	Proffered By		Description
William Troy Rendell	AUF	TR-4	U&U Water Treatment, Distribution, and Collection
William Troy Rendell	AUF	TR-5	Staff Recommendation on Water U&U
William Troy Rendell	AUF	TR-6	Senate Presentation on Florida Foreclosures
Frank Seidman	AUF	FS-1	Frank Seidman Curriculum Vitae

Supplemental Rebuttal

Witness	Proffered By		Description
William Troy Rendell	AUF	TR-7	Composite Exhibit—FGUA Rates
William Troy Rendell	AUF	TR-8	FGUA Resolution No. 2012-02
William Troy Rendell	AUF	TR-9	AUF Rate Comparison
William Troy Rendell	AUF	TR-10	Customer Complaint and Response
William Troy Rendell	AUF	TR-11	AUF 9-8-10 Letter to Ms. Schoegel

Parties and Staff reserve the right to identify additional exhibits for the purpose of cross-examination.

X. PROPOSED STIPULATIONS

A. Issues Not in Dispute Deemed Stipulated Pursuant to S. 120.80(13)(b), Florida Statutes

(The issues are numbered 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.

Rate Band/System	Land	Working Capital	O&M Expense
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	$160,093	$79,006	($255,390)

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.

Trucks			
Rate Band/System	MFR Amount	Documented Amount	Adjustment
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	$200,278	$176,667	($23,611)

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

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

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

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

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.

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

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

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
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
Valencia Terrace	100
Wootens	100

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, Rand 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:

Band	Adjustment
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:	($1,153,548)

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:

Rate Band/System	O&M Expense
Water Band 1	($2,136)
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:

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:

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

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.

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

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.

B. Type B Stipulations Are Issues to Which AUF and Staff Agree and the Intervenors Take No Position

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

STIPULATION: AUF and Staff agree that the appropriate leverage formula to use is the leverage formula in effect when the Commission makes its final decision.

XI. PENDING MOTIONS

None.

XII. PENDING CONFIDENTIALITY MATTERS

There are no pending confidentiality matters at this time.

XIII. POST-HEARING PROCEDURES

If no bench decision is made, each party shall file a post-hearing statement of issues and positions. A summary of each position of no more than 75 words, set off with asterisks, shall be included in that statement. If a party's position has not changed since the issuance of this Prehearing Order, the post-hearing statement may simply restate the prehearing position; however, if the prehearing position is longer than 75 words, it must be reduced to no more than 75 words. If a party fails to file a post-hearing statement, that party shall have waived all issues and may be dismissed from the proceeding.

Pursuant to Rule 28-106.215, F.A.C., a party's proposed findings of fact and conclusions of law, if any, statement of issues and positions, and brief, shall together total no more than 50 pages and shall be filed at the same time.

XIV. RULINGS

A. Opening statements, if any, shall not exceed ten minutes per party.

B. The Emergency Motion filed November 7, 2011, to compel AUF's Responses to Yes's Third Set of Interrogatories and Third Request to Produce is denied as being premature.

C. Pasco County witness Mariano is excused from the hearing on November 29 and 30, 2011, and his testimony, if he is ultimately required to attend the hearing, will be taken on December 1, 2011.

D. OPC's Motion to Strike Supplemental Rebuttal Testimony Filed by Aqua

In rate case proceedings, the Commission schedules Customer Service Hearings to listen to the testimony of customers regarding the quality of service of the utility requesting a change in rates. The purpose and focus of those hearings is to hear from the customers, not the utility. The testimony of each customer is taken under oath. The service hearings are transcribed and are made part of the record for purposes of the Commission's decision. As a matter of general practice, the Commission permits the utility to file a response to the customer testimony. At the Greenacres Service Hearing, Commission staff reserved Exhibit 2 as the Utility's Response to customer testimony. The Presiding Officer at the Service Hearing approved the filing of a response by November 3, 2011. Customer Service Hearings were to be held throughout August, September, and October, 2011, in ten separate service hearings. The transcripts of the last two service hearings were not due until November 1 and 2, 2011, respectively, and the response was due one day after the last transcript was due. On November 3, 2011, AUF filed Supplemental

Rebuttal Testimony of three witnesses addressing the customer testimony at the ten service hearings.[4]

On November 4, 2011, objecting to the filing of this Supplemental Rebuttal Testimony, OPC filed its Motion to Strike Supplemental Rebuttal Testimony Filed by Aqua. OPC states that the last date to file rebuttal testimony was established as October 27, 2011, in the Order Establishing Procedure. OPC argues that it was not necessary for AUF to wait for the transcripts to file responsive testimony. OPC contends that it timely filed its testimony based on the customer testimony derived from the service hearings, and accordingly, AUF should be held to the same standard.

AUF filed a timely response to OPC's motion on November 7, 2011. AUF responds that Commission staff requested AUF file its responses to the customer's testimony in a late-filed exhibit. AUF states that there were numerous references to the November 3, 2011 filing, including AUF's intent to file the exhibits with the testimony of a witness under oath. AUF points to Order No. PSC-11-0504-WS, issued October 27, 2011, in this docket, in which the Prehearing Officer acknowledged permission to late-file exhibits responsive to customer testimony.

Clearly, AUF was given until November 3, 2011, to file a response. As noted above, although it was contemplated that it would be an exhibit and an exhibit number was reserved for that purpose, AUF chose to file supplemental rebuttal testimony from three separate witnesses. I find that whether the response was filed as an exhibit or as testimony, there is no material difference. Further, to require AUF to convert the testimony to an exhibit format would serve no purpose, and cause undue rate case expense. Finally, by filing its response as testimony, the Intervenors know exactly which witnesses to cross-examine.

Based on the above, I find that a response was specifically allowed on November 3, 2011, and that there is no prejudice to the Intervenors.[5] Therefore, OPC's Motion to Strike Supplemental Rebuttal Testimony Filed by AUF is denied.

E. Dispute on Inclusion of Issue 24

At the Issue Identification Meeting held on July 29, 2011, the parties could not agree on the appropriateness or the wording of OPC's proposed Issue 24. OPC's proposed wording of Issue 24 currently states:

> 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?

[4] AUF did the same in its last rate case, Docket No. 080121-WS.
[5] I note that customers can write the Commission referencing this docket, and their letters will be placed in the correspondence side of the docket file and be available to the commissioners for review.

By Order No. PSC-11-0484-PCO-WS, issued October 25, 2011, the parties were allowed to file memoranda on the appropriateness of including this Issue. Both AUF and OPC timely filed their memoranda.

1. OPC's Memorandum

OPC argues that pursuant to Rule 28-106.201, F.A.C., in a dispute involving disputed issues of material fact, the Commission may only grant or deny the petition, but not modify the disputed issues. Further, OPC notes that Section 120.57(1)(b), F.S., provides that "[a]ll parties shall have an opportunity to respond, to present evidence and argument on all issues involved," and OPC argues that the agency takes the case as it finds it once a determination is made that the petition contains the information required by the uniform rules.

OPC goes on to state that the issue of the affordability of the rates involves issues of material fact, and that the Commission will need to make factual determinations on whether the customers can afford the requested rate increase. OPC argues that the Commission "will need to make a factual determination if the totality of the operating costs in the test year were incurred in a prudent manner or whether Aqua spent too much money in total on its operating costs."

OPC argues that pursuant to Sections 367.081 and 367.121, F.S., the Commission must set rates which are "fair, just, reasonable, compensatory, and not unfairly discriminatory," and that included in this calculation is the concept of affordability. OPC notes that the concept of "affordability" was specifically addressed in AUF's last rate case.[6]

OPC argues that the contention of staff in its prehearing statement "that the issue as worded is flawed," is based on a faulty premise. OPC argues that the faulty premise "is that an expense can be determined to be prudent based solely on reviewing the cost in isolation." OPC argues that the Commission "must review the sum total of the operating costs before they make a final determination of whether any given cost was prudently incurred." Because rates are set prospectively, OPC argues that a utility's operating expenses, unlike capital improvements, may be cut or reduced, i.e., expenses such as salaries or affiliate costs may be cut or reduced on a going forward basis.

OPC rejects staff's proposed modification of the issue,[7] stating that such proposal "materially changes the meaning of the issue." However, OPC states that it would be willing to restate the issue as follows:

> Have the total operating expenses been incurred in a prudent matter 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?

---

[6] See Order No. PSC-09-0385-FOF-WS, issued May 29, 2009, in Docket No. 080121-WS, In re: Application for increase in water and wastewater rates . . . by Aqua Utilities Florida, Inc., p. 127.

[7] Staff suggested in its prehearing statement that the Issue could be reworded to state 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."

OPC notes that the case of Citizens v. Public Service Commission, 435 So. 2d 784 (Fla. 1983), might be cited for the proposition that the Commission has the discretionary authority to determine the issues that might be litigated in a rate case. OPC distinguishes this instant case from that case by noting that in the Citizens case the Commission excluded an issue that was raised for the first time on reconsideration; here, OPC notes that it raised its issue prior to prehearing, and thus all parties are afforded due process to respond to this issue at hearing. OPC also argues that the situation in this case is different from the facts in a 2009 Florida Power & Light Company FPL case (2009 FPL case).[8] In the 2009 FPL case, a party requested inclusion of issue as follows: "What is a fair and reasonable rate for the customers of Florida Power & Light Company?" The issue was not allowed. OPC states that "the Prehearing Officer ruled that the issue referenced legal standards . . . in Chapter 366, . . . and permeated the issues in that docket." OPC argues that while the issue in the 2009 FPL case and this case may appear to be similar on the surface, they are not because OPC's proposed "Issue 24 requires the Commission to make factual findings."

In its concluding paragraph, OPC notes that "the Commission has excluded issues when they have been beyond the scope of the current docket or were 'subsumed' in another issue, thereby allowing the parties to address the merits of the issue." OPC argues that the issue is clearly within the scope of this proceeding and is not subsumed in any other issue. OPC notes that it is asking the Commission to "make a factual determination on the prudency of the Company's actions in incurring all of the operating costs during the test year as it impacts the affordability of rates," and that there is no other single issue that addresses this question.

2. AUF's Memorandum

In its memorandum, AUF argues that to allow OPC to pursue this issue would inject "an unprecedented and legally unsupported criterion to determine AUF's rates." AUF argues that the applicable statutes and case law require that once an expense is determined to be prudently incurred, then rates must be set so as to allow a utility to recover those expenses and a fair rate of return on its used and useful investment. AUF further argues that the "prudency of all expenses is an issue already subsumed within other issues before the Commission." AUF further notes that the idea of "affordability" has never been used to deprive a utility of its prudently incurred expenses, but has been "limited to designing the appropriate rate structure."

Citing Order No. PSC-02-1537-PCO-TL, issued November 12, 2002,[9] and Order No. PSC-99-1274-PCO-EU,[10] issued July 1, 1999, AUF argues that the "Commission may properly limit the nature and scope of issues" and may "remove proposed issues on the basis that positions

[8] See Order No. PSC-09-0573-PCO-EI, issued August 21, 2009, in Docket Nos. 080677-EI and 090130-EI, In re: Petition for a rate increase by Florida Power & Light Company, and In re: 2009 Depreciation Study by Florida Power & Light Company.
[9] See Docket No. 020507-TL, In re: Complaint of Florida Competitive Carriers Ass'n against BellSouth Telecom, Inc.
[10] See Docket No. 981890-EU, In re: Generic Investigation into the aggregate electric utility reserve margins planned for Peninsular Florida.

on those issues can be adequately presented within the context of other issues." Further, AUF notes that the Prehearing Officer has that authority.[11]

Citing many cases[12] and Section 367.081(1), AUF argues that in determining a utility's rates, the Commission must fix rates which are just, reasonable, compensatory, and not unfairly discriminatory, with such rates being at a level which will allow a utility the opportunity to recover its prudently incurred expenses and to earn a fair return on its investment that is used and useful in the public service. Further, in Southern States Utilities, Inc. v. Florida Public Service Commission, 714 So. 2d 1046 (Fla. 1st DCA 1998), AUF argues that the First District Court of Appeals (Court) made it clear that, in the aggregate, rates and charges must assure a water and wastewater utility an opportunity to recover its revenue requirement, which it described as "the cost of the service the utility provides, operating expenses as well as cost of capital." Moreover, AUF argues that the Court explained that, while an "affordability" criterion may be used to design a utility's rate structure, such a criterion cannot be used to decrease a utility's overall revenue requirement. See Southern States Utilities, Inc., 714 So. 2d at 1053.

AUF argues that to the extent "affordability" would cap the rates of certain systems at a level that would interfere with the recovery of the revenue requirement, the resulting "shortfall" would need to be recovered from the remaining ratepayers of the utility. Based on the above, AUF argues that the pertinence of any affordability questions or issues must be confined to the appropriate rate design of AUF's rate structure. Based on all the above, AUF argues that OPC's attempt to use affordability to reduce AUF's revenue requirement would contradict Florida law and result in confiscatory rates.

AUF concludes its arguments by noting that nowhere in Chapter 367, F.S., is the term "affordability" ever used. AUF further notes that the term is used in Chapter 364, F.S. (Telecommunications Companies), and that, therefore, the Legislature is familiar with the term. However, AUF argues that even in regards to telecommunications, "affordability" has never been used to deprive a telephone company of its right to recover its revenue requirement. AUF concludes that Issue 24, as proposed, should be excluded.

3. Conclusion

OPC attempts to distinguish this case from the 2009 FPL case.[13] In that case, the Attorney General proposed an issue as follows: *What is a fair and reasonable rate for the customers of Florida Power and Light Company?* That issue was not included as a separate and distinct issue in the docket because *"This issue references legal standards established by the*

[11] See Order No. PSC-08-0549-PCO-TP, issued August 19, 2008, in Docket No. 070691-TP, In re: Complaint and request for emergency relief against Verizon Florida, LLC, for anticompetitive behavior in violation of Sections 366.01(4), 364.3381, 364.10, F.S., and for failure to facilitate transfer of customers' numbers to Bright House Networks Information Services (Florida), LLC, and its affiliate, Bright House Networks, LLC.
[12] See United Telephone Co. v. Mayo, 403 So. 2d 962, 966 (Fla. 1981); Keystone Water Co. v. Bevis, 278 So. 2d 606 (Fla. 1973); Westwood Lake, Inc. v. Dade County, 264 So. 2d 7 (Fla. 1972); Gulf Power Co. v. Bevis, 289 So. 2d 401 (Fla. 1974); and Southern States Utilities, Inc. v. Florida Public Service Commission, 714 So. 2d 1046 (Fla. 1st DCA 1998).
[13] Docket No. 080677-EI.

legislature in Chapter 366, F.S. and permeates the issues in the docket."[14] I find that the situation in this case is very similar.

OPC's argument that the prudency of any expense is a position that OPC may take in each of the issues dealing with revenue requirements. In Order No. PSC-07-0816-FOF-EI[15] we defined prudence as "what a reasonable utility manager would have done in light of conditions and circumstances which were known or reasonably should have been known at the time the decision was made."[16] Merriam-Webster dictionary defines prudent as: characterized by, arising from, or showing prudence; marked by wisdom or judiciousness; shrewd in the management of practical affairs; marked by circumspection; discreet; provident; frugal. Therefore, OPC's argument that costs are unaffordable, is an argument about the prudency of the costs. I find that OPC's revised permutation of the issue is likewise inappropriate. OPC and any party to this proceeding may challenge an expense item because that expense was imprudent. The prudence or imprudence of that expense may be argued by each party, and may include the appropriateness of the individual expense. The parties may present such testimony or arguments as they deem relevant to the issue, including OPC's argument that affordability is a component of determining fair, just, reasonable, and not unduly discriminatory rates. Based on the testimony and subsequent briefs of the parties, the Commission determines the legitimate and prudent expense to be allowed in each individual issue and will determine the revenue requirements for the utility. Therefore, as regarding expenses, I find that OPC's concerns may be addressed as the Commission comes to each of the requested expenses in dispute, and that, therefore, the issue of whether the expenses are legitimate and prudent is subsumed in the individual issues. Therefore, in consideration of the above, and having reviewed the memoranda of OPC and AUF, the applicable case law, and statutes, I find that proposed Issue 24 is neither required nor appropriate, and it shall be excluded and stricken.

Moreover, the issue proposed by OPC, placed at the conclusion of the revenue requirements section, could jeopardize the ultimate decision of the Commission. If the Commission were to first determine the revenue requirements and then reduce those requirements because it determined that the results were unaffordable, the Commission could run afoul of a long line of cases regarding ratesetting. Pursuant to the holdings in Gulf Power Company v. Wilson, 597 So. 2d 270 (Fla. 1992); Bluefield Water Works & Improvement Company v. Public Service Commission of West Virginia, 262 U.S. 679 (1923); and Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591 (1944), a utility must be given an opportunity to recover its legitimate and prudent expenses, and a fair rate of return on its investment that is used and useful in the public service.

Having found that Issue 24, as worded by OPC, should not be included, I do note that Commission staff's proposed rewording of the issue as a rate issue is appropriate. As noted in the Southern States case cited above, it appears that the appropriate place to address "affordability" is in the rate structure portion of the issues. Once revenue requirements have

[14] Order No. PSC-09-0573-PCO-EI, issued August 21, 2009.
[15] Issued October 10, 2001, in Docket No. 060658-EI, In re: Petition on behalf of Citizens of the State of Florida to require Progress Energy Florida, Inc. to refund customers $143 million.
[16] City of Cincinnati v. Public Utilities Commission, 620 N.E. 2d 826 (Ohio 1993).

been established, the rate structure is determined. Therefore, proposed Issue 24 is stricken, and an issue concerning affordability shall be added. The issue concerning affordability is a rate structure issue and shall be numbered as Issue 31A and worded 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?"

At hearing the parties may state their position on the issue as modified.

F. Inclusion of Issue 26 as an Issue

From review of the record and the protests and cross-petitions of the parties, it appears that Ms. Lucy Wambsgan was the only one who specifically addressed this issue and could be said to have put it in dispute. She has now withdrawn as a party. Yes argues that the language in its Cross-Petition Protesting Certain Portions of the Proposed Agency Action would allow this issue to still be considered as a disputed issue. In its cross-petition, Yes states:

> Pursuant to Section 120.80(13)(b), Fla. Stat., a Section 120.57 hearing may only address those issues in dispute and any other issues not in dispute are deemed stipulated. Yes reserves the right to take positions and file testimony on any additional issues raised by any other party's protest or cross-protest or any fallout issues resulting from those issues identified above or identified in any other party's protest or cross-protest.

I find that the above-noted language does not preserve Issue 26 as being in dispute. However, because Issue 26 is affected and is dependent on the resolution of other disputed issues, I find that Issue 26 shall be preserved as a fallout issue as it is currently listed.

G. The parties have all agreed that staff witnesses Lott, Daugherty, Schwarb, Yingling, Chelette, Welch and Hicks, and Yes witness Kurz may be excused from the hearing and their testimony and exhibits, if any, shall be admitted. If no Commissioner has questions for these witnesses, they may be excused from the hearing, and their testimony and exhibits shall be placed into the record at the time they would have been scheduled to appear.

H. OPC has agreed that staff witnesses Walker, Harrison, Loughlin, Piltz, Rauth, Eck, Dodson, and Rodriquez (DEP personnel) may be excused from the hearing and their testimony and exhibits, if any, shall be admitted. If no Commissioner or other party has questions for these witnesses, they may be excused from the hearing, and their testimony and exhibits shall be placed into the record at the time they would have been scheduled to appear.

I. The parties have also agreed that the following staff Water Management District and DEP witnesses, if needed, may be taken up out of turn and on a date certain as follows:

November 29, 2011: WMD witness Walker
November 30, 2011: DEP witnesses Greenwell and Carrico

December 1, 2011: DEP witnesses Dodson, Penton, Montoya, Rauth, Rodriguez, Miller, Sloan, Harrison, Eck, and Carrico

Therefore, these witnesses, if needed, shall only be required to attend the hearing on the date noted, and their testimony and exhibits, time permitting, will be taken up on that day, and out of order if necessary.

It is therefore,

ORDERED by Commissioner Ronald A. Brisé, as Prehearing Officer, that this Prehearing Order shall govern the conduct of these proceedings as set forth above unless modified by the Commission.

By ORDER of Commissioner Ronald A. Brisé, as Prehearing Officer, this 23rd day of November, 2011.



RONALD A. BRISÉ
Commissioner and Prehearing Officer
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399
(850) 413-6770
www.floridapsc.com

RRJ

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

Any party adversely affected by this order, which is preliminary, procedural or intermediate in nature, may request: (1) reconsideration within 10 days pursuant to Rule 25-22.0376, Florida Administrative Code; or (2) judicial review by the Florida Supreme Court, in the case of an electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or wastewater utility. A motion for reconsideration shall be filed with the Office of Commission Clerk, in the form prescribed by Rule 25-22.0376, Florida Administrative Code. Judicial review of a preliminary, procedural or intermediate ruling or order is available if review of the final action will not provide an adequate remedy. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.