



BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application of PALM COAST ) DOCKET NO. 951056-WS  
UTILITY CORPORATION for Increased ) Filed: June 3, 1996  
Rates in Flagler County, Florida /

CITIZENS' PREHEARING STATEMENT

Come now the Citizens of the State of Florida by and through JACK SHREVE, Public Counsel, (Citizens) pursuant to the provisions of Commission Rule 25-22.038(3), F.A.C., and the Commission's Order Establishing Procedure issued on May 2, 1996, and submit their prehearing statement.

**A. All Known Witnesses**

1. Ted L. Biddy. Mr. Biddy will address used and useful and engineering issues.
2. Kimberly H. Dismukes. Ms. Dismukes will address accounting, policy and ratemaking issues.

**B. All Known Exhibits**

The Citizens' two witnesses have prefiled the following exhibits:

1. Ted L. Biddy, TLB-1 ..... Key and rationale for OPC used and useful calculations;
2. Ted L. Biddy, TLB-2 ..... Used and useful calculations for water systems;
3. Ted L. Biddy, TLB-3 ..... Used and useful calculations for wastewater systems;

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4. Kimberly H. Dismukes, KHD-1 comprised of the following 15 schedules:

<u>Title</u>	<u>Schedule</u>
Palm Coast Utility Corporation Summary of Adjustments	1
Palm Coast Utility Corporation Cost of Capital	2
CIAC Comparison	3
Comparison of Total Capital to Total Rate Base	4
Analysis of Non-Used and Useful Plant and Guaranteed Revenue	5
Revenue Requirement Impact of Changes in Cost of Capital	6
Palm Coast Utility Corporation Non-Utility Income/Revenue	7
Miscellaneous Revenue Adjustments	8
Other Revenue Adjustments	9
Palm Coast Utility Corporation O&M Used and Useful Adjustment	10
O&M Used and Useful Analysis	11
Palm Coast Utility Corporation Personnel Services	12
Adjustment to Affiliate Charges	13
Staff Audit Adjustments	14
Income Effect of Tax Rate of 34%	15

**C. Statement of Basic Position**

The Utility has understated its revenue by failing to include all revenue from Hammock Dunes, revenue earned by its subsidiary, and revenue received from other water and wastewater systems for which the Utility provides service. The Utility's expenses are overstated due to transactions with its affiliates, inclusion of inappropriate and non-recurring expenses, and failure to properly account for non-used and useful operations and maintenance expenses. The Utility's cost of capital is overstated because the

Utility did not include cost-free CIAC in the capital structure and the appropriate amount of cost-free investment tax credits. The Utility's rate base is overstated due to the inclusion of substantial amounts of plant that is non-used and useful. Instead of a rate increase proposed by the Utility, the rates should be reduced by at least \$3.0 million.

**D.-F. Issues and Positions**

Quality of Service

Issue 1: Is the quality of service satisfactory?

**Position:** No Position at this time.

Rate Base

Issue 2: Should a margin reserve be included in the calculations of used and useful plant?

**Position:** No. Margin reserve is for the benefit of future customers and should not be paid for by current customers. (Bidby, Dismukes)

Issue 3: If the Commission includes margin reserve in rate base, what is the appropriate allowance for margin reserve?

**Position:** If the Commission allows a margin reserve, the 3 years and 5 years for water and wastewater treatment facilities,

respectively, proposed by PCUC, is not appropriate. The Staff has historically recommended a 1 1/2 year margin reserve for water and wastewater treatment facilities and a 1 year margin reserve for water and wastewater lines. If the Commission grants PCUC a margin reserve, the reserve periods should not exceed the periods historically recommended by Staff. (Bidly)

Issue 4: If the Commission includes margin reserve in rate base, should CIAC be imputed on this margin reserve?

**Position:** Yes. (Dismukes)

Issue 5: Should a fire flow provision be included in the used and useful calculations of supply wells, treatment plant and distribution mains?

**Position:** No. Fire flow provision should be included in the used and useful calculation of finished water storage but not for the supply wells, treatment plant and distribution mains. It is PCUC's responsibility to prove the fire flow provision by sufficient fire flow test records or other supporting documents. (Bidly)

Issue 6: What should be the allowable level of unaccounted for water?

**Position:** To achieve appropriate levels of unaccounted for water,

the Commission should allow no more than 10% of unaccounted for water. (Bidddy)

Issue 7: Should the single maximum day flow be used for calculating used and useful percentages for water facilities?

**Position:** No, the single maximum day flow should not be used in the used and useful calculations in this filing. The Commission should establish maximum day flows by utilizing the average of the 5 highest days of the maximum month. (Bidddy)

Issue 8: Should the Commission use operation permit capacities instead of construction permit capacities for the used and useful calculations?

**Position:** No, the construction permit capacities should be used because they represent the actual capacities constructed. (Bidddy)

Issue 9: What is the appropriate allowance for equalization and emergency storage in the used and useful calculation?

**Position:** Half (50%) of the average daily flow (ADF) is adequate for equalization and emergency storage. (Bidddy)

Issue 10: Should 10% of the finished water storage be treated as retention storage?

**Position:** No, it is not justified to assume 10% of the storage capacity is dead storage for every single storage tank. Retention storage should be allowed only if it is confirmed in as-built drawings. (Bidby)

Issue 11: Should facility lands be considered 100% used and useful without detailed justification?

**Position:** No. Calculations should be performed to justify the 100% used and useful allocation for facility lands, hydro tanks, and auxiliary power. Without the information necessary to make those calculations, the Commission should assign to facility lands, hydro tanks, and auxiliary power the same percentages of used and useful given to related utility facilities. (Bidby)

Issue 12: What is the appropriate method for calculating the water transmission and distribution system used and useful percentage?

**Position:** The lot count method is appropriate and should be used for this proceeding. (Bidby)

Issue 13: What is the appropriate method for calculating the wastewater collection system and pumping plant used and useful percentage?

**Position:** The lot count method is appropriate and should be used

for this proceeding. (Bidby)

Issue 14: Does the wastewater facility have excessive inflow and/or infiltration and, if so, what adjustments are necessary?

**Position:** Any excess inflow and infiltration should be excluded from the treated wastewater. The amount of excess inflow and infiltration is undetermined at this time. Receipt of pending discovery should help quantify any potential adjustments. (Bidby)

Issue 15: Should 20% of facility cost be automatically considered 100% used and useful because of economies of sale considerations?

**Position:** No. All facility cost should be evenly shared by existing and future customers. (Bidby)

Issue 16: Should a facility be considered 100% used and useful again, if it was determined to be 100% used and useful in a previous proceeding?

**Position:** No. Evaluations of the facility capacity changes and customer demands are necessary before determining the used and useful percentages. (Bidby)

Issue 17: Should an adjustment be made to the cost of the rapid infiltration basin land and buffer sites purchased by the Company



from its affiliate?

**Position:** Yes. Land should be reduced by \$404,770. (Dismukes)

Issue 18: Should an adjustment be made to the cost of the sprayfield land site purchased by the Company from its affiliate?

**Position:** Yes. Land should be reduced by \$268,509. (Dismukes)

Issue 19: Should plant in service be reduced for the misclassification of rehabilitation expense to utility plant in service?

**Position:** Yes. Water plant in service should be reduced by \$548,416 and wastewater plant in service should be reduced by \$504,537. (Dismukes)

Issue 20: Should an adjustment be made to depreciation expense and accumulated depreciation for the reclassification of the cost of rapid infiltration basin to the appropriate accounts?

**Position:** Yes. Accumulated depreciation should be reduced by \$34,270 and depreciation expense should be reduced by \$34,270. (Dismukes)

Issue 21: Should negative working capital be included in rate base?

**Position:** Yes. Negative working capital for the water operations of \$799,493 and for the wastewater operations of \$558,004 should be included in rate base as on off set to the net debit deferred taxes included in rate base. (Dismukes)

Issue 22: Should net debit deferred income taxes be included in rate base and if so should any adjustments be made to the amount proposed by the Company.

**Position:** If the Commission adopts the Citizen's recommendation with respect to reducing the Company's cost of equity by 50 basis points, then some allowance for deferred debits might be appropriate. At a minimum, net debit deferred taxes should be reduced by \$378,629, for an extraordinary property loss deferred tax which should not be recovered from ratepayers. Other adjustments may also be appropriate, but the Citizens still have discovery outstanding on this subject. If the Commission does not adopt the Citizens recommendation with respect to reducing the Company's cost of equity by 50 basis points, then no deferred debits should be included in rate base, because at least in part the reason the Company has net debit deferred taxes as opposed to net credit deferred taxes relates to the fact that the Company did not use accelerated depreciation for tax purposes prior to 1988, which served the purposes of its parent company, not the best interests of ratepayers. (Dismukes)

Issue 23: Should non-used and useful adjustments be made to general plant?

**Position:** Yes. Consistent with the treatment by the Commission and the Company in the two previous rate cases, general plant should be reduced consistent with the adjustments to administrative and general expense. (Dismukes)

Issue 24: What is the appropriate amount of CIAC to include in rate base?

**Position:** No position at this time. The Citizens still have outstanding discovery on this issue.

Issue 25: Should margin reserve be included in rate base?

**Position:** No. Margin reserve is for the benefit of future customers and should not be paid for by current customers. (Dismukes, Bidy)

Issue 26: What are the appropriate used and useful percentages for the water and wastewater facilities?

**Position:** The appropriate used and useful percentages for the water and wastewater facilities are presented in Exhibit TLB-2 and Exhibit TLB-3, respectively. (Bidy)

Issue 27: Should any other adjustments be made to plant in service and related accounts?

**Position:** No position at this time. The Citizens still have outstanding discovery on this issue.

### Cost of Capital

Issue 28: Should any adjustments be made to the Company's capital structure?

**Position:** Yes. Cost-free CIAC in the amount of \$11,028,664 should be included in the Company's capital structure. Cost-free Investment Tax Credits should be increased by \$125,569. When reconciling the capital structure to rate base, customer deposits should not be reconciled. (Dismukes)

Issue 29: What is the appropriate cost of equity?

**Position:** The cost of equity should be computed in accordance with the most recent leverage graph. The Commission should reduce the cost of equity by 50 basis points because of the Company's failure to take accelerated depreciation for tax purposes. (Dismukes)

### Net Operating Income

Issue 30: What are the appropriate projected number of water and wastewater bills and consumption to be used to calculate revenue

for the 1995 projected test year and to calculate rates for service?

**Position:** The year-end number of bills should be used for wastewater and the average number of bills should be used for water. No position at this time concerning the consumption data to be used, pending the receipt of outstanding discovery. (Dismukes)

Issue 31: Should an adjustment be made to the amount of miscellaneous revenue to be included in the 1995 projected test year?

**Position:** Yes. Water revenue should be increased by \$5,174 and wastewater revenue should be increased by \$5,197 to reflect actual 1995 miscellaneous revenue. (Dismukes)

Issue 32: Should an adjustment be made to the amount of 1995 water revenue received from Hammock Dunes?

**Position:** Yes. Water revenue should be increased by \$33,023. (Dismukes)

Issue 33: Should an adjustment be made for reuse revenue to potentially be received from Hammock Dunes?

**Position:** Yes, if the Commission determines that it is appropriate

to charge for the effluent sent to Hammock Dunes. The minimum adjustment is \$195,640. However, the Citizens still have discovery outstanding on this issue and may revise this figure. The Citizens take no position on whether or not the Commission should establish a reuse rate for Hammock Dunes. (Dismukes)

Issue 34: Should adjustments be made for non-utility income and revenue recorded on the Company's books?

**Position:** Yes. Non-utility income should be moved above the line for ratemaking purposes as it applies to water and wastewater service provided by the Company to Plantation Bay, Searay, Matanzas Shores, and Other. Water revenue should be increased by \$2,407 and wastewater revenue should be increased by \$54,857. Revenue from Aqua Tech, a subsidiary of the Company, should also be moved above the line for ratemaking purposes. The amount that should be moved above the line is \$50,365. (Dismukes)

Issue 35: Should any adjustments be made to true-up the 6-months of budgeted test year expenses to actual?

**Position:** No position at this time. The Citizens still have discovery outstanding on this issue.

Issue 36: Should an adjustment be made to personnel services expenses?

**Position:** Yes. Personnel services expenses should be reduced by \$17,113 before application of used and useful percentages.  
(Dismukes)

Issue 37: Should adjustments be made for affiliate charges?

**Position:** Yes. The Commission should disallow all charges from affiliates in the amount of \$1,003,160 for the Company's failure to properly respond to the Citizens discovery concerning affiliate transactions. In the alternative, the Commission should disallow \$31,765 (before used and useful adjustments) of affiliate charges as depicted on Dismukes Schedule 13, for the Company's failure to justify these charges. The Citizens still have outstanding discovery on this issue and may revise their position accordingly.  
(Dismukes)

Issue 38: What adjustments should be made to expenses based upon the Staff Audit exceptions and disclosures?

**Position:** Before the application of used and useful adjustments, O&M expenses should be reduced by \$1,194 for lack of supporting documentation, O&M expenses should be reduced by \$6,406 for expenses related to lobbying and non-utility expenses, O&M expenses should be increased by \$4,000 for audit expenses not reflected in test year expenses, and legal expenses should be reduced by \$1,718 for legal fees associated with divestiture of the utility.

(Dismukes)

Issue 39: Should the miscellaneous expense adjustments for nonrecurring rental expenses, chamber of commerce dues, and non-recurring legal fees reflected on Dismukes Schedule 16 be made?

**Position:** Yes. Rental expenses should be reduced by \$36,981, chamber of commerce dues should be reduced by \$828, and legal expenses should be reduced by \$9,342, before application of used and useful percentages. The Citizens still have outstanding discovery on this issue and additional adjustments may be necessary. (Dismukes)

Issue 40: Should non-used and useful adjustments to O&M expenses be made.

**Position:** Yes. (Dismukes)

Issue 41: Should any adjustments be made to reflect the potential sale of this utility?

**Position:** No position at this time. The Citizens still have outstanding discovery on this issue.

Issue 42: Should adjustments be made to rate case expense?



**Position:** Yes. Rate case expense should be reduced by \$305,677 because of the Company's failure to reduce rates after recovery of rate case expense in the last case. Other adjustments to rate case expense may be necessary pending further development of the record.  
(Dismukes)

Issue 43: What is the appropriate federal income tax rate for this utility?

**Position:** The appropriate federal income tax rate is 34%.  
(Dismukes)

Issue 44: Should any other adjustments be made to operations and maintenance expenses?

**Position:** No position at this time. The Citizens still have outstanding discovery on this issue.

Issue 45: Should any other adjustments be made to administrative and general expenses?

**Position:** No position at this time. The Citizens still have outstanding discovery on this issue.

**Revenue Requirement**

Issue 46: What are the revenue requirements?

**Position:** The final amount is subject to the resolution of other issues.

**Rates and Charges**

**Issue 47:** What final rates should be authorized?

**Position:** No position at this time.

**Issue 48:** 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 as required by Section 367.0816, Florida Statutes?

**Position:** No position at this time.

**G. Proposed Stipulations:**

There are no stipulations pending at this time.

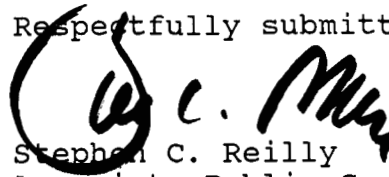
**H. Pending Matters:**

The Citizens currently have outstanding discovery that has not been responded to my PCUC. Until responses to this discovery are complete the Citizens reserve the right to file appropriate motions to compel and to add issues as the need arises. The Citizens have filed two motions to compel which have not yet been ruled upon.

**I. Requirements That Cannot Be Complied With:**

There are no requirements of Order No. PSC-96-0577-PCO-WS that cannot be complied with at this time.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "S. C. Reilly", is written over the typed name below.

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Attorney for the Citizens  
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CERTIFICATE OF SERVICE  
DOCKET NO. 951056-WS

I HEREBY CERTIFY that a correct copy of the foregoing has been furnished by U.S. Mail or \*hand-delivery to the following parties on this 3rd day of June, 1996.


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