

Flagler County
Board of County Commissioners

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FILE COPY

HAND DELIVERY

August 12, 1996

Ms. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-1850

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APP _____
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SEC 1 _____
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Re: Docket No. 951056-WS
Application by Palm Coast Utility Corporation
for a rate increase in Flagler County, Florida

Dear Ms. Bayo:

Enclosed for filing are an original and fifteen copies
of Post Settlement Hearing for Intervenor Flagler County in
reference to the above docket.

Thank you for your assistance.

Sincerely,

Al Hadeed

RECEIVED & FILED

EPSC-BUREAU OF RECORDS

AJH\pdh
Enclosures

JACK NUGENT
District 1

MICHAEL R. DES PARTE
District 2

JIM DARBY
District 3

DOCUMENT NUMBER-DATE

SAM TRIVETT

GEORGE HANNS
District 5

08417 AUG 12 1996

EPSC-RECORDS/REPORTING



BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for Rate)
Increase in Flagler County by)
Palm Coast Utility Corporation)

DOCKET NO. 951056-WS
FILED: August 12, 1996

POST HEARING STATEMENT OF
INTERVENOR FLAGLER COUNTY

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Attorneys for Flagler
County

DOCUMENT NUMBER-DATE

08417 AUG 12 1996

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FLORIDA PUBLIC SERVICE COMMISSION

STATEMENT OF BASIC POSITION

Flagler County is an intervenor in this rate case, representing the interest of all the citizens and businesses of Flagler County before the FPSC. This is the first time in the Commission's 16 year history of exercising jurisdiction over utilities in Flagler County that the County itself has participated in a rate proceeding, reflecting the community's concern over the magnitude of the requested rate increases.

The County supports the proven positions of the Office of Public Counsel and their expert witnesses in this case with regard to the detailed issues. More importantly, the County also wishes to look at the big picture issues, those that relate to the balance of consumer interests and utility shareholder interests that must be kept in mind.

The starting point is the recognition that Palm Coast Utility Corporation is sui generis. It is not a typical utility. Policy that would apply to other water companies should not be automatically applied to PCUC. No automatic margin reserve gross up of rate base nor economy of scale gross up of rate base should be allowed merely because it is "policy." FPSC must consider the reality of the situation, not the theory of the policy. For the following reasons, PCUC is not the prototype water company for which the generic FPSC rules were designed:

1. The normal two way ratepayer-utility relationship for this utility is not reality. In this case, the reality is a three way relationship: ratepayer, utility,

and utility's associated corporations. (Exhibits 43 and 45).

2. PCUC through its associated company, ICDC, has collected "...a lot money toward their service availability charges...." (Tr.211). "It's kind of unique [in the water and wastewater industry]." (Tr.211).

3. PCUC does not use AFPI, a service availability charge that has future customers pay the carrying costs associated with non-used and useful plant, yet PCUC collects prepaid CIAC, which would be an offset to the carrying costs that would be charged through AFPI (Tr. 257).

4. The water system, designed to service 46,000 customers, is now servicing only 12,000 customers after about 25 years of existence (Tr. 256 and Tr. 785).

5. "...most, if not all, [of the water and wastewater] mains are already constructed." (Tr. 599).

6. A major portion of PCUC's water may be used for irrigation which is price sensitive (Tr. 82 and Tr. 461).

7. "No two utility systems are alike in design, utilization and system characteristics. Moreover, utility systems are constantly changing with respect to plant and function as customer demand and system characteristics change...." (Tr. 238-239).

With regard to the value of land acquired by PCUC from an associated company, the Commission also must look to the reality of the situation, not the theory. The FPSC should examine the underlying credibility and value of appraisals offered by PCUC, not just for what they say but also for what

they do not.

The County has provided analysis for issues 3-8, 11-13 and 19, and has otherwise adopted the positions of the Public Counsel.

POST-HEARING STATEMENT OF ISSUES AND POSITIONS

QUALITY OF SERVICE

ISSUE 1: Is the quality of service satisfactory?

Position: *Adopt Public Counsel's position and analysis.*

APPROPRIATE TEST YEAR

ISSUE 2: Should a year-end or 13-month average rate base and capital structure be recognized for ratemaking purposes?

Position: *Adopt Public Counsel's position and analysis.*

RATE BASE

ISSUE 3: Were the appraisals for the 1986 purchase of the sprayfield site and the 1991 purchase of the rapid infiltration basin (RIB) site prepared by an independent, qualified appraiser?

Position: *The appraisals were prepared by a properly credentialed appraiser but were not reasonable under the circumstances.*

Analysis:

The appraiser possessed the proper credentials. He was regularly engaged by PCUC (Ex.40) so his independence might be questioned. Regardless, the validity of the appraisals ultimately goes to the adequacy of the research and of the documentation of the methodology and facts leading to the appraisals' conclusion. In this case, we submit that that adequacy has not been demonstrated. See the analysis under issue 6.

ISSUE 4: When was the sprayfield site first dedicated to utility service, and by whom?

Position: *1979, ITT Corporate family through its agent and subsidiary, PCUC.*

Analysis:

The sprayfield site was on land owned by the ITT Corporate family and was put into utility service by its agent and subsidiary, PCUC. (Tr.694-95). The land was from a common root of ITT ownership. (Tr. 695).

ISSUE 5: When was the RIB site first dedicated to utility service, and by whom?

Position: *1991, ITT Corporate family through its agent and subsidiary, PCUC.*

Analysis:

Like the sprayfield site, the RIB site was put into utility service by the ITT Corporate family through its agent and subsidiary, PCUC. (Tr.694-95). The land for the RIB site likewise was from a common root of ITT ownership. (Tr.695).

ISSUE 6: How should the sprayfield and RIB sites be valued?

Position: *Using trended historical costs because the PCUC appraisals are not reasonable nor credible.*

Analysis:

The land acquired by PCUC for both utility sites was not through an arms length transaction. (E.g., Tr.694-95). PCUC contends that if it can produce reasonable appraisals, the trended original cost calculation by the Commission's CPA auditor should be disregarded.

The 1985 Appraisal

The appraisal performed in 1985 for the sprayfield site (Ex. 38, CDS-2) is deficient in a number of regards. Primary among them is that the appraisal was inadequately predicated. It assumed the subject parcel was available for development as a single family residential project. (Comp. Ex. 38, CDS-2 at cover letter pp.1-2, report at pp. 19, 26). Indeed, the lynchpin of the appraisal is the "special assumption" for single family residential availability as the highest and best use for the parcel (Id. cover letter at p.1, report at p.1). The basis for this special assumption in the appraisal is that the majority of Palm Coast ITT land is available for residential development and that Flagler County had no zoning at the time so as to contradict the ability to develop the property residentially. (Id. report at p.18, report at p.1, report at p.15).

However, the appraiser admitted, when the volumes were displayed at the hearing, that there was a State of Florida land use plan applicable to the ITT Palm Coast development. (Tr.861). He could not recall what the plan prescribed for this particular property (Tr.861,865). He was asked at deposition "did" he know which state development zone the parcel was located in and responded he did not (Tr.863). He attempted to explain his deposition response at the hearing by stating he had no current recollection but that he did know the answer at the time he performed the appraisal. (Tr.861). Yet, nowhere in the appraisal report is any

statement made that the state plan would permit residential development on this parcel. This omission is critical since "an appraisal is basically a research problem...."

(Comp.Ex.38, CDS-2, report at p.17), and the entire premise for the comparables selected and the final estimate of value was the availability of the site for single family residential development. Notably, none of the subject property was part of the over 40,000 subdivided lots to which PCUC had extended utilities within Palm Coast. Indeed, the immediate area has not been subdivided to this day. (Tr.867-68).

Finally, in the comparables ultimately utilized by the appraiser to fix value, he made special note that the properties developed into residential projects in relatively short order. (Comp. Ex. 38, CDS-2, report at pp. A-4, A-5, A-6, A-7, A-8, A-9, and A-10). In sharp contrast, the immediate vacant area surrounding the sprayfield site on Old Kings Road south to State Road 100 has not been subdivided for residential sales, much less developed. The area was not subdivided for residential use in 1985 when the appraisal was made, some six years after the valuation date. Nor has the area been subdivided in the almost 17 years after the valuation date.

Any attempt to further explain this discrepancy is unavailing as the appraiser has discarded his file and notes and he did not reacquaint himself with these facts in preparation for the hearing. (Tr.860, 863-64). He made no

attempt to refresh his recollection or to otherwise validate his "special assumption." PCUC has accordingly failed to meet its burden.

The premises for this appraisal, then, were not adequately documented for consideration by the Commission as a reasonable appraisal to value a related party transaction.

The 1990 Appraisal

The 1990 appraisal for the RIB site suffers from a similar infirmity, among others. Despite acknowledging that a non-publicly dedicated and maintained road can be a development obstacle, (Tr. 850, 855), the appraiser nowhere discloses in his report that Old King's Road in this area is a private road. The appraiser explained in his testimony that he did not address the private road characteristics and the development costs to upgrade it in the appraisal because it was information already known to PCUC and to do so would have been redundant. (Tr.856). Yet, he found it pertinent to discuss the development hurdle of extending utilities and to price the extension from PCUC, (Comp.Ex.38, CDS-3, report at p.31), matters well within the knowledge of PCUC that, under his explanation, would not need to be in a written report addressed to PCUC.

Moreover, the appraiser actually utilized the lack of utilities (an infrastructure need for development) in assessing comparables and computing final value. (Tr. 854; Comp. Ex. 38, CDS-3, report at pp. 31-32). It was not merely

an academic reference.

Upgrading to a public road, another infrastructure development need, was plainly not considered in the appraisal, despite some vague testimony suggesting the contrary. (Tr.855). The comparables relied upon by the appraiser are on public highways -- State Road 100 and State Road 11. (Comp. Ex. 38, CDS-3, report at pp. 30, 34-37). No adjustments were made in the report due to the rib site being located off a private road.

The report is flawed by this omission. In addition, the selectivity of the comparables chosen by the appraiser further undermines the report. Despite a theme of limited sales data, the appraiser did not discuss, nor even identify other nearby sales to the subject. (Comp. Ex. 34). The appraiser attempted to rebut the omissions by analyzing the nature of the excluded sales in a late filed exhibit. (Ex. 39). On the face of the exhibit, however, five of the seven omitted sales were not researched or confirmed until after the 1990 appraisal was concluded. (Ex. 39; comparable one, for example, was not confirmed until 7/18/96).

If the appraiser could have shown at the hearing that he had in fact identified, analyzed, and based on the analysis, properly excluded the seven sales prior to the date of the appraisal report, then he could today make a more plausible argument to sustain his appraisal. But he did not, and apparently could not.

The utility, therefore, has not met its burden in

establishing reasonable appraisals so as to supplant the trended historical costs calculations.

ISSUE 7: 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, reduction of \$404,770.*

Analysis:

The trended historical costs for the RIB site and its buffer are stated and explained in audit exception number one, Comp. Ex. 30, Audit Report, and is adopted herein. This calculation should govern, especially since PCUC failed in its burden to produce reasonable appraisals.

ISSUE 8: Should an adjustment be made to the cost of the sprayfield land site purchased by the Company from its affiliates?

Position: *Yes, land should be reduced by \$268,509*

Analysis:

Again, the trended historical cost calculation should be utilized because PCUC failed in its burden. The documentation of that cost is set out in audit disclosure number one, Comp. Ex. 30, Audit Report, and is adopted herein.

ISSUE 9: Should plant in service be reduced for the misclassification of major rehabilitation projects? (Audit Exception No.3)

Position: *Adopting Public Counsel's position and discussion.*

ISSUE 10: Dropped.

ISSUE 11: Should a margin reserve be included in the calculations of used and useful?

Position: *No. A margin reserve, which is plant to be used by future customers, should not be a cost of current ratepayers. This is especially true for PCUC where it is not a simple utility-ratepayer balance of costs but a three party balance, utility-ratepayer-associated company.*

Analysis:

Florida law requires that "Each utility shall provide service to the area described in its certificate of authorization within a reasonable time." Florida Statute 367.111(1). Florida law, however, does not mandate that the current consumers finance the utility's ability to serve future customers. Apparently, FPSC policy puts the financial burden on current consumers to support plant in excess of current needs, plant to serve future consumers. Such policy should be merely a rebuttable presumption. The FPSC states in 90 FPSC 4:361: "The concept of margin reserve recognizes costs which the utility has incurred to provide service to customers in the near future." Cost related to the future, near or far, should be born by future customers, near or far! The FPSC should reconsider its position on this policy.

The policy, right or wrong, nevertheless should not be applied in those situations where the reason for the policy does not fit the reality of the situation. The rule applies to the balance between a utility and its customers. The FPSC tips this balance against the current consumers and has them, rather than the utility, bear the risk and costs of some future plant. However, in PCUC's case there is another

relationship beyond that of utility and consumer. This relationship is at least equally important. It is the relationship between the utility and its sister corporation (ICDC), a third party.

In this third party relationship the risk and cost of holding future plant was contractually allocated. This is not the simple utility-consumer relationship contemplated by FPSC's rule. PCUC's choice of plant size was based on PCUC's decision and its associated company's needs. PCUC and its associated company should bear the risk!

In Exhibit 43, an Agreement between ICDC and PCUC dated 27th June 1980, in its third WHEREAS clause, the responsibility for plant construction was clearly defined:

WHEREAS, in order to meet the financing and general requirements of certain private agencies and certain Federal, State and Local governmental agencies and to meet commitments made by the Developer [ICDC] for subdivision improvements, it is necessary that adequate water and sewage facilities and services be provided to serve the Property and to serve the occupants of each residence, building, or unit constructed or to be constructed or located on the Property....

The legal obligation to provide services to all of the consumers is spelled out in section 4, "Service to Property", pp.6-7:

A. Service Company [PCUC] acknowledges that the Developer [ICDC] has certain legal commitments and obligations to make sewer and water disposal services available to certain Platted Lots [each Residential Building Lot as platted for the record shown on the Plats ...] within the Property....

B. Service Company shall, at the request of the Developer, construct or cause to be constructed, all necessary sewage disposal and water systems and plants (and additions to existing systems and plants) necessary to provide sewage and water service to the Tracts [any Reserve

Parcels as shown on the Plats recorded as of the date of this agreement or unplatted lands within the Property] located within the property, subject however to the practical need of both Service Company and Developer to limit such requests in accordance with the physical and economic ability of Service Company to comply therewith and the needs of the Palm Coast community.

In section 6 of the contract at page 9 the financial obligation of the "Developer" to bear the cost of service to the "Tracts" is further delineated:

6. B. As to Tracts.

1. Service Company, may at its option, in order to provide the water treatment facilities and sanitary sewage treatment facilities to any tract or tracts, require Developer to design and/or install for Service Company, the necessary water distribution and sewage collection systems referred to herein, as a portion of the contribution-in-aid of construction, or may, at the Developers [sic] expense, design and install the same itself.

Another agreement was entered into between ICDC, now called the Company, and PCUC, now the utility, on 27 June 1992. (Ex. 45). Mr. Seidman, in his rebuttal cross examination, indicated that this contract superseded the earlier agreement. (Tr. 990). In section 2, "Payments by Company and Limitations Thereon," at page 2, the relationship between the company and the utility is detailed:

For a period of seven(7) years ... the Company agrees to pay the Utility an amount... which will allow Utility to recover certain of its period costs or charges with respect to Unimproved Lots in Completed Subdivisions, along with interest expense and a Return on Equity "ROE" for the Capital Investment associated with non-used facilities. Such costs shall exclude water or sewer treatment plant and shall exclude any amount which, if paid would result in double recovery by Utility. The maximum annual payments by the Company are limited to \$1,000,000 with no carryovers from year to year.

In this agreement freely entered into, PCUC has agreed to

limit any recovery for non-used and useful plant to \$1,000,000 per year. The FPSC does not give the ratepayers a similar limitation of liability. In addition, when PCUC negotiates an agreement to determine non-used and useful facilities it bases its conclusion on unimproved lots not ERCs as PCUC's witnesses would have the FPSC use. When it is to PCUC's sister company's advantage, PCUC agrees to limits and lots. When it comes to ratepayers, PCUC insists on margin reserve and economies of scale and ERCs.

Where the developer has the legal responsibility for the utility services, and where that developer assigns its obligation to a utility, then the rationale for margin reserve charges to be paid by water company customers no longer exists. The FPSC should acknowledge the legal contracts and obligations of this utility and its sister company and not apply an inappropriate policy.

ISSUE 12: If margin reserve is included in the calculation of used and useful, what is the appropriate margin reserve period?

Position: *None. As no margin reserve period has been proven, no margin reserve should be allowed. Conservation resulting from a large price increase may offset growth over the periods proposed.*

Analysis:

No margin reserve period has been proven by the evidence in the record. Until the burden of proof of establishing a margin reserve has been met, none should be allowed. Margin reserve is part of the used and useful calculation.

"Currently, the Commission does not have rules which set out a methodology for determining used and useful percentages. Commission staff, however, have been working with industry and the Department of Environmental Protection (DEP) and in May, 1995 issued draft rules." (Tr. 598).

Mr. Guastella stated in his Used and Useful Analysis that margin reserve for water represents an allowance for capacity which must be available to meet short term growth -- and to continually provide safe and adequate service to all customers. (Ex. 15, p.10). Mr. Guastella's margin reserve is based on a straight line trend of average ERCs for the years 1990 to 1995, except for DCDD consumption which he adjusts based on current levels of consumption. (Ex. 15, p. 10). He then trends the ERCs to year end 1995 and finally calculates a margin reserve for varying periods of time beyond that point. For this calculation to be of value two assumptions must be made. The first, the historic period chosen and the growth during that period must be valid indicators of future growth. This Commission does not merely accept historic growth trended to the future in determining the cost of equity. (FPSC Order No. PSC -95-0982-fof-ws, Aug 10, 1995). The cost of equity is also based on projected growth rates in the DCF formula and a prospective CAPM. Nor should the Commission merely accept the historic growth in customers trended to the future as the basis for the margin reserve. Nothing in the record indicates that an attempt was made to obtain projections of expected growth in Palm Coast,

except for the adjustment to DCDD's consumption. Nor was historic growth modified for the effect of higher costs of water on future consumption.

The second assumption is that the price increase will have no affect on the rate of water consumption. Mr. Guastella agreed that, "There may be some adjustment to water use based on change in price....There is some adjustment for reduction in consumption due to price, I believe, but the change is much smaller than what would be considered price elastic." (Tr. 249).

There is testimony in the record from Mr. Arnold Levy, a rate-payer, who examined his recent water company bills and determined that in one month 81% of his usage was for irrigation and on a second bill 75% was for irrigation. In addition, he testified, "My friends and neighbors in Palm Coast all agree that irrigation usage makes up the bulk of their water bills." (Tr. 82) The Company had the ability to refute or verify Mr. Levy's testimony and did neither. There is also testimony in the record that water used for irrigation is price sensitive. (Tr. 461). There is nothing in the record which would allow this Commission to determine the reasonableness of Mr. Guastella's estimate of a 7 to 8% a year rate growth rate of the water system (Tr. 268) used in his margin reserve when compared to a possible decrease in consumption resulting from a reduction in water used for irrigation.

FPSC staff's determination of margin reserve suffers

from these same deficiencies. (Tr. 601). An interesting quirk in Engineer Amaya's testimony is in the margin reserve for mains. Engineer Amaya believes that a one year margin reserve is appropriate for water mains and wastewater mains. However, she further believes that most, if not all, mains are already constructed. (Tr. 599). What purpose does margin reserve serve in this case if all the needs of future customers are already available? Why have current customers pay for the needs of future customers?

ISSUE 13: If a margin reserve is approved, should CIAC be imputed on the ERCs included in the margin reserve?

Position: *Yes. If plant needed by future customers is to be included in rate base as a margin reserve the corresponding CIAC must also be included as an offset.*

Analysis:

If FPSC, as a result of its margin reserve rule, allows the company to earn a return on plant not used and useful but included in rate base, it is irrational not to treat the margin reserve in a consistent manner. All the other plant in rate base has included its related CIAC. In this utility's case, it is irrational to include a margin reserve. That irrationality should not be compounded by excluding the CIAC related to that plant.

ISSUE 14: What is an acceptable level of unaccounted for water?

Position: *Adopting Public Counsel's Position and Discussion.*

ISSUE 15: Does PCUC have excessive unaccounted for water and,

if so, what adjustments are appropriate?

Position: *Adopting Public Counsel's Position and Discussion.*

ISSUE 16: Is there excess flushing at PCUC's water system, and if so, what adjustments are appropriate?

Position: *Adopting Public Counsel's Position and Discussion.*

ISSUE 17: What is an acceptable level of infiltration and inflow?

Position: *Adopting Public Counsel's Position and Discussion.*

ISSUE 18: Does PCUC have excessive infiltration and/or inflow and, if so, what adjustments are necessary?

Position: *Adopting Public Counsel's Position and Discussion.*

ISSUE 19: Should 20% of facility cost be automatically considered 100% used and useful because of economies of scale considerations?

Position: *No. Plant to be used by future customers should be an expense of future customers. The ratemaking process requires a consistency of time period. All income and expenses should relate to the same time. If plant not currently needed is allowed, the revenues to be attributed to that plant must also be included.*

Analysis:

An automatic inclusion in current rate base of 20% of total facility because of "economies of scale considerations" is on its face absurd if the purpose of the proposed rule is to encourage prudently sized plant or to reward utilities for constructing prudently sized plant. For example, a rapidly growing water company with a small plant would have little

incentive from this proposed rule to build an economically scaled facility. Twenty percent of a small amount is still an even smaller amount. However, a utility with a moderate growth rate and a huge plant, a result of overly optimistic estimates by its parent, already over-sized for the current consumer base, would be richly rewarded for over-construction by allowing 20% of a large dollar value of unneeded plant in rate base. In addition, there is no persuasive evidence in the record that 20% is the appropriate number.

Engineering conclusions are usually supported with data, studies, and facts that can be subjected to cross examination. In other jurisdictions, expert opinion based on belief is more normally left to rate of return witnesses and even that belief must be supported by some data in the record that can be subjected to meaningful cross examination.

If the purpose of this economy of scale rule is to allow water companies to increase consumer costs without the burden of proving the reasonableness of those costs, then the industry oriented panel that created this issue is correct. The proposal for a 20% automatic inclusion in rate base of all plant is the result of a meeting of members of the water industry, the Florida Waterworks Association, the commission staff, the DEP (Tr. 598, 617) and the silent presence of a member of the Office of Public Counsel (Tr. 634). Even PCUC's counsel had a hand in the purposed rules generated by the participants. (Tr. 264).

At this meeting Mr. Guastella apparently told the

participants "that it's usually true that it probably wouldn't be significantly different" (Tr. 264) to build a plant to operate at 80% capacity vs. one operating at 100% capacity. The consensus of industry and staff to automatically add 20% of all plant to rate base was not based on a thorough study, an in-depth analysis, nor a knowledgeable opposition. However, according to Mr. Guastella, when asked if these conclusions were based on engineering studies, he responded,

"As I indicated before, I think some things don't require the presentation of engineering studies; and I think this is obvious enough to many of them where you didn't have to give them an engineering study for them to understand what you were saying, and for them, based on simply their own experience, to know that that's correct." (Tr. 266).

When asked how much is not much lower, Mr. Guastella said, "I gave it a range of 10 to 20%." (Tr. 266). Will this Commission give all water companies a 20% gross up of rate base because

There was a consensus that the cost to build a facility at 80% of a given capacity was likely not much lower than the cost to build a facility at 100% of a given capacity? (Tr.1068).

Ms. Amaya, a participant at that meeting, apparently does not agree with Mr. Guastella's across the board economy of scale that was evidently accepted by a consensus of the industry oriented people at the meeting. Ms. Amaya responded when asked by PCUC counsel:

Q. Is it your position that Mr. Guastella's 20% economy of scale argument is perhaps unnecessary because of the

allowance of a margin reserve?

A. Again, I think you have to look at very site-specific cases. (Tr. 640).

Ms. Amaya is correct. The Commission should always look at site specific cases. What is a prudent economy of scale for one utility might be very different for another utility and may bear little or no relation to the utility's current plant. This is especially true for PCUC which, according even to Ms. Amaya with a margin reserve, parts of the water system are not even 35% used and useful and parts of the wastewater system are less than 30% used and useful. (Tr. 600, 601).

ISSUE 20: Is it appropriate to include a fire flow allowance in the calculation of the used and useful percentage for the water transmission and distribution system, supply wells, and water treatment plants?

Position: *Adopting Public Counsel's Position and Discussion.*

ISSUE 21: Is the utility's method of calculating the maximum day flow appropriate for calculating used and useful percentages for water facilities?

Position: *Adopting Public Counsel's Position and Discussion.*

ISSUE 22: Should the Commission use operating permit capacities instead of construction permit capacities for the used and useful calculations?

Position: *Adopting Public Counsel's Position and Discussion.*

ISSUE 23: What is the appropriate allowance for equalization and emergency storage in the used and useful calculation?

Position: *Adopting Public Counsel's Position and Discussion.*

ISSUE 24: Should 10% of the finished water storage be treated as retention storage?

Position: *Adopting Public Counsel's Position and Discussion.*

ISSUE 25: What are the appropriate methods for calculating the water source of supply, treatment plant, high service pumping, and storage used and useful percentages?

Position: *Adopting Public Counsel's Position and Discussion.*

ISSUE 26: What is the appropriate method for calculating the wastewater treatment plant and effluent disposal used and useful percentages?

Position: *Adopting Public Counsel's Position and Discussion.*

ISSUE 27: What is the appropriate method for calculating the water transmission and distribution system used and useful percentages?

Position: *Adopting Public Counsel's Position and Discussion.*

ISSUE 28: What is the appropriate method for calculating the wastewater collection system and pumping plant used and useful percentages?

Position: *Adopting Public Counsel's Position and Discussion.*

ISSUE 29: Should facility lands be considered 100% used and useful without detailed justification?

Position: *Adopting Public Counsel's Position and Discussion.*

ISSUE 30: 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: *Adopting Public Counsel's Position and Discussion.*

ISSUE 31: Should non-used and useful adjustments be made to general plant?

Position: *Adopting Public Counsel's Position and Discussion.*

ISSUE 32: What are the appropriate used and useful percentages?

Position: *Adopting Public Counsel's Position and Discussion.*

ISSUE 33: 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: *Adopting Public Counsel's Position and Discussion.*

ISSUE 34: Should non-used CIAC be included as a reduction to a rate base?

The parties have proposed a stipulation that non-used plant, non-used accumulated depreciation, non-used CIAC or non-used accumulated amortization of CIAC should not be included in rate base.

ISSUE 35: Dropped.

ISSUE 36: What is the proper amount of CIAC to use as a deduction from rate base?

Position: *Adopting Public Counsel's Position and Discussion.*

ISSUE 37: 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: *Adopting Public Counsel's Position and Discussion.*

ISSUE 38: Should any adjustments be made to plant in service related to percolation ponds that were taken out of service or general plant due to the Company providing operation and maintenance services to non-PCUC water and wastewater systems?

Position: *Adopting Public Counsel's Position and Discussion.*

ISSUE 39: What provision for working capital should be included in rate base?

Position: *Adopting Public Counsel's Position and Discussion.*

ISSUE 40: What are the appropriate rate base amounts?

Position: *Adopting Public Counsel's Position and Discussion.*

ISSUE 41: Dropped

ISSUE 42: Should CIAC be included as a component of the cost of capital?

Position: *Adopting Public Counsel's Position and Discussion.*

ISSUE 43: Should prepaid CIAC be included in the utility's capital structure?

Position: *Adopting Public Counsel's Position and Discussion.*

ISSUE 44: What is the appropriate cost of debt?

Position: *Adopting Public Counsel's Position and Discussion.*

ISSUE 45: What are the appropriate adjustments to investment tax credits (ITCs) and their cost rate, if any, and what is the resulting balance?

The parties have proposed a stipulation that Cost-Free Investment Tax Credits should be increased by \$125,569, resulting in a year-end balance of

\$2,391,641 before reconciliation to rate base.

ISSUE 46: What is the appropriate capital structure for ratemaking purposes?

Position: *Adopting Public Counsel's Position and Discussion.*

ISSUE 47: What is the appropriate weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure for the test year?

Position: *Adopting Public Counsel's Position and Discussion.*

NET OPERATING INCOME

ISSUE 48: What are the appropriate projected number of water and wastewater bills and consumption to be used to calculate revenue for the projected test year and to calculate rates for water and wastewater service?

Position: *Adopting Public Counsel's Position and Discussion.*

ISSUE 49: Should an adjustment be made to the amount of miscellaneous revenue to be included in the 1995 projected test year?

Position: *Adopting Public Counsel's Position and Discussion.*

ISSUE 50: Should an adjustment be made to the amount of 1995 water revenue received from Hammock Dunes?

Position: *Adopting Public Counsel's Position and Discussion.*

ISSUE 51: Should adjustments be made for non-utility income and revenue recorded on the Company's books?

Position: *Adopting Public Counsel's Position and Discussion.*

ISSUE 52: Should non-used and useful adjustments to O&M

expenses be made?

Position: *Adopting Public Counsel's Position and Discussion.*

ISSUE 53: Dropped.

ISSUE 54: Dropped.

ISSUE 55: Should an adjustment be made for affiliate charges?

Position: *Adopting Public Counsel's Position and Discussion.*

ISSUE 56: Should any adjustments be made to true-up the 6-months of budgeted test year expenses to actual?

Position: *Adopting Public Counsel's Position and Discussion.*

ISSUE 57: Should an adjustment be made to personnel services expenses?

Position: *Adopting Public Counsel's Position and Discussion.*

ISSUE 58: Should the miscellaneous expense adjustment for non-recurring legal fees reflected on Dismukes Schedule 16 be made?

Position: *Adopting Public Counsel's Position and Discussion.*

ISSUE 59: Should any adjustments be made to administrative and general expenses due to the Company providing operation and maintenance services to non-PCUC water and wastewater systems, test year expenses to reflect actual expenses, test year expenses to remove expenses incurred that were associated with the divesture of PCUC, or test year legal expenses?

Position: *Adopting Public Counsel's Position and Discussion.*

ISSUE 60: What is the appropriate amount of rate case expense?

Position: *Adopting Public Counsel's Position and Discussion.*

ISSUE 60A: Dropped.

ISSUE 60B: Dropped.

ISSUE 61: Are adjustments necessary to property taxes for non-used and useful plant adjustments?

Position: *Adopting Public Counsel's Position and Discussion.*

ISSUE 62: What are the appropriate adjustments to the provision for income taxes, including the appropriate federal tax rate, the parent debt adjustment, the interest reconciliation adjustment, the ITC interest synchronization adjustment and adjustments for other NOI adjustments?

Position: *Adopting Public Counsel's Position and Discussion.*

ISSUE 63: Dropped.

ISSUE 64: What are the test year operating income amounts before any revenue increases?

Position: *Adopting Public Counsel's Position and Discussion.*

REVENUE REQUIREMENTS

ISSUE 65: What are the revenue requirements?

Position: *Adopting Public Counsel's Position and Discussion.*

RATES AND RATE STRUCTURE

ISSUE 66: In light of Section 367.0817, Florida Statutes, should any revenue requirement associated with reuse be allocated to the water customers of PCUC?

Position: *Adopting Public Counsel's Position and

Discussion.*

ISSUE 67: Should a new class of effluent service be approved and, is so, what are the appropriate rates, if any, for effluent service?

Position: *Adopting Public Counsel's Position and Discussion.*

ISSUE 68: What is the appropriate bulk water rate for PCUC?

Position: *Adopting Public Counsel's Position and Discussion.*

ISSUE 69: What are the appropriate water and wastewater service rates for PCUC?

Position: *Adopting Public Counsel's Position and Discussion.*

ISSUE 70: What are the appropriate amounts 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: *Adopting Public Counsel's Position and Discussion.*

ISSUE 71: 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?

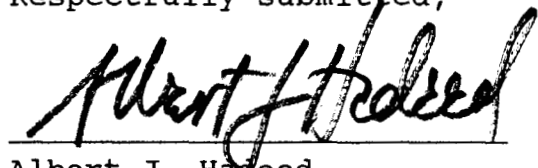
Position: *Adopting Public Counsel's Position and Discussion.*

OTHER OR MISCELLANEOUS ISSUES

ISSUE 72: What are the appropriate annual and monthly discounted rates, and the effective date for AFUDC?

Position: *Adopting Public Counsel's Position and Discussion.*

Respectfully submitted,

A handwritten signature in black ink, reading "Albert J. Hadeed". The signature is written in a cursive style and is positioned above a horizontal line.

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CERTIFICATE OF SERVICE

I certify that a copy of the foregoing has been furnished to those listed below on this 12th day of August, 1996, by U.S. mail.

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