

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for increase) DOCKET NO. 960229-WS
 in rates and service)
 availability charges in Lee)
 County by Gulf Utility Company)
 _____)
 In Re: Investigation of rates) DOCKET NO. 960234-WS
 of Gulf Utility Company in Lee)
 County for possible overearnings) FILED: January 13, 1997
 _____)

COMMISSION STAFF'S PREHEARING STATEMENT

Pursuant to Order No. PSC-96-1178-PCO-WS, issued September 20, 1996, the Commission staff (staff) files its prehearing statement as follows:

A. All Known Witnesses

Staff intends to call the following witnesses:

William D. Allen of the Department of Health and Rehabilitative Services (HRS). He will testify as to quality of service and regulatory compliance.

Andrew Barienbrock of the Florida Department of Environmental Protection (DEP). He will testify as to quality of service and regulatory compliance.

Thomas M. Beard of San Carlos Park Fire Protection and Rescue Service District. He will testify regarding Gulf Utility Company's capacity fire flow.

Kathy L. Welch of the Florida Public Service Commission (FPSC) Division of Auditing and Financial Analysis. She will testify as to the Staff audit report.

Edith H. Xanders, of the Florida Public Service Commission (FPSC). She will testify as to the appropriateness of a reuse rate for Gulf Utility Company.

William T. Rendell, of the Florida Public Service Commission (FPSC). He will testify on annualized operating revenues and contributed property.

- ACK _____
- AFA _____
- APP _____
- CAF _____
- CMU _____
- CTR _____
- EAG _____
- LEG _____
- LIN 3
- OPC _____
- RCH _____
- SEC 1
- WAS _____
- OTH _____

DOCUMENT NUMBER-DATE

00397 JAN 13 97

FPSC-RECORDS/REPORTING

William Scott Burns, of the South Florida Water Management District (SFWMD). He will testify on the SFWMD's reuse policy.

B. All Known Exhibits

Staff intends to sponsor the following exhibits:

- WTR-1: Agreements filed with the FPSC between Caloosa Group and Gulf Utility Company
- WTR-2: Unanimous written consent to resolutions by the Board of Directors of Gulf Utility Company
- WTR-3: Gulf Utility Company approved water and wastewater service availability tariffs
- TMB-1: Section 12 of the Lee County Development Order
- KLW-1: Staff Audit Report
- EHX-1 Summary of reuse rates
- EHX-2 Responses to reuse rate survey

Staff reserves the right to identify additional exhibits at the Prehearing Conference and at hearing for purposes of cross-examination.

C. Staff's Statement of Basic Position

The information gathered through discovery and prefiled testimony indicates, at this point, that the utility is entitled to some level of increase for its water and wastewater facilities, and a decrease for its water facilities. The specific level increase or decrease cannot be determined until the evidence presented at hearing is analyzed.

D. Staff's Issues and Positions

The following are issues identified by staff and its positions on these issues. Non-testifying staff's positions are preliminary and are based on materials filed by the parties or obtained through discovery. Staff's final

positions will be based upon an analysis of the evidence presented at the hearing.

QUALITY OF SERVICE

ISSUE 1: Is the quality of service provided by Gulf Utility Company satisfactory?

POSITION: No position pending further development of the record. (Allen, Barienbrock)

ISSUE 2: Does the utility provide adequate fire flow to its entire certificated area?

POSITION: According to Staff witness Beard, Gulf does not have adequate fire flow. Staff, however, has no position pending further development of the record. (Beard)

RATE BASE

ISSUE 3: Are adjustments necessary to correct the 13-month average balance of wastewater plant reported in the MFRs (Audit Exception 4)

POSITION: Yes. Wastewater plant in service should be reduced by \$2,265. (Welch)

ISSUE 4: Has the utility properly reflected all rate base, cost of capital, billing determinants, revenue and expense components related to the Florida Gulf Coast University (FGCU)?

POSITION: No position pending further development of the record.

ISSUE 5: Is there excessive unaccounted for water, and if so, what adjustments are necessary?

POSITION: No position pending further development of the record.

ISSUE 6: Is there excessive inflow and infiltration, and if so, what adjustments are necessary?

POSITION: No position pending further development of the record.

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ISSUE 7: Should a margin reserve be allowed for the water system, and if so, what amount?

POSITION: No position pending further development of the record.

ISSUE 8: Should a margin reserve be allowed for the wastewater system, and if so, what amount?

POSITION: No position pending further development of the record.

ISSUE 9: Should fire flow be included in the used and useful calculations for the water treatment plants?

POSITION: No position pending further development of the record.

ISSUE 10: What are the appropriate used and useful percentages for the water treatment plant?

POSITION: No position pending further development of the record.

ISSUE 11: What are the appropriate used and useful percentages for the wastewater treatment plant?

POSITION: No position pending further development of the record.

ISSUE 12: What are the appropriate used and useful percentages for the water distribution system?

POSITION: No position pending further development of the record.

ISSUE 13: What are the appropriate used and useful percentages for the wastewater collection system?

POSITION: No position pending further development of the record.

ISSUE 14: Are adjustments necessary to increase CIAC and decrease equity for lines built for the Caloosa Group (Audit Disclosure 1)?

POSITION: Yes. CIAC should be increased by \$68,114 for water and \$92,815 for wastewater. Equity should be decreased by

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\$160,929. Accumulated Amortization of CIAC should be increased by \$10,855 for water and \$14,145 for wastewater. Test year amortization should be increased by \$2,106 and \$2,755 for water and wastewater, respectively. (Welch, Rendell)

ISSUE 15: Are any adjustments necessary to the utility's CIAC projected additions for the 1996 test year (Audit Disclosure 7)?

POSITION: Yes. If any adjustments are made to change the test year ERCs, corresponding adjustments should also be made to the amount of CIAC projected for plant capacity charges included in rate base. Also, the plant capacity charges projected for FGCU should be determined using the Commission approved charges approved in this case, since those rates will be in effect at the time FGCU connects to the system. Corresponding adjustments would also be made to accumulated amortization of CIAC and test year amortization. The amounts are subject to the resolution of other issues and dependent upon further development of the record. (Welch)

ISSUE 16: Are adjustments necessary to reflect prepaid CIAC as used and useful in rate base? (Audit Disclosure 8)

POSITION: Yes. Prepaid CIAC, which relates to plant constructed and included as used and useful in rate base, should be appropriately matched and included in rate base. CIAC should be increased by \$379,319 for water and \$207,304 for wastewater.

ISSUE 17: Should CIAC be imputed on margin reserve, and if so, what amount?

POSITION: If a margin reserve is allowed, CIAC should be recognized in rate base as a matching provision, since most of the ERCs included in the margin reserve have prepaid CIAC.

ISSUE 18: Should funds to be received by the utility from the South Florida Water Management District pursuant to its Alternate Water Supply Grants Program be reflected in

rate base and how should it be recorded on the utility's books?

POSITION: If the plant costs related to this grant have been included in projected rate base, then this grant should also be included in rate base as CIAC. Regardless of the ratemaking treatment followed in this rate case, the grant should be recorded as CIAC on the utility's books when received.

ISSUE 19: Are adjustments necessary to Accumulated Amortisation of CIAC to amortize cash contributions using yearly composite rates? (Audit Exception 2)

POSITION: Yes. Accumulated amortization of CIAC should be decreased by \$115,371 for water and \$98,456 for wastewater. Test year amortization of CIAC should be increased by \$12,967 for water and decreased by \$7,329 for wastewater. (Welch)

ISSUE 20: Should unamortized debt discount and issuance expense be included in the working capital calculation (Audit Exception 5)

POSITION: No. This account is already included in determining the cost of debt in the cost of capital. Including this amount in working capital would double count this amount. Working capital should be reduced by \$389,922. (Welch)

ISSUE 21: Is an adjustment necessary to the projected balance of accrued interest for the Industrial Development Revenue Bonds (IDRBs) included in the working capital calculation? (Audit Exception 5)

POSITION: Yes, working capital should be decreased by \$30,494 to adjust the projected balance of accrued IDRB interest. (Welch)

ISSUE 22: Should interest receivable be included in the working capital calculation? (Audit Exception 5)

POSITION: No. This account should only be included if the related interest income is included in test year

revenues. Working capital should be decreased by \$78,031. (Welch)

ISSUE 23: Are any other adjustments necessary to Gulf's working capital projections?

POSITION: Yes, however, no position pending further development of the record.

ISSUE 24: What is the appropriate allowance for working capital?

POSITION: The final amount depends upon the resolution of other issues.

ISSUE 25: What are the appropriate rate base amounts?

POSITION: The appropriate rate base amounts are dependent upon the resolution of other issues.

COST OF CAPITAL

ISSUE 26: What is the appropriate cost rate for common equity?

POSITION: The cost of common equity capital should be determined using the leverage formula in effect at the time of the Commission decision in this case.

ISSUE 27: What is the amount of credit deferred income taxes that should be included in the capital structure?

POSITION: No position at this time pending further development of the record.

ISSUE 28: What is the appropriate weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure for the 1996 projected test year?

POSITION: The determination of the weighted average cost of capital is dependent upon the resolution of other cost of capital issues.

NET OPERATING INCOME

ISSUE 29: What are the appropriate number of water and wastewater ERCs and consumption for the historical year ending December 31, 1995?

POSITION: No position pending further development of the record.

ISSUE 30: What is the appropriate method of forecasting ERCs and consumption for the projected test year ending December 31, 1996, and what are the resulting projected number of water and wastewater ERCs and consumption?

POSITION: No position at this time pending further discovery and development of the record.

ISSUE 31: What are the appropriate water and wastewater gallonage projections for FGCU for the 1996 projected test year?

POSITION: No position at this time pending further discovery and development of the record.

ISSUE 32: What adjustments, if any, are necessary to the 1996 projected test year revenues to reflect the appropriate number of water and wastewater ERCs and consumption?

POSITION: No position at this time pending further discovery and further development of the record.

ISSUE 33: What adjustments, if any, are necessary to the 1996 projected test year revenues to reflect the appropriate miscellaneous service revenues?

POSITION: No position at this time pending further discovery and further development of the record.

ISSUE 34: Are any adjustments necessary to the projected test year salaries, benefits and payroll taxes for employees that provide services to both Gulf and the Caloosa Group (Audit Disclosure 3)?

POSITION: Yes. Gulf's salaries should be decreased to charge the same hourly rate to shared employees. Further adjustments should also be made to reflect these allocations to employee benefits and payroll taxes. The dollar amounts are subject to the resolution of other issues. (Welch)

ISSUE 35: Are any adjustments necessary to the vice president's salary and benefits (Audit Disclosure 13)?

POSITION: Some adjustment may be necessary, since the utility failed to document the number of hours that the vice president spends working on utility related matters. (Welch)

ISSUE 36: Is the annual lease amount, including maintenance expenses, charged to Gulf by Caloosa Group reasonable and what if any adjustments are necessary (Audit Disclosure 4)?

POSITION: Some adjustment may be necessary, depending upon further development of the record. (Welch)

ISSUE 37: Are adjustments necessary to allocate additional administrative and general expenses to the Caloosa Group (Audit Disclosure 3)?

POSITION: Yes. Adjustments are necessary to allocate rent, office supplies, miscellaneous business and administrative expenses, vehicle expenses and computer depreciation to Caloosa for shared services.

ISSUE 38: Are any adjustments necessary to Gulf's requested level of directors' fees (Audit Disclosure 2)?

POSITION: Some adjustment may be necessary, since some directors do not consistently attend the directors' meetings.

ISSUE 39: Are adjustments necessary to remove charitable contributions from operation and maintenance expenses (Audit Exception 3)?

POSITION: Yes. Water and wastewater miscellaneous expenses should be reduced by \$1,269 and \$640, respectively. (Welch)

ISSUE 40: Are adjustments necessary to remove amortization of the San Carlos water line project (Audit Disclosure 5)?

POSITION: Yes. These costs have not been abandoned and should be removed from test year amortization until the project is added to plant or fully abandoned. Test year amortization should be reduced by \$8,184. (Welch)

ISSUE 41: Is an annual customer satisfaction survey necessary, and what, if any, adjustments are appropriate to test year expenses (Audit Disclosure 10)?

POSITION: If the Commission determines that the survey is not necessary on an annual basis, the cost should be amortized over the appropriate time frame. Any adjustment will be based on further development of the record. (Welch)

ISSUE 42: Are adjustments necessary to remove expensed costs related to preliminary survey charges for FCGU (Audit Disclosure 11)?

POSITION: Yes, Contractual Services-Engineering should be reduced by \$1,029 for water and \$310 for wastewater and recorded in construction work in progress. (Welch)

ISSUE 43: Are adjustments necessary to remove local business and entertainment expenses for Gulf's president (Audit Disclosure 15)?

POSITION: No position pending further development of the record. (Welch)

ISSUE 44: Should consulting costs associated with the overearnings investigation case be considered rate case expense?

POSITION: Yes. Test year expenses should be reduced by \$4,205 for water and \$1,979 for wastewater. These costs should be included in Gulf's documentation for requested rate case expense.

ISSUE 45: What is the appropriate provision for rate case expense?

POSITION: Only prudently incurred rate case expense should be allowed. The amount is subject to further development of the record.

ISSUE 46: What adjustments are appropriate to test year depreciation expense? (Audit Exception 6)

POSITION: Adjustments are necessary to remove retirement adjustments incorrectly made and to remove depreciation expense on any additional non-used and useful plant adjustments. (Welch)

ISSUE 47: Are payroll taxes properly allocated between water and wastewater (Audit Disclosure 16)?

POSITION: No. Payroll taxes should be allocated based on the ratio of payroll costs between water and wastewater. The amounts are subject to the resolution of other issues. (Welch)

ISSUE 48: Are adjustments necessary to correctly reflect test year regulatory assessment fees (RAFs) (Audit Disclosure 16)?

POSITION: Yes. Test year RAFs should be computed to reflect 4.5% of adjusted test year revenues. (Welch)

ISSUE 49: What is the appropriate provision for income tax expense, before any rate increase for water and wastewater, respectively?

POSITION: No position at this time pending the resolution of other issues.

ISSUE 50: What is the test year operating income before any revenue increase?

POSITION: No position pending further development of the record.

REVENUE REQUIREMENT

ISSUE 51: What is the appropriate revenue requirement?

POSITION: The appropriate revenue requirement is an amount that is dependent upon the resolution of other issues.

RATES AND RATE STRUCTURE

ISSUE 52: Should private fire protection rates be calculated in accordance with Rule 25-30.465, Florida Administrative Code?

POSITION: No position pending further development of the record.

ISSUE 53: Should the public fire protection charge be continued, and if so, what is the appropriate charge?

POSITION: No position pending further development of the record.

ISSUE 54: Should the Commission determine a reuse rate in this proceeding, and if so, what is the appropriate rate?

POSITION: The Commission should determine a reuse rate in this proceeding. Staff has no position on the amount pending further development of the record. (Xanders)

ISSUE 55: Should any of the cost of reuse be allocated to water customers and recovered through water rates, and if so, at what level?

POSITION: No position pending further development of the record.

ISSUE 56: What is the appropriate master meter influent service rate?

POSITION: No position pending further development of the record.

ISSUE 57: What are the appropriate water and wastewater rates?

POSITION: The final rates are dependent upon the resolution of other issues.

ISSUE 58: 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: The appropriate amount is subject to the resolution of other issues.

ISSUE 59: In determining whether any water revenues held subject to refund and any portion of the interim wastewater increase granted should be refunded, how should the refunds be calculated, and what is the amount of the refund, if any?

POSITION: For both water and wastewater refund purposes, the final revenue requirements should be adjusted to remove any ratemaking components which were not in service or not incurred during the time interim rates were in effect. These adjusted revenue requirements should be compared to the adjusted test year revenues to determine whether any refund should be ordered. The water test year revenues should be annualized for the two time periods using the rates prior to the water interim rate reduction and the rates subsequent to the water interim rate reduction. The appropriate amounts of any possible refunds are subject to the resolution of other issues. (Rendell)

SERVICE AVAILABILITY

ISSUE 60: Should the utility's tariff filing to modify its service availability charges be approved as filed?

POSITION: No position pending further development of the record.

OTHER ISSUES

ISSUE 61: Should an Allowance for Funds Used During Construction (AFUDC) rate be approved, and if so, what is the appropriate monthly discounted rate and effective date?

POSITION: An AFUDC rate should be approved based on Rule 25-30.116, Florida Administrative Code. The rate calculation will be dependent upon the overall cost of capital approved in this docket. The rate should be effective January 1, 1997.

ISSUE 62: Should the special service availability agreement dated December 12, 1996 between Gulf and the Board of Trustees of the Internal Improvement Trust Fund of the State of Florida (FGCU) be approved as filed?

POSITION: No position pending further development of the record.

E. Stipulated Issues

There are no issues that have been stipulated at this time.

F. Pending Matters

Gulf's Objections to Citizen's Fourth Set of Interrogatories, filed on December 18, 1996.

G. Requirements That Cannot Be Complied With

There are no requirements of Order No. PSC-96-1178-PCO-WS, that cannot be complied with at this time.



MARGARET E. O'SULLIVAN, Staff Counsel

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that the original certificate of Staff's Prehearing Statement, has been furnished to Kenneth Gatlin, Esquire, Gatlin, Schiefelbein & Cowdery, P.A., 1709-D Mahan Drive, Tallahassee, Florida 32308, and a copy has been furnished to the following by U.S. Mail this 13th day of January, 1997:

Steve Reilly, Esquire
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c/o The Florida Legislature
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Tallahassee, FL, 32399-1400



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