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September 20, 2010

BY HAND DELIVERY

Florida Public Service Commission
Ann Cole, Commission Clerk
Office of Commission Clerk
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

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10 SEP 20 PM 4: 28
COMMISSION
CLERK

Re: Docket No. 100104-WU – In Re: Application for increase in water rates in Franklin County by Water Management Services, Inc. – Pre-hearing Statement

Dear Ms. Cole:

Enclosed for filing in the above referenced docket on behalf of Water Management Services, Inc. (“WMSI”) are the original and seven (7) copies each of WMSI’s prehearing statement.

Please acknowledge receipt of this documents by stamping the extra copy of this letter “filed” and returning the copy to me.

Thank you for assistance with this filing.

Sincerely,


Lisa C. Scoles, Esq.

Enclosures

cc: Joseph McGlothlin, Office of Public Counsel
Ralph Jaeger/Erik Saylor, Office of the General Counsel

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DOCUMENT NUMBER DATE
7866 SEP 20 0
FPSC-COMMISSION CLERK

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for increase in water)
rates in Franklin County by Water)
Management Services, Inc.)

Docket No. 100104-WU

Filed: September 20, 2010

WATER MANAGEMENT SERVICES, INC.'S
PREHEARING STATEMENT

Water Management Services, Inc., (“WMSI” or the “Utility”), pursuant to Order No. PSC-10-0449-PCO-WU, as revised by Order No.PSC-10-0549-PCO-WU, and Rule 64B-1.009, Florida Administrative Code (“F.A.C.”), files its Prehearing Statement in the above-captioned docket, and states:

(1) WMSI Witnesses

WMSI intends to call the following witnesses:

| Witness Name/Title | Subject | Issues |
|--|---|--|
| Gene D. Brown, President/CEO, WMSI | Quality of service, used and useful, general overview, management of utility, proposed capital improvements, wastewater certificate, non-utility activities/expenses, shallow wells, rate base, various adjustments, plant in service, cost of capital, rates and charges, customer deposits, employee travel records, audit findings and rates and charges | 1-11, 13-14, 18-19, 21-24, 26-28, 30, 32, 34-35, 39, 43-44 and 48-51 |
| Frank Seidman, President, Management and Regulatory Consultants, Inc. | Used and useful, rate base, various adjustments, plant in service, proposed capital improvements, working capital, cost of capital, wastewater certificate, depreciation, calculation of WMSI's proposed rates, audit findings and rates and charges | 2, 5-22, 24-27, 29, 31-42, 44-46 and 51 |
| Michael A. Scibelli, P.E. Associate Vice President, PBS&J | Proposed capital improvements, expenses for engineering services, shallow wells and wastewater certificate | 9, 21 and 34 |
| Barbara S. Withers, CPA Barbara S. Withers CPA firm | Expenses for accounting services, transportation expenses and non-utility activities/expenses | 22, 27 and 50 |

DOCUMENT NUMBER-DATE

07866 SEP 20 10

FPSC-COMMUNICATIONS

WMSI reserves the right to present additional witnesses, to address issues which have not been previously raised by the parties, the Public Service Commission (“Commission” or “PSC”) Staff, or the Commission.

(2) Exhibits

WMSI will sponsor as exhibits the original “Application for interim and permanent increase in rates and charges and increased service availability charges” with all attachments thereto including, but not limited to, the Minimum Filing Requirements (“MFRs”), along with all exhibits prefiled with its direct and rebuttal testimony. A listing of all other known exhibits that WMSI intends to sponsor at this time are:

| Witness | Exhibit | Description |
|----------------|----------------|--|
| Gene D. Brown | GB-1 | WMSI Cash Exchanges for 2008, 2009 and 2010 |
| | GB-2 | WMSI’s 2009 Tax Return |
| | GB-3 | WMSI’s Comparative Income Statement for the eight months ending August 31, 2010 |
| | GB-4 | August 24, 2010 memo from Gene Brown to Mike Scibelli regarding engineering services |
| | GB-5 | Comparison of Salary and Wages 2009 to 2008 |
| | GB-6 | Emails between Angela Chelette and Les Thomas regarding wells on St. George Island (July 14-15, 2005) |
| | GB-7 | Emails between Angela Chelette, Les Thomas and others regarding shallow wells on St. George Island, June-July 2005 |
| | GB-8 | Emails between Angela Chelette and Gene Brown regarding shallow wells on St. George Island (July-August 2005) |
| | GB-9 | August 13, 2007 letter from Nita Molsbee to Tom Brown regarding shallow wells on St. George Island, including attachments |
| | GB-10 | Information on wells on St. George Island, located by the Northwest Florida Water Management District (NFWMD) personnel |
| | GB-11 | Petition for administrative hearing filed by Leisure Properties and WMSI against NFWMD |
| | GB-12 | December 30, 2009 letter from Angela Chelette to Vicky Baker, Small Business Regulatory Advisory Committee regarding proposed Rule 40A-2.051, F.A.C. |
| | GB-13 | Technical Memorandum to NFWMD from GeoTrans, Inc. regarding analysis of potential groundwater development on St. George Island |

| Witness | Exhibit | Description |
|---------------------|----------------|--|
| | GB-14 | Rule 40A-2.051, F.A.C. |
| | GB-15 | Chart of wells on St. George Island located by WMSI personnel |
| | GB-16 | Newspaper Article entitled "Rules eased for shallow wells along the coast," that appeared in the December 24, 2009 edition of the <u>Apalachicola Times</u> |
| Frank Seidman | FS-1 | Summary of Mr. Seidman's education and experience |
| | FS-2 | MFRs, Volumes I-III |
| | FS-3 | Schedules Supporting the Request to Revise the Service Availability Charges |
| | FS-4 | Comparison of Salary and Wages 2009 to 2008 |
| Michael A. Scibelli | MS-1 | Summary of Mr. Scibelli's education and experience |
| | MS-2 | PBS&J's evaluation of WMSI's water system |
| | MS-3 | An addendum to PBS&J's evaluation of WMSI's water system |
| Barbara S. Withers | BSW-1 | Summary of Ms. Withers' education and experience |
| | BSW-2 | WMSI Cash Exchanges for 2008, 2009 and 2010 |
| | BSW-3 | Accounting Policies & Procedures Manual |
| | BSW-4 | Composite Exhibit of computation of hours spent by Ms. Withers and her staff, resumes of staff, and statement showing the amounts billed WMSI and the amounts paid in 2010 |

WMSI may utilize other documents as exhibits at the time of hearing, either during cross examination or as further impeachment or rebuttal exhibits, and the precise identification of such documents cannot be determined at this time.

(3) WMSI's Statement of Basic Position

WMSI operates a water utility on St. George Island in Franklin County, Florida. The Utility's last full blown rate proceeding was in 1994. In 2000, WMSI filed a petition for a limited proceeding for an increase in water rates to cover the cost of building a new water supply

main to connect to its wells on the mainland, which was necessitated by the Department of Transportation's demolition of the existing bridge from the mainland to St. George Island, to which WMSI's water main was attached. The Commission issued an order regarding the final revenue requirement and an inverted block rate structure for WMSI's rates in November 2005.

In recent years, the Utility has faced many challenges. The Utility has experienced decreased consumption and declining revenues, which are due, in large part, to the increase of shallow wells on St. George Island, in combination with the inverted rate structure. The economic downturn's negative impact on tourism in Florida and on visitors to St. George Island has also contributed. In addition, WMSI has had increased Operations and Maintenance expenses due to the aging infrastructure of its system, much of which was constructed over 30 years ago. Capital improvements to WMSI's aging infrastructure are needed. WMSI is requesting that the Commission recognize the need for the improvement projects, in order for the Utility to secure financing, and issue an order to set Phase I rate based on WMSI's cost of service without the improvement projects, leave the docket open to set Phase II rates based on bids and documented estimates for completing the improvement projects, and set Phase III rates based upon a true-up of actual costs. Finally, the Utility has continued to provide limited fire protection on the Island, although it is not compensated for doing so.

The decision to seek additional revenues was not an easy one to make and was not made lightly in the current economic environment, but it was a decision that was required in order for WMSI to be able to continue to provide reasonable, sufficient, adequate and efficient service to its customers. Using the historic year 2009 as the test year, WMSI has determined a need for increased annual water revenues in the amount of \$641,629. The rate relief request provides WMSI with the ability to continue to provide adequate and efficient service and an opportunity

to earn a fair rate of return.

In addition, WMSI requests that the Commission approve its request to increase the service availability charge and miscellaneous service charges.

(4) Issues and WMSI's Positions

QUALITY OF SERVICE

1. Is the quality of service provided by the Utility satisfactory?

WMSI's Position: Yes, the quality of service provided by the Utility is satisfactory.

USED & USEFUL

2. What is the used and useful percentage of the Utility's water distribution system?

WMSI's Position: The used and useful percentage of the Utility's water distribution system is 100%.

RATE BASE

3. Should any adjustments be made to rate base regarding affiliate assets?

WMSI's Position: No. No adjustment is necessary or appropriate.

4. Should any adjustments be made to rate base for vehicles?

WMSI's Position: No. No adjustment is necessary or appropriate.

5. Should any adjustments be made to offset plant improvements related to mains in the State Park as a result of WMSI's transfer of rental rights to the elevated tower?

WMSI's Position: Yes. The balance of Account 331.4 should be reduced by \$100,000 to reflect forgiveness of cost for the state park mains project.

6. Should any further adjustments be made to test year plant-in-service balances?

WMSI's Position: No. No further adjustment is necessary or appropriate.

7. Should any adjustments be made to test year land?

WMSI's Position: Yes. The balance should be reduced by \$3,400 for survey costs associated with land previously sold.

8. What improvements, if any, has WMSI made to its water distribution system regarding fire flow that were addressed by the Commission in Orders Nos. PSC-04-0791-AS-WU, issued August 12, 2004, and PSC-05-1156-PAA-WU, issued November 21, 2005, in Docket No. 000694-WU? Do these improvements satisfy the requirements of the orders?

WMSI's Position: The Utility complied with and reported on all improvements mandated by the Commission. Yes, the improvements satisfy the requirement of the orders.

9. Should the Utility's pro forma plant additions be approved for recovery? If so, in what manner should they be approved for recovery?

WMSI's Position: Yes. The Commission should make a finding that the improvement projects will replace aging assets, improve the quality of service and improve the health, safety and reliability for the utility system, for customers and employees. The Commission should further make a finding that, when completed, the improvement projects will be 100% used and useful. The Commission should then set Phase I rates based on the Utility's cost of service without the improvement projects and leave the docket open to set Phase II rates based on the documented estimates for completing the improvement projects. Finally, the Commission should set Phase III rates based upon a true-up of actual costs to estimated costs.

10. Should any adjustments be made to test year accumulated depreciation?

WMSI's Position: Yes. The balance of Account 331.4 should be reduced by \$6,977 to reflect forgiveness of cost for the state park mains project.

11. Should any adjustments be made to test year Advances for Construction?

WMSI's Position: Yes. The only adjustment to be made is to reduce the balance by \$9,257 based on a stipulation in the previous rate case.

12. What is the appropriate working capital allowance?

WMSI's Position: The proposed working capital allowance should be reduced by the 13-month average amount of unamortized debt discount expense because it is already included in the long term debt cost rate. With this adjustment, the appropriate working capital is \$69,123.

13. What is the appropriate rate base for the December 31, 2009, test year?

WMSI's Position: The appropriate base rate is contained in the MFRs. Further, WMSI agrees to the adjustments as outlined in the Rebuttal Testimony of Gene D. Brown and Frank Seidman.

COST OF CAPITAL

14. What is the appropriate amount of customer deposits to include in the capital structure?

WMSI's Position: The appropriate amount of customer deposits to include in the capital structure is \$100,499.

15. What is the appropriate amount and cost rate for long-term debt for the test year?

WMSI's Position: The appropriate amount and cost rate for long-term debt for the test year is \$9,919,844 at 4.99%, including the proposed capital improvements and refinancing. These numbers may change when actual financing is completed. The appropriate amount, excluding the proposed capital improvements and refinancing, is \$7,768,865 at 3.79%.

16. What is the appropriate return on equity (ROE) for the test year?

WMSI's Position: The appropriate ROE for the test year is 11.30%.

17. What is the appropriate weighted average cost of capital including the proper components, amounts and cost rates associated with the capital structure for the December 31, 2009, test year?

WMSI's Position: The appropriate weighted average cost of capital is 5.01%, including the proposed capital improvements and refinancing. These numbers may change when actual financing is completed. The appropriate weighted average cost of capital is 3.85%, excluding the proposed capital improvements and refinancing.

NET OPERATING INCOME

18. Should any adjustments be made to the requested level of salaries and wages expense?

WMSI's Position: No. No adjustment is necessary or appropriate.

19. Should any adjustments be made to employee pension and benefits?

WMSI's Position: No. No adjustment is necessary or appropriate.

20. Should any adjustments be made to materials and supplies expense?

WMSI's Position: No. No adjustment is necessary or appropriate.

21. Should any adjustments be made to the requested level of Engineering Services Expense?

WMSI's Position: No. No adjustment is necessary or appropriate.

22. Should any adjustments be made to the requested level of accounting services expense?

WMSI's Position: No. No adjustment is necessary or appropriate.

23. Should any adjustments be made to the requested level of DEP refinancing costs?

WMSI's Position: No. No adjustment is necessary or appropriate.

24. Should any adjustments be made to the requested level of Contract Labor Costs?

WMSI's Position: Yes. The requested level of Contract Labor Costs should be reduced by \$1,250 to remove a portion of Mr. Garrett's expense that is no longer being incurred.

25. Should additional adjustments be made to remove out of period costs for annual report preparation fees?

WMSI's Position: Yes. An adjustment should be made to reduce the out of period costs by \$2,100 to reflect the actual cost incurred in 2009 for preparation of the 2008 Annual Report.

26. Should any adjustments be made to rental of building/real property?

WMSI's Position: No. No adjustment is necessary or appropriate.

27. Should any adjustment be made to transportation expense?

WMSI's Position: No. Although the Rebuttal Testimony of Frank Seidman indicated that the Utility would not dispute an adjustment to transportation expense, that response was made prior to having an opportunity to review staff's audit work papers related to Finding No. 6. WMSI's position is that no adjustments should be made to transportation expense.

28. Should the requested key man life insurance expense be approved?

WMSI's Position: Yes.

29. What is the appropriate amount of rate case expense?

WMSI's Position: The appropriate amount of rate case expense is contained in the MFRs.

30. Should any adjustments be made to employee training costs?

WMSI's Position: No. No adjustment is necessary or appropriate.

31. Should any further adjustments be made to miscellaneous expenses?

WMSI's Position: No. No adjustment is necessary or appropriate.

32. Should any further adjustments be made to the Utility's pro forma expenses?

WMSI's Position: No. No further adjustment is necessary or appropriate.

33. Should any adjustments be made to depreciation expense?

WMSI's Position: Yes. Depreciation expense should be reduced by \$2,326 associated with the forgiveness of cost for the state park mains project.

34. Should the company's request to recover the costs associated with the withdrawn wastewater certificate application be approved?

WMSI's Position: Yes.

35. How should the gain on sale of land and other assets be treated?

WMSI's Position: Without knowledge of what sale(s) of land or other assets is(are) referenced in this issue, WMSI cannot take a position on this issue at this time. However, WMSI has properly reported all sales of utility property and other assets on its annual reports filed with the Commission.

36. What is the test year pre-repression water operating income or loss before any revenue increase?

WMSI's Position: There is an operating loss of \$247,662.

37. What is the appropriate pre-repression revenue requirement for the December 31, 2009 test year?

WMSI's Position: The appropriate pre-repression revenue requirement is \$1,943,296.

RATES AND CHARGES

38. What are the appropriate test year billing determinants before repression?

WMSI's Position: The appropriate test year billing determinants before repression are contained in the MFRs, page 67.

39. What are the appropriate rate structures for this utility?

WMSI's Position: The appropriate rate structures are as follows: (i) for residential service, the rate structure should be the base facility charge plus a two-tier inclining block

gallage charge and (ii) for non-residential service, the rate structure should be the base facility charge plus a flat gallage charge. For both types of service, the base facility charge should recover 75% of the authorized revenue requirement.

40. Is a repression adjustment appropriate in this case, and, if so, what is the appropriate adjustment to make for this utility?

WMSI's Position: Yes. The appropriate adjustment is shown in the MFRs, page 68.

41. What are the appropriate rates for this utility?

WMSI's Position: The appropriate rates for this utility are those presented in the MFRs, page 66, with adjustments for the impact of any specific adjustments agreed to by the Utility.

42. Should the Utility be authorized to revise its miscellaneous service charges, and, if so, what are the appropriate charges?

WMSI's Position: Yes. The appropriate charges are shown in the MFRs, page 70.

43. Are the procedures and charges imposed by WMSI when an existing customer disconnects and/or a new customer reconnects in an existing service location appropriate? If not, how should the tariff provisions governing these activities be modified?

WMSI's Position: Yes, the procedures and charges imposed by WMSI when an existing customer disconnect and/or a new customer reconnects in an existing service location are appropriate.

44. 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?

WMSI's Position: There should be no interim refunds.

45. 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, F.S.?

WMSI's Position: This is a fall out calculation based on adjustments to revenue requirements and the appropriate rate case expense.

46. What are the appropriate service availability charges for WMSI?

WMSI's Position: The appropriate service availability charges are set forth in Frank Seidman's Exhibit FS-3, Schedule SAC-1, page 1, and SAC-8.

OTHER ISSUES

47. Should the Utility be required to provide proof that it has adjusted its books for all Commission approved adjustments?

WMSI's Position: Yes, the Utility should be required to provide proof that it has adjusted its books for all Commission approved adjustments in this case.

48. Has the Utility failed to return customer deposits in compliance with the refund procedures stated in Rule 25-30.311(5), Florida Administrative Code, and if so, what amount of customer deposits shall the Utility be required to refund?

WMSI's Position: No, the Utility has not failed to return customer deposits in compliance with the refund procedures stated in Rule 25-30.311(5), F.A.C.

49. Did the Utility fail to maintain field employee travel records pursuant to Order No. PSC-94-1383-FOF-WU? If so, should the Utility be ordered to show cause why it failed to maintain field employee travel records pursuant to Order No. PSC-94-1383-FOF-WU, issued November 14, 1994?

WMSI's Position: No. The Utility has not failed to maintain field employee travel records pursuant to Order No. PSC-94-1383-FOF-WU and the Utility should not be ordered to show cause why it failed to maintain field employee travel records.

50. OPC - Based on the evidence of this case, and pursuant to Section 367.121(1)(i), F.S., should the Commission find that WMSI has required ratepayers to subsidize nonutility activities? If so, what action should the Commission take?

WMSI - Are there any non-utility expenses that the Utility is requesting be recovered through customer rates? If so, what adjustments should be made?

WMSI's Position on OPC's question – No. The Commission should not find that WMSI has required ratepayers to subsidize non-utility activities. Therefore, no action by the Commission should be taken.

WMSI's Position on the Utility's question – No. There are no non-utility expenses that are being requested be recovered through customer rates. Therefore, no adjustments should be made.

51. Should this docket be closed?

WMSI's Position: No. The docket should remain open for Phase II and Phase III, as discussed in WMSI's Position regarding Issue #9 above and in the Rebuttal Testimony of Gene D. Brown and Frank Seidman.

(5) Stipulated Issues

1. The parties have agreed that the staff witnesses need not be made available until after 11:00 a.m., on October 6, 2010, if the panel so agrees.
2. The parties agree that no used and useful adjustment for water plant facilities and storage is required.

(6) Pending Motions and Other Matter

None at this time.

(7) Pending Requests or Claims for Confidentiality

On July 7, 2010, WMSI filed a request for confidential classification concerning the 2008 litigation settlement, in response to staff's audit request for information.

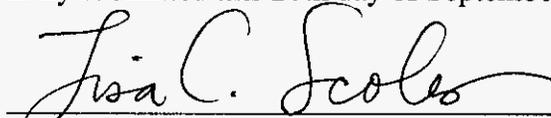
(8) Objections to Qualifications of Witnesses or as Experts

None known at this time.

(9) Requirements of Order Establishing Procedure that WMSI Cannot Comply With

None known at this time.

Respectfully submitted this 20th day of September, 2010.



LISA C. SCOLES (0017033)

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**COUNSEL FOR WATER MANAGEMENT
SERVICES, INC.**

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a copy of the foregoing has been furnished to the following by hand-delivery (*) or U.S. Mail to the following parties on this 20th day of September, 2010:

Ralph Jaeger/Erik Saylor*
Florida Public Service Commission
2540 Shumard Oak Blvd
Tallahassee, FL 32399-0850

Joseph A. McGlothlin
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111 W. Madison St., Room 812
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LISA C. SCOLES