

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for a Rate ) DOCKET NO. 920733-WS  
Increase for Silver Springs )  
Shores Division in Marion County )  
by GENERAL DEVELOPMENT )  
UTILITIES, INC. )  

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In Re: Application for a Rate ) DOCKET NO. 920734-WS  
Increase for Port LaBelle ) ORDER NO: PSC-93-0465-PHO-WS  
Division in Glades and Hendry ) ISSUED: 3/26/93  
Counties by GENERAL DEVELOPMENT )  
UTILITIES, INC. )  

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Pursuant to Notice, a Prehearing Conference was held on March 15, 1993, in Tallahassee, Florida, before Commissioner Susan F. Clark, as Prehearing Officer.

APPEARANCES:

Richard D. Melson, Esquire, and Cheryl G. Stuart, Esquire, Hopping, Boyd, Green & Sams, 123 South Calhoun Street, P.O. Box 6526, Tallahassee, Florida 32314  
On behalf of General Development Utilities, Inc.

Harold McLean, Esquire, Office of Public Counsel, c/o The Florida Legislature, 111 West Madison Street, Room 812, Tallahassee, Florida 32399-1400  
On behalf of the Citizens of the State of Florida.

Lila A. Jaber, Esquire, and Catherine Bedell, Esquire, Florida Public Service Commission, 101 E. Gaines Street, Tallahassee, Florida 32399-0863  
On behalf of the Commission Staff.

Messrs. Ray Rush and Thomas T. Hoffman, customers of Silver Springs Shores, 521 Spring Lake Road, Ocala, Florida, 34472 and P.O. Box 7004, Ocala, Florida, 34472-7004  
On their own behalf.

DOCUMENT NUMBER-DATE

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7788-RECORDS/REPORTING

A. Lamar Matthews, Esquire, and Jeanne S. Medawar, Esquire, 1777 Main Street, Suite 500, Sarasota, Florida, 34230

On behalf of the Port LaBelle Unit Four Property Homeowners Association, Inc., Laurel Oaks Village Unit Five Property Owners Association, Inc., Port LaBelle Villas Property Homeowners Association, Inc., Country Village Property Owners Association and Villas At River Run I, Condominium Association, hereinafter referred to as "POA".

### PREHEARING ORDER

#### I. CASE BACKGROUND

Prior to 1992, General Development Utilities, Inc. (GDU or utility) was a wholly owned subsidiary of the General Development Corporation (GDC). In early 1992, GDC reorganized and was renamed Atlantic Gulf Communities Corporation (AGCC). GDU is now a wholly owned subsidiary of AGCC. On September 29, 1992, GDU filed applications for general water and wastewater rate increases for two of its divisions, Silver Springs Shores and Port LaBelle. The applications, as filed, did not meet the minimum filing requirements (MFRs). On October 19, 1992, the utility completed the MFRs for both applications and that date was established as the official filing date for each division.

By Order No. PSC-92-1207-PCO-WS, issued October 12, 1992, the above-referenced dockets were consolidated for purposes of hearing. By Orders Nos. PSC-92-1165-PCO-WS and PSC-92-1168-PCO-WS, issued October 12, 1992, we acknowledged the Office of Public Counsel's (OPC) intervention. By Order No. PSC-93-0010-FOF-WS, issued January 4, 1993, this Commission suspended the utility's proposed rates and granted interim water and wastewater rate increases, subject to refund. By Order No. PSC-93-0257-PCO-WS, issued February 18, 1993, the Commission granted Messrs. Rush and Hoffman's Petition to Intervene. By Order No. PSC-93-0262-PCO-WS, issued February 18, 1993, the Commission granted POA's intervention.

On March 12, 1993, POA filed a Motion to Accept Late Filing of Prehearing Statement and a Motion to be Excused from Prehearing Conference. At the March 15, 1993, Prehearing Conference, both Motions were accepted.

The test year for the interim increase is based on the historical twelve-month period that ended December 31, 1991. A projected test year ended December 31, 1992, is used for determining the requested final rates.

An administrative hearing for these dockets has been scheduled for March 31, 1993, through April 2, 1993.

#### Silver Spring Shores

According to the MFRs, the Silver Springs Shores water system had actual operating revenues of \$478,941 and a net operating income of \$15,547 for the twelve months that ended December 31, 1991. The wastewater system had actual operating revenues of \$889,061 and a net operating income of \$118,734 for the same period. Rate base was established by Order No. 11873, issued April 21, 1983. Silver Springs Shores has had one prior rate case, Docket No. 870239-WS, which ended prior to the final hearing because the parties signed a stipulated agreement. The agreement, approved by the Commission by Order No. 18869, issued February 16, 1988, did not establish rate base for the utility.

#### Port LaBelle

According to the MFRs, the Port LaBelle water system had actual operating revenues of \$230,813 and a net loss of \$14,611 for the twelve months that ended December 31, 1991. The wastewater system had actual operating revenues of \$165,764 and a net loss of \$65,029 for the same period. The Commission granted water and wastewater certificates to Port LaBelle in February, 1990. This Commission has not previously considered Port LaBelle's rates within a full rate case. The last general rate increase was approved prior to the Commission's receiving jurisdiction from each county, Glades and Hendry.

## II. PROCEDURE FOR HANDLING CONFIDENTIAL INFORMATION

A. Any information provided pursuant to a discovery request for which proprietary confidential business information status is requested shall be treated by the Commission and the parties as confidential. The information shall be exempt from Section 119.07(1), Florida Statutes, pending a formal ruling on such

request by the Commission, or upon the return of the information to the person providing the information. If no determination of confidentiality has been made and the information has not been used in the proceeding, it shall be returned expeditiously to the person providing the information. If a determination of confidentiality has been made and the information was not entered into the record of the proceeding, it shall be returned to the person providing the information within the time periods set forth in Section 367.156, Florida Statutes.

B. It is the policy of the Florida Public Service Commission that all Commission hearings be open to the public at all times. The Commission also recognizes its obligation pursuant to Section 367.156, Florida Statutes, to protect proprietary confidential business information from disclosure outside the proceeding.

In the event it becomes necessary to use confidential information during the hearing, the following procedures will be observed:

- 1) Any party wishing to use any proprietary confidential business information, as that term is defined in Section 367.156, Florida Statutes, shall notify the Prehearing Officer and all parties of record by the time of the Prehearing Conference, or if not known at that time, no later than seven (7) days prior to the beginning of the hearing. The notice shall include a procedure to assure that the confidential nature of the information is preserved as required by statute.
- 2) Failure of any party to comply with 1) above shall be grounds to deny the party the opportunity to present evidence which is proprietary confidential business information.
- 3) When confidential information is used in the hearing, parties must have copies for the Commissioners, necessary staff, and the Court Reporter, in envelopes clearly marked with the nature of the contents. Any party wishing to examine the confidential material that is not subject to an order granting confidentiality shall be provided a copy in the same fashion as provided to the Commissioners, subject to execution of any

appropriate protective agreement with the owner of the material.

- 4) Counsel and witnesses are cautioned to avoid verbalizing confidential information in such a way that would compromise the confidential information. Therefore, confidential information should be presented by written exhibit when reasonably possible to do so.
- 5) At the conclusion of that portion of the hearing that involves confidential information, all copies of confidential exhibits shall be returned to the proffering party. If a confidential exhibit has been admitted into evidence, the copy provided to the Court Reporter shall be retained in the Commission Clerk's confidential files.

### III. PREFILED TESTIMONY AND EXHIBITS

Testimony of all witnesses to be sponsored by the parties and the Staff of this Commission (Staff) has been prefiled. All testimony which has been prefiled in this case will be inserted into the record as though read after the witness has taken the stand and affirmed the correctness of the testimony and associated exhibits. All testimony remains subject to appropriate objections. Each witness will have the opportunity to orally summarize his or her testimony at the time he or she takes the stand. Upon insertion of a witness' testimony, exhibits appended thereto may be marked for identification. After all parties and Staff have had the opportunity to object and cross-examine, the exhibit may be moved into the record. All other exhibits may be similarly identified and entered into the record at the appropriate time during the hearing.

Witnesses are reminded that, on cross-examination, responses to questions calling for a simple yes or no answer shall be so answered first, after which the witness may explain his or her answer.

IV. ORDER OF WITNESSES

<u>Witness</u>	<u>Appearing For</u>	<u>Issues #</u>
<u>Direct</u>		
Charles E. Fancher, Jr.	Utility	7, 11, 21
Deborah D. Swain	Utility	2, 11, 12, 13, 14, 20, 21, 22, 24, 25, 26, 27, 28, 29, 32, 33, 36, 39, 40, 41, 42
Thomas L. Elliott, III .	Utility	15, 16, 17, 18, 19, 30, 31
John F. Guastella	Utility	3, 4, 6, 7, 8, 9, 10, 28, 34, 35
Buddy Betschart	Utility	1
*Hugh Larkin, Jr.	OPC	3, 10, 20, 22, 23, 26, 28, 30, 31
*Roberto Ansag	Staff	
*Peter Dentice	Staff	
*Thomas Cherukara	Staff	
*James V. Grob	Staff	
Robert J. Crouch	Staff	5, 7
*Iliana H. Piedra	Staff	
*Ruth Young	Staff	
Pete Lester	Staff	16

Rebuttal

Charles E. Fancher, Jr.	Utility
Deborah D. Swain	Utility
Thomas L. Elliott, III	Utility
John F. Guastella	Utility
Buddy Betschart	Utility

\* NOTE: The testimony of these witnesses may be inserted into the record. The parties and Staff have waived cross-examination for only the witnesses identified by the asterisk.

V. BASIC POSITIONS

UTILITY: GDU is entitled to rates that will allow it the opportunity to earn a fair rate of return on property used and useful in the public service, although in Port LaBelle GDU has voluntarily requested revenues that will produce significantly less than a fair rate of return. The overall annual revenues from monthly service required to provide this opportunity for the Silver Springs Shores Division are \$881,921 (water) and \$1,623,023 (wastewater), before taking into account any stipulations made at the prehearing conference. The overall annual revenues from monthly service requested for the Port LaBelle Division are \$453,047 (water) and \$314,560 (wastewater). In addition, GDU is entitled to the establishment or adjustment of an allowance for funds prudently invested (AFPI) charge to help recover its costs of carrying prudent investments in plant that are not recovered through current charges.

OPC: The Company has overstated its ratebases for the Silver Springs Shores and Port LaBelle Divisions. Revenue requirements for these divisions are also overstated due to overprojection of expenses and the inclusion of an income tax expense. Rate case expense is excessive.

RUSH: We agree with all issues listed in the Prehearing Order dated March 15, 1993, where the Public Counsel has

indicated a position, and where they have not so indicated, we support the position of the Public Service Commission Staff with the exception of Issue 35.

POA: The utility has overstated its rate base and operating expenses for Port LaBelle. Current customers should not be saddled with paying the carrying cost of plant increment saved for potential future customers. The escrow funds need to be properly accounted for.

STAFF: Staff's positions are preliminary and based on materials filed by the parties and on discovery. The preliminary positions are offered to assist the parties in preparing for the hearing. Staff's final positions will be based upon all the evidence in the record and may differ from the preliminary positions. The information gathered through discovery and prefiled testimony indicates, at this point, that the utility is entitled to some level of increase for the Port LaBelle and Silver Springs Shores systems. The specific level cannot be determined until the evidence presented at hearing is analyzed.

## VI. ISSUES AND POSITIONS

### QUALITY OF SERVICE

ISSUE 1: Is the quality of service provided by the utility satisfactory?

### POSITIONS

UTILITY: Yes. (Betschart)

OPC: No position until completion of customer testimony at the formal hearing.

RUSH: No position until completion of customer testimony at the formal hearing.

POA: No, it appears there are questionable management practices or general lack of management in planning.

STAFF: No position pending receipt of customer testimony.

PROJECTIONS

ISSUE 2: Should GDU's projections of 1992 test year rate base, revenues and expenses be used for ratemaking purposes, or should the projections be updated based on annualizing the staff's audit of 10-month actual balances?

POSITIONS

UTILITY: GDU's projections generally are reasonable and should be used. However, for Silver Springs Shores, actual 1992 revenues, consumption, bills rendered, and related chemical, fuel and purchased power expense should be used as reflected in GDU's positions on other issues. Other individual operating expense items should not be singled out for updating to actual 1992 figures unless all significant operating expense items are similarly updated. (Swain)

OPC: Agree with Staff.

RUSH: Agree with Staff.

POA: No position.

STAFF: The utility's projected test year is appropriate after specific adjustments identified in other issues are made.

RATE BASE

ISSUE 3: Is it appropriate to include a margin reserve in the used and useful calculation, and if so, what is the appropriate amount?

POSITIONS

UTILITY: Yes. A margin reserve is necessary to adequately serve existing customers while providing for utility growth. The appropriate margin reserve is as follows, based on 18 months of projected growth:

Silver Springs Shores Water	2.8%
Silver Springs Shores Wastewater	2.9%
Port LaBelle Water	2.1%
Port LaBelle Wastewater	1.3%

(Guastella)

OPC: No. However, if the Commission allows a margin reserve, then CIAC should be imputed to recognize the contributions that will be made by the future customer associated with the margin reserve. (Larkin)

RUSH: Agree with OPC.

POA: No. However, if the Commission allows a margin reserve, then CIAC should be imputed to recognize the contributions that will be made by the future customer associated with the margin reserve.

STAFF: Yes, inclusion of a margin reserve is appropriate. No position as to the amount pending further discovery.

ISSUE 4: What is the used and useful percentage of the water distribution systems?

POSITIONS

<u>UTILITY:</u> Silver Springs Shores - transmission	100.00%
Silver Springs Shores - distribution	100.00%
Port LaBelle - transmission	50.00%
Port LaBelle - distribution	95.14%

(Guastella)

OPC: No position pending further development of the record.

RUSH: No position pending further development of the record.

POA: No position.

STAFF: The appropriate amounts are shown below:

	Port LaBelle	Silver Springs Shores
Transmission Mains	50%	100%
Distribution Mains	60%	100%
Land	100%	100%

**ISSUE 5:** What are the used and useful percentages of the water land, supply wells, the water storage facilities, and the water treatment plant?

POSITIONS

UTILITY: Silver Springs Shores

- land 100.00%
- wells/treatment plant 79.91%
- water storage 79.91%

Port LaBelle

- land 100.00%
- wells/treatment plant 100.00%
- water storage 46.39%

(Guastella)

OPC: No position pending further development of the record.

RUSH: No position pending further development of the record.

POA: No position.

STAFF: The appropriate amounts are shown below:

	Port LaBelle	Silver Springs Shores
Supply Wells	75%	NA *
Water Treatment Plant	68%	NA *
Water Storage	20%	NA *

\* For Silver Springs Shores, Staff has no position at this time pending further discovery. (Crouch)

ISSUE 6: What are the used and useful percentages of the wastewater treatment plants and effluent disposal facilities?

POSITIONS

UTILITY: Silver Springs Shores

• land	100.00%
• treatment plants	62.08%
• effluent disposal	49.67%

Port LaBelle

• land	100.00%
• treatment plants	78.00%
• effluent disposal	66.67%

(Guastella)

OPC: No position pending further development of the record.

RUSH: No position pending further development of the record.

POA: No position.

STAFF: For Port LaBelle, the used and useful percentages for the wastewater treatment plant are 67.7% used and useful. The effluent disposal system is 33.3% used and useful. For Silver Springs Shores, no position at this time pending further discovery. However, the actual 1992 flows should be used for the maximum month in the used and useful calculation.

ISSUE 7: For Silver Springs Shores, what adjustments, if any, should be made for the Perry property?

POSITIONS

UTILITY: No adjustment should be made. The purchase of the entire 600 acre Perry property in 1985 was the best alternative for complying with DER requirements relating to effluent disposal and meeting GDU's effluent disposal needs. (Guastella, Fancher)

OPC: Agree with Staff.

RUSH: Agree with Staff.

POA: No position.

STAFF: An adjustment should be made to reclassify the 273.75 acres of unused land at the Perry property as plant held for future use. The reduction to the land account (353.4) is \$826,993. (Crouch)

ISSUE 8: What are the used and useful percentages of the wastewater collection systems?

POSITIONS

UTILITY: Silver Springs Shores 100%  
Port LaBelle 100%

(Guastella)

OPC: No position pending further development of the record.

RUSH: No position pending further development of the record.

POA: No position.

STAFF: The appropriate amounts are shown below:

	Port LaBelle	Silver Springs Shores
Force Mains	95%	100%
Collection Mains	95%	100%

**ISSUE 9:** For Port LaBelle, what adjustments, if any, should be made to the wastewater treatment plant land?

POSITIONS

UTILITY: No adjustment is appropriate. (Guastella)

OPC: No position pending further development of the record.

RUSH: No position pending further development of the record.

POA: No position.

STAFF: An adjustment should be made to reclassify 34 acres of unused land at the wastewater treatment plant site as plant held for future use. The reduction to the land account (353.4) is \$18,224.

**ISSUE 10:** Should CIAC be imputed to offset margin reserve, if any, and if so, what is the appropriate CIAC charge to use?

POSITIONS

UTILITY: No. It is inappropriate to impute CIAC on margin reserve. At the end of 18 months when the original "margin reserve" customers are connected and have paid CIAC, the utility must still maintain an 18 month margin reserve for future customers on which CIAC has not been collected.

If CIAC is imputed on margin reserve, it should be based on the amounts actually collected and projected to be collected during the 18-month margin reserve period from July 1, 1992 to December 31, 1993. (Guastella)

OPC: The fees that are ultimately approved in the Company's separately docketed service availability cases now before the Commission should be used. (Larkin)

RUSH: Agree with OPC.

POA: The fees that are ultimately approved in the Company's separately docketed service availability cases now before the Commission should be used.

STAFF: Yes. In accordance with Commission policy, CIAC should be imputed if the used and useful determination includes a margin reserve. The current approved CIAC charge should be used in the imputation.

ISSUE 11: Should advances from escrow be considered prepaid CIAC, and if so, what amount if any, should be included in rate base?

POSITIONS

UTILITY: Advances from escrow should be considered as prepaid, non-used and useful CIAC. These amounts should not be used to reduce rate base until the escrow depositor has connected to the system and become a utility customer, at which time the advance from escrow is credited to CIAC and the related property becomes used and useful. (Swain, Fancher)

OPC: Agree with Staff.

RUSH: Agree with Staff.

POA: No position at this time.

STAFF: Yes, advances from escrow should be considered prepaid CIAC. Any amount of advances from escrow that exceed non-used and useful plant should be included in rate base.

ISSUE 12: Are the advances from escrow properly recorded according to the NARUC Uniform System of Accounts?

POSITIONS

UTILITY: The Uniform System of Accounts (USOA) does not have an account that is specifically applicable to advances from escrow. GDU's recording and treatment of these amounts is consistent with the principles in the USOA. (Swain)

OPC: Agree with Staff.

RUSH: Agree with Staff.

POA: No position at this time.

STAFF: No. The Uniform System of Accounts does not provide for an account entitled advances from escrow. These amounts should be recorded as a sub-account to CIAC in the same manner that prepaid CIAC is recorded.

ISSUE 13: What is the appropriate method to calculate working capital and what is the appropriate amount of working capital?

POSITIONS

UTILITY: The formula method is the appropriate method to calculate working capital. The appropriate working capital amounts are as follows:

Silver Springs Shores Water	\$54,608
Silver Springs Shores Wastewater	79,833
Port LaBelle Water	23,808
Port LaBelle Wastewater	17,123

(Swain)

OPC: The balance sheet method most accurately reflects the Company's working capital needs.

RUSH: Agree with OPC.

POA: No position.

STAFF: Working capital should be computed using the formula approach (1/8 of O&M expenses) and the appropriate amount is subject to the resolution of other issues.

ISSUE 14: What is the appropriate level of test year rate base?

POSITIONS

UTILITY: The appropriate level of projected test year rate base is as follows:

Silver Springs Shores Water	\$1,779,209
Silver Springs Shores Wastewater	4,645,740
Port LaBelle Water	2,114,443
Port LaBelle Wastewater (Swain)	1,362,947

OPC: The final dollar amount is subject to the resolution of the other issues.

RUSH: The final dollar amount is subject to the resolution of the other issues.

POA: No position.

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

COST OF CAPITAL

ISSUE 15: What is the appropriate capital structure for ratemaking purposes?

POSITIONS

UTILITY: The appropriate capital structure for ratemaking purposes is the utility's projected average capital structure for 1992, taking into account GDU's overall debt and equity, and the customer deposits, deferred income taxes, and investment tax credits applicable to each division. (Elliott)

OPC: The appropriate capital structure is the Company's capital structure before the declaration of bankruptcy.

RUSH: Agree with OPC.

POA: No position.

STAFF: A reasonable capital structure should be imputed for ratemaking purposes based on the capital structure in existence prior to GDC's bankruptcy.

ISSUE 16: What is the appropriate cost of long-term debt?

POSITIONS

UTILITY: The appropriate cost of long term debt is 10.98%, which represents the projected average cost of debt to GDU for the test year. (Elliott)

OPC: Agree with Staff.

RUSH: Agree with Staff.

POA: No position.

STAFF: The appropriate cost of long-term debt is 4.49%. (Lester)

ISSUE 17: What is the appropriate amount of accumulated deferred income taxes to be included in the capital structure?

POSITIONS

<u>UTILITY:</u>	Silver Springs Shores	\$246,872
	Port LaBelle	295,753

(Elliott)

OPC: The final dollar amount is subject to the resolution of the other issues.

RUSH: The final dollar amount is subject to the resolution of the other issues.

POA: No position.

STAFF: The final dollar amount is subject to the resolution of the other issues.

**ISSUE 18:** What is the appropriate amount of investment tax credits to be included in the capital structure?

**POSITIONS**

**UTILITY:** Silver Springs Shores \$475,624  
Port LaBelle 214,387

(Elliott)

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

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

**POA:** No position.

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

**ISSUE 19:** What is the appropriate overall cost of capital including the proper components, amounts and cost rates associated with the capital structure?

**POSITIONS**

**UTILITY:** Based on the current leverage graph, the appropriate weighted cost of capital is 9.29% for Silver Springs Shores and 8.94% for Port LaBelle. (Elliott)

**OPC:** This is a fallout number pending the decision on several issues.

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

**POA:** No position.

**STAFF:** The weighted average cost of capital should reflect only the risks associated with the provision of regulated utility service. The final overall cost of capital is contingent upon the resolution of other issues.

NET OPERATING INCOME

ISSUE 20: Is the Utility's test year provision for employee wages and compensation reasonable and, and if not, what adjustments are necessary?

POSITIONS

UTILITY: Yes, the projected test year provision for employee wages and compensation is reasonable. Wages and compensation should not be singled out for adjustment unless all significant items, including materials and supplies, are updated. However, if all items are updated, the actual 1992 amounts for employee wages and compensation are as follows:

Silver Springs Shores Water	\$182,729
Silver Springs Shores Wastewater	193,452
Port LaBelle Water	50,690
Port LaBelle Wastewater	49,063

(Swain)

OPC: No. The Silver Springs Shores salary projections should be increased by \$91 and decreased by \$100,838 for water and wastewater respectively. The Port LaBelle salary projections should be decreased by \$11,554 and increased by \$8,753 for water and wastewater respectively.  
(Larkin)

RUSH: Agree with OPC.

POA: No position.

STAFF: No position pending further development of the record.

ISSUE 21: Should a portion of GDU's president's salary be allocated to its parent company, Atlantic Gulf Communities Corporation?

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POSITIONS

UTILITY: No. (Fancher, Swain)

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OPC: Yes.

RUSH: Yes.

POA: No position.

STAFF: No position pending further development of the record.

ISSUE 22: Should payroll taxes be adjusted?

POSITIONS

UTILITY: No, they are calculated based on 7.2% of the projected test year provision for wages and compensation. (Swain)

OPC: Yes. The Silver Springs Shores projected payroll taxes should be increased by \$7 and decreased by \$7,260 for water and wastewater respectively. The Port Labelle projected payroll taxes should be decreased by \$832 and increased by \$630 for water and wastewater respectively. (Larkin)

RUSH: Agree with OPC.

POA: No position.

STAFF: No position pending further development of the record.

ISSUE 23: Should workers' compensation and group insurance be adjusted?

POSITIONS

UTILITY: No, the test year provision for workers' compensation and group insurance is reasonable. Worker's compensation and group insurance should not be singled out for adjustment unless all significant items, including materials and supplies, are updated. However, if all items are updated, the actual 1992 amounts for workers' compensation and group insurance are as follows:

<u>Workers Compensation</u>	
Silver Springs Shores Water	\$11,739
Silver Springs Shores Wastewater	15,483
Port LaBelle Water	4,490
Port LaBelle Wastewater	2,913

<u>Group Insurance</u>	
Silver Springs Shores Water	\$14,853
Silver Springs Shores Wastewater	19,591
Port LaBelle Water	5,681
Port LaBelle Wastewater	3,685

OPC: Yes. The Silver Springs Shores workers' compensation insurance should be reduced \$17,103 and \$11,640 for water and wastewater respectively. The Port LaBelle workers' compensation insurance should be reduced \$546 and \$1,521 for water and wastewater respectively. The Silver Springs Shores group insurance should be increased by \$3,198 and reduced by \$7,139 for water and wastewater, respectively. The Port LaBelle group insurance should be reduced by \$2,898 and \$891 for water and wastewater, respectively. (Larkin)

RUSH: Agree with OPC.

POA: No position.

STAFF: Workers' compensation and group insurance should be adjusted as follows:

<u>Workers' Compensation</u>		<u>Group Insurance</u>	
SSS - Water	(\$13,902)	SSS - Water	\$1,706
SSS - Wastewater	( 10,163)	SSS - Wastewater	(2,936)
PL - Water	875	PL - Water	(6,251)
PL - Wastewater	(571)	PL - Wastewater	742

ISSUE 24: What adjustments, if any, should be made to the materials and supplies accounts.

POSITIONS

UTILITY: None, the materials and supplies accounts are based on the utility's projections, and those projections are

reasonable. If certain items such as wages and compensation, group insurance, workers' compensation, and property taxes are updated to 1992 actual figures, then materials and supplies should also be updated. In that case, the appropriate amounts are as follows:

Silver Springs Shores Water	\$127,922
Silver Springs Shores Wastewater	124,232
Port LaBelle Water	26,391
Port LaBelle Wastewater	30,114

(Swain)

OPC: Agree with Staff.

RUSH: Agree with Staff.

POA: No position.

STAFF: The following adjustments should be made:

DESCRIPTION	WATER	WASTEWATER
SILVER SPRINGS SHORES		
NON-RECURRING LEGAL & LOBBYING EXP	\$(2,756)	\$(2,756)
RATE CASE EXPENSE	\$ (335)	\$ (335)
PORT LABELLE		
NON-RECURRING LEGAL & LOBBYING EXP	\$ (788)	\$ (788)
RATE CASE EXPENSE	\$ (96)	\$ (96)

ISSUE 25: Should the Company's miscellaneous expenses be adjusted?

POSITIONS

UTILITY: No. GDU's projections of 1992 test year revenues and expenses are reasonable and it is inappropriate to single out specific accounts for adjustment. (Swain)

OPC: Yes. Miscellaneous expenses for Port LaBelle should be reduced by \$563 and increased by \$39 for water and wastewater respectively. Miscellaneous expenses for Silver Springs Shores should be decreased by \$2,404 and \$876 for water and wastewater respectively.

RUSH: Agree with OPC.

POA: No position.

STAFF: No position pending further development of the record.

ISSUE 26: What is the appropriate amount of current rate case expense?

POSITIONS

UTILITY: The appropriate amount for current rate case expense, as projected in the MFRs, is as follows:

Silver Springs Shores	\$ 285,575
Port LaBelle	231,350

These amounts should be allocated between water and wastewater based on relative number of customers and amortized over four years. GDU will update its estimate of rate case expense at the time of the final hearings. (Swain)

OPC: The exact adjustment cannot be ascertained until all evidence of rate case expense is submitted by the company. (Larkin)

RUSH: Agree with OPC.

POA: No position at this time.

STAFF: The allowed provision for rate case expense should reflect actual payments and estimated completion costs to the extent they are reasonable and prudent. The utility should be ordered to submit a detailed statement of the actual rate case expense incurred within sixty days after the final order is issued, or if applicable, within sixty days after the issuance of an order entered in response

to a motion for reconsideration of such final order. The information should be submitted in the form prescribed for Schedule B-10 in the MFRs.

ISSUE 27: How should the loss on the sale of the portion of the Perry Property to the City of Ocala be treated?

POSITIONS

UTILITY: The loss should be amortized above-the-line at the rate of \$2,122 per year. (Swain)

OPC: The loss should in no way be recovered from customers by means of amortization or any other means.

RUSH: Agree with OPC.

POA: No position.

STAFF: The loss should be recognized below the line because the portion of the Perry land that was sold was not previously included in rate base.

ISSUE 28: Should property tax expense associated with non-used and useful property be adjusted?

POSITIONS

UTILITY: No. Property tax expense would be no smaller if plant had been designed to serve only existing customers. If an adjustment is made, any property tax expense determined to be non-used and useful should be used in the calculation of the allowance for funds prudently invested (AFPI). (Swain, Guastella)

OPC: Yes. Property taxes for Silver Springs Shores should be reduced by \$6,505 and \$14,645 for water and wastewater respectively. Property taxes for Port LaBelle should be reduced by \$9,920 and \$4,950 for water and wastewater respectively. (Larkin)

RUSH: Agree with OPC.

POA: Yes. Property taxes for Port LaBelle should be reduced by \$9,920 and \$4,950 for water and wastewater respectively.

STAFF: Yes. The final amount is subject to the resolution of other issues. For Silver Springs Shores, no adjustment will be made to AFPI to reflect property tax expenses related to non-used and useful adjustments. Adjustments may be necessary for Port LaBelle.

ISSUE 29: Should property taxes be adjusted to reflect actual amounts for 1992?

POSITIONS

UTILITY: No, the test year provision for property taxes is reasonable. Property taxes should not be singled out for adjustment unless all significant items are updated. (Swain)

OPC: Agree with Staff.

RUSH: Agree with Staff.

POA: No position.

STAFF: Yes. The following adjustments to property tax expense should be made:

DESCRIPTION	WATER	WASTEWATER
SILVER SPRINGS SHORES	\$(21,653)	\$ 27,219
PORT LABELLE	\$(17,389)	\$ (853)

ISSUE 30: Is a parent debt adjustment appropriate and if so, what is the adjustment amount?

POSITIONS

UTILITY: GDU believes that parent debt adjustments are not sound ratemaking policy, but recognizes that such adjustments

are called for by Rule 25-14.004. The rebuttable presumption in that rule that all sources of parent debt are available to support the parent's investment in the utility has been rebutted in this case, since much of Atlantic Gulf Communities Corporation's debt does not support the investment in GDU. The appropriate adjustment amounts under the rule are as follows:

Silver Springs Shores	\$12,366
Port LaBelle	6,444

(Elliott)

OPC: Yes. The parent debt adjustment as calculated by the Company for Silver Springs Shores should be increased by \$89,365 and \$88,299 for water and wastewater respectively. The parent debt adjustment as calculated by the Company for Port LaBelle should be increased by \$47,207 and \$45,373 for water and wastewater respectively. (Larkin)

RUSH: Agree with OPC.

POA: Yes. The parent debt adjustment as calculated by the Company for Port LaBelle should be increased by \$47,207 and \$45,373 for water and wastewater respectively.

STAFF: In accordance with Rule 25-14.004, Florida Administrative Code, a parent debt adjustment is appropriate. The final dollar amount is subject to the resolution of the other issues.

ISSUE 31: What is the appropriate amount of income tax expense to be included in the determination of rates?

POSITIONS

UTILITY: The appropriate income tax expense is the amount calculated for each division on a stand-alone basis, applying current federal and state income tax rates.  
- (Elliott)

OPC: No income tax expense should be allowed for either the Silver Springs Shores or Port LaBelle Divisions. The Company has paid no income taxes since 1987 and has loss carryforwards to offset any taxes in the near future. (Larkin)

RUSH: Agree with OPC.

POA: No income tax expense should be allowed. The Company has paid no income taxes since 1987 and has loss carryforwards to offset any taxes in the near future.

STAFF: The final dollar amount is subject to the resolution of the other issues.

ISSUE 32: What are the appropriate levels of test year operating income before any revenue increase?

POSITIONS

<u>UTILITY</u> : Silver Springs Shores Water	\$(19,072)
Silver Springs Shores Wastewater	71,950
Port LaBelle Water	(68,262)
Port LaBelle Wastewater	(65,029)

(Swain)

OPC: The final dollar amount is subject to the resolution of the other issues.

RUSH: The final dollar amount is subject to the resolution of the other issues.

POA: No position.

STAFF: The final amounts are subject to the resolution of other issues.

REVENUE REQUIREMENTS

ISSUE 33: What are the revenue requirements?

POSITIONS

UTILITY: Before any adjustment for changes in rate case expense and any stipulations, the total revenue requirements are as follows:

Silver Springs Shores Water	\$ 881,921
Silver Springs Shores Wastewater	1,623,032
Port LaBelle Water	676,558
Port LaBelle Wastewater	479,513

(Swain)

OPC: The final dollar amount is subject to the resolution of the other issues.

RUSH: The final dollar amount is subject to the resolution of the other issues.

POA: No position.

STAFF: The final amounts are subject to the resolution of other issues.

RATES AND RATE STRUCTURE

ISSUE 34: Should the Commission adopt the Utility's proposed rate structure, and, if not, what is the appropriate rate structure?

POSITIONS

UTILITY: Yes, the Commission should adopt the utility's proposed rate structure, which includes a base facility charge and usage charge for both water and wastewater, with a conservation block rate structure for water usage. (Guastella)

OPC: No position.

RUSH: Few utilities have conservation blocks. A conservation block would be a hardship on certain customers and would not apply uniformly to all customers in Silver Springs Shores.

POA: No position.

STAFF: No position pending further development of the record.

ISSUE 35: For the Silver Springs Shores Division, should private fire protection rates be approved for lines less than 4" in diameter?

POSITIONS

UTILITY: Yes. (Guastella)

OPC: No position.

RUSH: Agree with Staff.

POA: No position.

STAFF: Yes, but the tariff should specify the service is limited to sprinkler service versus hydrant service in order to insure adequate water flows.

ISSUE 36: What final rates should be authorized?

POSITIONS

UTILITY: Final rates should be designed to recover the revenue requirement determined after all stipulated adjustments have been taken into account. (Swain)

OPC: No position.

RUSH: The final dollar amount is subject to the resolution of the other issues.

POA: No position.

STAFF: The final dollar amount is subject to the resolution of the other issues.  
-

ISSUE 37: When should the final rates approved in these dockets take effect?

POSITIONS

UTILITY: The final rates should take effect for service rendered on and after the date of the Commission's vote establishing final rates, provided that the utility submits tariff sheets and proposed customer notices for approval within 5 working days after the date of the vote. Bills based on meter readings within 30 days after the date of the vote should be prorated. The effectiveness of the rates should not be delayed pending issuance of the written order.

OPC: No position.

RUSH: Agree with Staff.

POA: No position.

STAFF: The final rates should become effective for service rendered on or after the stamped approval date on the tariff sheets. The tariff sheets will be approved upon staff's verification that the tariffs are consistent with the Commission's decision, that the proposed customer notice is adequate, and that any required security has been provided.

ISSUE 38: In determining whether any portion of the interim increases granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any?

POSITIONS

UTILITY: The determination of any refund should be made in accordance with the statute governing interim rates. Absent a rule to the contrary, it is inappropriate to make any adjustments to the final revenue requirement before calculating the amount of any required refund. (Legal Issue)

-  
OPC: Agree with Staff.

RUSH: Agree with Staff.

POA: No position.

STAFF: The final revenue requirement should be adjusted for items not representative of the period interim rates were in effect before comparing the final revenue requirement with the interim revenue requirement to determine whether a refund is necessary. The amounts are subject to the resolution of other issues.

ISSUE 39: 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?

POSITIONS

UTILITY: The final dollar amount is subject to the resolution of the other issues. (Swain)

OPC: No position.

RUSH: The final dollar amount is subject to the resolution of the other issues.

POA: No position.

STAFF: The final dollar amount is subject to the resolution of the other issues.

ISSUE 40: For the Port LaBelle Division, should the utility be required to refund miscellaneous service charges collected in excess of the authorized tariff amounts?

POSITIONS

UTILITY: No, because GDU is refunding those charges totaling \$10,058.19, including interest, voluntarily when the excess charges were brought to its attention. (Swain)

OPC: No position.

RUSH: Agree with Staff.

POA: No position.

STAFF: Yes, miscellaneous service charges collected in excess of the authorized tariff amounts should be refunded.

OTHER

ISSUE 41: What are the appropriate AFPI charges which should be approved?

POSITIONS

UTILITY: The appropriate AFPI charges are those shown in the MFRs, subject to any changes in used and useful plant or other items which would affect the calculations. (Swain)

OPC: Agree with Staff.

RUSH: Agree with Staff.

POA: No position.

STAFF: For Port LaBelle water, adjustments are necessary to reflect net plant and separate charges for treatment and distribution plant. For Port LaBelle wastewater, the previously approved AFPI charge should be increased to allow the recovery of the regulatory assessment fees.

ISSUE 42: What are the appropriate AFUDC charges which should be approved?

POSITIONS

UTILITY: The appropriate AFUDC rates equal the overall cost of capital of 9.29% for Silver Springs Shores and 8.24% for Port LaBelle. (Swain)

OPC: The final amount is subject to the resolution of the other issues.  
-

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

POA: No position.

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

VII. EXHIBIT LIST

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
	GDU		Proof of notice
Charles E. Fancher	GDU	MFR Ex. 4	GDC offering statements (PL)
	GDU	MFR Ex. 4	GDC offering statements (SSS)
Deborah D. Swain	GDU	DDS-1	Testimony Presented in Various Rate Cases
	GDU	DDS-2	Response to Staff Audit Report (SSS)
	GDU	DDS-3	Response to Staff Audit Report (PL)
	GDU	DDS-4	Impact of 10-M o n t h Annualized Test Year (SSS/PL)
	GDU	DDS-5	Sale of Land to City of Ocala (SSS)

GDU	DDS-6	Impact of Property Adjustments on Projected Test Year (SSS)
GDU	DDS-7	Composite Exhibit 1992 billing analysis (SSS water and wastewater)
GDU	DDS-8	Updated rate case expense summary
GDU	MFR Ex. 1A	Rate base schedules (PL)
GDU	MFR Ex. 1B	Net operating income schedules (PL)
GDU	MFR Ex. 1E	Rate schedules and tariffs (PL)
GDU	MFR Ex. 1G	Interim rate schedules (PL)
GDU	MFR Ex. 1H	Assumptions and projections (PL)
GDU	MFR Ex. 2	Billing analysis (PL)
GDU	MFR Ex. 1A	Rate base schedules (SSS)
GDU	MFR Ex. 1B	Net operating income schedules (SSS)

	GDU	MFR Ex. 1E	Rate schedules and tariffs (SSS)
	GDU	MFR Ex. 1G	Interim rate schedules (SSS)
	GDU	MFR Ex. 1H	Assumptions and projections (SSS)
	GDU	MFR Ex. 2	B i l l i n g analysis (SSS)
Thomas L. Elliott	GDU	MFR Ex. 1C	Income tax schedules (PL)
	GDU	MFR Ex. 1D	Cost of capital schedules (PL)
	GDU	MFR Ex. 1C	Income tax schedules (SSS)
	GDU	MFR Ex. 1D	Cost of capital schedules (SSS)
John F. Guastella	GDU	MFR Ex. 1F	Engineering Schedules (PL)
	GDU	MFR Ex. 3	Used and useful study (PL)
	GDU	MFR Ex. 1F	Engineering Schedules (SSS)
	GDU	MFR Ex. 3	Used and useful study (SSS)
Buddy Betschart	GDU	MFR Ex. 5	Systems maps (PL)
	GDU	MFR Ex. 6	L i s t o f chemicals (PL)

GDU	MFR Ex. 7	C h e m i c a l analyses (PL)
GDU	MFR Ex. 8	W a t e r   a n d w a s t e w a t e r o p e r a t i n g r e p o r t s (PL)
GDU	MFR Ex. 9	S a n i t a r y s u r v e y s   a n d i n s p e c t i o n r e p o r t s (PL)
GDU	MFR Ex. 10	C o n s t r u c t i o n a n d   o p e r a t i n g p e r m i t s (PL)
GDU	MFR Ex. 11	N o t i c e s   o f v i o l a t i o n , c o n s e n t   o r d e r s , l e t t e r s   o f n o t i c e ,   a n d w a r n i n g   n o t i c e s (PL)
GDU	MFR Ex. 12	L i s t   o f e m p l o y e e s (PL)
GDU	MFR Ex. 13	L i s t   o f v e h i c l e s (PL)
GDU	MFR Ex. 14	L i s t   o f c o m p l a i n t s (PL)
GDU	MFR Ex. 5	S y s t e m s   m a p s (SSS)
GDU	MFR Ex. 6	L i s t   o f c h e m i c a l s (SSS)
GDU	MFR Ex. 7	C h e m i c a l a n a l y s e s (SSS)

	GDU	MFR Ex. 8	Water and wastewater operating reports (SSS)
	GDU	MFR Ex. 9	Sanitary surveys and inspection reports (SSS)
	GDU	MFR Ex. 10	Construction and operating permits (SSS)
	GDU	MFR Ex. 11	Notices of violation, consent orders, letters of notice, and warning notices (SSS)
	GDU	MFR Ex. 12	List of employees (SSS)
	GDU	MFR Ex. 13	List of vehicles (SSS)
	GDU	MFR Ex. 14	List of complaints (SSS)
Hugh Larkin, Jr.	OPC	HL-1	Summary of Adjustments
Robert J. Crouch	Staff	RJC-1	Letter dated February 21, 1991, indicating revenues from land.
	Staff	RJC-2	DER permit.

Iliana H. Piedra	Staff	IHP-1	Staff audit report for the Silver Springs Shores system.
	Staff	IHP-2	Staff audit report for the Port LaBelle system.
Pete Lester	Staff	PL-1	Composite exhibit consisting of four schedules: capital structure; equity ratios; debt cost calculation; and weighted average variable rates.

Parties and Staff reserve the right to identify additional exhibits for the purpose of cross-examination.

#### VIII. POSSIBLE STIPULATIONS

##### Category A

Those stipulations where OPC, the utility, Ray Rush, Thomas T. Hoffman and Staff agreed are set forth below:

1. As stated in Audit Disclosure 3 for Silver Springs Shores, water land should be increased by \$2,331. As shown in Audit Disclosure 2 for Port LaBelle, land should be reduced by \$1,665 for water and \$15,908 for wastewater, respectively.
2. For Silver Springs Shores, wastewater land should be reduced by \$22,913 to reflect a sale of a portion of the Perry Property.
3. For Silver Springs Shores the following adjustments should be made:

DESCRIPTION	WATER	WASTEWATER
PLANT	\$ 54,455	\$ 57,186
CIAC	\$(54,455)	\$(57,186)
ACCUMULATED AMORTIZATION	\$ 4,175	\$ 4,384
AMORTIZATION EXPENSE	\$ (4,175)	\$ (4,384)
DEPRECIATION EXPENSE	\$ 4,175	\$ 4,384
ACCUMULATED DEPRECIATION	\$ (4,175)	\$ (4,384)

4. For Port LaBelle, projected test year revenues should be reduced by the amount of overcollected miscellaneous service charge revenues.
5. For Silver Springs Shores, actual 1992 numbers should be used to determine the appropriate test year revenues, purchased power expense, chemical and fuel expense for water and wastewater, and should also be used for purposes of the billing analysis.
6. For Port LaBelle, an adjustment should be made to the following water and wastewater accounts to reclassify plant in service as CWIP:

	<u>WATER</u>	<u>WASTEWATER</u>
Plant	\$(65,571)	(7,100)
Acc. Depreciation	3,812	592
Depreciation Expense	(1,525)	236

7. For Port LaBelle, CIAC should be increased by \$880 for the water system and \$1,648 for the wastewater system.
8. For Silver Springs Shores, adjustments in the amounts of \$103 for wastewater and \$708 for water are necessary to remove taxes on land sold and held for future use. These adjustments are consistent with Staff Audit Exception 2, part II (a) (d) and (e).

Category B

Those stipulations where the utility, Ray Rush, Thomas T. Hoffman and Staff agreed, but OPC and POA did not take position nor participate in the stipulations are set forth below:

1. The cost of equity should be set using the leverage formula in effect at the Agenda Conference for the final order in this case. The range for the cost of equity should be plus or minus 100 basis points.
2. Private fire protection rates should be developed by dividing the approved base facility charge for the comparable meter size by 1/3.
3. Customer deposits should be increased in accordance with Rule 25-30.311, Florida Administrative Code.
4. For Port LaBelle, the proposed miscellaneous service charges should be approved. The new \$10 premises visit charge applies when a customer requests that a problem be investigated. If the problem is within the lines maintained by the customer, it should be considered a service problem identification charge and the charge should be approved.
5. For Silver Springs Shores and Port LaBelle, the residential wastewater cap should be set at 8,000 gallons.
6. The appropriate AFUDC rate should equal the weighted cost of capital and the effective date is January 1, 1993.

IX. PENDING MOTIONS

There are no pending motions at this time.

X. RULINGS

1. POA's Motion to be Excused from Prehearing Conference filed March 12, 1993 was granted.
2. POA's Motion to Accept Late Filing of Prehearing Statement filed March 12, 1993 was granted.

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It is therefore,

ORDERED by Commissioner Susan F. Clark, as Prehearing Officer, that this Prehearing Order shall govern the conduct of these proceedings as set forth above unless modified by the Commission.

By ORDER of Commissioner Susan F. Clark, as Prehearing Officer, this 26th day of March, 1993.

  
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SUSAN F. CLARK, Commissioner and  
Prehearing Officer

( S E A L )

LAJ/CB

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by this order, which is preliminary, procedural or intermediate in nature, may request: 1) reconsideration within 10 days pursuant to Rule 25-22.038(2), Florida Administrative Code, if issued by a Prehearing Officer; 2) reconsideration within 15 days pursuant to Rule 25-22.060, Florida Administrative Code, if issued by the Commission; or 3) judicial review by the Florida Supreme Court, in the case of an electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or wastewater utility. A motion for reconsideration shall be filed with the Director, Division of Records and Reporting, in the form prescribed by Rule 25-22.060, Florida Administrative Code. Judicial review of a preliminary, procedural or intermediate ruling or order is available if review of the final action will not provide an adequate remedy. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.