

ORIGINAL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for rate increase and for increase in service availability charges in Lake County by Lake Utility Services, Inc.

DOCKET NO. 960444-WU

FILED: February 15, 1999

COMMISSION STAFF'S PREHEARING STATEMENT

Pursuant to Order No. PSC-98-1622-PCO-WU, issued December 4, 1998, and Order No. PSC-97-0710-PCO-WU, issued June 16, 1997, the Commission Staff (Staff) files its prehearing statement as follows:

A. All Known Witnesses

Staff intends to call the following witnesses:

Ian J. Forbes of the Florida Public Service Commission Division of Auditing and Financial Analysis. He will testify as to the staff audit report.

Charleston J. Winston of the Florida Public Service Commission Division of Auditing and Financial Analysis. He will testify as to the staff audit report.

Patricia W. Merchant of the Florida Public Service Commission Division of Water and Wastewater. She will testify on the 1995 balance of plant, accumulated depreciation, contributions in aid of construction (CIAC), accumulated amortization of CIAC and advances for construction that should be established for Lake Utility Services, Inc. She will also testify that the utility's requested rate increase should be denied, that interim rates collected should

ACK be refunded and that rate case expense should be denied. She will
AFA 1 testify that the utility should be required to correct its books to
APP reflect witness Merchant's adjustments to year-end rate base
CAF amounts. Finally, she will testify that the utility should cease
 collecting allowance for funds prudently invested (AFPI) charges.

CMU
CTR William Troy Rendell of the Florida Public Service Commission
EAG Division of Water and Wastewater. He will testify regarding
LEG 1 calculation of rates, annualized revenues and service availability
 charges for LUSI.

LIN 3

OPC

RCR

SEC 1

WAS Willis

OTH

DOCUMENT NUMBER-DATE

01961 FEB 15 99

FPSC-RECORDS/REPORTING

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B. All Known Exhibits

Staff intends to sponsor the following exhibits:

- IJF 1: The administrative portion of and Audit Exceptions 2 through 9 of the staff audit report.
- CJW 1: Audit Exceptions 1 and 10 through 12 of the staff audit report.
- PWM 1: 1995 plant be primary account for LUSI
- PWM 2: 1995 accumulated depreciation by primary account for LUSI
- PWM 3: 1995 average and year-end rate base for LUSI
- PWM 4: 1998 estimated rate base, capital structure, net operating income and supporting schedules for LUSI
- WTR 1: Calculation of annualized revenues for year ended 1997 and 1998 for LUSI

C. Basic Position

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 hearing. Staff's positions will be based upon all the evidence in the record and may differ from the preliminary positions. Testifying staff believes that the utility's requested rate increase should be denied. The 1995 test year is outdated and unrepresentative based on the amount of customer growth and rate base erosion that has occurred since 1995. Further, the unreliability of the utility's books and records, the statutory time constraints of this case, and the material growth in customers make it impossible to establish rates based on a 1998 test year. If the Commission were to utilize either test year, the prospective rates would not be fair, just or reasonable as required by Section 367.081(2)(a), Florida Statutes.

Further, the utility should be ordered to discontinue collection of all authorized plant capacity, main extension charges and AFPI charges as of the issuance date of the final order in this proceeding. Based upon testifying staff's estimated 1998 rate

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ISSUE 4: Should the utility be required to correct its books for the 1995 balances established by the Commission at the conclusion of this case?

POSITION: Yes. The utility should be required to correct and restate its books as of December 31, 1995 to reflect the year-end adjusted balances of plant, land, accumulated depreciation, CIAC, accumulated amortization, advances for construction and acquisition adjustment. (Merchant)

ISSUE 5: What is the appropriate rate of return on equity to be established for prospective purposes?

POSITION: The rate of return on equity should be based on the Commission's leverage formula in effect at the time the Commission makes its final decision in this case. The current leverage formula was approved by the Commission in Order No. PSC-98-0903-FOF-WS, issued on July 6, 1998 and made effective by Order No. PSC-98-1434-FOF-WS, issued on October 23, 1998. Using this order, the return on equity for LUSI is 9.65%, with a range of 8.65% to 10.65%.

ISSUE 6: Should the Commission deny the utility's requested rate increase?

POSITION: Yes. The 1995 test year is outdated and unrepresentative based on the amount of customer growth and rate base erosion that has occurred since 1995. Further, the unreliability of the utility's books and records, the statutory time constraints of this case, and the material growth in customers make it impossible to establish rates based on a 1998 test year. If the Commission were to utilize either test year, the prospective rates would not be fair, just or reasonable as required by Section 367.081(2)(a), Florida Statutes. (Merchant)

ISSUE 7: What final rates should be approved?

POSITION: Final rates should be approved based on the Commission approved county-wide uniform rate structure, 1995 billing

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determinants and adjusted 1995 test year revenues prior to any increase or decrease. (Merchant, Rendell)

ISSUE 8: Is an interim refund required and, if so, what is the appropriate amount?

POSITION: All interim rates should be refunded with interest pursuant to Rule 25-30.360, Florida Administrative Code. (Merchant)

ISSUE 9: Should the utility be allowed to recover any rate case expense related to this docket in a prospective case?

POSITION: No. (Merchant)

ISSUE 10: Does the utility's 1998 CIAC level exceed the guideline level pursuant to Rule 25-30.580, Florida Administrative Code, and if so, should the utility's service availability policy be changed?

POSITION: Yes. Based on staff's estimated 1998 rate base, the utility's CIAC level, including advances for construction, is 105.51% of net plant in service. The utility should be ordered to discontinue collection of all authorized plant capacity and main extension charges as of the issuance date of the final order in this rate proceeding. The utility's tariff should be revised to reflect the elimination of these service availability charges. The utility should be allowed to continue to receive donated lines from developers pursuant to Rule 25-30.580, Florida Administrative Code. The utility should be allowed to request appropriate main extension charges and justify those amounts in a subsequent docket. (Rendell)

ISSUE 11: Should the utility be allowed to continue collecting allowance for funds prudently invested (AFPI) charges?

POSITION: No. Based on the 1998 estimated balances of plant, CIAC and advances for construction, the utility has no investment in non-used and useful or future use plant. (Merchant)

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E. Stipulated Issues

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

F. Pending Matters

OPC's Motion to Dismiss to be decided at February 16, 1999, Agenda Conference.

G. Requirements That Cannot Be Complied With

There are no requirements of Order No. PSC-98-1622-PCO-WU and Order No. Order No. PSC-97-0710-PCO-WU that cannot be complied with at this time.



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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing
COMMISSION STAFF'S PREHEARING STATEMENT has been furnished by U.S.
Mail, on this 15th day of February, 1999, to the following:

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