

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for rate)	DOCKET NO. 920199-WS
increase in Brevard, Charlotte/)	ORDER NO. PSC-92-1265-PHO-WS
Lee, Citrus, Clay, Duval,)	ISSUED: 11/04/92
Highlands, Lake, Marion,)	
Martin, Nassau, Orange,)	
Osceola, Pasco, Putnam,)	
Seminole, Volusia, and)	
Washington Counties by SOUTHERN)	
STATES UTILITIES, INC.; Collier)	
County by MARCO SHORES)	
UTILITIES (Deltona); Hernando)	
County by SPRING HILL UTILITIES)	
(Deltona); and Volusia County)	
by DELTONA LAKES UTILITIES)	
(Deltona))	

Pursuant to Notice, a Prehearing Conference was held on October 26, 1992, in Tallahassee, Florida, before Commissioner Betty Easley, as Prehearing Officer.

APPEARANCES:

KENNETH A. HOFFMAN, Esquire, FLOYD SELF Esquire, Messer, Vickers, et al., 215 South Monroe Street, First Bank Building, Suite 701, Tallahassee, Florida 32301. On behalf of Southern States Utilities, Inc.

MR. HARRY JONES, Cypress and Oak Villages of Homosassa, 91 West Cypress Boulevard, Homosassa, Florida 32646. On behalf of Cypress and Oak Villages of Homosassa

MATTHEW J. FEIL, Esquire, CATHERINE BEDELL, Esquire, Florida Public Service Commission, 101 East Gaines Street, Tallahassee, Florida 32399-0863 On behalf of the Commission Staff

CYNTHIA MILLER, Esquire, Florida Public Service Commission, 101 East Gaines Street, Tallahassee, Florida 32399-0862 On behalf of the Commissioners

DOCUMENT NUMBER-DATE

12951 NOV-4 1992

FPSC-RECORDS/REPORTING

PREHEARING ORDER

I. CASE BACKGROUND

Southern States Utilities, Inc. and Deltona Utilities, Inc. (hereinafter referred to as the Utility or SSU) are collectively a Class A water and wastewater utility operating in various counties in the State of Florida. The Utility has filed an application to increase the rates and charges for 127 of its water and wastewater systems regulated by this Commission. According to the information contained in the minimum filing requirements (MFRs), the total annual revenue for the water systems filed in this application for 1991 was \$12,319,321 and the net operating income was \$1,616,165. The total annual revenue for the wastewater systems filed in this application for 1991 was \$6,669,468 and the net operating income was \$324,177. For the systems involved in this rate application, the Utility serves a total of 75,055 water customers and 25,966 wastewater customers.

The Utility's last rate case for 34 of its water and wastewater systems was in Docket No. 900329-WS. That case was dismissed by Commission Order No. 24715, issued June 26, 1991. The First District Court of Appeal affirmed the Commission's action on July 16, 1992.

On May 11, 1992, the Utility filed its application for increased rates and charges. The MFRs were deficient. On June 17, 1992, the Utility submitted the required information, and the official date of filing was established as June 17, 1992.

In total, the Utility has requested interim rates designed to generate annual revenues of \$16,806,594 for water and \$10,270,606 for wastewater. This represents a total increase of \$3,981,192 (31.57 percent) for water and \$2,997,359 (41.22 percent) for wastewater according to the Utility's MFRs. The Utility has requested final rates designed to generate annual revenues of \$17,998,776 for water and \$10,872,112 for wastewater. This results in a total increase, according to the Utility's MFRs, of \$5,064,353 (40.16 percent) for water and \$3,601,165 (49.53 percent) for wastewater. The test year for both interim and final purposes is the historical period ended December 31, 1991.

By Order No. PSC-92-0832-FOF-WS, issued August 27, 1992, this Commission suspended the Utility's requested rates. The Utility waived the 60-day statutory period for interim rates until August

18, 1992. At Agenda on that date the Commission voted to authorize interim rates. By Order No. PSC-92-0948-FOF-WS, issued September 8, 1992, and as amended by Order No. PSC-92-0948A-FOF-WS, issued October 13, 1992, the Commission approved interim rates designed to generate annual water and wastewater revenues of \$16,347,596 and \$10,270,606, respectively.

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 364.183, 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 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>		
Arend J. Sandbulte	SSU	33, 58, 78
Bert T. Phillips	SSU	43, 65, 66, 71
Forrest L. Ludsen	SSU	7-10, 44-46, 48, 56, 60, 62, 68-70, 73, 82, 92, 93, 95, 101, 107, 108
Scott W. Vierima	SSU	14, 32, 34, 36, 37, 39, 40, 41, 47, 59, 64, 72
Charles L. Sweat	SSU	1, 2, 63, 80, 81, 88, 89, 104
Bruce Gangnon	SSU	12, 13, 38, 50-55, 84-87
Gerald C. Hartman	SSU	3-5, 16-19, 23, 26- 30
Gary S. Morse	SSU	3-5, 20, 24-30, 109
Charles K. Lewis	SSU	6, 14, 15, 21, 31, 32, 35, 49, 57, 76, 79, 90, 91, 110
Helena Loucks	SSU	42, 97-102, 105, 106

<u>Witness</u>	<u>Appearing For</u>	<u>Issues #</u>
<u>Direct</u>		
Joseph P. Cresse	SSU	93, 94, 96, 103
Harry C. Jones	COVA	17, 18, 19, 27, 28, 30, 100, 101, 102
K. H. Dismukes	OPC	4, 7, 8, 26, 44, 45, 58, 59, 60, 65, 67, 68, 71-73, 75-78, 82, 88
V. A. Montanaro	OPC	13, 50
Gregory L. Shafer	STAFF	4
John D. Williams	STAFF	92-97, 103, 104
Jerrold Chapdelaine	STAFF	5
James Todd	STAFF	Issues Related to Staff Audit
Peter Burghardt (DER)	STAFF	1
Raymond Van Loon (HRS, Volusia Cty. H. Unit)	STAFF	1
William Darling (DER)	STAFF	1
Deborah Oblaczynski (DER)	STAFF	1
William Thiel (DER)	STAFF	1
John Pope (DER)	STAFF	1
Lynal DeFalco (DER)	STAFF	1
Thomas Hamilton (HRS, Duval Cty. H. Unit)	STAFF	1
Vincent Seibold (DER)	STAFF	1

<u>Witness</u>	<u>Appearing For</u>	<u>Issues #</u>
<u>Direct</u>		
James Maher (DER)	STAFF	1
Cindy Haynie (DER)	STAFF	1
Roberto Ansag (DER)	STAFF	1
Romeo Enage (DER)	STAFF	1
Miriam Hunt-Boateng (DER)	STAFF	1
Thomas Cherukara (DER)	STAFF	1
Peter F. Dentice (DER)	STAFF	1
Harley W. Young (DER)	STAFF	1
Peter Screnock (DER)	STAFF	1
Robert Barker (DER)	STAFF	1
William C. Dunn (DER)	STAFF	1
S. A. Sequiera (DER)	STAFF	1
Robert Glenn (DER)	STAFF	1
James Grob (DER)	STAFF	1
Hossein Kadivar (DER)	STAFF	1
Gerald Foster (DER)	STAFF	1
Charles Hubsch (City of Jacksonville Reg. & Env. Services)	STAFF	1
Charles Houriet (DER)	STAFF	
Joe Squitieri (DER)	STAFF	1

<u>Witness</u>	<u>Appearing For</u>	<u>Issues #</u>
Brenda Ball (DER)	STAFF	1
Neal Schobert (DER)	STAFF	1
Robert Reining (DER)	STAFF	1
<u>Rebuttal</u>		
Arend J. Sandbulte	SSU	33, 58, 78
Bert T. Phillips	SSU	65, 66
Forrest L. Ludsen	SSU	7, 8, 44, 56, 57, 60, 68, 73, 82, 93, 95
Bruce E. Gangnon	SSU	12, 13, 50, 52, 53
Charles L. Sweat	SSU	1, 88
Gerald C. Hartman	SSU	3-5, 17-19, 26-30
Judy Kimball	SSU	22, 61, 67, 74, 75, 83
Charles E. Wood	SSU	77
Scott W. Vierima	SSU	59, 72

V. BASIC POSITIONS

SSU: Southern States filed its Application for Increased Water and Wastewater Rates ("Application") and Minimum Filing Requirements ("MFRs") on May 11, 1992. The official date of filing of the MFRs was established by the Commission as June 17, 1992.

Southern States' Application encompasses 90 water and 37 wastewater systems located in 19 counties throughout the State of Florida. These 127 systems constitute all but two of the Commission regulated water and wastewater systems operated by Southern States in Florida. The Marco Island water and wastewater systems were not

included in this Application due to the significant amount of investment in facilities placed into service following the 1991 historic test year in this docket. Southern States has filed a separate application for its Marco Island water and wastewater systems in Docket No. 920655-WS.

Southern States requests annual revenues of \$17,998,776 for water operations and annual revenues of \$10,872,112 for wastewater operations. These requests represent annual increases of \$5,064,353 for water operations and \$3,601,165 for wastewater operations based on rates in effect on the date of submission of the Application. These revenue requirements are based on a historic test year for the twelve months ended December 31, 1991. Southern States' need for rate relief is reflected by its rates of return and returns on equity for its water and wastewater systems during the historic test year. Under rates in existence during the historic test year (prior to interim rates authorized by the Commission in this docket), Southern States would experience a rate of return for the water systems of only 3.07% (a -7.07% return on equity) and a rate of return for the wastewater systems of only 1.74% (a -10.18% return on equity). These historic test year returns have been further deteriorated following the First District Court of Appeal's affirmance of the Commission's order in Docket 920399-WS and the resulting diminution of test year revenues due to the refund of interim rates approved in that docket.

The need for rate relief has resulted, in principal part, from additional investments in water and wastewater facilities and increased operations and maintenance expenses which have been incurred since rate base and rates were last established (over varying periods of time) for the 127 systems. These increases in investment in water and wastewater facilities and increased operations and maintenance expenses have been prudently incurred to meet customer growth and to comply with environmental regulations.

Southern States has an excellent history of providing sufficient, high quality water and wastewater services to its customers. Based on and following the Commission's

September 1988 Management Audit Report, numerous steps have been taken to transition Southern States from its prior management and operating practices which were reflective of those practiced by small water and wastewater utilities to a current state of highly professional management and operating departments necessary to the provision of high quality, environmentally sound water and wastewater services to the approximately 160,000 customers of Southern States. The implementation of these improved and specialized management, operating, financial, accounting, budgeting and human resources functions and procedures provide the benefits of economies of scale to Southern States' customers and are necessary to assure the long-term provision of high quality water and wastewater services which comply with ever increasing environmental requirements. Southern States' administrative and general ("A&G"), customer service and other common costs are reasonable. These costs have been pooled with the A&G, customer service and other common costs of the recently acquired Lehigh Utilities, Inc. ("Lehigh") and reallocated to all customers served by each of the systems operated by Southern States, including Lehigh, based on number of customers. The proposed allocation based on number of customers is consistent with Commission policy and precedent and reasonable since each customer receives equal benefits from these services and would thus be asked to contribute equally to the costs.

For these reasons as well as those reflected in further detail in the MFRs and testimony and exhibits of Southern States' witnesses, Southern States maintains that the requested increase in Southern States' annual revenue requirements are justified and the rates proposed by Southern States are just, reasonable and necessary to permit Southern States the opportunity to earn its requested overall rate of return of 11.57%.

COVA:

The uniqueness of Sugar Mill Woods (SMW) is what drew its residents to settle there. These same qualities are what make it impossible to arbitrarily include this development in any combined rate case filing for water and sewer services.

NASSAU: Nassau County did not file a prehearing statement and did not attend the Prehearing Conference. According to the Order Establishing Procedure, Order No. PSC-92-0638-PCO-WS, issued July 10, 1992, "Failure of a party to timely file a prehearing statement shall be waiver of any issue not raised by other parties or by the Commission. In addition, such failure shall preclude the party from presenting testimony in support of its position."

OPC: The rates proposed by Southern States Utilities, Inc. are excessive. The case presented by Southern States fails to sustain the Company's burden of proof in that it fails to show that the rates currently charged are unreasonable.

STAFF: The information gathered through discovery and prefiled testimony indicates, at this point, that the utility is entitled to some level of increase. The specific level cannot be determined until the evidence presented at hearing is analyzed.

VI. ISSUES AND POSITIONS

QUALITY OF SERVICE

ISSUES APPLYING TO MORE THAN ONE SYSTEM

ISSUE 1: Which systems have an unsatisfactory quality of service?

POSITIONS

SSU: The quality of service provided by each of the water and wastewater systems included in the docket is safe, efficient and sufficient. (Sweat)

COVA: No position.

OPC: No position at this time.

STAFF: Beecher's Point (water), Chuluota (water), Golden Terrace (water), Harmony Homes (water), Hermits Cove (water), Point O' Woods, River Park (water), University Shores (wastewater), Woodmere (wastewater), and Wootens (water).

(The Staff witnesses listed in the "Order of Witnesses" section above other than Mr.'s Shafer, Williams, Chapdelaine, and Todd will testify on this issue.)

ISSUE 2: What adjustments should be made and what corrective action should the Commission require for those systems that are not currently meeting Department of Environmental Regulation standards?

POSITIONS

SSU: No adjustments are appropriate. Southern States either is in compliance or is taking the necessary steps to achieve compliance with all DER standards. Since safe, efficient and sufficient service is being provided to each system, no Commission ordered corrective actions are required. (Sweat)

COVA: No position.

OPC: No position at this time.

STAFF: The rate increase, if granted, should be held in abeyance for those water systems which are not meeting water quality standards. The Chuluota water system should be monitored and the utility should be required to submit a time table for completion of the proposed watermain replacement project and quarterly reports until the project is completed.

RATE BASE

GENERIC AND GENERAL PLANT ISSUES

ISSUE 3: Should a margin reserve be included in the calculations of used and useful plant?

POSITIONS

SSU: Yes. Commission policy and precedents historically grant water and wastewater utilities a margin reserve in the calculation of used and useful plant in order to promote economies of scale in the construction of plant, comply with DER requirements, and permit the utility to recover

a return on prudent investment necessary to meet its statutory obligation to serve. (Hartman, Morse)

COVA: Agree with OPC.

OPC: No. A margin reserve should not be included in the calculations of used and useful plant. The capacity associated with margin reserve should not be paid for by present customers.

STAFF: A margin reserve should be allowed if the utility has requested it and can support it.

ISSUE 4: What is the appropriate method for calculating margin reserve?

POSITIONS

SSU: The margin reserve should be eighteen months for water treatment plants and twelve months for water distribution and wastewater collection facilities. However, the margin reserves for wastewater treatment plants impacted by the regulatory requirements imposed under DER Rule 17-600.405, F.A.C., should be four (4) years. The Company notes that the Commission has approved a Memorandum of Understanding with DER which requires the Commission to consider and recognize the impact of this rule on their wastewater treatment plant planning and expansion. (Hartman, Morse)

COVA: Agree with OPC.

OPC: Citizen's disagree with including a margin reserve in the calculation of used and useful. Nevertheless, if the Commission grants a margin reserve, the Company's method should not be accepted. The five year historical growth rate used by the Company is not always indicative of the growth in ERCs that will transpire in the future. An evaluation should be made of the historical growth rates for applicability to the future. Where a deviation exists, the projected number of ERCs should be used, not the ERCs resulting from the application of an historical growth rate to 1991 ERCs. (Dismukes)

STAFF: Linear regression should be used when there is a trend of increasing or decreasing growth. When there is no regular growth pattern, a five year average should be used. (Shafer)

ISSUE 5: What is the appropriate method for calculating used-and-useful plant?

POSITIONS

SSU: The appropriate method for calculating used and useful is the component method as presented in the MFRs. (Hartman, Morse)

COVA: Agree with Staff.

OPC: The Company's assumption that its distribution and collection systems are 100% used and useful due its economies of scale should be rejected. The Company has provided no evidence even attempting to substantiate its argument. Moreover, any economy of scale potentially available to existing customers is of no benefit to existing customers until, and if, new customers connect to the system. The Commission should continue with past precedent and use lots served versus lots available for determining the percentage of the Company's distribution and collection system that is used and useful.

STAFF: Absent justification by the utility, the Commission's hydraulic share method is appropriate for treatment plants and the Commission's connections-to-connection-capacity ratio is appropriate for distribution and collection facilities. (Chapdelaine)

ISSUE 6: For those systems where a margin reserve is included in the used and useful calculation, should CIAC be imputed as an offsetting measure?

POSITIONS

SSU: No. The margin reserve is required because Southern States has a duty to provide service to customers when they apply. It cannot logically be argued that a system must be or even can be designed solely to serve the customers which exist on any given day. However, the

imputation of CIAC unfairly penalizes Southern States because whether or not customers will actually hook on to a system is fortuitous and beyond the Company's control. Also, there is no guarantee that the CIAC levels which exist today, and thus would be utilized to compute the imputation, will not be decreased by the Commission in the future. Under such a scenario, Southern States will never be able to recover a portion of its prudently invested funds. Therefore, the imputation would be premised on two totally speculative events whereas the Company's duty to stand ready to serve customers is real and remains a regulatory requirement imposed on the Company under Chapter 367, Florida Statutes. (Lewis)

COVA: Agree with OPC.

OPC: Yes. If the Commission grants the Company a margin reserve, CIAC should be imputed on this margin reserve.

STAFF: Yes, consistent with Commission policy.

ISSUE 7: What is the appropriate method for allocating general plant, and are any adjustments necessary?

POSITIONS

SSU: The Commission should adhere to its unwavering precedent and allocate Southern States' general plant based on the number of customers served by each system. No customer benefits any more or less from the services provided utilizing general plant assets. No customer should contribute more than any other for such assets. No adjustments are necessary to general plant. (Ludsen)

COVA: Agree with Staff.

OPC: General plant should be allocated using a weighted allocation factor consisting of 50% ERCs and 50% direct labor. OPC was unable to develop an adjustment due to discovery difficulties. (Dismukes)

STAFF: As proposed by the utility, general plant should be allocated on the basis of relative customers.

ISSUE 8: Is an adjustment necessary to allocate a portion of the Company's general plant to its acquisition efforts?

POSITIONS

SSU: No. Acquisition efforts represent an activity and are not a separate business unit such as water, wastewater and gas. As such, they do not utilize the full facilities of the Company. Acquisition efforts are normally conducted by Topeka Group, Inc. and reflect minimal involvement by SSU until such time as the acquisition is final. Acquisition efforts involve only a few individuals at SSU and their time should be charged below the line. Therefore, any allocation would involve only a de minimus amount of space. Any such costs are offset by benefits received through reduced allocation of common costs to customers as a result of the acquisition. (Ludsen)

COVA: Agree with OPC.

OPC: Yes. The Company's general plant should be reduced by \$241,407. The associated accumulated depreciation should be reduced by \$75,922. (Dismukes)

STAFF: Any adjustment for space attributable to acquisitions would be de minimus.

ISSUE 9: Has the Company properly allocated general plant common costs to its gas merchandising and jobbing operations?

POSITIONS

SSU: Yes. The gas business has been allocated costs based on the number of customers consistent with the water and wastewater business. Merchandising is an activity within the gas business and is not a business unit in and of itself, and therefore, should not be treated separately from gas. In addition, the gas business is generally over-allocated common costs because it receives allocated costs associated with regulatory requirements which do not apply to the non-regulated gas business. (Ludsen)

COVA: No position.

OPC: No position at this time, awaiting response to discovery.

STAFF: No position pending development of the record.

ISSUE 10: Should the provision for general plant be increased to reflect omission of common plant acquired in the Lehigh acquisition?

POSITIONS

SSU: The gas operations use the same general plant facilities as the water and wastewater operations. The administrative and general and customer service functions of the gas operations, i.e., billing, customer service, management, legal, accounting, etc., are performed by the same personnel and equipment as are used to carry out the water and wastewater operations. Therefore, Public Counsel's objection to "gas plant" being allocated to water and wastewater operations is misplaced. In fact, gas operations are allocated a disproportionately large share of general plant and administrative and general and customer service expenses since the gas operations are unregulated and do not require all the administrative and general and customer services related to regulated operations, i.e., tariffs, annual reports, MFRs, comprehensive environmental regulations and extensive accounting recordkeeping as is required under the uniform system of accounts. (Ludsen)

COVA: No position.

OPC: No. Gas plant should not be allocated to the water and wastewater operations.

STAFF: Yes. Before allocation among the various systems, the recommended adjustments are as follows:

<u>Description</u>	<u>Water</u>	<u>Wastewater</u>
Plant in Service	\$104,934	\$36,292
Accum. Depr.	<u>\$(36,536)</u>	<u>\$(12,636)</u>
Net Plant	<u>\$68,398</u>	<u>\$23,656</u>
Depr. Expense	<u>\$2,623</u>	<u>\$907</u>

(Todd)

ISSUE 11: What is the appropriate method for allocating deferred income taxes related to CIAC, connection fees and CIAC gross-up provisions?

POSITIONS

SSU: Per the MFRs. (Gangnon)

COVA: Agree with Staff.

OPC: No position.

STAFF: Normally deferred taxes are not included in rate base except for those allowed by Order No. 23541. However, because there are debit deferred taxes that are not covered by Order No. 23541 and which do not apply to all systems, the equitable treatment is to allocate the deferred taxes proportionately to only those systems to that caused their creation.

ISSUE 12: Should deferred income taxes related to post-retirement benefits be included in rate base?

POSITIONS

SSU: Yes. The Company is collecting through rates the OPEBs net of the deferred tax expense. Since there is no current tax deductible method to fund these benefits available to the Company it is appropriate for the ratepayers to pay the carrying costs on those taxes. (Gangnon)

COVA: No position.

OPC: If the Company uses a tax advantaged VEBA there will be no deferred tax impact associated with post-retirement benefits calculated under SFAS 106. If post-retirement costs are calculated using a pay as you go method, then there would be no deferred tax impact. There should be no deferred tax impact relating to OPEBs.

STAFF: No position at this time.

ISSUE 13: If the Commission adopts SFAS 106 for ratemaking purposes, what is the appropriate treatment of the unfunded liability for post-retirement benefits other than pensions?

POSITIONS

SSU: Southern States intends to fully fund its liability for post-retirement benefits other than pensions. For ratemaking purposes, any unfunded liability should be treated consistent with proposed Rule 25-14.012, F.A.C. (Gangnon)

COVA: No position.

OPC: SFAS 106 is an inappropriate method for measuring post-retirement benefits for ratemaking purposes. If, however, the Commission adopts this methodology, the amount of the unfunded liability should be reflected in the capital structure as a zero cost source of funds. If it is the intent of the Commission to reduce rate base by the amount of the unfunded liability, then the final order should reflect that intent and outline how the increasing unfunded liability will reduce rate base in the future. (Montanaro)

STAFF: The liability should reduce rate base.

ISSUE 14: What is the appropriate method for calculating working capital?

POSITIONS

SSU: Working capital should be calculated pursuant to the formula method of one-eighth of O&M expenses in accordance with (1) the Commission's MFRs and Rule 25-30.437, F.A.C., requiring an applicant to provide the information required by the MFRs, and (2) Order Nos. 21202 and 21627 issued by the Commission on May 8, 1989 and July 8, 1989, respectively, which require the use of the one-eighth of O&M method (or risk forfeiture of rate case expense associated with advocating an alternative method). This has been the Commission's policy to date. No prefiled testimony, pleading or other factual

predicate has been identified which justifies deviation from Order Nos. 21202 and 21627 and the Commission policy established therein and carried out to date. Therefore, the Company is not able to address and rebut any allegation that such a deviation would be appropriate. (Lewis, Vierima)

COVA: No position.

OPC: The appropriate method for calculating working capital is the balance sheet approach.

STAFF: The one-eighth of operation and maintenance expense formula method should be used.

SYSTEM SPECIFIC ISSUES (by County)

Citrus County

ISSUE 15: Should Rosemont and Rolling Green be considered one system for rate making purposes, and if not, how should the rate base improvements at Rosemont be shared between the two systems' customers?

POSITIONS

SSU: The Rosemont and Rolling Green systems were not interconnected until May, 1992. Southern States remains without Commission authority to treat these previously segregated systems as one system for ratemaking purposes. Southern States does not oppose doing so as long as the combined revenue requirements are met. (Lewis)

COVA: No position.

OPC: No position.

STAFF: Since these systems share a common water supply, uniform rates should be collected. The subject improvements should be reasonably allocated.

ISSUE 16: Was the utility's decision to interconnect Rosemont and Rolling Green prudent, considering the utility could have interconnected with the City of Inverness, and, if not, what adjustments to rate base are appropriate?

POSITIONS

SSU: Southern States' decision to interconnect these systems was prudent. (Hartman)

COVA: No position.

OPC: No position.

STAFF: No position.

ISSUE 17: What is the appropriate number of ERCs to use at Sugarmill Woods?

POSITIONS

SSU: The appropriate number of ERCs for Sugarmill Woods is 9054 as was used in Docket No. 900329-WS. (Hartman)

COVA: The utility should not be permitted to use the smallest meter size as one ERC regardless of the actual meters that serve customers. In the 1990 rate case Docket No. 900329-WS it was determined that Sugar Mill Woods had a potential of 9054 ERCs based upon the premise that each residence, almost all of which are single family, is being served by 1" meters. Using SSU's logic the potential number of ERCs would be 22635. Since this is illogical it is mandatory that in cases like SMW, ERCs be based upon residences instead of meter sizes. The previous rate cases substantiated this issue.

SSU's approach of using the smallest meter as one ERC and the number of lots as the maximum number of ERCs overstates used and useful percentages. As COVA points out in its intervening testimony filed on October 5, 1992 and its request for intervention filed August 17, 1992 the water distribution system is at 22% used and useful including margin reserve. The water plant is at 73% used

and useful. Similarly the sewer collection system is at 21% used and useful. (Jones)

In addition, SMW agrees with Staff.

OPC: No position.

STAFF: All residential meters should be treated as one ERC in the used and useful calculation, with water flows of 500 gpd/ERC and wastewater flows of 255 gpd/ERC. General service meters are showing water flows of 956 gpd/connection, which equates each GS water connection to 2 ERCs, regardless of meter size. General service meters are showing wastewater flows of 955 gpd/connection, which equates each GS wastewater connection to 3.75 ERCs, regardless of meter size. The final number will be a fall-out number.

ISSUE 18: Did SSU use a higher figure (2,500 GPM) for fire protection than that provided to their engineering consultant by the Citrus County Fire Marshall?

POSITIONS

SSU: Southern States used the correct fire flow figure based upon Citrus County Ordinance No. 86-10. (Hartman)

COVA: Yes. SSU incorrectly increased the water plant used and useful above where it should be as a result. (Jones)

OPC: No position.

STAFF: Yes. 1,500 gpm is the appropriate fire flow.

ISSUE 19: Is it appropriate for SSU to deduct two 600 GPM wells instead of one when calculating used and useful?

POSITIONS

SSU: Yes. Southern States correctly deducted two 600 GPM wells in calculating the used and useful percentages for the water supply wells. (Hartman)

COVA: No. SSU incorrectly increased the water plant used and useful above where it should be as a result. (Jones)

OPC: No position.

STAFF: No.

Clay County

ISSUE 20: Should the No. 2 well at Keystone Heights be included in the used-and-useful calculation?

POSITIONS

SSU: Yes. The well currently is providing service to our customers and was providing service prior to the test year. The Company has spent and is entitled to recover \$9,800 to correct problems with the well and place it back in service. This investment also should be considered in this proceeding. The Company already is negatively impacted by the absence of O&M expenses associated with running this well. If the Commission goes beyond the 1991 test year to determine plant in service and adjust used and useful downward, it also must make upward adjustments. (Morse)

COVA: No position.

OPC: Agree with Staff.

STAFF: Yes. Since the costs of the well are included in rate base, the well should be included in the used and useful calculation. Increased costs outside the test year should not be included.

Lake County

ISSUE 21: Should the plant in service for Skycrest be reduced by \$4,124 to eliminate a double counting error?

POSITIONS

SSU: No. (Lewis)

COVA: No position.

OPC: Agree with Staff.

STAFF: Yes.

Marion County

ISSUE 22: Should rate base for the Salt Springs water plant be reduced to reflect abandonment of plant?

POSITIONS

SSU: The retirements of the Salt Springs plant are as follows:

304.200	Structures & Improvements-Source	\$	351.54
304.300	Structures & Improvements-Treatments		440.34
305.200	Collecting & Impounding Reservoir		9.27
307.200	Wells & Springs		8,367.43
309.200	Supply Mains		26.10
310.200	Power Generation Equipment		11.08
311.200	Pumping Equipment		7,692.71
320.300	Water Treatment Equipment		<u>1,805.97</u>
		\$	18,704.45

These amounts are small because the original assets belonged to the U.S. Forestry Department. The above costs reflect change outs or upgrades.

Accumulated Depreciation as of December, 1991.

304.200	Structures & Improvements-Source	\$	144.65
304.300	Structures & Improvements-Treatments		190.34
305.200	Collecting & Impounding Reservoir		.23
307.200	Wells & Springs		1,573.00
310.200	Power Generation Equipment		0
311.200	Pumping Equipment		2,321.34
320.300	Water Treatment Equipment		<u>3,339.00</u>
		\$	7,561.31

The amount of CIAC associated with the retirement of this plant is estimated to be \$3,702.50. Accumulated amortization of CIAC in the amount of \$3,702.50 would also be retired. The loss which would be recognized on this retirement is \$11,143.14 which should be amortized as an extraordinary retirement. (Kimball)

COVA: No position.

OPC: No position.

STAFF: Yes, the Salt Springs water plant should be reduced by \$18,704, with corresponding adjustments to accumulated depreciation, depreciation expense, CIAC, and accumulated amortization of CIAC. However, if this is an ordinary retirement, a retirement loss should not be recognized, as suggested by SSU.

Martin County

ISSUE 23: Should those plant improvements at Fox Run not required by Order No. 21408 be included in the rate base?

POSITIONS

SSU: All plant improvements at Fox Run were prudent investments and should be included in rate base. These improvements include the improvements proposed by SSU and approved by the Commission in Order No. 21408. Order No. 21408 did not require SSU to construct plant improvements at Fox Run. (Hartman)

COVA: No position.

OPC: Agree with Staff.

STAFF: No.

Putnam County

ISSUE 24: Should the River Park No. 2 plant be included in the used and useful calculation?

POSITIONS

SSU: Yes. The River Park No. 2 plant is providing service to our customers and was providing service prior to the test year. The Company is entitled to recover the necessary investment incurred to correct problems with this plant and place it back in service. This investment also should be considered in this proceeding. The Company already is negatively impacted by the absence of O&M expenses associated with running this well. If the Commission goes beyond the 1991 test year to determine

plant in service and adjust used and useful downward, it also must make upward adjustments. (Morse)

COVA: No position.

OPC: Agree with Staff.

STAFF: Yes. Since the plant's costs are included in rate base, the plant should be included in the used and useful calculation. Increased costs outside the test year should not be recovered.

ISSUE 25: What adjustments to used and useful should be made for the new equipment added to the Silver Lake Oaks system?

POSITIONS

SSU: Used and useful should be adjusted to reflect the additional equipment. The finished water storage tanks should be 67% used and useful and the high service pumps should be 36% used and useful. (Morse)

COVA: No position.

OPC: No position.

STAFF: Used and useful should be recalculated including the new equipment. No position as to adjusted used and useful percentage.

ISSUES APPLYING TO MORE THAN ONE SYSTEM

ISSUE 26: Which systems for which the utility requested a margin reserve should not be allowed a margin reserve in the amount requested?

POSITIONS

SSU: Margin reserve should be allowed per the MFRs (Schedule F-8). (Hartman, Morse)

COVA: No position.

OPC: No margin reserve should be granted for any system. However, if the Commission grants a margin reserve the

following systems' margin reserves should be changed relative to the Company's request, based upon the methodology discussed in the testimony of Ms. Dismukes. (Dismukes)

Water Amelia Island, Beacon Hills, Beechers Point, Burnt Store, Carlton Village, Deltona, Fountains, Gospel Island, Lake Ajay Estates, Marion Oaks, Palisades, Pine Ridge, Quail Ridge, Rolling Green, Spring Hill, Sunny Hills, University Shores, Venetian Village, Zephyr Shores

Wastewater Beacon Hills, Burnt Store, Florida Commerce Park, Fox Run, Marco Shores, Point O' Woods, Salt Springs, Spring Hills, Zephyr Shores

STAFF: No position as to amount. No position as to a margin reserve for Beecher's Point water and wastewater, Park Manor water and wastewater, Quail Ridge water, Venetian Village water and wastewater, and Wootens water. The Salt Springs wastewater system should not have a margin reserve, as it has not experienced any growth in the past three years and is essentially built out. The Woodmere water and wastewater systems have experienced less than 1% annual growth since 1989 and no margin reserve should be allowed.

ISSUE 27: What are the used-and-useful percentages for the water treatment facilities?

POSITIONS

SSU: The used and useful percentages should be as set forth in the MFRs. (Hartman, Morse)

COVA: At Sugarmill Woods, the water treatment facilities are 69% used and useful. (Jones)

OPC: The final used and useful percentages are subject to the resolution of other issues.

STAFF: Staff agrees with the utility's used-and-useful calculations except with regard to the following systems: Amelia Island, Beacon Hills, Deltona Lakes, Fox Run, Fisherman's Haven, Leilani Heights, Marion Oaks (the used

and useful percentage for the Marion Oaks water plant is overstated because a main break occurred on the day with maximum flows), Palisades, Palms Mobile Home, Postmaster Village, River Park, Saratoga Harbor & Welaka, Stone Mountain, Sugar Mill, Sunny Hills, and Woodmere.

ISSUE 28: What are the used-and-useful percentages for the water distribution systems?

POSITIONS

SSU: The used and useful percentages should be as set forth the MFRs. (Hartman, Morse)

COVA: At Sugarmill Woods, the water distribution facilities are 22% used and useful including margin reserve. (Jones)

OPC: The final used and useful percentages are subject to the resolution of other issues.

STAFF: Staff agrees with the utility's used-and-useful calculations except with regard to the following systems: Deltona Lakes, Sugar Mill, Jungle Den, Fox Run, Palms Mobile Home Park, Sunshine Parkway, Palisades, and Venetian Village.

ISSUE 29: What are the used-and-useful percentages for the wastewater treatment facilities?

POSITIONS

SSU: The percentages set forth in the MFRs should be adjusted upward for wastewater treatment plants which are impacted by DER Rule 17-600.405, F.A.C., and thus require a four (4) year margin reserve. The Commission's recent approval of the Memorandum of Understanding with DER in which the Commission agrees to acknowledge and recognize the impact of Rule 17-600.405, F.A.C., requires modification of the used and useful percentages set forth in the MFRs. The resulting increase in revenue requirements should be used to set off against any downward adjustments the Commission ultimately might decide are necessary. (Hartman, Morse)

COVA: No position.

OPC: The final used and useful percentages are subject to the resolution of other issues.

STAFF: Staff agrees with the utility's used-and-useful calculations except with regard to the following systems: South Forty. Used-and-useful for South Forty is overstated since the capacity of the South Forty plant, not the sprayfield, should be used to calculate the capacity.

ISSUE 30: What are the used-and-useful percentages for the wastewater collection systems?

POSITIONS

SSU: The used and useful percentages should be as set forth in the MFRs. (Hartman, Morse)

COVA: At Sugarmill Woods, the wastewater collection facilities are 21% used and useful. (Jones)

OPC: The final used and useful percentages are subject to the resolution of other issues.

STAFF: Staff agrees with the utility's used-and-useful calculations except with regard to the following systems: Deltona Lakes, Sugar Mill, Jungle Den, Fox Run, Sunshine Parkway, and Venetian Village.

ISSUE 31: Should rate base be reduced to designate certain "future use" plant sites as non-used and useful properties?

POSITIONS

SSU: No. (Lewis)

COVA: No position.

OPC: Agree with Staff.

STAFF: Adjustments may be appropriate for the Citrus Springs, Sunny Hills, Marion Oaks, Spring Hill, and Deltona Lakes utility systems.

ISSUE 32: What are the proper allowances for working capital?

POSITIONS

SSU: As indicated in the Company's response to Issue No. 14, the one-eighth O&M method of determining working capital is appropriate. The Company utilized this method in this proceeding. The working capital reflected in the MFRs is appropriate. (Lewis, Vierima)

COVA: Agree with Staff.

OPC: In the absence of an acceptable balance sheet approach to working capital, the Company's working capital should be set at \$0.

STAFF: The formula approach should be used to establish working capital. The system specific amounts depend upon other issue in this case.

ISSUE 33: Should the unamortized portion of the gain on the sale of St. Augustine Shores and University Shores be included as an offset to rate base?

POSITIONS

SSU: No, the gains on the condemnations of the non-jurisdictional St. Augustine Shores water system and the non-rate base University Shores wastewater facilities should be retained by Southern States and should not be applied to reduce Southern States' revenue requirements for the reasons stated in Mr. Sandbulte's rebuttal testimony. (Sandbulte)

COVA: No position.

OPC: Yes. For the St. Augustine Shores gain, the Company's rate base should be reduced by \$1,950,477. For the University Shores gain, the rate base attributed to the University Shores wastewater system should be reduced by \$105,537.

STAFF: No.

ISSUE 34: Should negative acquisition adjustment(s) be made to rate base?

POSITIONS

SSU: No. (Vierima)

COVA: No position.

OPC: Yes. The Commission can not allow a return on investment which was not actually made in providing utility service to customers.

STAFF: Absent a showing of extraordinary circumstances, acquisition adjustment(s) should not be made to rate base.

ISSUE 35: What are the rate bases?

POSITIONS

SSU: The rate bases are as set forth in the MFRs subject to any adjustments approved by the Commission. (Lewis)

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

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

STAFF: The rate base sums are summation measures that depend on resolution of other issues.

COST OF CAPITAL

ISSUE 36: Should the cost of debt capital be adjusted to reflect reduced interest rates for variable-cost debt components?

POSITIONS

SSU: The cost of debt capital should be adjusted to reflect either increased or reduced interest rates for variable-cost debt components as they exist at a reasonable time before the evidentiary hearings in this proceeding. (Vierima)

COVA: No position.

OPC: Yes.

STAFF: The cost rates for variable rate long-term debt should be based on the appropriate short term interest rates, such as the prime rate, LIBOR, the T-Bill rate, etc., in effect at the time of the hearing.

ISSUE 37: What is the appropriate cost rate for deferred investment tax credits?

POSITIONS

SSU: Per the MFRs. (Vierima)

COVA: No position.

OPC: Agree with Staff.

STAFF: The cost rate should be weighted so that the unamortized ITCs for each system which fell under the general rule, Internal Revenue Code Section 46(f)(1), before acquisition by SSU are given a cost rate of zero and the unamortized ITCs for the remaining systems receive the weighted cost rate of long term debt, common stock, and preferred stock.

ISSUE 38: What is the appropriate amount of accumulated deferred income taxes to be included in the capital structure?

POSITIONS

SSU: Per the MFRs. (Gangnon)

COVA: No position.

OPC: No position at this time.

STAFF: No position pending resolution of other issues.

ISSUE 39: Should short-term debt be included in the capital structure?

POSITIONS

SSU: No. The average capital structure for the test period ended 12/31/91 did not include a short-term debt component. Therefore, the capital structure per the MFRs is appropriate. The application of projected capital costs and structure without concurrent adjustments for plant additions and expense escalation conflicts with the Commission's acceptance of a historic test year for this filing. (Vierima)

COVA: No position.

OPC: No position.

STAFF: Yes, consistent with the utility's proposal in the recently filed rate application for the Marco Island utility system.

ISSUE 40: Should the cost of debt capital be adjusted to reflect a reduced interest rate for the 15.95% fixed rate on the Company's \$22,500,000 of long-term mortgage bonds?

POSITIONS

SSU: No. This issue was decided by the court in Marco Island Utilities v. Public Service Commission, 566 So.2d 1325 (Fla. 1st DCA 1990). (Vierima)

COVA: Agree with OPC.

OPC: Yes. This fixed rate is excessive and the Company's inability to refinance the debt was the result of Deltona Utilities, Inc.'s acceptance of a contractual restriction which only allowed refinancing at the option of the bondholders. When SSU purchased the Deltona system it was either aware of this restriction or it should have been aware of this restriction. As such, the purchase price of the Deltona system should have reflected this excessive rate and worked toward the advantage of SSU in reducing the negotiated purchase price. Unless the Commission

recognizes a negative acquisition adjustment resulting in part from this excessive cost of debt, the rates set for the Deltona system will be excessive. In addition, since the Company has proposed using one capital structure and overall cost of capital for all of the systems filed, it is unfair and unreasonable to pass this unreasonable cost of debt onto all of the SSU filed FPSC systems. Accordingly, the cost of debt associated with these first mortgage bonds should be reduced to a level that would have been reasonable had the bonds been refinanced by SSU after the purchase of the Deltona system--9.50% to 10.50%. In addition, this debt will be retired in December of 1994 and on a going forward basis the this high cost debt will not be incurred in the future.

STAFF: No position pending development of the record.

ISSUE 41: What is the appropriate overall cost of capital including the proper components, amounts, and cost rates?

POSITIONS

SSU: Per the MFRs as modified by the Company's response to Issue No. 36. (Vierima)

COVA: No position.

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

STAFF: This is essentially a fall-out issue based on an appropriate capital structure and cost rates.

NET OPERATING INCOME

GENERIC AND A&G EXPENSE ISSUES

ISSUE 42: Should the Company's revenues be weather normalized, and, if so, what adjustments are appropriate?

POSITIONS

SSU: No weather normalized study has been presented by any party to this proceeding. With the diversity of systems located throughout the State, weather normalization is

not meaningful since many other factors affect revenues as much if not more such as the economy, the level of rates and conservation measures. (Loucks)

COVA: Agree with Staff.

OPC: Yes, and an adjustment is necessary.

STAFF: No position pending development of the record.

ISSUE 43: Is the utility's test year provision for employee wages and compensation unreasonable and, if so, what adjustments are appropriate?

POSITIONS

SSU: Administrative salaries are reasonable and no adjustment is appropriate. There has been no prefiled testimony, pleading or other factual predicate identified to the Company which suggests that any portion of administrative salaries are not reasonable. Therefore, the Company has not had the opportunity to address and rebut any allegation in such regard. (Phillips)

COVA: Agree with OPC.

OPC: Yes. Bonus or other at-risk compensation should be eliminated from test year expenses.

STAFF: No position pending development of record.

ISSUE 44: What is the appropriate method for allocating administrative and general expenses?

POSITIONS

SSU: The allocation of A&G expenses based on customers is appropriate for the following reasons: (1) it is the method invariably used by the Commission in all prior Southern States and, to the Company's knowledge, other water/wastewater utilities rate proceedings; (2) no customer will contribute more than any other customer; (3) customer usage (ERCs) has no impact on the levels of A&G expenses; (4) direct labor is distorted by DER staffing requirements (rules and permits) as well as the

unusual occurrences, i.e., line breaks, which may require additional personnel or overtime in the test year; (5) economies of scale are recognized whereas an allocation in the manner advocated by Public Counsel obliterates such economies; and (6) the other reasons presented in the Company's evidence. (Ludsen)

COVA: Agree with Staff.

OPC: Administrative and general expenses should be allocated using a weighted allocation factor consisting of 50% ERCs and 50% direct labor. OPC was unable to develop an adjustment due to discovery difficulties. (Dismukes)

STAFF: The utility's proposed allocation of common A&G expenses based on relative customers appears reasonable.

ISSUE 45: Is an adjustment necessary to allocate a portion of the Company's administrative and general expenses and general plant depreciation expense to its acquisition efforts?

POSITIONS

SSU: No. Acquisition efforts represent an activity and are not a separate business unit such as water, wastewater and gas. As such, they do not utilize the full facilities of the Company. Acquisition efforts are normally conducted by Topeka Group, Inc. and reflect minimal involvement by SSU until such time as the acquisition is final. Acquisition efforts involve only a few individuals at SSU and their time should be charged below the line. Therefore, any allocation would involve only a de minimus amount of space. Any such costs are offset by benefits received through reduced allocation of common costs to customers as a result of the acquisition. (Ludsen)

COVA: Agree with OPC.

OPC: Yes. The Company's administrative and general expenses should be reduced by \$106,384 and depreciation expenses should be reduced by \$22,185 to reflect an allocation to the Company's acquisition efforts. Any proforma adjustments to the A&G and general plant depreciation should also reflect similar adjustments. (Dismukes)

STAFF: No position at this time.

ISSUE 46: Has the Company properly allocated administrative and general expenses to its gas merchandising and jobbing operations?

POSITIONS

SSU: Yes. The gas business has been allocated costs based on the number of customers consistent with the water and wastewater business. Merchandising is an activity within the gas business and is not a business unit in and of itself, and therefore, should not be treated separately from gas. In addition, the gas business is generally over-allocated common costs because it receives allocated costs associated with regulatory requirements which do not apply to the non-regulated gas business. (Ludsen)

COVA: No position.

OPC: No position at this time, awaiting response to discovery.

STAFF: No position at this time.

ISSUE 47: Are adjustments necessary for expenses charged to the Company by the Topeka Group, Inc. and Minnesota Power and Light Company?

POSITIONS

SSU: No. (Vierima)

COVA: No position.

OPC: Yes. An adjustment is necessary to remove the Topeka Group's credit support fee charged to SSU. These fees should not be required on a going forward basis.

An adjustment is also necessary to remove the travel costs charged to the Company associated with Topeka and MPL's employees traveling between Southern States and Topeka/MPL. These costs represent a significant portion of the costs charged to SSU and do not benefit ratepayers. If SSU's parent were located in Florida these costs would not be incurred.

An adjustment is also necessary to remove excess liability/property damage insurance and director's and officer's liability insurance costs that have been allocated to SSU from MPL in the amount of \$109,050 (total company).

STAFF: Some adjustment may be necessary pending development of the record.

ISSUE 48: What is the appropriate allowance for rate case expense?

POSITIONS

SSU: The rate case expense requested by the Company in this proceeding, including legal, accounting and consulting fees as well as mailing, copying and other costs, is approximately \$13,000 per system. There is no way that this extraordinary low level of expenses per system could have been achieved if each system were filed individually. The Company is aware of no litigated rate proceeding in which rate case expense is anywhere near this low figure. Recovery of the total amount of rate case expense requested by the Company, as adjusted for the amount of rate case expense actually incurred, is appropriate. (Ludsen)

COVA: The estimated expenses for customer notification are excessive. Through most of 1992 only \$43,000 has been spent.

OPC: No position at this time.

STAFF: Only prudently incurred rate case expense should be allowed. Further, within 60 days of the final order or an order entered after a petition for reconsideration of the final order, the utility should be required to submit a breakdown of actual rate case expense incurred, in total, consistent with schedule B-10 of the MFRs. If the deadline cannot be met, an extension may be granted by the director of the Division of Water and Wastewater for good cause shown.

ISSUE 49: Should the utility's proposed pro forma adjustments to customer accounting and administrative charges due to acquisition of Lehigh Utilities be approved?

POSITIONS

SSU: The adjustment represents the roll-in of actual customer account and A&G expenses of Lehigh on an annualized basis after reductions for costs eliminated after the acquisition of Lehigh. No adjustments are appropriate. (Lewis)

COVA: No position.

OPC: No position at this time.

STAFF: No position pending further development of the record.

ISSUE 50: Should the Commission allow the utility's \$1,435,469 proforma adjustment for post-retirement benefits, and, if not, what adjustments are appropriate?

POSITIONS

SSU: The Commission should permit Southern States to recover the entire amount of FASB 106 expenses requested. The Company agrees to fully fund its FASB 106 expenses. The failure to provide for these expenses will negatively impact the Company's ability to obtain the lowest cost financing since investors and lenders will be confronted with significant unfunded liabilities in the absence of such recovery. (Gangnon)

COVA: Agree with Staff.

OPC: No. (Montanaro)

STAFF: Upon proper showing, a reasonable amount of OPEB expense should be allowed and should be accounted for pursuant to FAS 106.

ISSUE 51: Does FASB 106 require SSU to incur any expense which it would otherwise (i.e., in the absence of FASB 106) not incur?

POSITIONS

SSU: No. The adoption of SFAS 106 will not change the ultimate amount of OPEBs but will impact the period in which the expenses are incurred, i.e., such expenses will be accrued when services are performed. (Gangnon)

COVA: No position.

OPC: No. FASB 106 requires only that where a particular kind of expense (OPEB) is incurred, it must be reported in accordance with FASB 106.

STAFF: No position pending development of the record.

ISSUE 52: Are SSU's alleged OPEB obligations certain enough to justify recovery of expenses related thereto?

POSITIONS

SSU: Yes, because such expenses were calculated in accordance with SFAS 106 and this methodology has been adopted by the Commission for the purpose of providing reliable or sufficiently certain estimates of such expenses. (Gangnon)

COVA: No position.

OPC: No. The Commission has a statutory obligation to determine whether an identified expense will actually be incurred. Contingent obligations to employees (which the company seeks through the operation of SFAS 106) are subject to change within the period during the rates approved in this case will be charged to customers.

STAFF: This is not a legal issue. Whether the Utility has sufficiently established the certainty of the OPEB expenses is within the Commissioners' discretion and is not a legal question.

ISSUE 53: Is the transition adjustment a request to recover expenses incurred in prior periods?

POSITIONS

SSU: No. The change to the accrual method of accounting is to match the OPEB expenses with the related employee services. The fact that a transition obligation arises due to the change from pay-as-you-go to the accrual method is not a recovery of costs which should have been recovered in a past case. In fact, the costs would be recovered in the future under the cash method. (Gangnon)

COVA: No position.

OPC: Yes.

STAFF: No position pending development of the record.

ISSUE 54: If the Commission approves the accrual method for post-retirement benefits, should that portion of benefits related to construction be removed?

POSITIONS

SSU: Yes, these costs should be capitalized as part of rate base. (Gangnon)

COVA: No position.

OPC: No position.

STAFF: Yes, 18% should be removed from rate base, but the costs should not be capitalized for the purpose of this proceeding.

ISSUE 55: If the Commission approves the accrual method for post-retirement benefits, should pay-as-you-go expenses be removed?

POSITIONS

SSU: Yes. (Gangnon)

COVA: No position.

OPC: Agree with Staff.

STAFF: Yes, \$32,806 should be removed.

ISSUE 56: Should the Commission allow the utility's 3.63% escalation factor for operating and maintenance expenses other than payroll and rate case expense, and, if not, what adjustments are appropriate?

POSITIONS

SSU: Yes. By the time final rates are established in this proceeding, the level of costs which Southern States seeks escalation will be approximately fifteen (15) months old. The requested escalation would be available to the Company but for the dire financial circumstances facing the Company which required a general rate increase. Since the Commission's indexing provision itself constitutes a recognition of the existence of inflation, the indexing adjustment should not be denied to the Company. (Ludsen)

COVA: Agree with OPC.

OPC: No. The Commission should not allow any attrition adjustment. The Company has failed to provide any evidence that such an allowance is necessary.

STAFF: No position pending further development of the record.

ISSUE 57: Should the Commission allow the utility's 5.00% increase to payroll expense, and, if not, what adjustments are appropriate?

POSITIONS

SSU: The 5% increases to payroll should be approved without adjustment. The Company's actual payroll increase was 5.2%. The increase did not consist of an across the board 5% increase but rather merit increases (evaluated on a case by case basis), step adjustments (lowest grade employees hired at below market salaries and gradually brought up to market levels), and licensing adjustments (i.e., obtaining operator licenses or upgrading licenses). These adjustments contribute to the Company's

ability to provide the highest quality service to our customers by ensuring a highly qualified, experienced, licensed workforce. There has been no prefiled testimony, pleading or other factual predicate identified to the Company which suggests that any portion of the 5% increase was unreasonable or imprudently made. Therefore, the Company has not had the opportunity to address and rebut any allegation in such regard. (Lewis, Lutsen)

COVA: Agree with OPC.

OPC: No. The Commission should not allow any attrition adjustment. The Company has failed to provide any evidence that such an allowance is necessary.

STAFF: No position pending development of the record.

ISSUE 58: Should the gain realized upon sale of the St. Augustine utility system be considered in determining operating revenues for the systems in this proceeding?

POSITIONS

SSU: No, the gains on the condemnations of the non-jurisdictional St. Augustine Shores water system and the non-rate base University Shores wastewater facilities should be retained by Southern States and should not be applied to reduce Southern States' revenue requirements for the reasons stated in Mr. Sandbulte's rebuttal testimony. (Sandbulte)

COVA: Agree with OPC.

OPC: Yes. Test year NOI should be increased by \$650,159. This reflects a four year amortization of the gain on the sale applicable to the filed SSU systems.

In the alternative, the funds from the gain on the sale should be removed from the equity portion of the Company's requested capital structure. In addition all expenses relating to condemnation efforts should be removed from test year results. (Dismukes)

STAFF: An adjustment may be appropriate to allocate a portion of the gain on the sale of St. Augustine Shores, amortized over 4 years. In the alternative, the funds from the gain on the sale should be removed for the Utility's requested capital structure. In addition all expenses relating to condemnation efforts should be removed from test year expenses.

ISSUE 59: Should the costs associated with the merger of the SSU companies be removed from test year results?

POSITIONS

SSU: No. The cost associated with the merger of the SSU group of affiliated companies were incurred as a normal cost of continuing efforts on the part of the Company to maintain and enhance operating efficiency. Uniform recognition of a singular corporate entity by customers, employees, suppliers, regulators and creditors creates an environment conducive to control of operating costs and standardization of services. Combining corporate activities is also expected to improve access to financial markets (after obtaining rate relief) in view of an expanded collateral pool and uniformity of debt covenants. (Vierima)

COVA: Agree with OPC.

OPC: Yes. The Company's administrative and general expenses should be reduced by \$7,247. (Dismukes)

STAFF: Any non-recurring costs should be removed.

ISSUE 60: Should common expenses be reduced to reflect projected savings due to consolidation or closing of customer service offices?

POSITIONS

SSU: No. These cost savings are not known and quantifiable and are not certain to result in a reduction of expenses but may help to reduce future increases. In addition, these expenses fall outside the historic test year and will, in the short run, be partially offset by other non-test year conversion costs such as records and supplies

conversion. If downward adjustments outside the test year are to be made, then upward adjustments must also be made. For example, the annual costs associated with the new Marco Island office (\$33,000.00) was not included in the expenses in this filing. In addition, the Company has not included projected annual capital additions of \$20 million as well as projected increased costs for such items as testing, sludge hauling, and postage related to combined monthly billing in this filing. In addition, the Company has no less than 25 additional authorized and required positions which it has been unable to fill due to austerity related financial constraints. (Ludsen)

COVA: Agree with OPC.

OPC: Yes. Test year expenses should be reduced by \$47,955. (Dismukes)

STAFF: Yes, estimated savings should be removed.

ISSUE 61: Should the Commission reduce the expense allowed for remittance processing to reflect anticipated savings, on a going-forward basis, as a result of in-house processing?

POSITIONS

SSU: No. See Southern States' position in response to immediately preceding issue. (Kimball)

COVA: Agree with Staff.

OPC: Agree with Staff.

STAFF: Yes, administrative expenses should be reduced by \$70,798.

ISSUE 62: Should the Commission reduce postage costs to reflect savings to perform postage services in-house?

POSITIONS

SSU: No. See Southern States' position in response to issue regarding closing of customer offices. In addition, the Company is proposing monthly billing which will increase

the annual costs for postage, bills and envelopes by an estimated \$45,000.00. (Ludsen)

COVA: Agree with Staff.

OPC: Agree with staff.

STAFF: Yes, customer accounting expenses should be reduced by \$12,125.

ISSUE 63: What is an acceptable level of unaccounted-for water?

POSITIONS

SSU: Despite Commission precedent referring to industry standards which indicate that a 15% level of unaccounted for water is acceptable, the Commission has steadfastly held to a 10% standard. The standard should be 15%. Age and geological development conditions must be given consideration in any determination of unaccounted for water. (Sweat)

COVA: Agree with Staff.

OPC: The acceptable level of unaccounted-for water is 10% or less.

STAFF: 10% of the water pumped.

ISSUE 64: Should interest income earned on utility deposits made by Southern States be moved above the line for ratemaking purposes?

POSITIONS

SSU: No. Ratepayers do not pay a return on utility deposits nor are they included in the determination of working capital. Therefore, any interest earned on investor capital should be treated below the line. (Vierima)

COVA: Agree with OPC.

OPC: Yes. Unless the Commission utilizes the balance sheet approach to working capital and excludes these deposits from current assets, the interest income in the amount of

\$7,045 (total company) should be moved above the line for ratemaking purposes.

STAFF: No position at this time.

ISSUE 65: Should an adjustment be made to remove chamber of commerce dues and other public relations expenses from the test year?

POSITIONS

SSU: No. (Phillips)

COVA: Agree with OPC.

OPC: Yes. At a minimum test year expenses should be reduced by \$1,882. (Dismukes)

STAFF: Yes.

ISSUE 66: Should an adjustment be made to the Company's membership dues?

POSITIONS

SSU: Yes, agree with Staff. (Phillips)

COVA: Agree with Staff.

OPC: Yes. A portion of the Company's membership dues should be removed from test year results because they support the lobbying activities of the professional associations.

An adjustment should also be made to reflect the memberships dues savings resulting from the consolidation of the SSU family. This amounts to \$3,137.

STAFF: The Commission reduce administrative expense for membership in the NAWC by \$3,137 to reflect anticipated savings on a going-forward basis. All lobbying expenses should be removed.

ISSUE 67: Should an adjustment be made to reduce the Company's test year bad debt expense?

POSITIONS

SSU: The level of bad debt expense is .6% which is consistent with industry standards. In addition, the levels of bad debt expense identified by Ms. Dismukes for M&M Utilities and Deltona Gas are allocated numbers based on total company bad debt experience and do not reflect actual bad debt expenses for these systems. In addition, the \$20,000 of bad debt expense related to the Citrus Sun Club Condominium Association does not reflect an incremental bad debt expense since it has been on the Company's books for several years. Public Counsel's proposed adjustment regarding Citrus Sun Club constitutes another attempt to pick and choose between expense items despite the fact that historical bad debt expense levels confirm the reasonableness of the Company's bad debt test year expenses. (Kimball)

COVA: Agree with OPC.

OPC: Yes. Test year expenses should be reduced by \$40,469. (Dismukes)

STAFF: Agree with OPC.

ISSUE 68: Should an adjustment be made to reduce the Company's test year legal expenses?

POSITIONS

SSU: No, except for any legal expenses for lobbying activities inadvertently recorded above the line. Theoretically, any legal expenses for any specific project are non-recurring. The project ultimately will end. However, this does not refute the fact that the Company must incur legal expenses each year for a myriad of reasons. Recovery of these expenses should not be denied absent an evidentiary showing that the level of these expenses is not reasonable. No party has presented any evidence of this nature. (Ludsen)

COVA: Agree with OPC.

OPC: Yes. Test year expenses should be reduced by \$10,355 for legal costs associated with DER/EPA violations. (Dismukes)

Test year expenses should also be reduced by \$6,053 for legal fees associated with developer agreements.

Test year expenses should also be reduced by \$7,014 for legal fees associated with researching the acquisition adjustment policies of other state commissions.

Test year legal expenses should also be reduced for legal fees associated with lobbying activities.

Test year legal expenses of \$5,499 should be removed because the Company will not incur this expense in the future. The Company has agreed to sell this system to the Shadowbrook Homeowner's Association.

STAFF: Some adjustments may be necessary subject to development of the record.

ISSUE 69: Should an adjustment be made to reduce the Company's test year aircraft expenses?

POSITIONS

SSU: No. The Company does not consider a presentation to the Commission at an Internal Affairs Conference to be lobbying. This is an ordinary cost of doing business in a regulated industry. Denial of recovery of such costs would have a chilling effect on legitimate and proper communications between the regulator and the regulated. Appropriate communication is critical to the rendition of high quality utility service to our customers. (Ludsen)

COVA: Agree with OPC.

OPC: Yes. Test year expenses should be reduced \$3,200. This expense should be considered an expense related to lobbying activities and are not appropriate for ratemaking purposes.

STAFF: Staff agrees that an adjustment is necessary.

ISSUE 70: Should an adjustment be made to advertising expenses?

POSITIONS

SSU: No. Again, Public Counsel and Staff has discriminatorily selected expenses which reduce the Company's revenue requirements. If the Company's allocation methodology is accepted as appropriate, then the allocated expenses should also be deemed appropriate. However, if the Commission opens the door to picking and choosing allocated expenses, then material dollars of administrative expenses related to regulatory requirements should be allocated back to the water and wastewater business and away from the gas business. (Ludsen)

COVA: Agree with OPC.

OPC: Yes. Gas advertising expenses which have been allocated to the Company's water and wastewater operations should be removed.

STAFF: Agree with OPC.

ISSUE 71: Should an adjustment be made to remove expenses associated with professional studies and contractual services?

POSITIONS

SSU: No. The Company does not consider professional studies to be non-recurring for the same reasons and under the same rationale applicable to legal expenses. The determining factor should be whether the level of expenses for professional studies is reasonable. Professional studies are an ordinary cost of doing business and the Company would be taken to task if it did not conduct such studies, i.e., customer surveys and OPEB actuarial studies. The Company has amortized the cost of the survey performed by Cambridge Reports and anticipates conducting future studies. With respect to organizational development, this is an on-going cost related to effective inter-departmental relations,

communications and coordination, as well as effective functional work designs to achieve Company goals in the most efficient manner possible. (Phillips)

COVA: Agree with Staff.

OPC: Yes. Test year expenses should be reduced by \$15,247 for nonrecurring professional studies. (Dismukes)

STAFF: The Commission should remove the \$18,156 cost of a survey performed by Cambridge Reports of Massachusetts as a non-recurring expense. The Commission should also reduce administrative expenses to amortize certain organizational development costs over five years; this results in a \$14,751 reduction to test year expenses. Further adjustments may be necessary pending development of the record.

ISSUE 72: Should an adjustment be made to remove expenses associated with the Price Waterhouse audit of the employee savings plan?

POSITIONS

SSU: No. The adjustment is arbitrary and is not known and measurable. (Vierima)

COVA: Agree with OPC.

OPC: Yes. Test year expenses should be reduced by \$4,780 for the nonrecurring cost of this audit. (Dismukes)

STAFF: Agree with OPC.

ISSUE 73: Should an adjustment be made to remove test year relocation expenses?

POSITIONS

SSU: No. Relocation expenses in 1991 were the lowest since 1988 and are representative of future relocation costs. Unsubstantiated speculation as to the Company's future levels of relocation expenses is not an appropriate basis for an adjustment. (Ludsen)

COVA: Agree with OPC.

OPC: Yes. Test year relocation expenses are excessive and should be reduced by at least \$13,697. (Dismukes)

STAFF: Agree with OPC.

SYSTEM SPECIFIC ISSUES (by County)

Citrus County

ISSUE 74: Should an adjustment be made to reduce property taxes at Sugar Mill Woods?

POSITIONS

SSU: No. The Company has received no formal communication with respect to any alleged reduction in property taxes associated with Sugar Mill Woods plant. (Kimball)

COVA: It appears the substantial increases in property taxes in Citrus County in 1990 and 1991 cannot be justified, but more importantly SSU did not challenge this excessive increase.

OPC: Yes. In addition, the Commission should order the Company to set a sum of money subject to refund to Sugar Mill Woods customers pending a resolution of issues relating to the ad valorem taxation of the Sugar Mill Woods system by Citrus County.

STAFF: If there is a refund of property taxes, the money refunded to the utility should be refunded to the ratepayers. If there is a reduction to property tax expense on a going-forward basis, expenses should be reduced.

Duval County

ISSUE 75: Is an adjustment necessary to the purchased water expense of Beacon Hills.

POSITIONS

SSU: No. (Kimball)

COVA: No position.

OPC: Yes. Purchased water expenses should be reduced by \$14,925 for a 3-year out-of-period billing that occurred during the test year. (Dismukes)

STAFF: Agree with OPC.

Marion County

ISSUE 76: Is an adjustment necessary to reduce property taxes associated with Marion Oaks property held for future use.

POSITIONS

SSU: No. (Lewis)

COVA: No position.

OPC: Yes. Property taxes should be reduced by \$4,477. (Dismukes)

STAFF: Agree with OPC.

Martin County

ISSUE 77: Should the cost of the reuse feasibility study for Leilani Heights be amortized over five years instead of being expensed in the test year?

POSITIONS

SSU: Reuse studies are performed pursuant to governmental requirements and are on-going in nature and, therefore, the costs should be expensed. (Wood)

COVA: No position.

OPC: Test year expenses for the Leilani Heights wastewater operations should be reduced by \$10,500. (Dismukes)

STAFF: The cost of the reuse feasibility study should be amortized over five years, rather than being treated as a recurring expense.

Orange County

ISSUE 78: Should test year NOI be increased for the gain on the sale of University Shores properties?

POSITIONS

SSU: No, the gains on the condemnations of the non-jurisdictional St. Augustine Shores water system and the non-rate base University Shores wastewater facilities should be retained by Southern States and should not be applied to reduce Southern States' revenue requirements for the reasons stated in Mr. Sandbulte's rebuttal testimony. (Sandbulte)

COVA: No position.

OPC: Yes. Test year NOI should be increased by \$35,179. This reflects a four year amortization of the gain.

In the alternative, the funds from the gain on the sale should be removed from the equity portion of the Company's requested capital structure. (Dismukes)

STAFF: If the land was included in rate base, the gain should be amortized above the line.

Volusia County

ISSUE 79: Should the \$14,326 test year expense in the Jungle Den system to televise and repair wastewater collection lines be amortized?

POSITIONS

SSU: The work performed is expected to be performed every three (3) years. The expense should be amortized over three (3) years. (Lewis)

COVA: No position.

OPC: These costs, \$14,327, should be considered nonrecurring and excluded from the test year operating expenses.

STAFF: Yes, this expense should be amortized over three years.

ISSUES APPLYING TO MORE THAN ONE SYSTEM

ISSUE 80: Which systems have excessive unaccounted-for water and what adjustments are appropriate as a result?

POSITIONS

SSU: No systems have excessive unaccounted for water and no adjustments are appropriate. (Sweat)

COVA: No position.

OPC: OPC has no position at this time concerning the systems that have excessive unaccounted-for water. However, for those systems which do have excessive unaccounted-for water, an adjustment should be made to the used and useful calculations such that customers do not pay a return on facilities which are not used for providing service to the end user. Further, for those systems which have excessive unaccounted-for water, an adjustment should be made to reduce the associated purchased power and chemical expense.

STAFF: The following systems have excessive unaccounted-for water: Beecher's Point, Interlachen Lakes Estates, Keystone Heights, River Grove, Saratoga Harbor-Welaka, Kingswood, Oakwood, Palisades, and Stone Mountain. Purchased power and chemicals expenses should be adjusted.

ISSUE 81: Which systems have excessive infiltration and what adjustments are appropriate as a result?

POSITIONS

SSU: Based on the allowable design criteria, the level of infiltration for all systems is acceptable. (Sweat)

COVA: No position.

OPC: OPC has no position at this time concerning the systems that have excessive infiltration. However, for those systems which do have excessive infiltration, an adjustment should be made to the used and useful calculations such that customers do not pay a return on

facilities which are used to treat infiltration which is excessive. Further, for those systems which have excessive infiltration, an adjustment should be made to reduce test year expenses associated with the excessive infiltration.

STAFF: The Palm Port and Jungle Den systems appears to have excessive infiltration, and a adjustment may be necessary.

ISSUE 82: Should property taxes be reduced in relation to corresponding used and useful adjustments to plant?

POSITIONS

SSU: No, not as proposed by OPC. (Ludsen)

COVA: Agree with OPC.

OPC: Yes. There is no logical reason to require current ratepayers to pay property taxes on plant which is considered non-used and useful. Test year property taxes should be reduced by \$283,653. (Dismukes)

STAFF: Yes.

ISSUE 83: Should test year expenses for property taxes be reduced due to appraisals of Deltona Utilities and United Florida properties?

POSITIONS

SSU: No. (Kimball)

COVA: No position.

OPC: Yes. To the extent that the devaluation will reduce the Company's property taxes an adjustment should be made.

STAFF: To the extent that recent appraisals will likely reduce the corresponding property tax provisions, reduced provisions for property taxes are appropriate.

ISSUE 84: What is the appropriate provision for test year income taxes?

POSITIONS

SSU: This is a fall-out number. (Gangnon)

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

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

STAFF: No position pending resolution of other issues.

ISSUE 85: Should ITC amortization be above-the-line and in what amount?

POSITIONS

SSU: Per the MFRs. (Gangnon)

COVA: No position.

OPC: Agree with staff.

STAFF: ITC amortization should be above the line. The amount of amortization should be calculated by subtracting the amortization related to the ITCs receiving a cost rate of zero from the total amount to be amortized. The final amount of amortization is subject to the resolution of other issues.

ISSUE 86: Is a parent-debt adjustment appropriate, and, if so, what is the proper amount?

POSITIONS

SSU: The Company has included the parent debt adjustment in the MFRs and no adjustment is appropriate. (Gangnon)

COVA: No position.

OPC: Yes. The parent debt adjustment is appropriate and should be applied to the test year adjusted rate base.

STAFF: Yes, a parent-debt adjustment is appropriate in accordance with Rule 25-14.004, F.A.C. The final amount of this adjustment is subject to the resolution of other issues.

ISSUE 87: Is an ITC interest synchronization adjustment appropriate, and, if so, what is the proper amount?

POSITIONS

SSU: Per the MFRs. (Gangnon)

COVA: No position.

OPC: Agree with staff.

STAFF: Yes, since the ITCs are included in the capital structure at a net positive cost rate. The final amount is this adjustment is subject to the resolution of other issues.

ISSUE 88: Has the Company properly included reuse revenue in the test year revenue?

POSITIONS

SSU: No adjustment to test year revenue is appropriate other than the \$9,745 which should be imputed for effluent sales from the Deltona Lakes system. (Sweat)

COVA: No position.

OPC: No. A proforma adjustment is required for the annualized effluent sales at the Deltona Lakes system of \$9,308. (Dismukes)

In addition, the Commission should establish appropriate reuse charges for the following systems which are delivering effluent and include the associated revenues in the test year: Point O' Woods for the Point O' Woods Golf Club; Amelia Island for the Amelia Island Golf & Country Club; Florida Central Commerce for Florida Central Commerce Park; Deltona Lakes for Deltona Lakes

Golf & Country Club and for the Glen Abbey Golf & Country Club; and University Shores for the Chapel Hill Cemetery.

STAFF: No, \$9,308 should be included in test year revenues for the Deltona Lakes system.

ISSUE 89: Should revenues be imputed for water estimated as attributable to unmetered and stuck meters?

POSITIONS

SSU: The Company believes an adjustment of this nature is without precedent. No evidence has been presented by any party which explains the rationale for such an adjustment. (Sweat)

COVA: Agree with Staff.

OPC: Agree with Staff.

STAFF: Yes.

ISSUE 90: What is the adjusted operating income amount before any revenue increase?

POSITIONS

SSU: Per the MFRs. (Lewis)

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

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

STAFF: The adjusted income amount is a summation measure that depends on resolution of other issues.

REVENUE REQUIREMENT

ISSUE 91: What are the systems' revenue requirements?

POSITIONS

SSU: Per the MFRs. (Lewis)

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

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

STAFF: The revenue requirement is a summation measure that depends on resolution of other issues.

RATES AND CHARGES

GENERIC ISSUES

ISSUE 92: Should SSU's final rates be uniform within counties, regions, or statewide?

POSITIONS

SSU: If uniform rates are to be established, the benefits of such a rate structure could best be achieved only on a statewide basis. Neither County geographical boundaries nor the Company's own "regional" boundaries would recognize the factors previously identified as being critical to a proper uniform rate structure. The statewide rates could be developed using one of three methods: (1) a method similar to the "rate caps" proposed by the Company in this proceeding; (2) rate "bands" where systems falling in certain bands based upon cost of service and other pertinent factors would be considered together; and (3) the Company's preferred method, a statewide rate for standard and advanced treatment processes. (Ludsen)

COVA: COVA firmly believes that the best way to establish rates is on a stand-alone basis. It is not realistic to combine all systems regardless of their historical involvement. Even SSU states that CIAC is only relevant to Sugar Mill Woods and Burnt Store, both part of the Twin County Utilities Acquisition. Yet all prepaid CIAC is lumped into one account penalizing all those SMW customers who have invested and are still investing more than \$2000 each in their utility.

OPC: No position.

STAFF: No position at this time pending further development of the record. (Williams)

ISSUE 93: Should systems with advanced water or wastewater treatment have a surcharge added to their rates if uniform rates are approved?

POSITIONS

SSU: Whether a system is served by advanced water or wastewater treatment facilities should be considered in the rate structure analysis. Under the Company's preferred statewide rate, additional costs of serving these systems should be reflected in the gallonage rate and base facility charge. (Cresse, Ludsen)

COVA: No position.

OPC: No position.

STAFF: No position pending development of the record. (Williams)

ISSUE 94: Should SSU's proposal that customer bills be capped at \$52 for water and \$65 for wastewater for 10,000 gallons for water usage be approved?

POSITIONS

SSU: Yes, the caps are appropriate, and the Commission should also recognize that few customers would pay the maximum rate since, generally speaking, average consumption in those systems would be less than 10,000 gallons. (Cresse)

COVA: No position.

OPC: No position.

STAFF: No position at this time pending further development of the record. (Williams)

ISSUE 95: How should the revenue deficiencies caused by the utility's proposed cap on bills at 10,000 gallons be recovered?

POSITIONS

SSU: Revenue deficiencies caused by the proposed "cap" on bills should be recovered as proposed by the Company. (Ludsen)

COVA: No position.

OPC: No position.

STAFF: No position pending further development of the record. (Williams)

ISSUE 96: Should the Commission adopt the utility's proposed rate structure, and, if not, what is the appropriate rate structure?

POSITIONS

SSU: Yes. The Company's proposed rate structure is designed to achieve reasonable rates for all customers. The proposed rate caps result in a minimal subsidy of approximately 1.9% of certain water and wastewater customers. This level of subsidy is significantly below subsidies frequently encountered in utility ratemaking. The Company hopes to encourage growth on the systems benefitting from the proposed rate caps which, if achieved, would reduce or even eliminate even this minimal subsidy in the future. (Cresse)

COVA: It is not realistic to combine all systems regardless of their historical evolution. Even SSU states that CIAC is only relevant to Sugar Mill Woods and Burnt Store, both part of the Twin County Utilities Acquisition. Yet all prepaid CIAC is lumped into one account penalizing all those SMW customers who have invested and are still investing more than \$2000 each in their utility.

OPC: No position at this time.

STAFF: No position pending development of the record.
(Williams)

ISSUE 97: Should conservation rates be implemented for systems in critical use areas with excessive water consumption and if so, how should the conservation rates be structured?

POSITIONS

SSU: No. If conservation rates are implemented it should not be done on a system-by-system basis but rather on a company-wide basis after some form of uniform rates have been implemented and after an analysis has been conducted on the impact of conservation rates on consumption. Currently, we have conservation embedded in our proposed rate structure through the use of a gallonage charge and base facility charge. (Ludsen)

COVA: No position.

OPC: No position.

STAFF: Yes, conservation rates should be implemented for certain systems. For most systems, the BFC rate structure is sufficient. However, for systems located in critical use areas with excessive consumption there should be a reallocation of revenue from the base charge to the gallonage charge. (Williams)

ISSUE 98: Should private fire protection rates be calculated by dividing the approved base facility charges for each comparable meter size by 1/3?

POSITIONS

SSU: Yes. (Loucks)

COVA: No position.

OPC: No position.

STAFF: Yes, private fire protection rates should be developed by dividing the approved base facility charge for the comparable meter size by 1/3.

ISSUE 99: **Should a private fire protection rate be approved for lines less than 4" in diameter?**

POSITIONS

SSU: No position at this time. (Loucks)

COVA: No position.

OPC: No position.

STAFF: No, private fire protection rates should not be approved for any line size less than 4 inches in diameter.

ISSUE 100: **Should the residential wastewater base facility charge be increased by the American Waterworks Association factors?**

POSITIONS

SSU: Southern States does not oppose the elimination of the proposed factoring. However, rates must be adjusted to meet the Company's revenue requirements if the factoring is eliminated. (Loucks)

COVA: The utility should not be permitted to charge a base facility charge for sewer by meter size. As pointed out in the analogy for water, most of SMW's residents only require large (1") meters for lawn irrigation. In fact when the developer owned the utility it was to his advantage to oversize the water meters, so many residents could now reduce their meter sizes. With adequate water pressure smaller meters would handle satisfactory irrigation flows for most residences. Similar logic may prevail for other systems. (Jones)

OPC: No position.

STAFF: No, residential wastewater base facility charges should be calculated on one ERC to recognize that

additional usage of water requiring a larger meter size would be due to water used for irrigation purposes, which is not returned to the wastewater collection system.

ISSUE 101: Is a wastewater gallonage cap of 10,000 gallons appropriate for all systems, and, if not, what is (are) the appropriate cap(s)?

POSITIONS

SSU: Southern States has proposed a 10,000 gallon cap. Southern States does not oppose a lower cap if the Commission believes a lower cap is prudent. However, the Company anticipates that establishing a lower cap will increase the gallonage charge and result in increased customer dissatisfaction. (Loucks, Ludsen)

COVA: No. SMW is primarily a residential community. In the 1985 rate case it was proven that the residents with private irrigation wells used less than 6000 gallons of water per month for domestic purposes. The cap was lowered to that level then. In the 1990 rate case it was documented that the measured effluent for 1989 was 170 GPD/ERC which would be 5100 gallons per month. The current measured effluent is 150 gallons per day per residence or 4500 gallons per month. Because of the aging of our population with more single person households you would expect our usage would diminish. Using the incorrect figure for ERCs shows sewer usage of 60 GPD/ERC. (Jones)

OPC: No position.

STAFF: Each wastewater system should have a gallonage cap established at an appropriate level based on the billing analysis. No position on the level of the cap pending further development of the record.

ISSUE 102: Should the wastewater gallonage charges be calculated assuming 80% of water sold to residential customers and 96% of water sold to general service customers is returned to the wastewater systems?

POSITIONS

SSU: The Company is not aware of any factual predicate which would justify this assumption. The wastewater gallonage charge should be established at the levels set forth in the MFRs. (Loucks)

COVA: For SMW, yes. The majority of SMW homes do not have wells. While the homes on very large golf course lots may have private irrigation wells, most homes in SMW are on lots of less than one third acre. While all lots have automatic sprinkler systems only the largest can justify drilling private wells. The vast majority use SSU supplied water for irrigation which causes SMW water usage to far exceed SSU's other customers. If it were not mandatory because of SMW's deed restrictions to have well landscaped lots, 1" meters would not be required.

Further, since general service wastewater customers have very minimum irrigation requirements and since most of them use at least 10,000 gallons of water per month, the utility's proposal to eliminate the 20% differential between residential and general service customers would seem to be a false argument in favor of a higher sewer cap. (Jones)

OPC: No position at this time.

STAFF: Yes, a rate differential between the residential and general service gallonage charge should be established to recognize that 80% of water sold up to the maximum cap to residential customers and 96% of all water sold to general service customers is returned to the wastewater system. If not, residential customers would be subsidizing general service customers.

ISSUE 103: Should SSU be required to file a service availability case for all its systems?

POSITIONS

SSU: No position at this time. (Cresse)

COVA: Agree with Staff.

OPC: No position.

STAFF: Yes. It may be appropriate to require SSU to file service availability cases. However, the rate structure and final rates determined in this docket will affect this decision. (Williams)

ISSUES APPLYING TO MORE THAN ONE SYSTEM

ISSUE 104: What are the appropriate rates for reuse of reclaimed water for each of SSU's systems?

POSITIONS

SSU: The only systems where effluent sales take place are: Deltona Lakes (Deltona Golf and Country Club) and Florida Central Commerce Park. The charge collected for Deltona Lakes is 6 cents per 1000 gallons over the twenty year life of the Agreement. The charge for Florida Central Commerce Park is 12 cents per sprinkler head. No other sales occur. Contracts for effluent reuse also exist on the University Shores, Point O'Woods, Amelia Island and Deltona Lakes (Glen Abbey Golf and Country Club) systems. No charge is provided for in these contracts. The Commission must remember that effluent reuse is still in the pioneering stage and Southern States is a staunch advocate and provider of significant levels of reuse. However, recipients of reuse have not been required to accept reuse water, particularly where sufficient water was available to such recipients from their own wells. No incentive existed for accepting our reuse water. It would not be appropriate for the Commission to now impose charges or attempt to impute revenues where contracts do not permit Southern States to

collect such charges, particularly in the absence of any established policy or precedent from this Commission. (Sweat)

COVA: Agree with Staff.

OPC: All systems which deliver effluent to golf courses, cemeteries, and other common areas for irrigation purposes should have associated charges.

STAFF: The appropriate rates should be determined on a system by system basis. Factors such as the availability of reuse water and the alternatives of the end users should be considered. (Williams) The utility should be required to file a tariff for approval of the effluent rate identified in the contract between the Deltona Lakes system and the Deltona Lakes Golf and Country Club.

ISSUE 105: What adjustments, if any, to the Bills and Gallons identified in Schedules Nos. E-2A of the MFRs are appropriate?

POSITIONS

SSU: No adjustment is appropriate. There has been no prefiled testimony, pleading or other factual predicate identified to the Company which suggests that any adjustment to the Bills and Gallons identified in Schedules No. E-2A of the MFRs is appropriate. (Loucks)

COVA: Agree with Staff.

OPC: Test year consumption should be weather normalized.

STAFF: No position pending further development of the record.

ISSUE 106: What are the appropriate final rates?

POSITIONS

SSU: Fall-out number. (Loucks)

COVA: Agree with Staff.

OPC: Fall-out number.

STAFF: The final rates will be determined after the resolution of other issues. Further, the utility's request to create a BFC for meter sizes through 10 inches should be approved and should be included in the utility's tariffs.

ISSUE 107: 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?

POSITIONS

SSU: Fall-out number. (Ludsen)

COVA: Agree with Staff.

OPC: Fall-out number.

STAFF: The appropriate amount by which rates should be reduced in four years as required by Section 367.0816, Florida Statutes will be determined after the resolution of other issues.

ISSUE 108: 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?

POSITIONS

SSU: No position at this time. (Ludsen)

COVA: Agree with Staff.

OPC: No position at this time.

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 amount is subject to the resolution of other issues.

OTHER or MISCELLANEOUS ISSUES

ISSUE 109: Should the Commission adjust the utility's proposed allowance for funds prudently invested (AFPI) charges?

POSITIONS

SSU: No. (Morse)

COVA: Agree with Staff.

OPC: No position at this time.

STAFF: The approved AFPI charges should agree with the approved cost of capital for this proceeding. Absent further explanation, the charge should be based on net plant rather than gross plant. Prepaid CIAC may also be a factor. Adjustments are also necessary to combine AFPI charges for components with different used and useful capacities.

ISSUE 110: Should the Commission adjust the utility's proposed allowance for funds used during construction (AFUDC) calculation?

POSITIONS

SSU: No. (Lewis)

COVA: Agree with Staff.

OPC: No position at this time.

STAFF: The AFUDC rate should be calculated according to Rule 25-30.116, Florida Administrative Code and adjusted for the approved capital structure for this case.

LEGAL ISSUES

ISSUE 111: Do the pronouncements of the Financial Accounting Standards Board legally compel the Commission to any specific accounting methodology for rate making procedures under Florida Statutes?

POSITIONS

SSU: No. Although the Commission is not compelled to adopt SFAS 106, it has in fact adopted the accrual accounting principles of SFAS 106 for ratemaking purposes in recent orders. See Order No. PSC-92-0708-FOF-TL, at 35-36, issued July 24, 1992 (United Telephone rate case) and final order in Docket No. 910890-EI (Florida Power Corporation rate case). The issue is not one of legal compulsion but rather whether SFAS 106 expenses are prudently and necessarily incurred. The Company believes these costs are prudently incurred and should be recovered from customers.

COVA: No position.

OPC: No. Pronouncements of the Financial Accounting Standards Board are intended for purposes other than the economic regulation of utilities in the State of Florida and are merely advisory.

STAFF: The Commission is not bound by the pronouncements of the Financial Accounting Standards Board, although such pronouncements may be valid and useful for ratemaking purposes.

ISSUE 112: May the Commission substitute SFAS 106 as the standard by which it judges whether Company expenses are incurred, and if incurred, whether reasonably incurred?

POSITIONS

SSU: No. However, the Commission should apply the accrual accounting principles of SFAS 106 for ratemaking purposes consistent with its recent orders. Such principles are consistent with the ratemaking goal of

requiring current ratepayers to pay for benefits earned and accrued and services provided by current employees. The Commission has recently applied the SFAS 106 method for recovering expenses for other post-employment benefits in the United Telephone and Florida Power Corporation rate cases. No reason exists to deviate from the Commission's policy in this rate case. The remaining question is whether such costs or projected costs are prudently and necessarily incurred. The Company believes these costs are prudently incurred and therefore should be recovered from ratepayers.

COVA: No position.

OPC: No. The Commission is required to critically examine all expenses incurred by the company, irrespective of whether they are addressed in SFAS 106, to determine whether they are reasonably incurred. The Commission cannot delegate any part of its jurisdiction to the Financial Accounting Standards Board.

STAFF: No.

ISSUE 113: Does SSU's requested recovery of the transition adjustment violate the prohibition against retroactive ratemaking?

POSITIONS

SSU: No. The inclusion of SSU's requested SFAS 106 expenses will not violate the prohibition against retroactive ratemaking as this term is interpreted under Florida law. Since the final rates derived from this proceeding will be applied only on a prospective basis following the effective date of such rates, there will be no violation of the prohibition against retroactive ratemaking.

COVA: No position.

OPC: Yes.

STAFF: No position pending development of the factual predicate on the record.

VII. EXHIBIT LIST

Prefiled Direct

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
Phillips	SSU	BTP-1	Major Additions Placed in Service in 1990 and 1991
Phillips	SSU	BTP-2	Water Utility Benchmarks Revised - <u>Standard & Poor's Creditweek</u> dated June 15, 1992
Ludsen	SSU	FLL-1	Financial, Rate and Engineering Minimum Filing Requirements of Southern States Utilities, Inc. and Deltona Utilities, Inc. (previously filed with the Commission)
		FLL-2	Supplemental Information Supplied by Southern States on June 17, 1992 to Comply with the Commission's Minimum Filing Requirements (previously filed with the Commission)
Ludsen	SSU	FLL-3	FPSC September 1988 Management Audit Report
		FLL-4	PSC Audit Correspondence
		FLL-5	Pre and Post-Audit Report Staffing Modifications of Southern States

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
Ludsen	SSU	FLL-6	Descriptions of the Duties and Responsibilities of the Administrative and General Departments of Southern States
Vierima	SSU	SWV-1	Sample of 1991 Bank Rejection Letters and Chronology of Financing Events
Hartman	SSU	GCH-1	Florida Public Service Commission Methodology for Determining the Average Service Life for R.O. Permeators
		GCH-2	Letter from Palm Coast Utilities Corporation
Morse	SSU	GSM-1	Schedule F - 5 (Corrected) - Beechers Point

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
Morse	SSU	GSM-2	Schedule F-5 (Corrected) - Amelia Island
		GSM-3	Schedule F-8 (Corrected) - Amelia Island
Sweat	SSU	CLS-1	Southern States Contributions to Innovative Reuse of Effluent
Sweat	SSU	CLS-2	Complaints Received by the Florida Public Service Commission from Southern States' Customers
Loucks	SSU	HL-1	Residential Bill under Required Stand Alone Rates at Average Usage
		HL-2	Weighted Average Residential Bills for Water and Wastewater Service at Average Usage
		HL-3	Conversion to Monthly Billing and ERCs Using AWWA Standards
		HL-4	Systems with Residential Bills Higher than the Proposed Maximum Bill

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
Loucks	SSU	HL-5	Recalculated System Revenues Using Proposed Maximum Bill
		HL-6	Systems Contributing to Proposed Maximum Bill Adjustment
Cresse	SSU	JPC-1	Resume of Joseph P. Cresse
		JPC-2	Revenues Required to Be Reduced For Systems Which Exceed Maximum Residential Bill At 10,000 Gallons Consumption
Jones	COVA	HJ-1	Rates Chart, Letter from A. William Oleson to Director, Division of Records and Reporting, dated August 4, 1992, Percentage Impact Chart, Comparison Chart
		HJ-2	Rate Schedule - water
		HJ-3	Rate Schedule - wastewater
		HJ-4	Letter from Harry C. Jones to FPSC, dated August 10, 1992 with attached Exhibits A & B

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
Dismukes	OPC	KHD-1	Consisting of eight schedules; Appendix setting forth Qualifications
Montanaro	OPC	VAM-1	GTE letter to FASB, Nov. 9, 1989
		VAM-2	GTE letter to FASB, June 28, 1990
		VAM-3	Joint Letter July 11, 1990 to USTA re FASB conference call
		VAM-4	Actuarial Valuation of Current and Alternative Benefits
		VAM-5	Foster and Higgins Study of Health Care Benefits
		VAM-6	Late filed Deposition Response Hewitt and Associates
		VAM-7	TPF&C Survey of Discount Rates
		VAM-8	GTE's August 7, 1989 Letter to the FASB
		VAM-9	Goodwin's comments FASB's ED November 3, 1989
		VAM-10	Proposed Actuarial Compliance Guideline for SFAS 106

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
Montanaro	OPC	VAM-11	Special Edition - Management Report
Todd	STAFF	JRT-1	Audit Report
Shafer	STAFF	GLS-1	Examples of Linear Regression
Schobert	STAFF	NS-1	Compliance Evaluation Inspection
Squitieri	STAFF	JS-1	Compliance Evaluation Inspection
Ball	STAFF	BB-1	Consent Order
		BB-2	Warning Notice
Burghardt	STAFF	PB-1	Consent Order

Prefiled Rebuttal

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
Vierima	SSU	SWV-2	Public Counsel Interrogatory No. 176 to Southern States Utilities, Inc. Concerning Merger Efficiencies and the Company's Response Thereeto
Ludsen	SSU	FLL-7	Adjusted Non-Used and Useful Percentages for Property Tax Purposes
	SSU	FLL-8	Information Sub- stantiating Requested 5% Pay-roll Increase

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
Ludsen	SSU	FLL-9	Water Utility Compensation and Benefit Survey Results
Kimball	SSU	JJK-1	Southern States 1988 Tangible Personal Property Tax Return
		JJK-2	Previous Owners 1987 Tangible Personal Property Tax Return
		JJK-3	1990 Tangible Personal Property Invoice for Sugar Mill Woods Property
		JJK-4	1990 Tangible Personal Property Invoice for Sugar Mill Woods Property
		JJK-5	Property Value Information
Sweat	SSU	CLS-3	Brenda Ball (DER) Correspondence to Bob Williams, Citrus Springs System
		CLS-4	Mr. Maher (DER) Correspondence Silver Lake Oaks System
		CLS-5	Bruce Paster (SSU) Correspondence with Donald White (DER) Fisherman's Haven and Leilani Heights System
		CLS-6	John Levesque (SSU), November 19, 1991 Correspondence with David MacColeman (DER) Sugar Mill Woods System

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
Sweat	SSU	CLS-7	Melvin Fisher (SSU), April 29, 1992 Correspondence with David G. MacColeman (DER) Sugar Mill Woods Inspection
Hartman		GCH-3	Capital Cost Curves
		GCH-4	M e m o r a n d u m o f Understanding Between Florida Department of Environmental Regulation and Florida Public Service Commission
		GCH-5	Commission Staff Current Draft of Used and Useful Rules

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

VIII. PROPOSED STIPULATIONS

At the Prehearing Conference, several proposed stipulations were reached. These proposed stipulations fall into four general categories: (1) Those stipulations where the utility and Staff agreed, but where none of the other parties took part in the stipulations or took positions on the issues from which the stipulations were derived; (2) Those where all of the parties and Staff agreed; (3) Those where the utility, OPC, and Staff agreed, but where COVA did not take part nor take positions on the issues from which the stipulations were derived; and (4) Those where the utility, COVA, and Staff agreed, but where OPC did not take part nor take positions on the issues from which the stipulations were derived. The proposed stipulations are listed below by category.

Category One Stipulations

1. Western Shores and Silver Lake Estates should be considered one system for ratemaking purposes.
2. Interlachen Lake Estates and Park Manor should be considered one system for ratemaking purposes.
3. Saratoga Harbor and Welaka should be considered one system for ratemaking purposes.
4. The Commission should set the cost of equity using the leverage formula in effect at the time of 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.
5. The following plant retirements should be made for the Rolling Green water system due to that systems' interconnection with another system:

<u>Acct.#</u>		<u>\$ Retirement</u>
304.2	Structures & Improv - Source of Supply	\$1,252.14
304.3	Structures & Improv - Treatment Plant	627.26
305.2	Collection Reservations	4.06
307.2	Wells & Springs	16,599.46
309.2	Supply Mains	7.96
310.2	Power Generation Equipment	4.58
339.2	Other Plant & Misc - Equip-Pumping Plant	(5.14)

The accumulated depreciation for these retirements is:

304.2	Structures & Improv - Source of Supply	\$ 118.60
304.3	Structures & Improv - Treatment Plant	60.36
305.2	Collection Reservations	.20
307.2	Wells & Springs	1,679.88
309.2	Supply Mains	.40
310.2	Power Generation Equipment	.22
339.2	Other Plant & Misc - Equip-Pumping Plant	(.26)

The CIAC associated with the retired assets is \$16,568.64 and accumulated amortization of CIAC associated with the retired assets is \$902.44.

6. Water plant distribution system additions at Quail Ridge were not classified in the proper accounts. The appropriate adjustments are contained in the utility's response to Staff Interrogatory No. 75, which will be stipulated into the record as an Exhibit.

7. The average provision for net plant for the Deltona Lakes wastewater collection system should be increased by \$97,778; depreciation expense should be increased by \$2,222.

8. Public fire protection rates should be eliminated.

Category Two Stipulations

9. The rate base provision for deferred income taxes should be reduced to the extent prepaid amounts (debit accounts) correspond to interim rates from Docket No. 900329-WS which are to be refunded.

10. Plant in service for the Venetian Village system should be reduced by \$19,736 to correct a double-counting error. Average rate base should be reduced by \$9,375, and depreciation expense should be reduced by \$987.

11. The South Forty wastewater plant balance should be reduced by \$269,774 with corresponding adjustments to accumulated depreciation, depreciation expense and nonused and useful balances.

12. The land balance for Deltona Lakes should be reduced by \$30,000 to correspond with an appraisal performed in 1992.

13. Water systems CIAC should be adjusted to correct errors detected during the staff audit. The adjustments are as follows:

Name of System	CIAC	Accum Amort	Depr. Exp
<u>WATER SYSTEMS</u>			
Amelia Island	\$(10,556)	\$1,161	\$(372)
Apache Shores	\$(387)	\$80	\$(12)
Carlton Village	\$(100)	\$11	\$(3)
Daetwyler Shores	\$(500)	\$74	\$(15)
East Lake Harris	\$(350)	\$39	\$(11)
Fern Terrace	\$225	\$(29)	\$7
Friendly Center	\$(475)	\$62	\$(15)
Golden Terrace	\$(1,270)	\$246	\$(39)
Hermits Cove	\$(475)	\$57	\$(15)
Interlachen Lakes	\$(2,100)	\$287	\$(65)
Keystone Heights	\$(103)	\$13	\$(3)
Lake Conway Park	\$(40)	\$7	\$(1)
Leilani Heights	\$(11,038)	\$1,430	\$(342)
Oak Forest	\$450	\$(54)	\$14
Palm Port	\$(1,250)	\$158	\$(39)
Palms Mobile Home Park	\$(75)	\$13	\$(2)
Piccola Isle	\$(775)	\$95	\$(24)
Piney Woods	\$450	\$(50)	\$14
Pomona Park	\$(1,975)	\$250	\$(61)
Postmaster Village	\$7,650	\$(842)	\$237
River Park	\$(1,800)	\$234	\$(56)
Skycrest	\$(9,899)	\$1,089	\$(307)
St. Johns Highlands	\$(525)	\$64	\$(16)
Tropical Park	\$1,690	\$(310)	\$52
University Shores	\$(635,586)	\$50,554	\$(26,376)
Venetian Village	\$388	\$(50)	\$12
Welaka	\$(225)	\$29	\$(7)

14. Wastewater systems CIAC should be adjusted to correct errors detected during the staff audit. The adjustments are as follows:

Name of System	CIAC	Accum Amort	Depr. Exp
<u>WASTEWATER SYSTEMS</u>			
Amelia Island	\$(6,342)	\$698	\$(197)
Apache Shores	\$137	\$(46)	\$4
Leilani Heights	\$412	\$(159)	\$13
Palm Port	\$(650)	\$86	\$(20)
University Shores	\$332,640	\$(98,722)	\$10,651
Venetian Village	\$(613)	\$80	\$(19)

15. Rate bases and expenses should be adjusted to correct misclassifications detected during the staff audit. The adjustments are as follows:

<u>Name of System</u>	<u>W/S</u>	<u>Net Plant</u>	<u>Depr. Exp.</u>	<u>Oper. Exp</u>
Citrus Springs	W	\$1,019	\$13	\$(1,032)
Jungle Den	S	\$1,669	\$16	\$(1,684)
University Shores	W	\$2,031	\$88	\$(2,118)

16. Adjustments should be made to correct errors in reporting previously-established rate base amounts, as stated in the staff audit. The adjustments are as follows:

Name of System	W/S	Plant	Accum Depr	Depr. Exp
Citrus Park	W	\$(19,471)	\$1,509	\$(604)
Citrus Park	S	\$8,677	\$(672)	\$269
Daetwyler Shores	W	\$3,704	\$(889)	\$74
Keystone Heights	W	\$1,500	\$0	\$0
Lake Conway Park	W	\$(3,705)	\$889	\$(74)
Rolling Green	W	\$29,195	\$(3,620)	\$905
Salt Springs	W	\$17,781	\$(1,378)	\$551
Salt Springs	S	\$(10,675)	\$827	\$(331)
Samira Villas	W	\$(869)	\$67	\$(27)
South Forty	S	\$14,889	\$(1,154)	\$462

Name of System	W/S	CIAC	Accum Amort	Depr. Exp
Citrus Park	W	\$1,439	\$(112)	\$45
Citrus Park	S	\$213	\$(17)	\$7
Daetwyler Shores	W	\$(7,892)	\$1,894	\$(158)
Fisherman's Haven	W	\$100	\$(11)	\$3
Grand Terrace	W	\$41,800	\$(1,672)	\$836
Interlachen Lake Est.	W	\$(675)	\$126	\$(21)
Lake Conway Park	W	\$7,892	\$(1,894)	\$158
Rolling Green	W	\$(29,195)	\$2,336	\$(584)
Salt Springs	W	\$11,738	\$(910)	\$364
Salt Springs	S	\$(113)	\$9	\$(4)
Samira Villas	W	\$(7,360)	\$570	\$(228)
St. Johns Highland	W	\$(225)	\$42	\$(7)

Name of System	W/S	Acq. Adjust	Accum Amort	Depr. Exp
Apache Shores	W	\$(2,358)	\$542	\$(47)
Apache Shores	S	\$(3,937)	\$906	\$(79)

17. Test year revenues should be adjusted to reflect annualized miscellaneous charges, the correct original rates prior to Docket No. 900329-WS, and adjustments required based on the billing analysis. These amounts are as stated in the interim order.

18. Test year expenses should be reduced by \$1,447 to remove from the test year expenses for a drinking water study performed in 1984.

19. Test year expenses should be reduced by \$2,984 to remove certain organizational costs expensed during the test year.

20. Test year expenses should be reduced by \$5,641 to reflect above the line treatment for vendor discounts.

21. Test year expenses should be reduced by a minimum of \$1,541 to remove charitable contributions.

22. Test year expenses should be reduced by \$32,739 to remove DER-mandated testing that the Company failed to defer and amortize.

Category Three Stipulations

23. The fire flow requirement for the Deltona Lakes system is 2,500 gallons per minute for 2 hours.

24. Rate base provisions for land should be adjusted due to mechanical errors in calculating the impact of appraisals as stated in the staff audit. The adjustments are as follows:

<u>Name of System</u>	<u>Water</u>	<u>Wastewater</u>
Marion Oaks	\$22,121	\$(80,850)
Pine Ridge Utilities	\$(1,057)	
Spring Hill		\$(185,367)
Sunny Hills	\$(14,852)	

Category Four Stipulations

25. The base facility and gallonage charge rate structure should be implemented for all systems.

26. The billing cycles for all systems should be converted to monthly billing.

IX. PENDING MOTIONS

Ruling is reserved on the following motions:

1. SSU's September 2, 1992, Second Request for Confidential Classification and Motion for Protective Order.
2. SSU's October 12, 1992, Third Request for Confidential Classification and Motion for Protective Order.
3. SSU's October 14, 1992, Motion for Expedited Discovery.

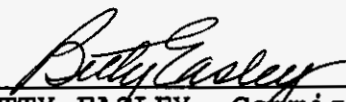
X. RULINGS

SSU's oral motion for an additional day to file it's rebuttal testimony was granted with the understanding that SSU would hand deliver said testimony to counsel for OPC.

It is therefore,

ORDERED by Commissioner Betty Easley, 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 Betty Easley, as Prehearing Officer, this 4th day of November, 1992.



BETTY EASLEY, Commissioner
and Prehearing Officer

(S E A L)

BE/MJF/CB

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

ORDER NO. PSC-92-1265-PHO-WS
DOCKET NO. 920199-WS
PAGE 88

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.

MEMORANDUM

October 19, 1992

TO: DIVISION OF RECORDS AND REPORTING
FROM: DIVISION OF LEGAL SERVICES (FEIL) *ML*
RE: DOCKET NO. 920199-WS - APPLICATION FOR RATE INCREASE BY
SOUTHERN STATES UTILITIES, INC.

Attached is a Notice of Hearing to be issued in the above-referenced docket.

MJF/slc
cc: Division of Water and Wastewater
Court Reporter
Public Information

NH-WS
CO'S

OK
CP

*05, 08, 36, 09, 10, 16
28, 35, 42, 43, 45, 48, 49, 51, 54.
52, 61, 11, 27, ~~6~~*