

FLORIDA PUBLIC SERVICE COMMISSION
Capital Circle Office Center, 2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

M E M O R A N D U M

FEBRUARY 8, 1996

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF LEGAL SERVICES (VACCARO) *W JAS*
DIVISION OF WATER AND WASTEWATER (GOLDEN) *COM BL*

RE: DOCKET NO. 941151-WS - ORANGE-OSCEOLA UTILITIES, INC. -
APPLICATION FOR TRANSFER OF FACILITIES FROM ORANGE-
OSCEOLA UTILITIES, INC. TO SOUTHERN STATES UTILITIES,
INC. IN OSCEOLA COUNTY, INCLUDING TRANSFER OF CERTIFICATE
NO. 289-S, AMENDMENT OF CERTIFICATE NO. 066-W FOR
ADDITIONAL TERRITORY, AND CANCELLATION OF CERTIFICATE NO.
335-W
COUNTY: OSCEOLA

AGENDA: FEBRUARY 20, 1996 - REGULAR AGENDA - INTERESTED PERSONS
MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: I:\PSC\LEG\WP\941151C.RCM

CASE BACKGROUND

Orange-Osceola Utilities, Inc. (OOU or utility) is a Class A utility which provides water and wastewater service to customers in the Buenaventura Lakes development in Osceola County. According to the utility's 1994 annual report, the utility serves 8,740 water customers and 7,010 wastewater customers. In 1994, the utility had annual operating revenues of \$1,166,244 and \$2,563,684 for water and wastewater, respectively. Additionally, the utility had net operating income of \$279,913 for water and \$593,738 for wastewater.

Southern States Utilities, Inc. (SSU or utility) is a Class A utility which provides water and wastewater service to 73,399 water customers and 34,662 wastewater customers in Florida. According to SSU's 1994 annual report, the utility had annual operating revenues of \$23,833,363 for water and \$16,757,514 for wastewater. The utility had a net operating income of \$3,209,786 and \$2,360,462 for water and wastewater, respectively.

DOCUMENT NUMBER-DATE
01503 FEB-8 1996
PSC-RECORDS/REPORTING

DOCKET NO. 941151-WS
DATE: FEBRUARY 8, 1996

On October 27, 1994, SSU filed an application for transfer of facilities from OOU to SSU. By Order No. PSC-95-1325-FOF-WS, issued October 31, 1995, the Commission approved the transfer of OOU to SSU. On November 21, 1995, OOU filed a protest to Order No. PSC-95-1325-FOF-WS and request for hearing pursuant to the provisions of Chapter 120.57(1), Florida Statutes. The protest was limited to the Commission's disallowance of capitalized interest in the utility's rate base. On November 30, 1995, SSU filed a petition to intervene in these proceedings. The Commission granted SSU's request to intervene by Order No. PSC-96-0088-PCO-WS, issued January 17, 1996. An administrative hearing has been scheduled for July 1 and 2, 1996.

On June 28, 1995, SSU filed an application for a rate increase. That request is currently being reviewed under Docket No. 950495-WS. In anticipation of completing the purchase of the OOU facilities prior to completing the rate case, SSU included OOU in its rate application. OOU and SSU closed on the sale of the utility on December 1, 1995. Staff believes it may be more appropriate to address the capitalized interest issue in SSU's current rate case rather than have a separate proceeding within the transfer docket. The following is staff's recommendation regarding this matter.

DOCKET NO. 941151-WS
DATE: FEBRUARY 8, 1996

DISCUSSION OF ISSUES

ISSUE 1: Should Docket No. 941151-WS be merged into Docket No. 950495-WS for the purpose of addressing the protested portion of Order No. PSC-95-1325-FOF-WS issued in Docket No. 941151-WS?

RECOMMENDATION: Yes. (VACCARO, GOLDEN)

STAFF ANALYSIS: Rule 25-22.035(2), Florida Administrative Code, states:

Consolidation: If there are separate matters before the presiding officer which involve similar issues of law or fact, or identical parties, the matters may be consolidated if it appears that consolidation would promote the just, speedy and inexpensive resolution of the proceedings, and would not unduly prejudice the rights of a party. Any party to a proceeding may request that it be consolidated with proceedings, or the presiding officer may on his or her own initiative order separate proceedings to be consolidated.

Staff believes that the application of this rule is appropriate in this case, and Dockets Nos. 941151-WS and 950495-WS should be consolidated.

By Order No. PSC-95-1325-FOF-WS, issued October 31, 1995, the Commission established OOU's rate base for transfer purposes at \$2,140,037 for the water system and \$7,118,305 for the wastewater system. In determining the rate base for transfer purposes, the Commission disallowed all of the capitalized interest that the utility had accrued from July 1, 1987 through December 31, 1994. Specifically, the Commission reduced rate base by \$28,684 for water and \$364,152 for wastewater to remove the capitalized interest from rate base. As discussed in the case background, OOU protested that portion of the rate base calculation.

Also, as discussed in the case background, SSU is currently involved in a rate proceeding before this Commission and has included OOU in its application. As part of that docket, the Commission will determine the appropriate rate base and final rates for the OOU system. The hearing in Docket No. 950495-WS is currently scheduled for May 13 through 16, 1996. The hearing in Docket No. 941151-WS is scheduled for July 1 and 2, 1996. Therefore, as presently scheduled, the issue of capitalized interest will not be fully resolved until after the hearing is held to determine OOU's rate base and rates in the rate proceeding. If

DOCKET NO. 941151-WS
DATE: FEBRUARY 8, 1996

the Commission reverses its decision to disallow the capitalized interest in the transfer docket, the rates which are calculated in the rate case will no longer be accurate. An adjustment of this magnitude could warrant a limited proceeding to adjust the rates set in the rate case.

Staff believes this situation meets the criteria set forth in Rule 25-22.035(2), Florida Administrative Code, and Dockets Nos. 941151-WS and 950495-WS should be consolidated. First, both dockets involve the similar issue of setting rate base for the OOU system. Also, SSU is a party to both dockets, and OOU could easily be made a party to the rate case. Although the witnesses for Docket No. 941151-WS have not been specified as yet, staff believes it is likely that some of the witnesses will be the same witnesses who are testifying in the rate case docket.

The Rule specifies that the dockets may be consolidated if it appears that consolidation would promote the just, speedy and inexpensive resolution of the proceedings, and would not unduly prejudice the rights of a party. Staff believes that consolidation of the dockets is the most efficient manner in which to address the issue of OOU's rate base. It will eliminate the need for a second hearing, result in a quicker resolution of the protested issue, and possibly avoid a future limited proceeding. Further, with the exception that the parties to the transfer docket may have less time in which to file their testimony, staff does not believe that consolidation of the dockets will prejudice the rights of any party. Inasmuch as OOU's rate base will be fully reviewed in the rate case, staff believes it is more appropriate to resolve the issue of capitalized interest within the rate case.

In summary, staff recommends that Dockets Nos. 941151-WS and 950495-WS should be consolidated for the purpose of addressing the protested portion of Order No. PSC-95-1325-FOF-WS.

DOCKET NO. 941151-WS
DATE: FEBRUARY 8, 1996

ISSUE 2: If Issue 1 is approved, should parties be allowed to prefile testimony on the issue of whether to include capitalized interest in Orange/Osceola Utilities, Inc.'s rate base?

RECOMMENDATION: Yes. If the Commission approves Issue 1, affected parties should be allowed to prefile testimony limited to the issue of whether capitalized interest should be included in OOU's rate base. Testimony as limited herein should be filed by the following dates:

Utility Testimony (OOU) February 13, 1996
Intervenor Testimony
(all other parties,
including SSU) March 4, 1996
Staff Testimony (if any) March 4, 1996
Rebuttal Testimony March 11, 1996

STAFF ANALYSIS: Rule 25-22.048, Florida Administrative Code, states that "[a] presiding officer may require all parties to prefile testimony and shall provide reasonable notice to the parties of the date testimony shall be prefiled." As of the writing of this recommendation, OOU is scheduled to prefile its testimony in Docket No. 950495-WS on February 13, 1996. Prehearing statements are due in Docket No. 950495-WS, on March 11, 1996.

If the Commission approves Issue 1, staff believes that parties should be allowed to prefile testimony on the issue of whether to include capitalized interest in OOU's rate base. Testimony should be limited to the issue of whether capitalized interest should be included in OOU's rate base. The testimony should be filed by the following dates:

Utility Testimony (OOU) February 13, 1996
Intervenor Testimony
(all other parties,
including SSU) March 4, 1996
Staff Testimony (if any) March 4, 1996
Rebuttal Testimony March 11, 1996

DOCKET NO. 941151-WS
DATE: FEBRUARY 8, 1996

ISSUE 3: Should this docket be closed?

RECOMMENDATION: Yes, if the Commission approves Issue 1 of staff's recommendation. (VACCARO, GOLDEN)

STAFF ANALYSIS: If the Commission approves Issue 1 of staff's recommendation, OOU's protest of Order No. PSC-95-1325-FOF-WS will be resolved in the hearing scheduled in Docket No. 950495-WS. Since there will be no remaining issue issues in Docket No. 941151-WS, it should be closed.