STATE OF FLORIDA

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ORIGINAL
FILE COPY

December 20, 1996

Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Re: Case No. 960451-WS

Dear Ms. Bayo:

Enclosed for filing in the above-referenced docket are the original and 15 copies of Citizen's Prehearing Statement. A diskette in WordPerfect 6.1 is also submitted.

Please indicate the time and date of receipt on the enclosed duplicate of this letter and return it to our office.

Sincerely,

Harold McLean
Associate Public Counsel

HM:bsr
Enclosure

ACK ____
AFA 2
APP ____
CAF ____
CMU ____
CTR ____
EAG ____
LEG 2
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OPC ____
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SEC 1
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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: Application for a rate increase in Dual, Nassau, and St. Johns Counties by United Water Florida, Inc.	))) /	Docket No 960451-WS Filed: December 20, 1996

ORIGINAL FILE COPY

CITIZENS' PREHEARING STATEMENT

The Citizens of the State of Florida, by and through their undersigned attorney, file this Prehearing Statement and state:

1. All Known Expert Witnesses:

Hugh Larkin Jr.
15728 Farmington Road
Livonia, Michigan 48154

Donna DeRonne
15728 Farmington Road
Livonia, Michigan 48154

2. All Known Exhibits:

Exhibit __ (HL-1) Which accompanies the Testimony of Mr. Larkin and Ms. DeRonne.

3. Basic Position:

The rate application filed by United Water Florida (UHF) does not justify the increased revenues requested therein.

4. GENERAL ISSUES

RATE BASE

ISSUE 1. Is UHF's quality of service adequate?

OPC POSITION: No position pending receipt of customer testimony.

ISSUE 2. Is UHF's use of future test year end amounts for plant in service, accumulated depreciation, CIAC and accumulated amortization of CIAC appropriate? (Similar to Staff Issue 2)

OPC POSITION: No, it is not. The thirteen month average balances should be utilized in determining test year rate base. The use of the future test year end amounts for determining plant in service, accumulated depreciation, contributions in aid of construction (CIAC) and accumulated amortization of CIAC violates the matching principle. UHF's proposed water and wastewater rate base should be reduced by $2,658,661 and $5,337,543, respectively, in order to reflect the thirteen month average balances.

ISSUE 3. Is the projected level of additions to plant in service appropriate for inclusion in rate base?

OPC POSITION: No. UHF has made substantial revisions to the projected capital additions included in its filing. Additionally, actual additions through September 1996 were considerably less than budgeted. These revisions should be reflected in plant in service. The thirteen month average plant in service should be reduced by $3,176,951 and $2,610,939 for UHF's water and wastewater operations, respectively, in order to reflect UHF's revised projected additions to plant in service.

ISSUE 4. What impact does the inclusion of UHF's revised projected additions to plant in service have on accumulated depreciation?

OPC POSITION: The thirteen-month average accumulated depreciation balances should be decreased by $590,243 and $536,519 for the water and wastewater operations, respectively, in order to reflect the impact of UHF's revisions to its projected additions to plant in service.

ISSUE 5. Are any additional adjustments to accumulated depreciation necessary? (Similar to Staff Issue 18)

OPC POSITION: In Staff's Audit Report for the Fourteen Years Ended December 31, 1994 (Audit Control # 93-216-1-1), Staff recommended an adjustment to UHF's accumulated depreciation balance. In 1986, UHF changed its depreciation rates. The change was not in compliance with the Commission's specific guidelines for the determination of depreciation for water and wastewater companies. The Company should have waited until its next rate filing, i.e., the instant case, to change its depreciation rates. Staff recalculated accumulated depreciation for the years 1986 through 1994 based on the rates approved by the Commission in UHF's last rate case. Staff's calculations resulted adjustments which increased water accumulated depreciation by $1,262,048 and decreased wastewater accumulated depreciation by $173,981. These adjustments should be reflected.

ISSUE 6. Does the filing reflect an appropriate level of accumulated amortization of the Company's acquisition adjustments? (Similar to Staff Issue 20)

OPC POSITION: No, it does not. The Company has not begun amortizing its acquisition adjustments on its books; consequently, the filing only included the amortization that it expects to accrue during 1997. Similar to the treatment of depreciation expense on plant assets, the

Company should have begun amortization of the acquisition adjustments when the adjustments were recorded on the Company's books. Assuming that the Company's proposed 20 year amortization period is allowed, water and wastewater rate base should be reduced by an additional $145,660 and $284,547, respectively, in order to reflect an appropriate level of accumulated amortization on the acquisition adjustments, with amortization beginning when the acquisition adjustments were booked.

ISSUE 7. Should any unfunded liability for Other Postretirement Benefits be reduced from rate base?

OPC POSITION: Yes. Any unfunded OPEB liability should be reduced from rate base, consistent with Commission policy. The Company will provide the amount of any unfunded liability for the test year, along with the amounts allocated to water and wastewater operations, in response to Late Filed Exhibit No. 6 from the Deposition of Matthias Just on December 12, 1996.

ISSUE 8. Is there excessive unaccounted for water, and if so, what adjustments are necessary? (Staff Issue 8)

OPC POSITION: Yes, there is excessive unaccounted for water in several of UHF's service areas. For example, according to Company Schedule F-1, UHF's Milmar Manor service area has a 41.6% unaccounted for water rate, the Ponce DeLeon area has a 20.8% unaccounted for water rate, the Ridgeland area has a 22.3% unaccounted for water rate, the Riverview area has a 25% unaccounted for water rate and the Town and Country area has a 45.9% unaccounted for water rate. Reductions to test year purchased power and chemical costs should be made accordingly.

ISSUE 9. Are used and useful adjustments to rate base necessary? (Similar to Staff Issues 12 - 14)

OPC POSITION: Yes. The Company has included all of its plant items as being 100% used and useful, despite the fact that UHF has projected some additions to plant in service which will increase capacity beyond the needs of current customers.. A used and useful analysis should be conducted and appropriate adjustments should be made..

COST OF CAPITAL

ISSUE 10. Did the Company correctly calculate the deferred income taxes included in the capital structure?

OPC POSITION: No. The Company incorrectly calculated the thirteen month average deferred income taxes included in the capital structure. The thirteen month average balance of deferred income taxes was understated by $52,777.

ISSUE 11. Is the balance of deferred income taxes included by the Company in the capital structure appropriate?

OPC POSITION: No, it is not. The Company did not reflect the impact of the projected plant additions for 1996 and 1997 on the deferred income tax balances. Deferred income taxes should be increased by $139,398 to reflect the impact of the projected plant additions on a thirteen month average basis.

ISSUE 12. Is there any additional low cost debt that should be reflected in the capital structure?

OPC POSITION: Yes. In 1995, United Waterworks issued $20 million of 6.35% tax-exempt revenue bonds through the City of Jacksonville Florida, with the proceeds to be used to fund capital improvements of United Water Florida. The Company's Florida ratepayers should receive the benefit of the low cost debt. The capital structure should be adjusted to reflect Citizens adjusted rate base amounts, with all plant additions occurring in 1996 and 1997 assigned to the debt component of the capital structure in order to give the Florida ratepayers credit for the amount of debt issued for projects in the State of Florida. This is shown on Exhibit__(HWS-1), Schedule 2.

ISSUE 13. What is the appropriate weighted cost of debt?

OPC POSITION: The weighted cost of debt should be reduced from 8.72% to 8.57% in order to reflect the issuance of the full $20 million of tax free bonds issued for United Water Florida.

ISSUE 14. What is the appropriate cost rate for common equity? (Staff Issue 26)

OPC POSITION: The appropriate cost rate of common equity is 11.88% based on Citizens revised capital structure and the maximum return on equity authorized by the Commission in Docket No. 96006WS, which reestablished the authorized range of returns on common equity.

ISSUE 15. What is the appropriate rate of return?

OPC POSITION: The appropriate rate of return is 9.62%. See Exhibit__(HWS-1), Schedule 2.

NET OPERATING INCOME

ISSUE 16. Should test year revenues be increased to reflect the impact of UHF's proposed $3 late payment fee?

OPC POSITION: If UHF is permitted to impose its proposed $3 late payment fee, then test year revenues should be increased by $162,000 ($90,331 water and $71,669 wastewater) in order to reflect the associated revenue that will be collected. (See Citizens Interrogatory No. 45 for determination of the amount.)

ISSUE 17. Are any adjustments necessary to the projected test year salary and wage expense? (Staff Issue 33)

OPC POSITION: Yes. First, UHF has acknowledged an error in the base year salary and wage expense included in its adjustment calculations. (Staff Interrogatory No. 62) Base year salaries and wages were overstated by $53,925. Base year O&M expenses were understated by the same amount. Additionally, the Company's filing included vacant positions and four new positions, resulting in a projected employee count of 106 employees. The Company has since removed the four projected new positions. Future test year salary and wage expense should be adjusted to remove the four deleted positions and the positions that are currently vacant, resulting in an adjusted employee count of 98 employees. UHF's proposed adjustment to salary and wage expense should be reduced by $88,878 and $103,953 for water and wastewater operations, respectively. The adjustment reflects the correction to the base year salary and wage expense, UHF's revised 1997 salary and wage costs and the removal of the six positions that were included in UHF's revised projection (Citizens Interrogatory No. 56) that are currently vacant. Additionally, test year non-payroll O&M expense should be increased by $47 and $56,648 for water and wastewater operations, respectively. These are the amounts which the Company incorrectly included in base year salary and wage expense instead of non-payroll O&M expense, increased for the 1996 and 1997 price indexes of 2.4% and 2.5%, respectively.

ISSUE 18. Should payroll tax expense be adjusted?

OPC POSITION: Yes. Payroll tax expense should be reduced by $6,769 and $12,035 for the water and wastewater operations, respectively. This reflects the impact on payroll tax expense resulting from Citizens recommended adjustments to salary and wage expense.

ISSUE 19. Is UHF's projected 9% increase in medical and dental costs occurring between 1996 and 1997 appropriate?

OPC POSITION: No. The Company has provided no evidence substantiating the projected 9% cost increase, nor did it provide any quotes or estimates from its insurers substantiating the increase. The 1997 gross domestic price deflator of 2.5% should be utilized in projecting test year medical and dental costs.

ISSUE 20. Is UHF's projected test year medical, dental and life insurance expenses reasonable?

OPC POSITION: No. UHF's proposed medical, dental and life insurance expense should be reduced by $25,393 for water operations and $45,142 for wastewater operations. The adjustment allows for the latest known medical and dental premiums and employee contributions, per UHF, at UHF's current employee count of 98 employees, increased by 2.5%. The Company's filing included the latest known medical and dental premiums and employee contributions applied to its projected employee count of 106 employees, increased by 9%. The recommended adjustment excludes the "Retiree" medical costs included by UHF, as such retiree medical costs should already be included in UHF's OPEB adjustment. The adjustment also recalculates the life insurance cost based on Citizens' adjusted salary and wage costs.

ISSUE 21. Are any adjustments necessary to the test year expenses related to the employee savings program (401k)? (Staff Issue 37)

OPC POSITION: Yes. UHF's proposed test year savings plan expense should be reduced by $4,665 for water operations and $8,292 for wastewater operations. This allows for the historic test year level, increased by Citizens' recommended percentage increases in salary and wage expense. UHF inappropriately reflected a 100% participation rate at its initially projected employee count of 106 employees.

ISSUE 22. What is the appropriate expense level for Other Post Retirement Benefits (OPEBs)? (Similar to Staff Issue 36)

OPC POSITION: UHF's proposed test year OPEB expense should be reduced by $17,875 in order to reduce the service cost component to reflect Citizens' proposed employee count of 98 employees, as opposed to UHF's inclusion of its initially projected employee count of 106 employees. Citizens' proposed employee count excludes the four positions deleted by UHF and excludes the currently vacant positions.

ISSUE 23. What adjustments, if any, are necessary the utility's requested expense for vehicle leasing? (Staff Issue 40)

OPC POSITION: The Company has included leasing costs in the future test year for the leasing of 54 vehicles. This level appears excessive considering the Company's revised projected employee count of 102 employees and the current employee count of 98 employees.

ISSUE 24. Should expenses related to charitable contributions and membership dues be included in test year expense? (Staff Issue 44)

OPC POSITION: Test year expenses should be reduced by $722 and $1,283 for water and wastewater operations, respectively, in order to remove donations and contributions expense. While contributing to such organizations produces a societal benefit, ratepayers should independently and directly choose the organizations to which they contribute, rather than being forced to support the organizations UHF favors through indirect contributions collected in utility rates.

Additionally test year expenses should be reduced by $486 and $863 for water and wastewater operations, respectively, in order to remove

ISSUE 25. Should expenses related to lobbying efforts be included in test year expenses? (Staff Issue 46)

OPC POSITION: No. Test year water expenses should be reduced by $503 and test year wastewater expenses should be reduced by $895 in order to eliminate lobbying expense from the future test year. Lobbying expense supports the advancement of UHF's stance on issues before political bodies; ratepayers may or may not agree with the Company's stance and should not be forced to fund the Company's endeavors in this area.

ISSUE 26. Should public relations expenditures be included in test year expenses?

OPC POSITION: No. Test year expenses should be reduced by $1,525 for water and $2,711 for wastewater operations to remove public relations advertising expense. Additionally, future test year expenses should be reduced by $15,326 and $27,246 for water and wastewater operations, respectively, in order to remove the position of Manager - External Affairs Business Development, whose job function pertains to public relations. Public relations expenditures enable the Company to promote its corporate name and to publicize itself as a good corporate citizen. UHF's shareholders, not ratepayers, should support these types of expenditures. Unless the Company can demonstrate that a portion of the Manager - External Affairs Business Development's job duties relate to safety or conservation activities, the expense associated with the position should be excluded.

ISSUE 27. Should legal costs associated with UHF's defense of EPA or DER violations be included in test year expense?

OPC POSITION: No. Test year expenses should be reduced by $163 for water operations and $290 for wastewater operations to remove legal expenses associated with UHF's violations of EPA and DER regulations, which were recorded above the line by the Company.

ISSUE 28. Should depreciation expense be calculated based upon the thirteen-month average plant in service balance or the test year end balance?

OPC POSITION: Depreciation expense should be calculated based on the test year thirteen month average plant in service balance, consistent with the appropriate treatment of plant in service in rate base. Depreciation expense should be reduced by $211,220 for water operations and $296,646 for wastewater operations in order to reflect depreciation expense calculated on the appropriate methodology.

ISSUE 29. Were there any errors included in UHF's depreciation expense calculations?

OPC POSITION: Yes. UHF made a transposition error in its filing. Based on Company Schedules B-13, A-3 and A-14, the combined depreciation expense and amortization of CIAC for water operations should have been $1,232,173; however, Company Schedule B-3 and G-41 reflected $1,323,173 as the combined amount. The correction of the transposition error is reflected in Citizens adjustment to reflect depreciation expense based on the thirteen month average plant in service balance.

ISSUE 30. What adjustment to depreciation expense is necessary to reflect the impact of UHF's revisions to plant additions?

OPC POSITION: Depreciation expense should be reduced by an additional $94,673 for water operations and $92,166 for wastewater operations to reflect the impact of UHF's revisions to its projected plant additions on depreciation expense. This adjustment should be made in addition to the adjustment to depreciation expense to reflect the balance based on the thirteen month average plant in service amounts.

ISSUE 31. Should the Company's proposed five year amortization of the "Miscellaneous Other Deferred Debits" be included in test year amortization expense?

OPC POSITION: No, it should not. Test year amortization expense should be reduced by $7,726 for water operations in order to remove the miscellaneous other deferred debits. The amounts are for legal costs associated with the Sunray acquisitions. If such costs are allowed, they should be amortized over the amortization period of the Sunray acquisition and appraisal fees, if such costs are permitted for amortization.

ISSUE 32. Should the test year amortization expense associated with UHF's proposed five year amortization of the "Vision 2000" costs be allowed?

OPC POSITION: No. Test year water and wastewater amortization expense should be reduced by $9,347 and $16,618, respectively, to remove the proposed Vision 2000 amortization expense. The Company has not flowed through all of the cost savings associated with the Vision 2000 program. Additionally, the Vision 2000 costs appear to be part of the merger costs. Consequently, if the amortization of the deferred Vision 2000 costs is allowed, then it should be amortized over a period similar to those used for Miscellaneous Intangible Plant or Organization Costs, which appear not to be amortized or depreciated by UHF. Additionally, the associated cost savings should be reflected in the filing, in their entirety.

ISSUE 33. Should the amortization expense associated with UHF's proposed five year amortization of Moving Expenses that were deferred by UHF be included in test year expense?

OPC POSITION: No. Test year expenses should be reduced by $4,489 for water operations and $7,981 for wastewater operations to remove the amortization of the deferred moving expenses. The moving expenses appear to be related to moving employees after the merger. There were no employee relocation expenses in 1990 through 1993 and none are projected for 1997.

ISSUE 34. Should an adjustment be made to synchronize the proposed rate base and cost of capital with the tax calculation?

OPC POSITION: Yes. The interest deduction for tax purposes should be revised to reflect Citizens' adjusted rate base and the weighted cost of debt recommended by Citizens. The interest deduction should be calculated by multiplying adjusted rate base by the weighted cost of debt, as adjusted.

5.. Proposed Stipulations: The Citizens are aware of no proposed or pending stipulations.

6. Pending Motions: The Citizens are aware of no pending motions.

Respectfully submitted,

Harold McLean
Associate Public Counsel
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c/o The Florida Legislature
111 West Madison Street
Room 812
Tallahassee, FL 32399-1400
Attorney for the Citizens
of the State of Florida

CERTIFICATE OF SERVICE
DOCKET NO. 960451-WS

I HEREBY CERTIFY that a copy of the foregoing has been furnished by U.S. Mail or by hand-delivery where designated with an asterisk, to the following parties on this 20th day of December, 1996.

Harold McLean

*Rosanne G. Capeless
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