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**OFFICE OF THE PUBLIC COUNSEL**

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January 13, 1997

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

RE: Docket No. [REDACTED]-WS

Dear Ms. Bayo:

Enclosed for filing in the above-captioned proceeding on behalf of the Citizens of the State of Florida are the original and 15 copies of the Citizens' 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,

Stephen C. Reilly  
Associate Public Counsel

WAW

SCR/bgm  
Enclosures

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Sec-1

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FPSC-RECORDS/REPORTING

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

In re: Application for increase in ) DOCKET NO. 960329-WS  
rates and service availability charges ) Filed: January 13, 1997  
in Lee County by Gulf Utility Company /

**CITIZENS' PREHEARING STATEMENT**

Come now the Citizens of the State of Florida by and through their undersigned attorney, (Citizens) pursuant to the provisions of Commission Rule 25-22.038(3), F.A.C., and the Commission's Order Establishing Procedure, issued on September 20, 1996, and submit their prehearing statement.

**A. All Known Witnesses**

1. Ted L. Bidy. Mr. Bidy will address used and useful and engineering issues.

2. Kimberly H. Dismukes. Ms. Dismukes will address accounting, policy and ratemaking issues.

**B. All Known Exhibits**

The Citizens' two witnesses have prefiled the following exhibits:

1. Ted L. Bidy, TLB-1 ..... Key and rationale for OPC used and useful calculations;
2. Ted L. Bidy, TLB-2 ..... Used and useful calculations for water systems;

3. Ted L. Bidby, TLB-2.1 ... ERC calculations/water;
4. Ted L. Bidby, TLB-2.2 ... Fireflow Test Records Summary;
5. Ted L. Bidby, TLB-3 ..... Used and useful calculations for wastewater systems;
6. Ted L. Bidby, TLB-3.1 ... Water sold to wastewater Customers and Actual Wastewater treated in 1995;
7. Ted L. Bidby, TLB-3.2 ... Inflow and Infiltration allowance calculations;
8. Ted L. Bidby, TLB-3.3 ..... ERC calculations/wastewater;
9. Kimberly H. Dismukes, Appendix, ..... qualifications;
10. Kimberly H. Dismukes, KHD-1 comprised of the following 18 schedules:

<u>Title</u>	<u>Schedule</u>
Gulf Utility Company Summary of Adjustments	1
Gulf Utility Company Cost of Capital	2
Gulf Utility Company Reuse Revenue	3
Gulf Utility Company Adjustments for Affiliate Transactions	4
Building Adjustments	5
Caloosa Salary Adjustment	6
Gulf Utility Company Salary Adjustments	7
Adjustment for Lobbying-Related Dues	8
Adjustment to Amortize Nonrecurring Expenses	9
Miscellaneous Adjustments	10
Gulf Utility Company Remove University Related Costs and Revenue	11
Gulf Utility Company SFWMD Funding	12
Prepaid CIAC Adjustment	13
CIAC Amortization Adjustments	14

Depreciation-Related Adjustments	15
Adjustment for Errors in MFRs	16
Working Capital	17
Hypothetical Working Capital and Sources of Funds	18

**C. Statement of Basic Position**

The Utility has understated its revenue by failing to charge for reclaimed water. The Utility's expenses are overstated due to transactions with its affiliates, inclusion of inappropriate and non-recurring expenses, inclusion of excessive salary expenses, and inclusion of expenses that are not properly borne by ratepayers. The Utility's cost of capital is overstated because the Utility included equity which should have been reflected as a contribution from an affiliated developer. The Utility's rate base is overstated due to the inclusion of plant that is non-used and useful and the failure to properly recognize plant in rate base. Instead of a rate increase proposed by the Utility, the rates should be reduced for both the water and wastewater operations.

**D.-F. Issues and Positions**

**Quality of Service**

**Issue 1:** Is the quality of service satisfactory?

Position: No Position at this time.

**Rate Base**

**Issue 2:** Should a margin reserve be included in the calculations

of used and useful plant?

Position: No. Margin reserve is for the benefit of future customers and should not be paid for by current customers.

(Bidly, Dismukes)

Issue 3: If the Commission includes margin reserve in rate base, what is the appropriate allowance for margin reserve?

Position: Traditionally the Commission allows 18 months for the water and wastewater treatment plants, and 12 months for the water transmission/distribution system and wastewater collection system. If the Commission grants Gulf a margin reserve, the reserve periods should not exceed these periods historically approved by the Commission. (Bidly)

Issue 4: If a margin reserve is approved, should CIAC be imputed on the ERCs included in the margin reserve?

Position: Yes. (Dismukes)

Issue 5: Should the one million-gallon reject holding tank for the Corkscrew Water Treatment Plant be included in rate base?

Position: No. (Bidly)

Issue 6: Should the rate base include the investment for water and wastewater lines to serve the Florida Gulf Coast University?

Position: No. These costs should be removed from rate base. Specifically, water rate base should be reduced by \$367,363 and wastewater rate base should be reduced by \$483,516. (Dismukes, Bidly)

Issue 7: Should the fire flow provision be included in the used and useful calculations of supply wells and water treatment plants?

Position: Fire flow provision should be included in the used and useful calculation of finished water storage but not for the supply wells, treatment plants or distribution mains. The utility shall prove the fire flow provision through fire flow test records or other supporting documents. (Bidly)

Issue 8: What is the appropriate fire flow allowance for the used and useful calculations?

Position: The fire flow allowance should be 750 gpm because that

is the only documented fire flow currently being provided to the service area. (Bidly)

Issue 9: Should all facility lands be considered 100% used and useful?

Position: No. Used and useful calculations should be performed to justify the 100% used and useful allocation for facility lands. (Bidly)

Issue 10: What method should be used to calculate the used and useful percentage for water supply wells?

Position: The appropriate method is "Average of 5 Maximum Daily Flows of the Maximum Month divided by Total Well Capacity."  
(Bidly)

Issue 11: Should a used and useful analysis be calculated for the finished water storage and what is the appropriate method?

Position: Yes. The appropriate method is "Half Average Daily Flow plus Fire Flow Storage, divided by the Total Storage Capacity." (Bidly)

Issue 12: What is the appropriate allowance for inflow and/or infiltration when making used and useful calculations?

Position: 200 gallons per day per inch pipe diameter per mile of pipe. (Bidly)

Issue 13: Should any adjustments be made to the chlorine contact chambers at Three Oaks Wastewater Treatment Plant?

Position: Yes. The cost of the second chlorine contact chamber should be transferred into the plant held for future use account. (Bidly)

Issue 14: Should any adjustments be made to the old Three Oaks Wastewater Treatment Plant?

Position: Yes. The cost of the old Three Oaks Wastewater Treatment Plant should be transferred into the plant held for future use account. (Bidly)

Issue 15: Should the water transmission system be considered 100% used and useful because the water distribution systems are contributed?



Position: No. Generally, the transmission system is also designed to serve future developments. Therefore, the contributions of water distribution mains do not automatically make the transmission system 100% used and useful. However, no adjustments to the rate base is necessary because the CIAC amount is greater than the plant in service amount for this rate case.

(Biddy)

Issue 16: Should the whole wastewater collection system be considered 100% used and useful because part of the collection system is contributed?

Position: No. Generally lift stations and force mains are also designed to serve future developments. Therefore, the contributions of wastewater collection system by developers do not make the whole collection system 100% used and useful. Again, no adjustments to the rate base is necessary because the CIAC amount is greater than the plant in service amount. (Biddy)

Issue 17: What are the appropriate used and useful percentages for the water and wastewater facilities?

Position: The appropriate used and useful percentages for the water and wastewater facilities are presented in Exhibit TLB-2

and Exhibit TLB-3, respectively. (Bidly)

Issue 18: Should CIAC be increased to reflect assets purchased from an affiliated developer, Caloosa Group, Inc. ?

Position: Yes, CIAC should be increased by \$68,144 for the water operations and by \$92,815 for the wastewater operations.

(Dismukes)

Issue 19: Should CIAC be increased to reflect funding the Company will receive from the South Florida Water Management District?

Position: Yes. CIAC should be increased by \$300,000. (Dismukes)

Issue 20: Should prepaid CIAC be included in rate base?

Position: Yes, to the extent that the associated plant is included in rate base. In the absence of a showing by the utility that the plant related to prepaid CIAC is not included in rate base, CIAC should be increased by \$379,319 for the water operations and by \$207,304 for the wastewater operations.

(Dismukes)

Issue 21: Should CIAC be increased to reflect errors in the

calculation of CIAC included in test year rate base?

Position: Yes. CIAC in rate base should be increased by \$115,371 for the water operations and by \$98,456 for the wastewater operations. Similarly, the CIAC amortization expenses should be reduced by \$12,967 for the water operations and by \$7,329 for the wastewater operations. (Dismukes)

Issue 22: What is the proper amount of CIAC to use as a deduction from rate base?

Position: The final amount of CIAC is subject to the resolution of other issues?

Issue 23: Should accumulated depreciation be increased to reflect an understatement of accumulated depreciation included in the test year?

Position: Yes. Test year accumulated depreciation should be increased by \$172,608 for the water operations and by \$158,465 for the wastewater operations. Similarly, depreciation expense should be reduced by \$102,236 for the water operations and by \$46,689 for the wastewater operations. (Dismukes)

Issue 24: Should plant in service be reduced for an error in the

MFRs, per Audit Exception 4?

Position: Yes. Water plant in service should be reduced by \$2,265. (Dismukes)

Issue 25: What provision for working capital should be included in rate base?

Position: Negative working capital of \$46,062 should be included in rate base. (Dismukes)

Issue 26: What are the appropriate rate base amounts?

Position: The final amount of rate base is subject to the resolution of other issues.

### Cost to Capital

Issue 27: What is the appropriate capital structure for ratemaking purposes?

Position: The Company's capital structure, specifically, the equity component of the capital structure should be reduced by

\$160,929. The Company's affiliate developer, Caloosa Group, Inc. sold to the Company \$160,929 in assets in exchange for common stock. This transaction is inconsistent with the treatment of assets constructed by other non-affiliated developers, wherein the assets are contributed to the Company. (Dismukes)

Issue 28: What is the appropriate weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure for the test year?

Position: The appropriate overall cost of capital is 9.22%. The proper components, amounts, and cost rates associated with the capital structure can be found in Schedule 2 of Exhibit KHD-1. (Dismukes)

#### Net Operating Income

Issue 29: Should the Commission increase test year revenue to reflect the sale of reclaimed water?

Position: Yes. The Commission should increase test year revenue by \$139,599 to reflect the sale of reclaimed water at \$.25 per 1,000 gallons. (Dismukes)

Issue 30: Should the Commission reduce test year revenue consistent with removing from the test year the rate base components associated with Florida Gulf Coast University?

Position: Yes. If the Commission reduces rate base for the investment related to providing service to Florida Gulf Coast University, test year revenue should be reduced by \$37,623 for the water operations and by \$47,956 for the wastewater operations. (Dismukes)

Issue 31: Should the Commission reduce test year expenses consistent with removing from the test year the rate base components associated with Florida Gulf Coast University?

Position: Yes. If the Commission reduces rate base for the investment related to providing service to Florida Gulf Coast University, test year expenses should be reduced by \$19,323 for the water operations and by \$28,885 for the wastewater operations. (Dismukes)

Issue 32: Should any adjustments be made to expenses to reflect the affiliate relationship between Caloosa and the Company?

Position: Yes. Test year expenses should be reduced by \$7,445 to reflect administrative and general expenses that have not be appropriately charged to Caloosa. Test year expenses should also be reduced by \$26,182 for the lease of office space from Calocsa by the Company.

Issue 33: Should any adjustments be made to salary expenses?

Position: Yes. Salary expenses should be reduced by \$30,234; to reflect excessive pay increases, the higher salary paid to employees when they work for the utility instead of its affiliate Caloosa, and the excessive salary paid to Mr. Mann. (Dismukes)

Issue 35: Should any adjustments be made for lobbying-type expenses included in the test year?

Position: Yes. Test year expenses should be reduced by \$792. (Dismukes)

Issue 36: Should any adjustment be made to remove nonrecurring expenses from the test year?

Position: Yes. Test year expenses should be reduced by \$18,500

to remove nonrecurring expenses. (Dismukes)

Issue 37: Should the Commission include budgeted "unanticipated" expenses in the test year?

Position: No. These expenses, in the amount of \$4,895, should be removed from test year expenses. (Dismukes)

Issue 37: Should any adjustment be made to remove from test year expenses rotary club dues?

Position: Yes. Test year expenses should be reduced by \$235.  
(Dismukes)

Issue 38: Should any adjustments be made to remove from test year expenses golf outings and gift baskets expenses?

Position: Yes. Test year expenses should be reduced by \$780.  
(Dismukes)

Issue 39: Should any adjustments be made to include in test year income, interest income recorded below the line?



Position: Yes. Test year income should be increased by \$4,000 to reflect interest income earned on cash included in the Company's working capital allowance. (Dismukes)

Issue 40: Should any adjustment be made to remove from test year expenses board of directors fees?

Position: Yes. Test year expenses should be reduced by \$9,000 for excessive fees paid to the board of directors. (Dismukes)

Issue 41: What is the appropriate amount of rate case expense?

Position: The appropriate amount of rate case expense is subject to further development of the record.

Issue 42: What are the test year operating income amounts before any revenue increase?

Position: The test year operating income amounts are subject to the resolution of other issues.

**Revenue Requirement**

**Issue 43:** What are the revenue requirements?

Position: The revenue requirements are subject to the resolution of other issues. However, the Citizens recommend a rate decrease for both the water and wastewater operations, per the testimony of Ms. Dismukes and Mr. Bidy. (Dismukes and Bidy)

**G. Proposed Stipulations:**

There are no stipulations pending at this time.

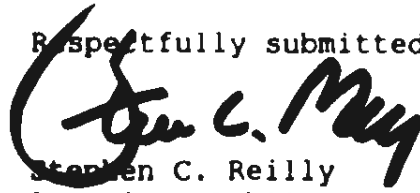
**H. Pending Matters:**

The Citizens currently have outstanding discovery that has not been responded to my PCUC. Until responses to this discovery are complete the Citizens reserve the right to file appropriate motions to compel and to add issues as the need arises. The Citizens have filed a motion to compel which has not yet been ruled upon.

**I. Requirements That Cannot Be Complied With:**

There are no requirements of Order No. PSC-96-1178-PCO-WS that cannot be complied with at this time.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Stephen C. Reilly", is written over the typed name.

Stephen C. Reilly  
Associate Public Counsel

Office of Public Counsel  
The Florida Legislature  
111 West Madison St., Rm. 812  
Tallahassee, FL 32399-1400

(904) 488-9330

Attorney for the Citizens  
of the State of Florida

**CERTIFICATE OF SERVICE  
DOCKET NO. 960329-WS**

I HEREBY CERTIFY that a correct copy of the foregoing has been furnished by U.S. Mail or \*hand-delivery to the following parties on this 13th day of January, 1997.

B. Kenneth Gatlin, Esq.  
Gatlin, Woods & Carlson  
The Mahan Station  
1709-D Mahan Drive  
Tallahassee, FL 32308

\*Maggi O'Sullivan, Esq.  
Division of Legal Services  
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\_\_\_\_\_  
Stephen C. Reilly  
Associate Public Counsel