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January 13, 1997

HAND DELIVERY

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

RE: Docket No. ~~900399-WS~~
Application of GULF UTILITY COMPANY for
an increase in Wastewater Rates, approval of a decrease in
Water Rates and approval of Service Availability Charges in Lee
County, Florida

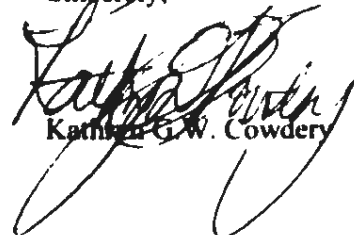
Dear Ms. Bayo:

Enclosed for filing are an original and fifteen copies of Gulf Utility Company's Prehearing Statement, in reference to the above docket.

Also enclosed is a 3.5" high-density diskette in WordPerfect 6.0/6.1 format which contains the Prehearing Statement.

Please acknowledge receipt of the foregoing by stamping the enclosed extra copy of this letter and returning same to my attention. Thank you for your assistance.

Sincerely,



Kathryn G.W. Cowdery

- ACK _____
- AFA _____
- APP _____
- CAF _____
- CMU _____
- CTR _____
- EAG _____
- LEG 1 KGWC/met
- LIN 3 Enclosures
- OPR _____
- RCR _____
- SEC 1
- WAS _____
- OTH _____

DOCUMENT NUMBER-DATE
00415 JAN 13 97
PSC-RECORDS/REPORTING

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application of GULF UTILITY)
COMPANY for an increase in Wastewater)
Rates, approval of a decrease in Water)
Rates and approval of Service Availability)
Charges in Lee County, Florida.)

Docket No. 960329-WS

Filed: January 13, 1997

**GULF UTILITY COMPANY'S
PREHEARING STATEMENT**

Gulf Utility Company, by and through its undersigned counsel, submits this, its prehearing statement pursuant to Rule 25-22.038(3), F.A.C., and the Order Establishing Procedure, Order No. PSC-96-1178-PCO-WS, issued September 20, 1996, in this docket.

a) **WITNESSES.**

1. **Direct**

<u>Name</u>	<u>Subject Matter</u>
Keith R. Cardey	Rate Base, Net Operating Income, Interim Rates, Plant Capacity Charges
Robert C. Nixon	Income Tax
James W. Moore	Utility Operations, Financial Matters, 1996 Operating Budget
Carolyn B. Andrews	Utility Operations, Financial Exhibits, 1996 Operating Budget

2. **Rebuttal**

Keith R. Cardey	Used and Useful
James W. Moore	Reuse, Financial integrity
James P. Elliott	Margin Reserve, Used and Useful, Fire flow
Carolyn B. Andrews	Audit responses

DOCUMENT NUMBER-DATE
00415 JAN 13 97
FPSC-RECORDS/REPORTING

Rebuttal testimony is currently being drafted. The subject matter and witnesses identified above may differ from the filed rebuttal testimony.

b) **EXHIBITS**

1. **Direct**

Keith Cardey will sponsor the following exhibits:

- (KRC-1) **Minimum Filing Requirements, consisting of all information filed on June 27, 1996: Application for rate change, "Financial, Rate and Engineering Minimum Filing Requirements" and "Additional Engineering Information," "Billing Analysis - utility system and customer classification map, and all information filed in Response to deficiency requests of staff. (Mr. Cardey will sponsor the following portions of KRC-1: "Financial, Rate and Engineering MFRs" Schedules A1 & A2, B1 & B2, E1 to E14, F1 to F10)**
- (KRC-2) **Application for Change in Plant Capacity Charges**
- (KRC-3) **Allocation of General Office Expenses to Caloosa Group, Inc.**
- (KRC-4) **Order No. 960234-WS Rate Base and Income Statement Adjustments for Water Operations.**
- (KRC-5) **Summary of Prepaid Capacity Charges as of 12/31/95**
- (KRC-6) **Developer Agreement Provision on Prepaid Capacity Charges.**

Robert C. Nixon, CPA, will sponsor the following exhibits:

- (RCN-1) **"Financial, Rate and Engineering MFRs," Application for Changes in Rates, Schedules C1 to C10.**

James W. Moore will sponsor the following exhibits:

- (JWM-1) **Cash flow analysis**
- (JWM-2) **Shareholder investment analysis, 1982-1995.**
- (JWM-3) **Five year capital budget, 1996-2000.**
- (JWM-4) **Support for investments made in the public interest.**

Carolyn B. Andrews will sponsor the following exhibits:

(KRC-1) All schedules and MFR information not sponsored by other witnesses on direct.

2. Rebuttal

Carolyn B. Andrews will sponsor the following exhibits:

(CBA-1) December 6, 1996, Gulf Utility Company Response to Audit Report.

(CBA-2) Rate case expense exhibit

James P. Elliott will sponsor the following exhibits:

(JPE-1) Rule 62-600.405, F.A.C.

(JPE-2) Margin reserve exhibit

(JPE-3) Fire flow exhibit

Additional rebuttal exhibits are expected but have not yet been identified.

c) BASIC POSITION

Annual operating revenues should be increased by \$366,340 for wastewater, and reduced by \$155,935 for water. This would result in a rate of return of 9.25% on a rate base of \$4,928,296 for wastewater operations and a rate base of \$4,427,672 for water operations. Wastewater capacity fees should be increased from \$550 to \$800/ERC and water capacity fees should be reduced from \$800 to \$550/ERC.

d), e) and f) Statements of each question of fact, and law and policy, considered at issue.

RATE BASE

ISSUE 1: Does Gulf correctly calculate flows and capacity for each wastewater treatment plant?

GULF: Yes. (Cardey)

ISSUE 2: Did Gulf correctly calculate used and useful for its water treatment plant?

GULF: Yes. (Cardey)

ISSUE 3: Did Gulf correctly calculate used and useful for its water supply wells?

GULF: Yes. (Cardey)

ISSUE 4: Is the finished water storage tank 100% used and useful?

GULF: Yes. (Cardey)

ISSUE 5: Should facility tanks 100% be considered used and useful?

GULF: Yes. (Cardey)

ISSUE 6: Should water transmission and distribution systems be considered 100% used and useful?

GULF: Yes. (Cardey)

ISSUE 7: Should the wastewater collection system be considered 100% used and useful?

GULF: Yes. (Cardey)

ISSUE 8: Did Gulf correctly calculate used and useful for its wastewater treatment plants?

GULF: Yes: 100%. (Cardey)

ISSUE 9: Should a margin reserve be included in the calculations of used and useful?

GULF: Yes, pursuant to established policy. (Cardey)

ISSUE 10: What is the appropriate margin reserve period?

GULF: As stated in the MFRs, 1.5 years load growth in the water operations and 3 years load growth in the wastewater operations. (Cardey)

ISSUE 11: If a margin reserve is approved, should CIAC be imputed on ERC's included in the margin reserve?

GULF: No. (Cardey)

ISSUE 12: Is it appropriate to include a factor for economies of scale in the used and useful calculations?

GULF: Yes. (Cardey)

ISSUE 13: Is it appropriate to include a fire flow allowance in the calculation of the used and useful percentage for the water transmission and distribution systems?

GULF: Yes. (Cardey and Elliott)

ISSUE 14: Should the one million-gallon reject holding tank for Corkscrew Water treatment plant be included in rate base?

GULF: Yes. (Cardey and Elliott)

ISSUE 15: Should the old Three Oaks WWTP be included in rate base?

GULF: Yes. (Cardey and Elliott)

ISSUE 16: Which construction projects are required by agency rule, regulation or directive?

GULF: All construction costs as set forth in (JWM-4). (Moore)

ISSUE 17: Should the two chlorine contact chambers at Three Oaks WWTP be included in rate base?

GULF: Yes. (Cardey and Elliott)

ISSUE 18: Should rate base include the investment for water and wastewater lines to service the Florida Gulf Coast University?

GULF: Yes. (Cardey)

ISSUE 19: Do any wastewater facilities have excessive infiltration and/or inflow?

GULF: No. (Cardey)

ISSUE 20: Do EPA and WPCF guidelines for non-excessive I&I apply to municipal wastewater systems, but not to private utilities?

GULF: No. Those standards apply to both wastewater and privately owned utilities. There is no support for applying these standards only to municipal systems. (Cardey)

ISSUE 21: What provision for working capital should be included in rate base?

GULF: As stated in the MFRs. (Cardey)

ISSUE 22: What are the appropriate rate base amounts?

GULF: As stated in the MFRs. (Cardey)

COST OF CAPITAL

ISSUE 23: What is the appropriate capital structure for ratemaking purposes?

GULF: As stated in the MFRs. (Andrews)

ISSUE 24: What is the appropriate overall cost of capital?

GULF: As stated in the MFRs. (Andrews)

NET OPERATING INCOME

ISSUE 25: Should test year revenues be adjusted based on the establishment of an effluent reuse rate for Gulf in this docket?

GULF: No. (Cardey and Moore)

ISSUE 26: Are the O&M expenses for water and wastewater reasonable?

GULF: Yes. (Andrews)

ISSUE 27: Should any expenses be adjusted based upon reallocation of expenses to Gulf's affiliate, Caloosa Group, Inc.?

GULF: No. (Andrews)

ISSUE 28: Is the utility's provision for salaries and wages reasonable, and if not, what adjustments are necessary?

GULF: Yes. No adjustments are appropriate. (Andrews)

ISSUE 29: Is the utility's provision for insurance expense reasonable?

GULF: Yes. No adjustment is necessary. (Andrews)

ISSUE 30: Is the lease expense charged to the Company by Caloosa Group, Inc. reasonable?

GULF: Yes. No adjustment is necessary. (Andrews)

ISSUE 31: Are the projected test year expenses reasonable?

GULF: Yes. No adjustments are necessary. (Andrews)

ISSUE 32: What is the test year operating income for water and wastewater?

GULF: As per MFRs. (Andrews)

ISSUE 33: What is the appropriate amount of rate case expense?

GULF: As set forth in the rate case expense exhibit (CBA-2). (Andrews)

REVENUE REQUIREMENT

ISSUE 34: What are the revenue requirements?

GULF: As set forth in the MFRs. (Cardey)

RATES AND RATE STRUCTURE

ISSUE 35: Should effluent reuse rates be set in this docket?

GULF: No. (Cardey and Moore)

ISSUE 36: What are the appropriate water and wastewater service rates for Gulf?

GULF: As set forth in the MFRs. (Cardey)

ISSUE 37: What are the appropriate service availability charges for Gulf?

GULF: As set forth in the MFRs. (Cardey)

g) STIPULATED ISSUES

Gulf is amenable to stipulating to the following issues list: Audit Exception No. 3 (Charitable contributions), Audit Exception No. 4 (Certain MFR discrepancies), Audit Exception No. 6, to the extent set forth in Gulf's response to the audit report (Sch. B-13 should be \$592,458 for water and \$503,233 for wastewater).

h) PENDING MOTIONS OR OTHER MATTERS.


Gulf Utility Company's Objections to Citizens' Fourth Set of Interrogatories to Gulf Utility Company, filed on December 18, 1996.

i) COMPLIANCE WITH ORDER ESTABLISHING PROCEDURE.

The foregoing complies with the Order Establishing Procedure.

DATED this 13th day of January, 1997.


Respectfully submitted,


Kathryn G.W. Cowdery
Fla. Bar #363995
Gatlin, Schiefelbein & Cowdery, P.A.
1709-D Mahan Drive
Tallahassee, Florida 32308
(904) 877-5609

Attorneys for GULF UTILITY COMPANY

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by hand delivery to Ms. Maggie O'Sullivan, Esquire, Division of Legal Services, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, and to Mr. Stephen C. Reilly, Esquire, Assistant Public Counsel, Office of the Public Counsel, 111 W. Madison Street, Room 812, Tallahassee, Florida 32399-1400, on this 13th day of January, 1997.


Kathryn G.W. Cowdery