

ORIGINAL

STATE OF FLORIDA
OFFICE OF THE PUBLIC COUNSEL



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June 30, 2003

Ms. Blanca S. Bayó, Director
Division of the Commission Clerk
and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0870

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RE: Docket No. 020071-WS

Dear Ms. Bayó:

Enclosed are an original and fifteen copies of Citizens' Prehearing Statement for filing in the above-referenced docket.

Also enclosed is a 3.5 inch diskette containing Citizens' Prehearing Statement in WordPerfect 10 formation. Please indicate receipt of filing by date-stamping the attached copy of this letter and returning it to this office. Thank you for your assistance in this matter.

RECEIVED & FILED
[Signature]
FPSC-BUREAU OF RECORDS

Sincerely,
[Signature]
Stephen C. Reilly
Associate Public Counsel

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Enclosures

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for rate)
increase in Marion, Orange)
Pasco, Pinellas, and Seminole)
Counties by Utilities, Inc. of)
Florida.)
_____)

DOCKET NO. 020071-WS
FILED: June 30, 2003

CITIZENS' PREHEARING STATEMENT

The Citizens of the State of Florida ("Citizens" or "OPC"), by and through their undersigned attorney, pursuant to Order No. PSC-03-0389-PCO-WS, issued March 20, 2003, file this Prehearing Statement:

A. All Known Witnesses.

1. Ted L. Bidy, P.E./P.L.S., will offer testimony on the twenty-two systems included in this case and whether the plant in service amounts shown by Utilities, Inc. Of Florida ("UIF", "Utility" or "Company") is reasonable and matches the actual physical plant items existing at the twenty-two systems. He will also provide testimony on the correct and appropriate rationale for calculating used and useful percentages for each system (Exhibit TLB-2) and furnish correct used and useful percentages for the various components of all of the systems. (Exhibit TLB-3).

2. Donna DeRonne, CPA, will testify on the overall revenue requirement for each of the County systems based upon the adoption of various adjustments' contained in Staff's Audit Report, adjustments to net operating income and rate base, and the OPC's position that rate of return on equity should be set at the bottom point of the recommended ROE range. This witness will also testify regarding the calculations and adjustments necessary to reflect the impact on the revenue requirement of the recommendations of Citizen's witness Ted Bidy.

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3. Kimberly H. Dismukes, will testify concerning the following aspects of UIF's application for a rate increase:

- 1) the appropriate treatment of the gain on sale of UIF's Orange County Druid Isles water system and a portion of its Oakland Shores water system to the City of Maitland and the gain on sale of its Green Acres Campground facilities in Seminole County to the City of Altamonte Springs;
- 2) affiliate transactions and the appropriate allocation of costs from UIF's service company, Water Services Corporation (WSC); and
- 3) two other adjustments to UIF's test year expenses and rate base related to a contribution by the City of Altamonte Springs to UIF for the provision of wastewater treatment services and rate case expense.

4. Mark A. Cicchetti, will testify concerning the leverage formula and the return on common equity the Commission should allow in this docket, and to address the appropriate ratemaking treatment for the gains recognized by UIF on the sale of the Druid Isle water system, a portion of the Oakland Shores water system and the Green Acres Campground water and wastewater systems.

B. All Known Exhibits

The only known exhibits which will be sponsored by Witness Bidy are as follows:

EXHIBIT TLB-1	Ted Bidy Resume
EXHIBIT TLB-2	Used & Useful Calculation Rationale
EXHIBIT TLB-3	Used & Useful Calculations
EXHIBIT TLB-4	Unaccounted for Water Calculations

EXHIBIT TLB-5	Analysis of Plant in Service Amounts
EXHIBIT TLB-6	Excessive I/I Calculations
EXHIBIT TLB-7	Fire Flow Test Data
EXHIBIT TLB-8	Analysis of Cases Cited by Utility as Supporting Instantaneous Flows For U/U Calculations

The only known exhibits which will be sponsored by Witness DeRonne are as follows:

APPENDIX I	Qualifications of Donna DeRonne, C.P.A.
EXHIBIT DD-1 (Orange Co.)	<ul style="list-style-type: none"> A-1 Calculation of Water Revenue Requirement B-1 Schedule of Adjustments to Operating Income B-2 Salary & Wage Expense - Revision & Reallocation B-3 Employee Benefits Expense - Revision & Reallocation B-4 Payroll Tax Expense - Revision & Reallocation B-5 Interest Synchronization B-6 Income Tax Expense C-1 Schedule of Water Rate Base C-2 Non-Used & Useful Net Plant in Service - Crescent Heights D-1 Rate of Return
Exhibit DD-1 (Pasco Co.)	<ul style="list-style-type: none"> A-1 Calculation of Water Revenue Requirement A-2 Calculation of Sewer Revenue Requirement B-1 Schedule of Adjustments to Operating Income B-2 Salary & Wage Expense - Revision & Reallocation B-3 Employee Benefits Expense - Revision & Reallocation B-4 Payroll Tax Expense - Revision & Reallocation B-5 Excessive Lost & Unaccounted for Water B-6 Excessive Inflow & Infiltration Expense B-7 Interest Synchronization B-8 Income Tax Expense

- C-1 Schedule of Water Rate Base
- C-2 Schedule of Sewer Rate Base
- C-3 Removal of Summertree Wastewater Treatment Plant
- C-4 Non-Used & Useful Net Plant in Service

- D-1 Rate of Return

Exhibit DD-1 (Pinellas Co.)

- A-1 Calculation of Water Revenue Requirement
- B-1 Schedule of Adjustments to Operating Income
- B-2 Salary & Wage Expense - Revision & Reallocation
- B-3 Employee Benefits Expense - Revision & Reallocation
- B-4 Payroll Tax Expense - Revision & Reallocation
- B-5 Non-Used & Useful Water Plant - Depreciation Expense
- B-6 Excessive Lost & Unaccounted for Water
- B-7 Interest Synchronization
- B-8 Income Tax Expense

- C-1 Schedule of Water Rate Base
- C-2 Non-Used & Useful Water Plant

- D-1 Rate of Return

Exhibit DD-1 (Seminole Co.)

- A-1 Calculation of Water Revenue Requirement
- A-2 Calculation of Sewer Revenue Requirement
- B-1 Schedule of Adjustments to Operating Income
- B-2 Oakland Shores Purchase Water Expense
- B-3 Salary & Wage Expense - Revision & Reallocation
- B-4 Employee Benefits Expense - Revision & Reallocation
- B-5 Payroll Tax Expense - Revision & Reallocation
- B-6 Excessive Lost & Unaccounted and Inflow & Infiltration
- B-7 Excessive Inflow & Infiltration Expense
- B-8 Uncollectible Expense Adjustment - Weathersfield
- B-9 Purchase Wastewater Treatment - Lincoln Heights
- B-10 Interest Synchronization
- B-11 Income Tax Expense

- C-1 Schedule of Water Rate Base

Schedule 7	Revenue Comparison
Schedule 8	Subsidiary Revenue Statistics 2001
Schedule 9	Subsidiary Statistics 2001
Schedule 10	Allocation Factors between UIF Counties and Systems
Schedule 11	Affiliate Expense Allocation And Adjustments
Schedule 12	Rate Base Allocation Adjustment

The only known exhibits which will be sponsored by Witness Cicchetti are as follows:

Attachment 1	Qualifications of Mark A. Cicchetti
	Leverage Formula

C. STATEMENT OF BASIC POSITION

OPC's position is that the revenue increases proposed by UIF in its MFR filings, original and revised, are substantially overstated. In fact, OPC's calculations show that reductions in rates are warranted for five of the eight county systems included in this case. On a combined basis, the Company's request, based on the Company's October 3, 2002 2nd Revised MFR filing, results in an overall requested increase in revenues of approximately \$1.1 million. The OPC's calculations show that for all of the systems included in this case, on a combined basis, the overall result should be a decrease in revenues of \$149,247, not an increase. The OPC's position incorporates adjustments sponsored by its witnesses, along with the adoption of many of the recommendations presented by the Commission's Audit Staff in its Audit Reports.

This case has been fraught with problems resulting entirely from the Company's lack of diligence throughout the entire regulatory process. The Company was required to re-file substantial portions of its schedules several times in this case for failure to meet the Commission's minimum filing requirements. The Company was unable to follow some of the most basic and long-standing

MFR instructions, such as the requirement that rate base be determined on a 13-month average basis. It became burdensome to keep track of the number of revisions the Company filed to several of its E schedules due to errors, omissions and discrepancies. Throughout this case, the Company was regularly late in responding to OPC interrogatory requests, in many cases extremely so. The OPC was required to file many Motions to Compel in this case to receive responses to interrogatories and requests for production of documents. The extreme tardiness of the Company in responding to interrogatories and requests for production of documents, coupled with the frequent revisions to the MFR filing schedules and the Company's continued failure to follow the NARUC Uniform System of Accounts, negatively impacted Citizens' analysis of the Company's rate increase requests. If anything, the result is that the revenue requirements calculated by the OPC for each of the County systems are likely overstated and additional adjustments beyond those presented by the OPC and Commission Staff may be warranted. As a result of the numerous problems caused by UIF throughout this case and its continued failure to be in compliance with long-standing Commission rules, at a minimum, OPC recommends that the Commission adopt its recommendation that the allowed return on equity be set at the low-point of the ROE range of reasonableness.

D.-F. ISSUES OF FACT, LAW AND POLICY.

The following are questions of fact, law and policy which the Citizens believe are at issue in this docket. Included with each issue is a statement of the Citizens' position and the identification of the witness to advance that position.

ISSUE 1: Is the quality of service provided by UIF satisfactory?

POSITION: No position at this time.

WITNESS: Ted Bidy and customer testimony.

ISSUE 2: Has the utility properly recorded the adjustments to rate base required by prior Commission orders? (Staff Audit Exceptions 1 & 2)

POSITION: No, it has not. For the systems in which the Company did not contest Staff's recommended revisions in Staff Audit Exceptions 1 & 2 in its response to Staff's Audit Report, Citizens agrees the adjustments recommended by Staff should be made. For Orange County water, plant in service and accumulated depreciation should be reduced by \$7,056 and \$8,392, respectively. For Pasco County water - Orangewood system, plant in service and accumulated depreciation should be reduced by \$32,728 and \$31,723, respectively. For Pasco County water-Wisbar/Bartelt system, plant in service and accumulated depreciation should be increased by \$267,542 and \$191,029, respectively. Accumulated depreciation for the Orangewood (water) and Wisbar/Bartelt (water) systems in Pasco County should also be increased by a combined amount of \$9,123 for test year accumulation. For Pasco County - Wisbar/Bartelt system (water), CIAC and accumulated amortization of CIAC should be increased by \$12,627 and \$8,648, respectively. For Pasco County - Wisbar/Bartelt system (wastewater): plant in service should be increased \$114,633; accumulated depreciation should be increased \$21,309; CIAC should be increased \$17,232; and accumulated amortization of CIAC should be increased \$8,870. For Pinellas County water, plant in service should be decreased by \$34,352, and accumulated depreciation should be increased by \$813. For Marion County water, plant in service and accumulated depreciation should be reduced by \$9,847 and \$1,307, respectively. The accumulated depreciation amounts presented above differ slightly from the amounts recommended by Staff in Staff Audit Exceptions 1 & 2 as the above numbers represent average test year amounts instead of year-end amounts. For the few systems the Company indicated that it contested Staff's adjustments in its response to Staff's Audit Report, the OPC takes no position at this time.

The corrections to plant in service also impact depreciation expense. Depreciation expense should be: increased by \$7,174 for Pasco County water for the Orangewood and Wisbar system corrections; increased for Pasco County wastewater by \$2,733 for the Wisbar system; decreased by \$905 for Pinellas County water; decreased by \$199 for Orange County water; and decreased by \$603 for Marion County water.

The corrections to CIAC for the Wisbar/Bartelt systems in Pasco County also impact CIAC amortization expense. CIAC amortization should be increased for Pasco County water and wastewater by \$327 and \$411, respectively.

WITNESS: Donna DeRonne

ISSUE 3: Should adjustments be made to organization costs and capitalized labor? (Staff Audit Exception 6)

POSITION: Yes. The OPC agrees with Staff Audit Exception 6 on this issue. For Pasco County water: plant in service should be reduced \$25,539, accumulated depreciation should be reduced \$319 and depreciation expense should be reduced \$638. For Pasco County wastewater: plant in service should be reduced \$872, accumulated depreciation should be reduced \$11 and depreciation expense should be reduced \$22. For Seminole County water: plant in service should be reduced \$2,952, accumulated depreciation should be reduced \$37 and depreciation expense should be reduced \$74. For Seminole County wastewater: plant in service should be reduced \$19,303, accumulated depreciation should be reduced \$276 and depreciation expense should be reduced \$552. For Marion County water: plant in service should be reduced \$263, accumulated depreciation should be reduced \$4 and depreciation expense should be reduced \$7.

WITNESS: Donna DeRonne

ISSUE 4: What adjustments, if any, should be made to the utility's rate base with respect to amounts allocated from affiliated entities? (Audit Exceptions 7 & 8)

POSITION: The OPC agrees with Staff's Audit Exception 7, which revises the common plant allocated from UIF. For Marion County water: Plant in service should be reduced \$142; accumulated depreciation should be reduced \$147; and depreciation expense should be reduced \$10. For Marion County wastewater: Plant in service should be reduced \$13; accumulated depreciation should be reduced \$19; and depreciation expense should be reduced \$2. For Orange County water: Plant in service should be reduced \$479; accumulated depreciation should be reduced \$517; and depreciation expense should be reduced \$7. For Pasco County water: Plant in service should be reduced \$812; accumulated depreciation should be reduced \$853; and depreciation expense should be reduced \$59. For Pasco County wastewater: Plant in service should be reduced \$299; accumulated depreciation should be reduced \$315; and depreciation expense should be reduced \$22. For Pinellas County water: Plant in service should be reduced \$171; accumulated depreciation should be reduced \$175; and depreciation expense should be reduced \$12. For Seminole County water: Plant in service should be reduced \$3,813; accumulated depreciation should be reduced \$4,161; and depreciation expense should be reduced \$58. For Seminole County wastewater: Plant in service should be reduced \$2,059; accumulated depreciation should be reduced \$2,250; and depreciation expense should be reduced \$31.

Rate base should be reduced for allocations from WSC. UIF failed to demonstrate that the allocation methodology used to allocate costs from WSC was reasonable. Furthermore, it was unable to even produce documents showing how the primary allocation factor was developed. Therefore, OPC recommends that all allocation from WSC be disallowed for ratemaking purposes. As reflected on Exhibit KHD-1, Schedule 1, test year expenses should be reduced by \$82,102.

WITNESS: Kim Dismukes & Donna DeRonne

ISSUE 5: Should adjustments be made to utility plant in service for nonrecurring plant, replacement and retirement of plant, and reclassified plant? (Audit Exceptions 3, 4 & 5)

POSITION: Yes. In Staff Audit Exception 3, Staff determined that several items capitalized by the Company as plant in service should have been recorded as nonrecurring expenses and amortized over a five-year period. The OPC agrees with Staff's recommendations in Audit Exception 3, with the exception of inclusion of amortization expense associated with the TV video inspection which occurred in 1994. Had this been recorded properly, it would have been fully amortized prior to the test year in this case. Thus, this amortization should not be included in test year expenses resulting in \$272 reduction to the level of amortization expense recommended by Staff for Seminole County. Additionally, the accumulated amortization presented by Staff should be revised to reflect the average test year balance instead of the projected end-of-period balance included in Staff's calculations. For Pasco County water: plant in service should be reduced by \$3,318; accumulated depreciation should be reduced by \$83; depreciation expense should be reduced by \$166; and amortization expense should be increased \$664. For Pasco County wastewater: plant in service should be reduced by \$6,171; accumulated depreciation should be reduced by \$59; depreciation expense should be reduced by \$117; and amortization expense should be increased \$1,234. For Seminole County wastewater: plant in service should be reduced by \$2,725; accumulated depreciation should be reduced by \$31; depreciation expense should be reduced by \$61; and no amortization expense should be reflected. For Marion County water: plant in service should be reduced by \$1,122; accumulated depreciation should be reduced by \$17; and depreciation expense should be reduced by \$34. For Marion County wastewater: plant in service should be reduced by \$901; accumulated depreciation should be reduced by \$13; depreciation expense should be reduced by \$26; and amortization expense should be increased \$180.

OPC agrees with Staff Audit Exception 4, which corrects for the Company's failure to record certain plant retirements when such plant was replaced. The adjustment to accumulated depreciation recommended by the OPC slightly differs to account for

average test year rate base instead of year-end rate base amounts. For Pasco County water: plant in service should be reduced by \$50,162; accumulated depreciation should be reduced by \$50,866; and depreciation expense should be reduced by \$1,409. For Pinellas County water: plant in service should be reduced by \$10,250; accumulated depreciation should be reduced by \$10,369; and depreciation expense should be reduced by \$238. For Seminole County water: plant in service should be reduced by \$69,891; accumulated depreciation should be reduced by \$70,818; and depreciation expense should be reduced by \$1,854. For Seminole County wastewater: plant in service should be reduced by \$67,270; accumulated depreciation should be reduced by \$68,017; and depreciation expense should be reduced by \$1,495. For Marion County water: plant in service should be reduced by \$26,688; accumulated depreciation should be reduced by \$27,049; and depreciation expense should be reduced by \$721.

The OPC agrees with Staff Audit Exception No. 5, which reclassifies several items inappropriately recorded by the Company in Plant accounts into the appropriate accounts under the NARUC Uniform System of Accounts. The items pertain to Pasco County - Summertree wastewater treatment plant demolition costs and preliminary engineering costs incurred to investigate alternatives associated with the Lincoln Heights condemnation, along with inappropriately recorded AFUDC, and with the reallocation of certain costs from land to the correct plant account. For Pasco County wastewater: plant in service should be reduced by \$46,944; accumulated depreciation should be reduced by \$12,755; and depreciation expense should be reduced by \$1,343. For Seminole County wastewater: plant in service should be reduced by \$29,474; accumulated depreciation should be increased by \$890; and depreciation expense should be increased by \$890.

WITNESS: Donna DeRonne

ISSUE 6: What adjustments, if any, should be made to Accumulated Depreciation to reflect use of incorrect depreciation rates for Pumping Equipment and Treatment & Disposal Equipment? (Audit Exception 11)

POSITION: The OPC agrees with the Staff adjustment to correct for UI's application of incorrect depreciation rates to Pumping Equipment and Treatment & Disposal Equipment. Pasco County wastewater accumulated depreciation and depreciation expense should be increased by \$57,828 and \$7,972, respectively. Seminole County wastewater accumulated depreciation and depreciation expense should be increased by \$83,141 and \$11,988, respectively. Marion County wastewater accumulated depreciation and depreciation expense should be increased by \$32,744 and \$2,632, respectively.

WITNESS: Donna DeRonne

ISSUE 7: What adjustments, if any, should be made to Accumulated Amortization of CIAC to reflect use of incorrect amortization rates, and for discrepancies between the utility's book balances and amounts submitted in prior filings? (Audit Exception 13)

POSITION: No position at this time.

ISSUE 8: What is the appropriate used and useful percentage for the utility's water treatment plants and distribution systems?

POSITION: See Citizens' Issues 8a and 8b.

ISSUE 8a NEW: What methodology should be employed to properly calculate the used and useful percentages for the source of supply, pumping and water treatment, and what are the proper used and useful percentages?

POSITION: Each water plant component should be separately considered and individual U&U percentages calculated by comparing the demand of the average of 5 max days of the max month to the daily capacity of the component as required by the Florida Department of Environmental Protection (FDEP), with the demand being modified by adding or subtracting for 5 years growth and subtracting any excessive unaccounted for water. The Commission should utilize FDEP design guidelines under Chapter 62-500, F.A.C., which sets forth Section 3.2.1.1. of Ten States Standards as the governing rule. This standard provides "The total developed groundwater source capacity shall equal or exceed the design maximum day demand and equal or exceed the design average day demand with the largest producing well out of service." (Firm reliable capacity). When computing the maximum day capacity and firm reliable capacity, the well pumping rates should be taken for the full 24 hour period since we are dealing with extreme cases of short duration. The demand in these calculations must be modified by three factors. First, by Florida law, a five year growth factor must be added to or subtracted from the demand. Secondly, the appropriate fire flow, if furnished, must also be added to the demand. Finally, the demand flow should be reduced by any excessive unaccounted for water. In determining the maximum day flow it is always better to use the average of the five maximum days of the maximum month. This average helps you to avoid anomalies and better represent the true maximum day flow. The methodology for calculating the used and useful percentages of the source of supply, pumping and water treatment is detailed in TLB-2. The actual used and useful percentages for each water plant component, by system, is detailed in TLB-3.

The impact of Citizens recommended non-used and useful percentages on net plant in service and depreciation expense, along with the schedule number references in OPC Exhibit (DD-1) for each county in which the calculations are presented, is provided below:

	Sch. Nos.	Net PIS	Deprec. Exp.
Golden Hills/Crownwood - Water (Marion County)	C-3 / B-5	\$ (41,686)	\$ (3,043)
Crescent Hgts. Water (Orange)	C-2	\$ (4,945)	\$ (222)
Wisbar Water (Pasco)	C-4	\$ (251)	\$ (12)
Buena Vista Water (Pasco)	C-4	\$ (613)	\$ (17)
Summertree Water (Pasco)	C-4	\$ (222,289)	\$ (11,344)
Orangewood Water (Pasco)	C-4	\$ (64,865)	\$ (4,819)
Lake Tarpon Water (Pinellas)	C-2/B-5	\$ (33,464)	\$ (1,251)
Weathersfield Water (Seminole)	C-5	\$ (69,896)	\$ (4,307)
Oakland Shores Water (Seminole)	C-5	\$ (103,867)	\$ (4,275)
Little Wekiva Water (Seminole)	C-5	\$ (2,078)	\$ (106)
Park Ridge Water (Seminole)	C-5	\$ (23,868)	\$ (1,427)
Phillips Water (Seminole)	C-5	\$ (6,504)	\$ (234)
Crystal Lake Water (Seminole)	C-5	\$ (8,879)	\$ (294)
Ravenna Park/Lincoln W(Seminole)	C-5	\$ (67,476)	\$ (4,021)
Bear Lake Water (Seminole)	C-5	\$ (23,885)	\$ (1,929)
Jansen Water (Seminole)	C-5	\$ (70,241)	\$ (4,288)

WITNESS: Ted Bidy and Donna DeRonne

ISSUE 8b NEW: What methodology should be employed to properly calculate the used and useful percentages for water distribution and wastewater collection systems, and what are the proper used and useful percentages for each of the systems?

POSITION: The Commission has a long standing methodology for computing the used and useful percentages of water distribution and wastewater collection systems. The methodology requires a comparison of the total connected equivalent residential connections (ERCs) to the total ERCs available for service. The relationship is expressed as a fraction with the total connected lots in the numerator plus 5 years growth divided by the total available ERC's. This methodology is discussed in detail in Exhibit TLB-2. The actual used and useful calculations for each of the systems is provided in Exhibit TLB-3.

WITNESS: Ted Biddy

ISSUE 9: Does UIF have excessive unaccounted for water and, if so, what adjustments should be made?

POSITION: Yes. The Citizens analyzed the flow records for each of the 17 water systems by subtracting the "Total Water Sold" and other permitted uses such as fire flows, line flushing, etc. from the "Total Water Pumped" and divided this difference by the "Total Water Pumped." This value yields the total percentage for unaccounted for water in each system. These calculations revealed that 10 out of the 17 water systems had unaccounted for water during the test year in excess of 10% with one as high as 22%. Historically, unaccounted for water in excess of 10% has been considered by the Commission to be excessive and appropriate to be deducted from the "demand" when calculating the used and useful percentages for a water system. The excessive unaccounted for water was deducted from the demand in all of Mr. Biddy's used and useful calculations contained in TLB-3.

The excessive unaccounted for water percentages should be applied to the test year chemical, purchased power and purchased water expense for the applicable systems. OPC's recommended adjustment to reflect the impact of excessive unaccounted for water is presented in Exhibit __ (DD-1) for each County, resulting in: (1) a \$1,465 reduction to Marion County expenses (Marion Schedule B-7); (2) a \$987 reduction to Pasco County expenses for the Summertree and Orangewood water systems (Pasco Schedule B-5); (3) a \$751 reduction to Pinellas County expenses (Pinellas Schedule B-6); and (4) a \$285 reduction to Seminole County expenses for the Little Wekiva, Weathersfield, Phillips and Ravenna Park water systems (Seminole Schedule B-6).

WITNESS: Ted Biddy and Donna DeRonne

ISSUE 10: What is the appropriate used and useful percentage for the utility's wastewater treatment plants and collection systems?

POSITION: See Citizens' issues 8b and 10a.

ISSUE 10a NEW: What methodology should be employed to properly calculate the used and useful percentages for wastewater treatment plants, and which are the appropriate used and useful percentages for each of the utility's wastewater plants?

POSITION: The settled Commission policy has been to compare the wastewater plants actual flow rates to the FDEP permitted flow rate, with its plant flow rate being on the same basis as shown in the FDEP permit. In other words, if the FDEP permit basis is annual average daily flow (AADF), then the test year AADF should also be used. This rationale insures that both the numerator and denominator of the U/U formula are arrived at from the same basis and that like quantities are being compared. Comparing flows arrived at from a different basis would be mathematically meaningless. The actual formula is expressed as a fraction, with the test year flow plus the 5 years growth divided by the FDEP permitted flow, with the test year flow being adjusted for any excessive inflow and infiltration. This methodology is discussed in detail in Exhibit TLB-2. The actual calculations and used and useful percentages of the Utility's wastewater plants is provided in Exhibit TLB-3. Witness Bidy also discusses in some detail the complete removal of three wastewater plants from plant in service or alternatively considering them 100% nonused and useful because they have been completely taken off line and are no longer in service.

The impact of Citizens recommended non-used and useful percentages on net plant in service and depreciation expense, along with the schedule number references in OPC Exhibit __ (DD-1) for each county in which the calculations are presented, is provided below:

	Sch. Nos.	Net PIS	Deprec. Exp.
Crownwood Sewer (Marion)	C-4 / B-6	\$ (6,458)	\$ (1,347)
Wisbar Wastewater (Pasco)	C-4	\$ (467)	\$ (15)
Summertree W/W Treatment Plant (Pasco) - Remove 100%	C-3	\$ (158,495)	\$ (6,760)
Summertree Wastewater (Pasco)	C-4	\$ (99,330)	\$ (3,693)
Weathersfield W/W Treatment Plant (Seminole) - Remove 100%	C-3	\$ (63,679)	\$ (4,723)
Weathersfield Wastewater (Sem.)	C-5	\$ (19,746)	\$ (914)

Lincoln Heights W/W Treatment Plant (Seminole) - Remove 100%	C-4	\$ (316,403)	\$ (11,148)
Ravenna Park/Lincoln Heights Wastewater (Seminole)	C-5	\$ (29,341)	\$ (729)

WITNESS: Ted Bidy and Donna DeRonne

ISSUE 11: Does UIF have excessive infiltration in any of its wastewater systems, and if so, what adjustments should be made?

POSITION: Yes. 4 of the 5 wastewater systems had inflow and infiltration (I/I) considerably in excess of 10%, which is about the limit of I/I that should be allowable. Only the Wis-Bar system was found to have less than 10% I/I. With the assumption that 80% of total water sold is approximately the amount of water returned to the system in the form of wastewater, witness Bidy subtracted 80% of the total water sold from the total amount of wastewater treated. The value obtained was then divided by the total wastewater treated to obtain a percentage that represents the approximate I/I. The Summertree system was found to have 25.62% I/I; the Ravenna Park/Lincoln Heights system was found to have 21.47% I/I; the Weathersfield system was found to have 11.23% I/I; and the Golden Hill/Crownwood system was found to have 11.43% I/I. The calculations in Exhibit TLB-6 show the excessive I/I percentages. Since 3 of the 4 wastewater systems with excessive I/I have no wastewater treatment plant, the excessive I/I percentage should be applied to the operational costs of pumping the wastewater to others for treatment and to the cost of purchased treatment.

The application of Citizens' recommended excessive Inflow & Infiltration percentages to the test year purchase power and purchased sewage treatment expense for the systems is calculated in Exhibit __ (DD-1) for each county, resulting in the follow adjustments: (1) a \$12,730 reduction to Pasco County expense for the Summertree wastewater system (Pasco Schedule B-6); and (2) a \$30,122 reduction to Seminole County expense for the Weathersfield and Ravenna Park/Lincoln Heights wastewater systems (Seminole Schedule B-7).

WITNESS: Ted Bidy & Donna DeRonne

ISSUE 12: What adjustments, if any, should be made to UIF's working capital for overstated cash, overstated current liabilities, use of year-end balances and incorrect allocation method? (Audit Exception 14, as revised)

POSITION: Citizens agree with Staff's revised Exception 14 in significantly reducing the amount of working capital contained in the MFR filing, reducing working capital from the \$1,634,351 total amount requested by the Company to \$208,497. However, Citizens recommended allocation of the revised working capital differs from Staff's adjustment. Staff's exception, as revised, allocates the working capital balance to each County's water and wastewater system based on the percentage of adjusted O&M expenses for each county system. Citizens' allocation to each system is slightly different from Staff's as the OPC's adjusted O&M expenses differ. The adjustment to working capital (calculated on OPC Exhibit__(DD)-1 for Marion County, Schedule C-5), results in the following reductions to the working capital requested in the MFR filing for each county system: (1) Seminole County Water reduction of \$349,455; (2) Seminole County Wastewater reduction of \$404,619; (3) Pinellas County Water reduction of \$24,647; (4) Pasco County Water reduction of \$213,043; (5) Pasco County wastewater reduction of \$226,009; (6) Marion County Water reduction of \$102,192; (7) Marion County Wastewater reduction of \$39,333; and (8) Orange County Water reduction of \$66,735. Combined, these result in an overall reduction to the Company's requested cash working capital for all systems of \$1,426,033, consistent with Staff's recommendation.

WITNESS: Donna DeRonne

ISSUE 13: What adjustments, if any, should be made to rate base to correct the adjustments made by the utility from its general ledger to the MFRs? (Audit Exception 15)

POSITION: No position at this time.

ISSUE 14: What is the appropriate rate base?

POSITION: This is a fall-out issue impacted by other issues. At this time, the OPC's position for overall rate base, as found in Exhibit__(DD-1) for each County, Schedules A-1 and A-2, are as follows:

County System	Current OPC Adjusted Rate Base
Marion Water	\$ 221,481
Marion Wastewater	\$ 54,202
Orange Water	\$ 73,433
Pasco Water	\$ 571,096

Pasco Wastewater	\$ 106,780
Pinellas Water	\$ 152,978
Seminole Water	\$ 987,142
Seminole Wastewater	\$ 1,245,685

WITNESS: Donna DeRonne

ISSUE 15: What is the appropriate treatment of the costs associated with the condemnation lawsuit in Seminole County? (Audit Disclosure 1)

POSITION: None of these costs should be included in this case. The condemnation of the Lincoln Heights wastewater treatment plant and the subsequent acquisition of a portion of the surrounding land is the subject of on-going litigation. If such litigation has been completed, the Company has not presented the level of evidence in this record necessary to justify inclusion of any of the related costs at this time. Staff's Audit Report contained many adjustments associated with the deferral of substantial legal fees associated with the proceedings and litigation, which the OPC agrees with and has reflected in addressing other issues. Additionally, according to the Staff Audit Report, Disclosure No. 1, the Company received \$154,190 in June 1999 from the Department of Transportation, and this \$154,190 received by the Company for the land is not reflected anywhere in the Company's MFR filing. Additionally, Staff indicated in the disclosure that the litigation is still on-going. With the on-going litigation, the issue of the amount of compensation to ultimately be received by the Company as a result of the condemnation and land acquisition remains open and the Company has not presented adequate information or justification in this case for recovery of this cost at this time.

WITNESS: Donna DeRonne

ISSUE 16: What is the appropriate treatment of costs associated with the interconnection of the WisBar/Bartelt water system with the Orangewood water system in Pasco County? (Audit Disclosure 2)

POSITION: No position at this time.

ISSUE 17: What adjustment, if any, should be made to Contributions-in-Aid-of-Construction (CIAC), and Accumulated Amortization of CIAC to reflect transfer of customer advances to CIAC? (Audit Exception 10)

POSITION: Citizens' agrees with this Staff recommendation, which reclassifies amounts from Advances-in-Aid-of-Construction accounts in Seminole County to Contributions-In-Aid-of-Construction. For Seminole County water, CIAC should be increased \$52,000; accumulated amortization of CIAC should be increased \$1,113; and CIAC amortization expense should be increased \$2,225 (reduction to expense). For Seminole County wastewater, CIAC should be increased \$48,000; accumulated amortization of CIAC should be increased \$543; and CIAC amortization expense should be increased \$1,085 (reduction to expense). Citizens recommended adjustments to accumulated amortization of CIAC differs from Staff's exception due to use of an average test year amount instead of year-end rate base amount.

WITNESS: Donna DeRonne

ISSUE 17(a)NEW: **What adjustment should be made to CIAC and amortization of CIAC to reflect the contribution received from the City of Altamonte Springs?**

POSITION: When UIF negotiated the contract with Altamonte Springs to provide the Weathersfield system with wholesale wastewater service, the contract provided that at the time of connection, Altamonte Springs would pay UIF \$107,000. UIF has not adequately explained why these funds were reflected on the books of Utilities, Inc. as opposed to UIF. OPC recommends that these funds be reflected on the books of UIF as a contribution. Accordingly, the Weathersfield system's (Seminole County) rate base should be reduced by \$105,217 and test year expenses should be reduced by \$3,567.

WITNESS: Kim Dismukes

ISSUE 18 : **Are any adjustments necessary to UIF's capital structure and 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 ended December 31, 2001? (Audit Exception 16)**

POSITION: Yes, UIF's proposed capital structure and cost rates should be revised. With the exception of the rate of return on equity used by Staff, Citizens agrees with the recommendations made by Staff in Audit Exception 16. OPC Exhibit __ (DD-1) for each County, Schedule Nos. D-1, presents the calculation of the overall rate of return for each county based on Staff's recommendations, however, with the OPC's recommended rate base incorporated in the calculations and OPC's recommended rate of return on equity. These schedules (Schedule Nos. D-1) present the components of the capital structure, along with the appropriate cost rates.

Because UIF is a significantly larger than average water and wastewater utility in Florida, witness Cicchetti recommends the Commission apply the leverage formula without the third adjustment of 50 basis points for small size. Two adjustments for small size will remain, the 40 basis point bond-yield-differential adjustment to recognize the difference in size between the companies in the indexes used to calculate the cost of equity and UIF, and the 50 basis point private-placement premium to recognize that investors require a liquidity premium to hold privately placed debt. Although many Florida water and wastewater utilities are small, they are still regulated entities and have lower risk than similar non-regulated utilities. Applying the leverage formula after making witness Cicchetti's 50 basis point adjustment yields an appropriate return on equity range of 9.41 to 11.41%.

Citizens recommend that revenue requirement be based on the low end of its recommended range of 9.41%, as discussed further in Issue No. 47. Citizens' recommended overall rate of return calculated based on the mid-point of the ROE range and the low-point of the range (which is Citizens' primary recommendation) for each county is presented below:

County	ROR based on Mid-point of ROE range	ROR based on Low-point of ROE Range (Recommended)
Marion	8.17%	7.76%
Orange	8.07%	7.68%
Pasco	8.17%	7.77%
Pinellas	8.16%	7.76%
Seminole	8.17%	7.77%

WITNESS: Donna DeRonne and Mark Cicchetti

ISSUE 19: Should an AFUDC rate be approved, and if so, what is the appropriate annual rate, monthly discounted rate, and the effective date for each system?

POSITION: No position at this time.

ISSUE 20: Should the gallonage charge allotments contained in the base facility charges in the Buena Vista and Wiş Bar systems in Pasco County be eliminated?

POSITION: No position at this time.

ISSUE 21: Should the utility be allowed to bill monthly in those systems in which bi-monthly billing currently exists?

POSITION: No position at this time.

ISSUE 22: What are the appropriate billing determinants for the water systems in each county before consideration of a repression adjustment?

POSITION: No position at this time.

ISSUE 23: What are the appropriate billing determinants for the wastewater systems in each county before consideration of a repression adjustment?

POSITION: No position at this time.

ISSUE 24: What adjustments should be made to the utility's operation and maintenance expenses associated with a recommended repression adjustment, if any?

POSITION: No position at this time.

ISSUE 25: What adjustments, if any, should be made to the utility's test year revenues? (Audit Exception 17)

POSITION: Citizens' agree with Staff Exception 17, which increases Marion County test year wastewater revenues by \$11,375. This adjustment is necessary to annualize the impact of the Company's addition during the test year of BFF Corporation as a customer in May 2001. BFF Corporation is a general service customer receiving bulk wastewater treatment from UIF, and served 98 residential customers during the test year.

WITNESS: Donna DeRonne

ISSUE 25(a)NEW: Should any adjustments be made to UIF's adjusted test year revenues to reflect the impact of the revisions to MFR Schedule Nos. E-2 for the annualizations of index rate increases taking effect during the historic test year?

POSITION: Yes. The Company's filing for several county systems include adjustments to test year revenues to annualize the impact of index rate increases that went into effect during 2001. The necessary adjustments for the index rate increases were calculated using MFR Schedule E-2 for each of the counties impacted. The differences between the MFR Schedule Nos. E-2 annualized index rate increase amount and the as-recorded revenues were reflected as adjustments on MFR Schedule Nos. B-3. As a result of Commission Staff's deposition of Steve Lubertozi, the Company filed Late Filed Exhibit 4, consisting of Revised MFR Schedules Nos. E-1 and E-2 to reflect the correction of additional errors, inconsistencies and omissions. The amounts in the revised Schedule Nos. E-2 for the annualizations of the impact of the index rate increases that went into effect in mid-2001 (the middle of the test year) differed from the amounts in the Schedule Nos. E-2 included in the MFR filing in calculating the Company's proposed revenue requirement amounts. The following adjustments are necessary; (1) increase Seminole water revenues by \$3,393; (2) decrease Seminole wastewater revenues by \$245; (3) increase Pinellas water revenues by \$592; and (4) increase Orange County water revenues by \$808. (OPC Exhibit __ (DD-1), Schedule Nos. B-1)

The OPC does not recommend that the impact of the revisions to the annualizations of the index rate increase for Pasco County be reflected. In its MFR filing, the Company's adjustment to annualize the Pasco County water rates resulted in a \$6,784 reduction to water revenues booked during the test year. The latest version of Pasco County MFR Schedule E-2 would result in an additional \$7,934 reduction to recorded test year revenues, or a total reduction of \$14,718. For the wastewater system, the adjustment to annualize the wastewater rate increase in the MFR filing resulted in an increase in wastewater revenues of \$18,482. If the most recent version of MFR Schedule E-2 is used, the result would only be a \$513 increase in the revenues recorded during the test year. It is counterintuitive that the annualizations of an increase in rates would result in a decrease in revenues.

WITNESS: Donna DeRonne

ISSUE 26: What adjustments, if any, should be made to the utility's operation and maintenance expense with respect to amounts allocated from affiliated entities? (Audit Exception 21)

POSITION: The Company was unable to document how it determined the single family equivalent statistic which is the foundation for the customer equivalent allocation factor. It was unable to produce ERC information to allow the Staff auditors to evaluate the reasonableness of the allocation method. UIF has failed to meet its burden of proof concerning the costs allocated from WSC. UIF did not comply with the Commission's rules concerning the minimum filing requirements for affiliate transactions. Accordingly, the Commission should disallow all costs associated with charges from WSC. These adjustments are reflected on Exhibit KHD-1, Schedule 1. The total disallowance for all systems is \$149,189.

WITNESS: Kim Dismukes

ISSUE 27: **Should adjustments be made to salaries, pensions and benefit expense and payroll taxes to include the proper level of allocated expenses?**

POSITION: See OPC position, included in Issue 27(a), below.

ISSUE 27(a) NEW: **Should adjustments be made to the amount of salaries, pensions and benefit expense and payroll taxes included in the Company's MFR filing?**

POSITION: Yes, several adjustments to the salary expense, pension and benefit expense and payroll tax expense are necessary to: (1) correct errors in the calculations included in the MFR filings; (2) reflect the impact of actual salary increases granted instead of overstated estimates included in MFR filings; (3) reflect updated employee levels and positions; (4) reflect that a portion of the increase in salaries and wages would be capitalized instead of expensed; and (5) reflect the allocation of office salaries, benefits and payroll taxes to each of the county systems based on the allocation percentages recommended by the OPC. The updated salary, benefits and payroll tax calculations provided by the Company in response to Citizens' Interrogatory No. 144 should be used in calculating the appropriate expense levels, with a few revisions. The salary for an open position included in the Company's response should be removed, and the allocation to UIF for one of the employees needs to be corrected. Additionally, the allocations to each county system should be revised based on Citizens' recommended allocation factors, and a portion of the increase from the test year salary level needs to be capitalized. The OPC's revisions do not reflect the slight revisions made by the Company for salaries allocated from WSC, as Citizens have recommended in another issue that all costs allocated from WSC be removed.

The table below presents a summary of the revisions to the salary and wage expense, benefit expense and payroll tax expense included in the Company's MFR filing by

each County system. These adjustments can be found at OPC Exhibit__(DD-1), Schedules B-2, B-3 and B-4, respectively, for each county.

	Payroll Expense Adjustment	Benefit Expense Adjustment	Payroll Tax Adjustment
Marion - Water	(\$587)	(\$335)	(\$213)
Marion - Wastewater	(\$86)	(\$50)	(\$32)
Orange - Water	(\$3,251)	(\$695)	(\$455)
Pasco - Water	(\$568)	\$1,259	\$394
Pasco - Wastewater	(\$177)	\$393	\$123
Pinellas - Water	(\$21,550)	(\$3,318)	(\$1,496)
Seminole - Water	(\$7,574)	\$58	(\$255)
Seminole - Wastewater	(\$4,088)	\$33	(\$138)

WITNESS: Donna DeRonne

ISSUE 28: Should adjustments be made to operation and maintenance (O&M) expense to remove incorrect beginning and ending year accruals, unsupported expense additions, and improperly recorded expenses? (Audit Exception 18)

POSITION: Citizens agrees with these adjustments recommended by Staff in Audit Exception 18. The adjustments remove excess accruals and reversals booked during the test year, the corrected allocation of purchased wastewater costs from Pasco County to Seminole County, the removal of costs for missing invoices, and the charging of legal fees to the system to which they apply. The adjustments to Pasco County wastewater O&M expense include: a \$6,750 increase to correct accruals; a \$23,770 reduction to remove City of Sanford charges that should be assigned to Seminole County; a \$719 reduction to remove costs for which invoices are missing; and a \$812 increase to direct charge legal fees. For Pasco County water, O&M expense should be decreased \$600 to remove an over-accrual and increased \$2,199 to direct charge legal fees. For Seminole County wastewater, O&M expense should be increased \$23,770 for the purchase wastewater expenses that were incorrectly charged to Pasco County and reduced by \$9,300 to remove an over-accrual. For Seminole County water, O&M expense should be reduced \$175 to remove an extra accrual and reduced \$1,894 to remove costs for which invoices are missing. Marion County water O&M expenses should be reduced \$818 to remove an extra accrual from the test year. Orange

County water O&M expenses should be reduced \$3,200 to remove an extra accrual from the test year.

WITNESS: Donna DeRonne

ISSUE 29: What adjustments, if any, should be made to the utility's operation and maintenance expenses in Seminole County with respect to the wastewater interconnection with the City of Sanford? (Audit Exception 23)

POSITION: During the historic test year, on July 1, 2001, the Company's Lincoln Heights wastewater treatment plant in Seminole County was removed from service. Staff Audit Exception 23, which reduces the Seminole County wastewater O&M expense included in the MFR filing by \$80,751, annualizes the impact on O&M expense due to the resulting wastewater interconnection with the City of Sanford and corrects the adjustments included in the Company's MFRs for the annualizations of the purchase wastewater treatment expense. The annualized purchased wastewater expense included by Staff in its calculations supporting Audit Exception 23 should be decreased an additional \$7,451, resulting in a net reduction for this issue of \$88,202.

The Commission's audit staff used a 14-month average purchased wastewater treatment expense using the period July 2001 through August 2002 to calculate a 12-month average total purchase wastewater treat expense of \$142,086. However, the July 2001 and August 2001 amounts that were included in Staff's calculation is not reflective of normal operating conditions or normal monthly expense levels. Consequently, the annualized purchase wastewater treatment expense should be recalculated based on the actual expense incurred during the twelve-month period from September 1, 2001 through August 31, 2002 to reflect a normal, on-going level. The additional adjustment is calculated in OPC Exhibit__(DD-1) for Seminole County, Schedule B-9.

WITNESS: Donna DeRonne

ISSUE 30: Should adjustments be made to operation and maintenance expenses for items not related to UIF's operations and items which should properly be deferred? (Audit Exceptions 19 & 20)

POSITION: Yes. Citizens agrees with Staff's recommendation in Audit Exception 19, which removes certain travel and advertising expenses inappropriately allocated to Orange and Seminole County systems, travel expenses inappropriately allocated to Pasco and Pinellas county systems, and costs allocated to the Pasco and Pinellas county systems for which the supporting invoices were missing. The necessary adjustments to reflect

the impact of Audit Exception 19 are expense reductions of: \$121 for Orange County water, \$978 for Seminole County water, \$529 for Seminole County wastewater, \$574 for Pasco County water, \$212 for Pasco County wastewater, and \$117 for Pinellas County water.

Citizens also agrees with the specific adjustments to UIF office O&M expense presented in Staff Audit Exception No. 20, resulting in a \$50,167 reduction to UIF Office costs that are allocated, in part, to the county systems in this case. However, Citizens recommend allocation factors for UIF Office charges to the county systems which differ from those used by Staff.

OPC's recommended adjustments for UIF Office charges are reflected on Exhibit KHD-1, Schedules 1 and 11. OPC adjustments are as follows:

	Seminole		Marion		Pasco		Orange	Pinellas
	Water	Sewer	Water	Sewer	Water	Sewer	Water	Water
Expense Allocations from UIF	\$(1,628)	\$ (882)	\$ (822)	\$ (123)	\$ 785	\$ 246	\$ (235)	\$ 2,659

WITNESS: Kim Dismukes

ISSUE 31: What is the appropriate amount of rate case expense?

POSITION: OPC recommends that the Commission disallow a substantial amount of the rate case expense requested in this proceeding. UIF has been unable to produce reliable and accurate MFRs. It took UIF four tries to get its MFRs accurate. In addition, its responses to OPC's discovery have been inadequate and often extremely late. The Company filed numerous revisions to its MFRs. The costs associated with the deficiencies in the Company's MFRs and discovery responses should not be borne by ratepayers. Instead, these costs should be absorbed by the stockholders of UI. UI is the largest privately held water and wastewater company operating in the United States. The extent of the errors in the MFR filings should not be tolerated by the Commission and the costs should not be borne by ratepayers. It is the intention of OPC to provide a recommendation on the subject of rate case expense once complete documentation is submitted by the Company, therefore, OPC reserves the right to update its position once complete documentation is provided. In the interim, OPC recommends that the Commission should disallow a substantial portion of UIF's requested rate case expenses. Of the total rate case expense of \$404,090, OPC recommends that \$303,090 be disallowed.

WITNESS: Kim Dismukes

ISSUE 32: What adjustments, if any, should be made to the utility's property taxes with respect to allocations between the systems in this case and between UIF and other Florida utility operations? (Audit Exception 24)

POSITION: Citizens agree with the recommendations made by Staff in Audit Exception 24. This audit exception directly assigns property tax expense to the appropriate county systems and revises the allocation of property tax expense for WSC and UIF. The following revisions to the property tax expense amounts included in the Company's MFR filing is necessary: \$4,225 reduction for Marion County water, \$609 reduction for Marion County wastewater, \$1,953 reduction for Orange County water, \$7,288 reduction for Pasco County water, \$5,587 increase for Pasco county wastewater, \$736 reduction for Pinellas County water, \$2,946 increase for Seminole County water and \$127 increase for Seminole County wastewater.

WITNESS: Donna DeRonne

ISSUE 33: Is there a gain on sale with respect to the sale of the Druid Isle water system and of a portion of the Oakland Shores water system to the City of Maitland and/or with respect to the sale of the Green Acres Campground water and wastewater facilities to the City of Altamonte Springs, and if so, in what amounts?

POSITION: Yes. The amount of the gain on sale is \$67,695 for the Druid Isle sale and \$269,662 for the Green Acres sale. The amount for Druid Isle is slightly more than the amount previously found reasonable by the Commission because UIF was unable to provide support for \$14,566 of legal costs which it had used to reduce the gain on sale. Therefore, OPC recommends that the selling costs for the Druid Isle sale be reduced by \$14,566. This reduction produced a gain on sale of \$67,695 for Druid Isle compared to the \$ 61,669 found reasonable by the Commission in Order No. PSC-99-21721-FOF-WU.

WITNESS: Kim Dismukes and Mark Cicchetti

ISSUE 34: Should UIF's remaining customers in Orange and Seminole Counties receive recovery of any gains on sale realized from the sale to the City of Maitland and/or to the City of Altamonte Springs, and if so, how should the recovery be calculated.

POSITION: Yes. The Commission should require UIF to amortize the total gain of \$337,357 above-the-line for current ratemaking purposes. OPC recommends that the Commission amortize the gain over five years. The five-year amortization period is consistent with the Commission's treatment of other gains on sale. Therefore, test year income should

be increased by \$67,471. OPC recommends that the gain on sale be spread across of the UIF systems as shown on Schedule 3 of Exhibit KHD-1.

WITNESS: Kim Dismukes and Mark Cicchetti

ISSUE 35: What is the test year operating income before any revenue increase?

POSITION: This is a fall-out issue impacted by the resolution of other issues. At this point, based on the issues for which OPC is currently taking a position on, the adjusted test year net operating income before any revenue increase (or decrease), by county system, is presented in the table below. These amounts may be found on Schedule Nos. A-1 and A-2 in Exhibit __ (DD-1) for each county system.

County System	OPC Adjusted NOI
Marion Water	\$ 34,525
Marion Wastewater	\$ 17,351
Orange Water	\$ (8,049)
Pasco Water	\$ 103,285
Pasco Wastewater	\$ 49,646
Pinellas Water	\$ 5,720
Seminole Water	\$ 140,385
Seminole Wastewater	\$ 10,977

WITNESS: Donna DeRonne

ISSUE 36: What is the appropriate revenue requirement?

POSITION: This is a fall-out issue impacted by the resolution of other issues. At this point, based on the issues for which OPC is currently taking a position on, the resulting appropriate revenue increase/(decrease) for each county system is presented in the table below. These amounts may be found on Schedule Nos. A-1 and A-2 in Exhibit __ (DD-1) for each county system. For convenience, the amounts are presented both prior to and after the application of the OPC's recommended penalty, which sets return on equity at the bottom point of the ROE range instead of the mid-point.

	Per Company	OPC Adjusted	OPC Recommended (with Penalty)
Marion - Water	\$49,509	(\$27,584)	(\$29,092)
Marion - Wastewater	\$5,309	(\$21,696)	(\$22,065)
Orange - Water	\$76,950	\$23,463	\$22,988
Pasco - Water	\$110,293	(\$95,069)	(\$98,940)
Pasco - Wastewater	\$59,118	(\$68,703)	(\$69,427)
Pinellas - Water	\$102,494	\$11,355	\$10,320
Seminole - Water	\$184,949	(\$100,290)	(\$107,000)
Seminole - Wastewater	\$510,847	\$152,436	\$143,969
TOTAL	\$1,099,469	(\$126,088)	(\$149,247)

WITNESS: Donna DeRonne

ISSUE 37: Is the utility's proposed rate consolidation for Pasco and Seminole Counties appropriate, and, if not, what if any rate consolidation is appropriate for these counties?

POSITION: No position at this time.

ISSUE 38: What is the appropriate water rate structure for each of the counties (or systems) contained in the utility's filing?

POSITION: No position at this time.

ISSUE 39: Should a portion of the wastewater revenue requirement for systems within a county be reallocated to the corresponding water systems within that same county, and, if so, what are the proper reallocations for each county?

POSITION: No position at this time.

ISSUE 40: What is the appropriate wastewater rate structure for each of the counties (or systems) contained in the utility's filing?

POSITION: No position at this time.

ISSUE 41: Is repression of water consumption likely to occur, and, if so, what is the appropriate adjustment for each county and the resulting consumption to be used to calculate consumption charges for those corresponding counties?

POSITION: No position at this time.

ISSUE 42: Is repression of wastewater consumption likely to occur, and, if so, what is the appropriate adjustment for each county and the resulting consumption to be used to calculate consumption charges for those corresponding counties?

POSITION: No position at this time.

ISSUE 43: What are the appropriate rates for water service for this utility?

POSITION: No position at this time.

ISSUE 44: What are the appropriate rates for wastewater service for this utility?

POSITION: No position at this time.

ISSUE 45: 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?

POSITION: No position at this time.

ISSUE 46: 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?

POSITION: No position at this time.

ISSUE 47: Should the utility be required to show cause, in writing within 21 days, why it should not be fined for its apparent violation of Rule 25-30.115, Florida Administrative Code, and Order No. PSC-97-0531-FOF-WU, issued May 9, 1995, in Docket No. 960444-WU, for its failure to maintain its books and records in conformance with the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA)?

POSITION: Non-compliance with Commission Rule No. 25-30.115 has been a long-standing issue with Utilities, Inc. and its utility systems. In addition to the Order cited in the question above, this issue has also been addressed for Utilities, Inc. and its utility systems in Order Nos. PSC-00-2388-AS-WU issued December 13, 2000, PSC-00-1528-PAA-WU issued August 23, 2000, PSC-95-0574-FOF-WS issued May 9, 1995; PSC-96-0910-FOF-WS issued July 15, 1996; and PSC-98-0524-FOF-SU issued April 16, 1998. Considering the long-standing problems and the lack of progress in addressing these problems, Citizens recommend that the Commission adopt an authorized return on equity based on the low-end of the return on equity range instead of the midpoint of the ROE range. Based on the return on equity range recommended by Citizens' witness Mark Cicchetti, this results in an ROE of 9.41% for determining the appropriate revenue requirement in this case. The adoption of the low-end of the range of reasonableness would provide a needed incentive for the Company to improve its books and records and to come into compliance with the Commission's Rules and the NARUC Uniform System of Accounts. This utility has demonstrated time and again that the much needed improvements will not occur absent a penalty or substantial incentive to do so. In the Company's next rate case proceeding, the Commission could then revisit this issue and if, at that future date, the Company has adopted the much needed improvements in its accounting records, then the return on equity could be set at the mid-point of the range of reasonableness.

WITNESS: Donna DeRonne

ISSUE 48: Should the utility be required to show cause, in writing within 21 days, why it should not be fined for serving outside its currently certificated territory in the Bear Lake and Crystal Lake Systems?

POSITION: No position at this time.

ISSUE 49: Should the docket be closed?

POSITION: Not until the case has been concluded.

WITNESS: Donna DeRonne

ISSUE 50 NEW: **What adjustment should be made to operation and maintenance expense to normalize purchase water expense for the Oakland Shores system in Seminole County?**

POSITION: The Company's Oakland Shores water system in Seminole County treats its own water, but has an automatic interconnection with the City of Altamonte Springs. Test year purchase water expense for the Oakland Shores system should be reduced by \$1,632 to reflect a normalized level. (OPC Exhibit__(DD-1) - Seminole County, Schedule B-5)

WITNESS: Donna DeRonne

ISSUE 51 NEW: **What adjustment should be made to uncollectible expense to reflect a normalized level for the Weathersfield water system in Seminole County?**

POSITION: Test year uncollectible expense for the Weathersfield water system in Seminole County should be reduced by \$538 to reflect the four-year average, normalized expense level. (OPC Exhibit__(DD-1) - Seminole County, Schedule B-8)

WITNESS: Donna DeRonne

ISSUE 52 NEW: **Should the remaining land and water treatment plant, along with the associated accumulated depreciation and depreciation expense, on the Company's books in the test year for the Crescent Heights and Davis Shores systems be removed?**

POSITION: Yes. This adjustment was recommended in Staff Audit Exception No. 9. The Crescent Heights water system was interconnected with another utility's system and the Company plans to dispose of the remaining equipment and demolish the building. The Davis Shores water system was interconnected with another utility's system, and the Company removed all of the equipment and disposed of the land. The necessary adjustments to Orange County water to reflect the removal of the land and water treatment plant is: a \$40,606 reduction to plant in service; a \$31,058 reduction to accumulated depreciation; and a \$1,715 reduction to depreciation expense. The adjustment to accumulated depreciation differs slightly from that recommended in Staff Audit Exception 9 as the OPC's position reflects an average test year rate base methodology instead of the year-end balance.

WITNESS: Donna DeRonne

ISSUE 53 NEW: **What is the appropriate test year income tax expense prior to any revenue increase or decrease?**

POSITION: This is a fall-out issue impacted by other adjustments. In addition to reflecting the impact on income taxes from adjustments to test year revenues and expenses, any revisions to rate base will also impact the interest synchronization adjustment.

WITNESS: Donna DeRonne

G. STIPULATED ISSUES.

The parties have not stipulated to any issues at this time.

H. PENDING MOTIONS.

The Citizens have a Motion to Compel pending, which was filed on June 12, 2003.

I. CLAIMS OF CONFIDENTIALITY.

The Citizens are not aware of any pending claims of confidentiality.

J. REQUIREMENTS THAT CANNOT BE COMPLIED WITH.

The Citizens are not aware of any requirements of Commission Orders Nos. PSC-03-0389-PCO-WS and PSC-02-1495-PCO-WS that cannot be complied with at this time.

K. OBJECTION TO WITNESSES' QUALIFICATIONS.

The Citizens have no objection at this time.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "S. C. Reilly", is written over a circular stamp or seal that is partially obscured.

Stephen C. Reilly
Associate Public Counsel

Office of Public Counsel
c/o The Florida Legislature
111 West Madison Street, Room 812
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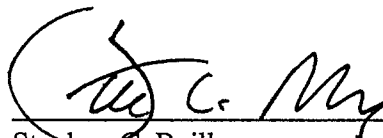
Attorney for the Citizens
of the State of Florida

**CERTIFICATE OF SERVICE
DOCKET NO. 020071-WS**

I HEREBY CERTIFY that a correct copy of the foregoing Citizens' Prehearing Statement has been furnished by U.S. Mail or hand delivery (*) to the following parties this 30th day of June, 2003.

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