

# ORIGINAL

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:

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## COMMISSION'S PREHEARING STATEMENT

Pursuant to Order No. PSC-02-1495-PCO-WS, issued October 31, 2002, as revised by Order No. PSC-03-0389-PCO-WS, issued March 20, 2003, the Commission Staff (Staff) files its prehearing statement as follows:

### A. All Known Witnesses

Staff intends to call the following witnesses:

#### Witness

#### Purpose of Testimony

James H. Berghorn

To address quality of service of Utilities, Inc. of Florida (UIF or utility).

Peter H. Burghardt

To address quality of service.

Kimberly M. Dodson

To address quality of service.

Dwight T. Jenkins

To identify the St. Johns River Water Management District's priority water resource caution areas; to discuss the status of the utility's compliance with its consumptive use permits; to present the District's views on bi-monthly verses monthly billing, and to discuss whether conservation-oriented rate structures should be applied to the utility systems within the District's jurisdiction.

Frances J. Lingo

To discuss general background information regarding the counties and systems included in the case; to discuss the utility's request to implement county-specific single tariff pricing in Pasco and Seminole Counties, and to make recommendations regarding

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Witness

Purpose of Testimony

Frances J. Lingo, cont.

this request; to recommend the appropriate billing determinants for the Marion County bulk wastewater customer shown in Schedule E-2 of the utility's minimum filing requirements; to explain the Memorandum of Understanding that exists between the Commission and the five Water Management Districts (WMDs), and how the Commission and the WMDs work together in cases; to discuss the appropriate design of conservation-oriented water rates for each county, and whether inclining-block rates are appropriate as addressed in the testimony of Staff witnesses Jenkins and Yingling; to discuss the concept of reallocating a portion of wastewater systems' revenue requirements to the corresponding water systems, and recommend whether it is appropriate to reallocate revenue requirements in this case; to analyze the utility's requested rate design for its water systems; to develop a series of illustrative rate designs for the water systems, and make recommendations; to discuss the wastewater rates in Marion County; and to discuss whether regression adjustments to reflect customers' anticipated response to price changes and rate structure changes are appropriate.

Pepe Menendez

To address quality of service.

Gary P. Miller

To address quality of service.

Paul J. Morrison

To address quality of service.

<u>Witness</u>	<u>Purpose of Testimony</u>
Richard P. Redemann	To discuss and recommend the appropriate methodology to be used for determining the amount of used and useful plant and review of expenses for the UIF water and wastewater systems.
William V. Ryland	To address quality of service.
Jeffrey A. Small	To sponsor the staff audit report of UIF in Marion, Orange, Pasco, Pinellas, and Seminole Counties.
Kathy L. Welch	To sponsor the staff audit report of the allocations among the affiliated companies of Utilities, Inc. and UIF in Marion, Orange, Pasco, Pinellas, and Seminole Counties.
Jay W. Yingling	To discuss the Southwest Florida Water Management District's (District's) purpose for promoting water conservation-oriented rate structures; how the District determines whether a rate structure is conservation-oriented; other guidelines for the development of water conserving rate structures; the effectiveness of water conserving rate structures; whether UIF's existing and proposed water rate structures comply with the District's water conserving rate structure requirements; recommended price elasticity responses; and unaccounted-for water in certain UIF systems located within the District.

B. All Known Exhibits

Staff has identified a list of exhibits which it intends to utilize at hearing which are appended hereto as Appendix A. Staff reserves the right to identify additional exhibits at the Prehearing Conference and at hearing for purposes of cross-examination.

C. Statement of Basic Position

Staff's positions are preliminary and based on materials filed by the parties and on discovery. The preliminary positions are offered to assist the parties in preparing for the hearing. Staff's final positions will be based upon all the evidence in the record and may differ from the preliminary positions stated herein.

D. Issues & Staff's Respective Positions

**QUALITY OF SERVICE**

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

**STAFF'S POSITION:** Yes. The quality of service is satisfactory. (BERGHORN, BURGHARDT, DODSON, MENENDEZ, MILLER, MORRISON, RYLAND)

**RATE BASE**

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

**TESTIFYING STAFF'S POSITION:** No. The following adjustments are necessary to reflect prior Commission-ordered water rate base adjustments.

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Water Systems by County	Plant	Land	Accum. Deprec.	CIAC	Accum. Amort. of CIAC
Marion	(\$14,314)	\$4,467	\$1,005	\$0	\$0
Orange	(\$7,056)	\$0	\$8,292	\$0	\$0
Pasco - Orangewood	(\$18,891)	\$0	\$31,723	\$0	(\$13,837)
Pasco - Summertree/PPW	\$44,763	(\$815)	(\$24,822)	(\$98,232)	\$52,177
Pasco - Wis Bar	\$264,632	\$2,910	(\$191,029)	(\$12,627)	\$8,163
Pinellas	(\$30,651)	(\$3,701)	(\$1,266)	\$0	\$0
Seminole	(\$70,137)	(\$513)	\$101,897	\$0	\$0

The following corresponding adjustments should also be made to accumulated depreciation, depreciation expense, accumulated amortization of CIAC, and CIAC amortization expense.

Water Systems by County	Accumulated Depreciation	Depreciation Expense	Accum. Amort. of CIAC	CIAC Amort. Exp.
Marion	\$603	(\$603)	\$0	\$0
Orange	\$199	(\$199)	\$0	\$0
Pasco - Orangewood	\$700	(\$700)	\$0	\$0
Pasco - Summertree/PPW	(\$38,201)	\$3,820	\$35,896	\$3,590
Pasco - Wis Bar	(\$47,324)	\$47,324	\$485	\$327
Pinellas	\$905	(\$905)	\$0	\$0
Seminole	\$2,073	(\$2,073)	\$0	\$0

Further, the adjustments to reflect prior Commission-ordered water rate base balance for Summertree PPW included adjustments to plant,

land, and accumulated depreciation adjustments for plant held for future use. These adjustments relate to Summertree PPW's Well No. 2.

The following adjustments are necessary to reflect prior Commission-ordered wastewater rate base adjustments.

Wastewater Systems by County	Plant	Land	Accum. Deprec.	CIAC	Accum. Amort. of CIAC
Marion	(\$1,633)	\$720	\$738	\$0	\$0
Pasco - Summertree/PPW	(\$19,352)	(\$1,546)	\$8,505	(\$88,459)	\$54,931
Pasco - Wis Bar	\$114,133	\$500	(\$17,191)	(\$17,232)	\$8,234
Seminole	(\$33,658)	\$0	\$47,818	\$0	\$0

The following corresponding adjustments should also be made to accumulated depreciation, depreciation expense, accumulated amortization of CIAC, and CIAC amortization expense.

Wastewater Systems by County	Accumulated Depreciation	Depreciation Expense	Accum. Amort. of CIAC	CIAC Amort. Exp.
Marion	(\$126)	\$126	\$0	\$0
Seminole	\$955	(\$955)	\$0	\$0
Pasco - Summertree	\$11,454	(\$1,145)	\$28,421	\$2,842
Pasco - WisBar	(\$4,118)	\$2,733	\$626	\$411

(SMALL) (POSSIBLE PROPOSED STIPULATION)

**NON-TESTIFYING STAFF'S POSITION:** Non-testifying staff agrees with the testifying staff, with the following exception. With respect

to the water rate base adjustments, since Well No. 2 has been in use for the past four years, an adjustment is necessary to reclassify the net of plant held for future use to plant, land, and accumulated depreciation. Thus, plant, land, and accumulated depreciation should be increased by \$31,693, \$4,686, and \$16,304, respectively.

**ISSUE 3:** Should adjustments be made to remove acquisition expenses from organization costs? (Audit Exception 6)

**STAFF'S POSITION:** Yes. UIF's utility plant-in-service (UPIS) should be reduced to remove amounts incorrectly recorded as organization costs.

<u>Accounts 301/351</u>	<u>Plant &amp; Accum. Deprec.</u>	<u>Dep. Exp.</u>
Marion - Water	(\$263)	(\$7)
Pasco - Water	(\$872)	(\$22)
Pasco - Water (WisBar/Bartelt)	(\$24,667)	(\$617)
Pasco - Wastewater	(\$872)	(\$22)

The Commission should also reduce the Seminole County water account by \$2,952, and the wastewater account by \$9,724 and \$9,579, with corresponding reductions to water depreciation expense of \$74 and to wastewater depreciation expense of \$552, for charges in 1999 and 2000 for capitalized executive salaries described as time spent working on condemnation issues related to the Lincoln Heights wastewater treatment plant site. (SMALL)

**ISSUE 4:** Should the Marion, Pasco, and Seminole County water and wastewater systems' UPIS, accumulated depreciation, and depreciation expense be reduced to remove non-recurring expenses? (Audit Exception 3)

**TESTIFYING STAFF'S POSITION:** Yes. The Marion, Pasco, and Seminole County water and wastewater systems' UPIS, accumulated

depreciation, and depreciation expense should be reduced by the following amounts. The reductions to UPIS should be placed in a Deferred Debit Account-186, and amortized over a five year period. (SMALL)

**NON-TESTIFYING STAFF'S POSITION:** Yes. These amounts should have been expensed in the year they were incurred. Therefore, they should be removed and no amortization is recommended. (POSSIBLE PROPOSED STIPULATION)

<u>County</u>	<u>Date</u>	<u>Acct. No.</u>	<u>UPIS Amt.</u>	<u>Accum. Depr.</u>	<u>Depr. Exp.</u>
Marion-Water	03/96	304	(\$1,122)	(\$187)	(\$34)
Marion-WW	08/99	380	(\$901)	(\$65)	(\$26)
Pasco-Water	12/98	311	(\$3,317)	(\$581)	(\$166)
Pasco-WW	10/00	354	(\$2,784)	(\$110)	(\$73)
Pasco-WW	02/01	354	<u>(\$3,387)</u>	<u>(\$45)</u>	<u>(\$45)</u>
Pasco-WW			(\$6,171)	(\$155)	(\$118)
Seminole-WW	04/94	361	(\$2,725)	(\$458)	(\$61)

**ISSUE 5:** Should Pasco County wastewater UPIS and accumulated depreciation be reduced by \$34,189 to remove demolition and removal costs associated with the Summertree PPW wastewater treatment plant? (Audit Exception 5)

**TESTIFYING STAFF'S POSITION:** Yes. UPIS should be reduced by \$46,944 and accumulated depreciation should be reduced by \$12,755 to remove the balance of the demolition and removal costs. The net of these charges (\$34,189) should be placed in a deferred debit Account-186 pending disposition by the Commission. Additionally, the utility should be required to reduce its depreciation expense by \$1,343 for Pasco County wastewater for the test year to account for the effect of the above adjustment. (SMALL)

**NON-TESTIFYING STAFF'S POSITION:** Yes. Had the utility properly applied to the Commission upon the disposition of these costs, they would have been amortized over a five-year period, and therefore fully amortized by the test year. Accordingly, UPIS should be



reduced by a net amount of \$34,189, with no further amortization allowed.

**ISSUE 6:** Should all land and water treatment plant associated with the Crescent Heights and Davis Shores water systems in Orange county be retired from service, with appropriate adjustments to accumulated depreciation, and depreciation expense? (Audit Exception 9)

**STAFF'S POSITION:** Yes. All land and water treatment plant associated with the Crescent Heights and Davis Shores water systems in Orange county should be retired from service as illustrated below. (SMALL) (POSSIBLE PROPOSED STIPULATION)

<u>Acct.</u> #	<u>Description</u>	<u>UPIS</u> <u>@12/31/2001</u>	<u>Acc./Dep.</u> <u>@12/31/2001</u>	<u>Dep.</u> <u>Exp.</u> <u>Adj.</u>
302	Land & Land Rights	\$2,783	\$0	\$0
304	Structures & Improvements	\$5,247	(\$2,357)	(\$159)
307	Wells & Springs	\$11,696	(\$3,934)	(\$390)
311	Pumping Equipment	\$19,894	(\$10,471)	(\$995)
320	Treatment Equipment	\$3,769	(\$2,297)	(\$171)
	Unassigned Acc./Dep.	<u>\$0</u>	<u>(\$12,856)</u>	<u>\$0</u>
Total Retirement		\$40,606	(\$31,915)	(\$1,715)

**ISSUE 7:** Should the Lincoln Heights wastewater treatment plant in Seminole county be retired from service?

**TESTIFYING STAFF'S POSITION:** Yes. The Seminole County wastewater plant should be retired by reducing UPIS by \$398,852, accumulated depreciation by \$75,169, and depreciation expense by \$11,267. (SMALL)

**NON-TESTIFYING STAFF'S POSITION:** No position pending further development of the record.

**ISSUE 8:** Should the Seminole County wastewater land account be reduced by \$103,418 to reflect improperly recorded engineering costs and AFUDC, and, if so, should the relevant test year additions to the land account be reclassified? (Audit Exception 5)

**TESTIFYING STAFF'S POSITION:** Yes. The land account should be reduced by \$101,519, and the following amounts should be reclassified accordingly. (SMALL)

Reclassify preliminary studies cost to Acct. No. 183.	\$ 14,935
Reclassify WW discharge relocation cost to Acct. No. 354.	\$ 43,859
Reclassify WW utility main relocations to Acct. No. 361.	\$ 28,185
Reclassify AFUDC accruals to Acct. No. 426.	<u>\$ 14,540</u>
Total Audit Staff Adjustments	\$101,519

**NON-TESTIFYING STAFF'S POSITION:** The reduction and reclassifications listed above should be made, with an additional reduction to land of \$1,899. This reduction is to reclassify \$1,112 as land held for future use, and a \$787 reduction to land related to the condemnation proceeding of the Lincoln Heights wastewater plant with the Florida Department of Transportation.

**ISSUE 9:** Should adjustments be made to UPIS for replacement and retirement of plant? (Audit Exception 4)

**STAFF'S POSITION:** Yes. The following adjustments should be made to properly account for retirements made. (SMALL) (POSSIBLE PROPOSED STIPULATION)

	<u>Plant &amp; Accum. Depr.</u>		<u>Depreciation Expense</u>	
	<u>Water</u>	<u>Wastewater</u>	<u>Water</u>	<u>Wastewater</u>
Marion	(\$26,688)	\$0	(\$721)	\$0
Pasco	(\$50,162)	\$0	(\$1,409)	\$0
Pinellas	(\$10,250)	\$0	(\$238)	\$0
Seminole	(\$69,891)	(\$67,270)	(\$1,854)	(\$1,495)

**ISSUE 10:** What adjustments, if any, should be made to wastewater accumulated depreciation and depreciation expense to reflect use of incorrect depreciation rates for Pumping Equipment and Treatment & Disposal Equipment? (Audit Exception 11)

**STAFF'S POSITION:** The following adjustments should be made to wastewater accumulated depreciation and depreciation expense to reflect use of incorrect depreciation rates for Pumping Equipment and Treatment & Disposal Equipment. (SMALL) (POSSIBLE PROPOSED STIPULATION)

<u>County</u>	<u>Accumulated Depreciation</u>	<u>Depreciation Expense</u>
Marion	\$21,744	\$2,632
Pasco	\$57,828	\$7,972
Seminole	\$83,141	\$11,988

**ISSUE 11:** What adjustments, if any, should be made to the utility's UPIS, accumulated depreciation and depreciation expense with respect to common plant allocations from UIF? (Audit Exception 7)

**STAFF'S POSITION:** The following adjustments should be made to allocated plant, accumulated depreciation and depreciation expense to reflect the utility's failure to record retirements of assets which were replaced during the test year. (SMALL) (POSSIBLE PROPOSED STIPULATION)

<u>County</u>	<u>Common Plant</u>		<u>Accumulated Depreciation</u>		<u>Depreciation Expense</u>	
	<u>Water</u>	<u>Wastewater</u>	<u>Water</u>	<u>Wastewater</u>	<u>Water</u>	<u>Wastewater</u>
Marion	(142)	(13)	(147)	(19)	(10)	(2)
Orange	(479)	0	(517)	0	(7)	0
Pasco	(812)	(299)	(853)	(315)	(59)	(22)
Pinellas	(171)	0	(175)	0	(12)	0
Seminole	(3,813)	(2,059)	(4,161)	(2,250)	(57)	(31)

**ISSUE 12:** What adjustments, if any, should be made to the utility's UPIS with respect to common plant allocations from Water Services Corporation? (Audit Exception 8)

**TESTIFYING STAFF'S POSITION:** The following adjustments should be made to allocated plant to reflect corrections to the utility's method of recording allocations from Water Service Corporation. (SMALL, WELCH)

WSC Allocations of Common Plant

<u>County</u>	<u>Water</u>	<u>Wastewater</u>
Marion	(651)	(87)
Orange	(994)	
Pasco	(91)	1,459
Pinellas	(1,686)	
Seminole	3,649	1,989

**NON-TESTIFYING STAFF'S POSITION:** No position at this time pending further development of the record.

**ISSUE 13:** Should adjustments be made to accumulated amortization of CIAC to correct errors in the composite amortization rates used to

calculate depreciation expense for the test year? (Audit Exception 12)

**TESTIFYING STAFF'S POSITION:** For testifying staff, the following adjustments should be made to accumulated amortization of CIAC to correct errors in the composite amortization rates used to calculate depreciation expense for the test year. (SMALL)

<u>County</u>	<u>Water</u>	<u>Wastewater</u>
Marion	\$395	
Orange	\$178	
Pasco	\$3,845	\$911
Pinellas	\$785	
Seminole	\$7,429	\$2,881

**NON-TESTIFYING STAFF'S POSITION:** No position pending further development of the record.

**ISSUE 14:** What adjustments, if any, should be made to Accumulated Amortization of CIAC for the Summertree PPW water and wastewater systems in Pasco County 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)

**STAFF'S POSITION:** For Summertree PPW in Pasco County, water and wastewater accumulated amortization of CIAC should be increased by \$27,713 and \$37,410, respectively. (SMALL) (POSSIBLE PROPOSED STIPULATION)

**ISSUE 15:** What adjustments, if any, should be made to CIAC and Accumulated Amortization of CIAC to correct the adjustments made by the utility from its general ledger to the MFRs? (Audit Exception 15)

**STAFF'S POSITION:** The following adjustments are necessary to remove the utility's incorrect adjustments to reconcile its MFRs to

the general ledger balances. (SMALL) (POSSIBLE PROPOSED STIPULATION)

	<u>CIAC</u>	<u>Accumulated Amort. of CIAC</u>
Orange County Water	(\$17,592)	(\$10,709)
Pinellas County Water	\$3,791	\$1,652
Pasco County Water	\$0	(\$35,680)

**ISSUE 16:** What adjustments, if any, should be made to CIAC, Accumulated Amortization of CIAC, and Amortization expense for Seminole County to reflect the transfer of customer advances to CIAC? (Audit Exception 10)

**STAFF'S POSITION:** Water and wastewater CIAC for Seminole County should be increased by \$52,000 and \$48,000, respectively, to reclassify unsubstantiated balances in the utility's Advances for Construction accounts. Further, water and wastewater accumulated amortization of CIAC should be increased by \$2,225 and \$1,085, respectively, to reflect calculated amortization of the above amounts, and water and wastewater CIAC amortization expense should be increased by \$2,225 and \$1,085, respectively. (SMALL) (POSSIBLE PROPOSED STIPULATION)

**ISSUE 17:** What adjustments, if any, should be made to UIF's total working capital to reflect overstated cash, overstated current liabilities, and use of year-end balances? (Audit Exception 14, as revised)

**STAFF'S POSITION:** UIF's total working capital should be decreased by \$1,426,034 to reflect overstated cash, overstated current liabilities, and use of year-end balances. (SMALL) (POSSIBLE PROPOSED STIPULATION)

**ISSUE 18:** What adjustments, if any, should be made to the amount of working capital allocated to each of the utility's operating systems? (Audit Exception 14, as revised)

**TESTIFYING STAFF'S POSITION:** The following adjustments should be made to working capital allocated to the utility's operating systems to properly reflect an allocation based on year-end O & M expense after adjustments. (SMALL)

<u>County</u>	<u>Water</u>	<u>Wastewater</u>
Marion	(\$102,088)	(\$40,077)
Orange	(\$66,622)	
Pasco	(\$209,314)	(\$226,517)
Pinellas	(\$23,415)	
Seminole	(\$350,243)	(\$407,758)

**NON-TESTIFYING STAFF'S POSITION:** No position pending further development of the record.

**ISSUE 19:** What is the appropriate used and useful percentage for the utility's water treatment plants and distribution systems?

**STAFF'S POSITION:** The UIF water treatment systems in Marion, Seminole, Pinellas, Orange, and Pasco Counties are 100% used and useful. The UIF water distribution systems in Marion, Seminole, Pinellas, Orange, and Pasco Counties are 100% used and useful. (REDEMANN)

**ISSUE 20:** What is the appropriate used and useful percentage for the utility's wastewater treatment plants and collection systems?

**STAFF'S POSITION:** The Crownwood wastewater plant in Marion County is 68.65% used and useful. The wastewater collection systems in Marion, Pasco, and Seminole Counties are 100% used and useful. (REDEMANN)

**ISSUE 21:** What is the appropriate rate base?

**STAFF'S POSITION:** The appropriate rate base is subject to the resolution of all other rate base issues.

**COST OF CAPITAL**

**ISSUE 22:** What is the appropriate cost rate for short-term and long-term debt? (Audit Exception 16)

**STAFF'S POSITION:** The appropriate cost rate for short-term debt should be 5.18% and long-term debt should be 8.63%. (WELCH) (POSSIBLE PROPOSED STIPULATION)

**ISSUE 23:** What are the appropriate balances for customer deposits? (Audit Exception 16)

**STAFF'S POSITION:** The appropriate balances for customer deposits should be as follows. (WELCH) (POSSIBLE PROPOSED STIPULATION)

<u>County</u>	<u>Amount</u>
Orange	\$4,862
Pasco	\$15,276
Seminole	\$43,789
Pinellas	\$3,723
Marion	\$5,026

**ISSUE 24:** What is the appropriate return on equity (ROE) for UIF? (Audit Exception 16)

**STAFF'S POSITION:** No position pending further development of the record.

**ISSUE 25:** What is the appropriate projected weighted average cost of capital? (Audit Exception 16)

**TESTIFYING STAFF'S POSITION:** The weighted cost rates for the five UIF counties are as follows. (WELCH)



<u>County</u>	<u>Weighted Cost Rate</u>
Marion	4.96%
Orange	4.96%
Pasco	5.22%
Pinellas	4.93%
Seminole	5.94%

**NON-TESTIFYING STAFF'S POSITION:** No position pending further development of the record.

**ISSUE 26:** What is the appropriate allowance for funds used during construction (AFUDC) rate?

**STAFF'S POSITION:** An AFUDC rate should be approved based on the Commission-approved cost of capital and should be effective for eligible projects beginning January 1, 2002. (POSSIBLE PROPOSED STIPULATION)

**NET OPERATING INCOME**

**ISSUE 27:** Should test year revenues in Marion County be adjusted to annualize revenues collected from BFF Corporation? (Audit Exception 17)

**STAFF'S POSITION:** Yes. Annualizing test year wastewater revenues for Marion County results in an increase of \$11,374. (SMALL) (POSSIBLE PROPOSED STIPULATION)

**ISSUE 28:** Should adjustments be made to O & M expense allocated from Cost Centers 603 and 639 for items not related to UIF's operations and for unsupported costs? (Audit Exception 19)

**STAFF'S POSITION:** Yes. With regard to Orange County, water O & M expenses should be reduced by \$121. With regard to Seminole County, water and wastewater O & M expenses should be reduced by \$978 and \$529, respectively. With regard to Pasco County, water

and wastewater O & M expenses should be reduced by \$574 and \$212, respectively. With regard to Pinellas County, water O & M expenses should be reduced by \$117. (SMALL) (POSSIBLE PROPOSED STIPULATION)

**ISSUE 29:** Should the balance in UIF Cost Center 600 to be allocated to O & M expense for the various systems be reduced to remove improper entries? (Audit Exception 20)

**STAFF'S POSITION:** The balance in the UIF Office cost center 600 to be allocated to O & M expense for the various systems in this case should be reduced by a net amount of \$50,167, as follows. (SMALL) (POSSIBLE PROPOSED STIPULATION)

<u>Reason</u>	<u>Amount</u>
Expenditure not supported by invoice	(5,801)
Expenditure not related to UIF systems	(1,219)
Legal fees to be deferred pending outcome of lawsuit	(2,398)
Legal fees related to a specific UIF system	(3,010)
Computer maintenance fees not representative of annual cost	(3,000)
Non-recurring extraordinary insurance loss	(20,825)
Amortization of insurance loss	4,165
Amortization of fees related to condemnation to be deferred	(19,345)
Amortization of capitalized costs	1,266
Total	(50,167)

**ISSUE 30:** What adjustments, if any, should be made to O & M expenses allocated to the various systems from UIF Office and Florida Office cost centers? (Audit Exception 21)

**TESTIFYING STAFF'S POSITION:** The utility's common costs which are allocated to the UIF systems are overstated by \$88,560, consisting

of \$50,167 removed from Cost Center 600, and \$38,393 in amounts allocated from Water Service Corporation (WSC). Additionally, the utility's allocations are materially misstated because of errors in the calculation of its Customer Equivalent percentages for these systems. The following adjustments should be made. (SMALL, WELCH)

<u>Operation and Maintenance Expense</u>		
<u>County</u>	<u>Water</u>	<u>Wastewater</u>
Marion	(7,304)	(1,037)
Orange	(2,753)	
Pasco	(14,066)	2,535
Pinellas	(9,310)	
Seminole	(36,824)	(19,800)

**NON-TESTIFYING STAFF'S POSITION:** No position pending further development of the record.

**ISSUE 31:** Should adjustments be made to salaries, and pension and benefit expenses to correct errors in allocations? (Audit Exception 22)

**TESTIFYING STAFF'S POSITION:** Yes. Salaries, and pension and benefit expenses should be adjusted as follows. (SMALL)

<u>System</u>	<u>Salary Expense</u>	<u>Pension &amp; Benefit Expense</u>
Marion-Water	(\$3,206)	(\$814)
Marion-WW	(\$465)	(\$118)
Orange-Water	(\$2,945)	(\$748)
Pasco-Water	\$15,153	\$3,576
Pasco-WW	\$6,476	\$1,560

**NON-TESTIFYING STAFF'S POSITION:** No position pending further development of the record.

**ISSUE 32:** Should adjustments be made to payroll taxes to correct errors in allocations? (Audit Exception 25)

**TESTIFYING STAFF'S POSITION:** Yes. The utility's payroll tax expense should be adjusted as follows for reallocations and corrections of errors: (SMALL)

<u>County</u>	<u>Water</u>	<u>Wastewater</u>
Marion	(\$477)	(\$69)
Orange	(\$438)	\$0
Pasco	\$1,994	\$883
Pinellas	(\$3,472)	\$0
Seminole	\$1,289	\$698

**NON-TESTIFYING STAFF'S POSITION:** No position pending further development of the record.

**ISSUE 33:** Should adjustments be made to O & M expense to remove incorrect beginning and ending year accruals, unsupported expense additions, and improperly recorded expenses? (Audit Exception 18)

**STAFF'S POSITION:** Yes. Purchased Wastewater Expense should be reduced by \$23,770 for Pasco County and increased by \$23,770 for Seminole County to correctly classify invoices from the City of Sanford. Further, the utility failed to remove excess accruals or reversals from its MFRs. The following adjustments are required to properly report the actual invoiced amounts for the 12-month period ended December 31, 2001. (SMALL) (POSSIBLE PROPOSED STIPULATION)

<u>County</u>	<u>Account(s)</u>	<u>Water</u>	<u>Wastewater</u>
Marion	615	(\$818)	
Orange	610	(\$3,200)	
Pasco	610/710	(\$600)	\$6,750
Pasco	710		
Seminole	610/710	(\$175)	(\$9,300)

Further, O&M expenses should be decreased by \$719 for Pasco County wastewater Account 720 and \$1,894 for Seminole County water Account 610 to remove unsupported costs. Legal fees charged to UIF Cost Center 600 of \$3,011 should be removed and directly charged to the Summertree PPW system in Pasco County. Water Account 633 and Wastewater Account 733 should be increased by \$2,199 and \$812, respectively.

**ISSUE 34:** What adjustments, if any, should be made to the utility's O & M expense in Seminole County with respect to the wastewater interconnection with the City of Sanford? (Audit Exception 23)

**TESTIFYING STAFF'S POSITION:** O & M expense for Seminole County should be reduced by \$80,751 to reflect the effects of the interconnection of the Lincoln Heights/Ravenna wastewater system with the City of Sanford system, and the commencement of an agreement to purchase wastewater treatment from the City of Sanford. (SMALL)

**NON-TESTIFYING STAFF'S POSITION:** No position pending further development of the record.

**ISSUE 35:** 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)

**STAFF'S POSITION:** The utility's property tax expense should be adjusted as follows for reallocations and corrections of errors:  
(SMALL) (POSSIBLE PROPOSED STIPULATION)

<u>County</u>	<u>Water</u>	<u>Wastewater</u>
Marion	(\$4,225)	(\$609)
Orange	(\$1,953)	\$0
Pasco	(\$7,288)	\$5,587
Pinellas	(\$736)	\$0
Seminole	\$2,946	\$127

**ISSUE 36:** Should any adjustments be made to O & M expenses as a result of the interconnection of the utility's Orangewood and Wis Bar water systems? (Audit Disclosure 2)

**STAFF'S POSITION:** No position pending further development of the record.

**ISSUE 37:** What is the appropriate amount of rate case expense?

**STAFF'S POSITION:** No position pending further development of the record.

**ISSUE 38:** Does UIF have excessive unaccounted for water and if so, what adjustments should be made?

**STAFF'S POSITION:** UIF has excessive unaccounted for water in Seminole and Orange Counties, but the amount is immaterial or the utility is addressing the problem. UIF has excessive unaccounted for water in Golden Hills/Crownwood (12.2%) in Marion County, Orangewood (7.5%), Summertree (6.2%) in Pasco County, and Lake Tarpon (10.6%) in Pinellas County. The electrical and chemical expenses for those systems should be reduced. For the Golden Hills/Crownwood water system, a reduction of \$140.42 should be made to Account No. 618 Chemicals, and a reduction of \$1,325.03 should be made to Account No. 615 Purchased Power. The total excessive

unaccounted for water for the Pasco County water systems is 4.49%. Therefore, a reduction of \$210.99 should be made to Account No. 618 Chemicals and a reduction of \$699.90 should be made to Account No. 615 Purchased Power. For the Lake Tarpon water system, a reduction of \$22.32 should be made to Account No. 618 Chemicals and a reduction of \$271.81 should be made to Account No. 615 Purchased Power. (REDEMANN, YINGLING)

**ISSUE 39:** Does UIF have excessive infiltration/inflow in any of its wastewater systems, and if so, what adjustments should be made?

**STAFF'S POSITION:** Yes. The utility has an infiltration/inflow problem in the Ravenna Park/Lincoln Heights wastewater system in Seminole County. An adjustment should be made to Account No. 710 Purchased Sewage Expense in Seminole County for excessive infiltration/inflow to remove \$45,478. (REDEMANN)

**ISSUE 40:** 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?

**STAFF'S POSITION:** Yes. Pursuant to Order No. PSC-99-2172-FOF-WU, the City of Maitland sale resulted in a gain of \$61,669. Pursuant to Order No. PSC-99-2372-FOF-WS, the City of Altamonte Springs sale resulted in a gain of \$269,661. (POSSIBLE PROPOSED STIPULATION)

**ISSUE 41:** 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?

**STAFF'S POSITION:** No position pending further development of the record.

**ISSUE 42:** Should UIF's retained earnings be increased by \$154,190 to reflect compensation in the condemnation proceeding of Lincoln Heights wastewater plant, from the Florida Department of Transportation? (Audit Disclosure No. 1)

**TESTIFYING STAFF'S POSITION:** No position pending further development of the record. (SMALL)

**NON-TESTIFYING STAFF'S POSITION:** Yes. Staff auditors have discovered that the utility received \$154,190 on June 22, 1999, as compensation in the Lincoln Heights wastewater plant condemnation. Since this payment is not stated elsewhere in the utility's MFRs, retained earnings should be increased to reflect the payment.

**ISSUE 43:** What is the test year operating income before any revenue increase?

**STAFF'S POSITION:** The appropriate operating income before revenue increase is subject to the resolution of other issues.

**ISSUE 44:** What is the appropriate revenue requirement?

**STAFF'S POSITION:** The appropriate revenue requirement is subject to the resolution of other issues.

**RATES AND RATE STRUCTURE**

**ISSUE 45:** Is it appropriate to retain the gallonage allotment in the base facility charge (BFC) for the Buena Vista and Wis-Bar water systems in Pasco County?

**STAFF'S POSITION:** No. The kgal allotment should be discontinued. (LINGO, YINGLING) (POSSIBLE PROPOSED STIPULATION)

**ISSUE 46:** Should the utility be allowed to convert to monthly billing in those systems in which bi-monthly billing currently exists?

**STAFF'S POSITION:** Yes. The utility's request to convert to monthly billing should be approved. (LINGO, JENKINS, YINGLING) (POSSIBLE PROPOSED STIPULATION)

**ISSUE 47:** What are the appropriate bills, ERCs and gallons to be used to set water and wastewater rates for the 2001 test year?



**STAFF'S POSITION:** No position at this time pending further development of the record.

**ISSUE 48:** Is the utility's proposed rate consolidation for Pasco and Seminole Counties appropriate, and if not, what if any rate consolidation is appropriate for those counties?

**TESTIFYING STAFF'S POSITION:** No. Based upon review and analysis of the information provided by the utility, there is insufficient information either to calculate consolidated rates or stand-alone rates in Pasco or Seminole County. (LINGO)

**NON-TESTIFYING STAFF'S POSITION:** No position pending further development of the record.

**ISSUE 49:** What is the appropriate water rate structure for each of the counties (or systems) contained in the utility's filing?

**TESTIFYING STAFF'S POSITION:** The appropriate water rate structure for Marion and Pinellas counties is a BFC/uniform gallonage charge rate structure. The appropriate water rate structure for Orange County is a three-tiered inclining block rate structure. Because the utility has failed to provide sufficient data to develop an appropriate rate structure for either Pasco or Seminole Counties, these counties should be excluded from this issue. (LINGO, JENKINS, YINGLING)

**NON-TESTIFYING STAFF'S POSITION:** No position pending further development of the record.

**ISSUE 50:** What is the appropriate wastewater rate structure for each of the counties (or systems) contained in the utility's filing?

**TESTIFYING STAFF'S POSITION:** Except for Pasco and Seminole Counties, a 20% rate differential between the residential and general service wastewater gallonage charges should be maintained. Because the utility has failed to provide sufficient data to develop an appropriate rate structure for either Pasco or Seminole

Counties, these counties should be excluded from this issue.  
(LINGO)

**NON-TESTIFYING STAFF'S POSITION:** No position pending further development of the record.

**ISSUE 51:** Is a repression adjustment appropriate in this case, and, if so, what is the appropriate adjustment for each system?

**TESTIFYING STAFF'S POSITION:** Yes. The appropriate repression adjustment should be calculated using the methodology contained in staff witness Yingling's testimony. (YINGLING)

**NON-TESTIFYING STAFF'S POSITION:** No position pending further development of the record.

**ISSUE 52:** What are the appropriate rates for water service for this utility?

**STAFF'S POSITION:** The appropriate water rates are subject to the resolution of other issues.

**ISSUE 53:** What are the appropriate rates for wastewater service for this utility?

**STAFF'S POSITION:** The appropriate wastewater rates are subject to the resolution of other issues.

**ISSUE 54:** In determining whether a 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?

**STAFF'S POSITION:** The amount of the refunds, if any, is subject to the resolution of other issues.

**ISSUE 55:** 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?

**STAFF'S POSITION:** The amount of the rate reduction is subject to the resolution of other issues.

**ISSUE 56:** Should UIF be required to submit, within 60 days after the date of the final order in this docket, a description of all entries or adjustments to its future annual reports, books and records, and other financial reports as required by the Commission in this rate case?

**STAFF'S POSITION:** Yes. UIF should be required to submit, within 60 days after the date of the final order in this docket, a description of all entries or adjustments to its future annual reports, books and records, and other financial reports as required by the Commission in this rate case.

**ISSUE 57:** 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? (Audit Exception 26)

**STAFF'S POSITION:** No position at this time pending further development of the record.

**ISSUE 58:** 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 System?

**STAFF'S POSITION:** No. The utility should file an amendment application by October 1, 2003 to include the Bear Lake and Crystal Lake area it is currently serving outside its territory. The Commission should give staff authority to process the amendment application administratively. (POSSIBLE PROPOSED STIPULATION)

**ISSUE 59:** Should the docket be closed? "

**STAFF'S POSITION:** If the Commission's final order is not appealed, this docket should be closed upon the expiration of the time for filing an appeal.

E. Stipulated Issues

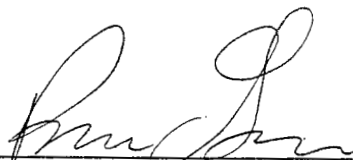
There are no issues that have been stipulated at this time.

F. Pending Matters

OPC's Motion to Compel, filed June 12, 2003, and UIF's Objections to and Motion to Strike Citizen's Fifteenth Set of Interrogatories (Nos. 190-199) and Fifteenth Request for Production of Documents (Nos. 105-109), filed June 20, 2003, are pending at this time.

G. Requirements That Cannot Be Complied With

There are no requirements of Order No. PSC-02-1495-PCO-WS that cannot be complied with at this time.



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ROSANNE GERVASI, SENIOR ATTORNEY

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Telephone No.: (850) 413-6224  
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**APPENDIX A**

<u>Witness</u>	<u>I.D. No.</u>	<u>Exhibit</u>
Dwight T. Jenkins	DTJ-1	Resume
	DTJ-2	Map of the District's 1998 priority water resource caution area boundaries
	DTJ-3	Map of the District's 2003 priority water resource caution areas
Frances J. Lingo	FJL-1	Utilities Inc. of Florida: Current Water Rate Design
	FJL-2	Utilities, Inc. of Florida: Proposed Water Rate Design
	FJL-3	Utilities, Inc. of Florida: Current Wastewater Rate Design
	FJL-4	Utilities, Inc. of Florida: Proposed Wastewater Rate Design
	FJL-5	Utilities, Inc. of Florida: Proposed Base Facility Charge Differentials
	FJL-6	Utilities, Inc. of Florida: Increase in Water System Cost per Customer Due to Change to Monthly Billing
	FJL-7	Utilities, Inc. of Florida: Analysis of Requested Rate Design - Water Systems
	FJL-8	Utilities, Inc. of Florida: Illustrative Water Rate Design
Richard P. Redemann	RPR-1	Resume

COMMISSION'S PREHEARING STATEMENT  
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<u>Witness</u>	<u>I.D. No.</u>	<u>Exhibit</u>
	RPR-2	Used and useful Formulas and Assumptions
	RPR-3	Distribution Network Analysis AWWA M32
	RPR-4	UIF Water Systems
	RPR-5	Water Distribution Training
	RPR-6	Distribution Network Analysis AWWA M32
	RPR-7	St. Johns - Unaccounted for Water
	RPR-8	SWFWMD - Unaccounted for Water
	RPR-9	Unaccounted for Water Adjustments
	RPR-10	Groundwater AWWA M21
Jeffrey A. Small	JAS-1	Staff Audit Report
Kathy L. Welch	KLW-1	Staff Affiliate Transactions Audit Report
	KLW-2	Alternate Cost of Capital Schedules
Jay W. Yingling	JWY-1	References
	JWY-2	Locations of UIF Water Systems Within the Northern Tampa Bay Water Use Caution Area
	JWY-3	Location of UIF Water System in Marion County

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:

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of Commission's  
Prehearing Statement, has been furnished to **Martin S. Friedman,**  
**Esquire,** Rose, Sundstrom & Bentley, LLP, 600 S. North Lake  
Boulevard, Suite 160, Altamonte Springs, Florida 32701, and **Stephen**  
**C. Burgess, Esquire,** Office of Public Counsel, c/o The Florida  
Legislature, 111 W. Madison St., Room 812, Tallahassee, Florida  
32399-1400, by U.S. Mail, this 30 day of June, 2003:

  
\_\_\_\_\_  
ROSANNE GERVASI, SENIOR ATTORNEY

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