

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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In re: Application for increase in water rates in Franklin County by Water Management Services, Inc.

DOCKET NO. 100104-WU

DATED: September 20, 2010

COMMISSION CLERK

COMMISSION STAFF'S PREHEARING STATEMENT

Pursuant to Orders No. PSC-10-0499-PCO-WU, issued July 13, 2010, and No. PSC-10-0549-PCO-WU, issued August 31, 2010, the Staff of the Florida Public Service Commission files its Prehearing Statement.

a. All Known Witnesses

<u>Witness</u>	<u>Subject</u>	<u>Issues</u>
Cliff McKeown	Staff's Department of Environmental Protection (DEP) witness testifies on quality of service and compliance with DEP regulations for drinking water, DEP's position on installation of private shallow wells with concomitant need for a back-flow preventer program, test results for total trihalomethanes, the condition of the utility's water storage tanks, and the need for recalibration of the utility's flow meters at its wells.	1, 9
Angela Chelette	Staff's Water Management District (WMD) witness testifies on WMD's position on installation of private shallow wells with concomitant need for a back-flow preventer program, and its position on the appropriate rate structure where it supports the inclining block rate structure.	38, 39

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<u>Witness</u>	<u>Subject</u>	<u>Issues</u>
Debra M. Dobiac	Staff auditor witness to sponsor the staff audit report, and present testimony on the six audit findings to include: (1) proper treatment of proceeds from settlement of a lawsuit; (2) reduction of test year land balance by \$3,400 to reflect removal of appraisal and surveying costs for land sold in 2007; (3) that Account 252, Advances for Construction, should be debited by \$9,257 to reflect a stipulation in the last rate case, and how the reception of \$65,000 from a homeowner's association should be treated; (4) removal of \$112,034 of unamortized debt discount and issuing expense in the working capital allowance, as that amount was included in the utility's long-term debt cost rate, and also removal from working capital of \$35,662 for the costs related to an application for a wastewater certificate; (5) reclassification of certain expenses with no resulting effect on O&M expenses; and (6) reduction of O&M expenses by \$9,588 to reflect expenses that were incurred outside the test year.	6, 7, 11, 12, 20, 26, 27, and 31-34

b. All Known Exhibits

<u>Witness</u>	<u>Exhibit</u>	<u>Description</u>
Cliff McKeown	(CM-1)	Cover letter and Compliance Inspection Form for DEP inspection on March 5, 2010
Debra M. Dobiac	(DMD-1)	Audit Report (as amended) for Test Year ended December 31, 20090

c. Staff's 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. Staff's Position on the Issues

QUALITY OF SERVICE

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

POSITION: Although the Utility appears to be in compliance with all DEP regulations at this time, staff's position on the quality of service provided by the utility will depend on the testimony presented at the Customer Service Hearings and the Technical Hearing, and further development of the record.

USED & USEFUL

ISSUE 2: What is the used and useful percentage of the Utility's water distribution system?

POSITION: No position pending further development of the record.

RATE BASE

ISSUE 3: Should any adjustments be made to rate base regarding affiliate assets?

POSITION: No position pending further development of the record.

ISSUE 4: Should any adjustments be made to rate base for vehicles?

POSITION: Yes. Rate base should be decreased by \$15,207 to remove the vehicle of the vice president. Any additional adjustments are pending further development of the record.

ISSUE 5: Should any adjustments be made to offset plant improvements related to mains in the State Park as a result of WMSI's transfer of rental rights to the elevated tower?

POSITION: No position pending further development of the record.

ISSUE 6: Should any adjustments be made to test year plant-in-service balances?

POSITION: No position pending further development of the record.

ISSUE 7: Should any adjustments be made to test year land?

POSITION: Yes. Land should be decreased by \$3,400 to reflect the removal of appraisal and surveying costs associated with land that was sold. (DOBIAC) (POSSIBLE STIPULATION)

ISSUE 8: What improvements, if any, has WMSI made to its water distribution system regarding fire flow that were addressed by the Commission in Orders Nos. PSC-04-0791-AS-WU, issued August 12, 2004, and PSC-05-1156-PAA-WU, issued November 21, 2005, in Docket No. 000694-WU? Do these improvements satisfy the requirements of the orders?

POSITION: No position pending further development of the record.

ISSUE 9: Should the Utility's pro forma plant additions be approved for recovery? If so, in what manner should they be approved for recovery?

POSITION: No position pending further development of the record.

ISSUE 10: Should any adjustments be made to test year accumulated depreciation?

POSITION: Yes. Accumulated depreciation should be decreased by \$2,112 to reflect the removal of the vice president's vehicle. Any additional adjustments are pending further development of the record.

ISSUE 11: Should any adjustments be made to test year Advances for Construction?

POSITION: Yes. Advances for Construction should be decreased by \$9,257 to reflect Commission approved adjustment from the Utility's last rate case. (DOBIAC) Any additional adjusts are pending further development of the record. (POSSIBLE STIPULATION)

ISSUE 12: What is the appropriate working capital allowance?

POSITION: Working capital should be reduced by \$112,034 unamortized debt discount and issuing expense which is included in the Utility's long-term debt cost rate. It should be also reduced by \$35,662 to remove a miscellaneous deferred debit pertaining to WMSI's application for a wastewater certificate. (DOBIAC) Further, working capital should be reduced by \$17,983 to remove fully amortized rate case expense from prior rate case. The appropriate working capital allowance is subject to the resolution of other issues.

ISSUE 13: What is the appropriate rate base for the December 31, 2009, test year?

POSITION: The appropriate amount is subject to the resolution of other issues.

COST OF CAPITAL

ISSUE 14: What is the appropriate amount of customer deposits to include in the capital structure?

POSITION: No position pending further development of the record.

ISSUE 15: What is the appropriate amount and cost rate for long-term debt for the test year?

POSITION: No position pending further development of the record.

ISSUE 16: What is the appropriate return on equity (ROE) for the test year?

POSITION: No position pending further development of the record.

ISSUE 17: What is the appropriate weighted average cost of capital including the proper components, amounts and cost rates associated with the capital structure for the December 31, 2009, test year?

POSITION: No position pending further development of the record.

NET OPERATING INCOME

ISSUE 18: Should any adjustments be made to the requested level of salaries and wages expense?

POSITION: No position pending further development of the record.

ISSUE 19: Should any adjustments be made to employee pension and benefits?

POSITION: No position pending further development of the record.

ISSUE 20: Should any adjustments be made to materials and supplies expense?

POSITION: Yes. Materials and supplies expense should be reduced by \$8 to remove an out-of-period expense. (DOBIAC) Any additional adjustments are pending further development of the record.

ISSUE 21: Should any adjustments be made to the requested level of Engineering Services Expense?

POSITION: No position pending further development of the record.

ISSUE 22: Should any adjustments be made to the requested level of Accounting Services expense?

POSITION: No position pending further development of the record.

ISSUE 23: Should any adjustments be made to the requested level of DEP refinancing costs?

POSITION: No position pending further development of the record.

ISSUE 24: Should any adjustments be made to the requested level of Contract Labor Costs?

POSITION: Yes. Contract Labor Costs should be decreased by \$1,250. (POSSIBLE STIPULATION)

ISSUE 25: Should additional adjustments be made to remove out of period costs for annual report preparation fees?

POSITION: No position pending further development of the record.

ISSUE 26: Should any adjustments be made to rental of building/real property?

POSITION: Yes. Rental of building/real property should be reduced by \$387 to remove an out-of-period expense. (DOBIAC) Any additional adjustments are pending further development of the record.

ISSUE 27: Should any adjustment be made to transportation expense?

POSITION: Yes. Transportation expense should be decreased by \$9,104 to remove unsupported expenses. (DOBIAC)

ISSUE 28: Should the requested key man life insurance expense be approved?

POSITION: No position pending further development of the record.

ISSUE 29: What is the appropriate amount of rate case expense?

POSITION: No position pending further development of the record.

ISSUE 30: Should any adjustments be made to employee training costs?

POSITION: No position pending further development of the record.

ISSUE 31: Should any further adjustments be made to miscellaneous expenses?

POSITION: Yes. Miscellaneous expense should be reduced by \$89 for insufficient support documentation. (DOBIAC) Any additional adjustments are pending further development of the record.

ISSUE 32: Should any further adjustments be made to the Utility's pro forma expenses?

POSITION: No position pending further development of the record.

ISSUE 33: Should any adjustments be made to depreciation expense?

POSITION: Yes. Depreciation expense should be decreased by \$2,535 to reflect the removal of vice president's vehicle. Any additional adjustments are pending further development of the record.

ISSUE 34: Should the company's request to recover the costs associated with the withdrawn wastewater certificate application be approved?

POSITION: O&M expenses should be reduced by \$10,570 to remove a miscellaneous deferred debit pertaining to the WMSI's application for a wastewater certificate. Any additional adjustments are pending further development of the record.

ISSUE 35: How should the gain on sale of land and other assets be treated?

POSITION: No position pending further development of the record.

ISSUE 36: What is the test year pre-repression water operating income or loss before any revenue increase?

POSITION: The appropriate amount is subject to the resolution of other issues.

ISSUE 37: What is the appropriate pre-repression revenue requirement for the December 31, 2009 test year?

POSITION: The appropriate amount is subject to the resolution of other issues.

RATES AND CHARGES

ISSUE 38: What are the appropriate test year billing determinants before repression?

POSITION: No position pending further development of the record.

ISSUE 39: What are the appropriate rate structures for this utility?

POSITION: No position pending further development of the record.

ISSUE 40: Is a repression adjustment appropriate in this case, and, if so, what is the appropriate adjustment to make for this utility?

POSITION: No position pending further development of the record.

ISSUE 41: What are the appropriate rates for this utility?

POSITION: No position pending further development of the record.

ISSUE 42: Should the Utility be authorized to revise its miscellaneous service charges, and, if so, what are the appropriate charges?

POSITION: No position pending further development of the record.

ISSUE 43: Are the procedures and charges imposed by WMSI when an existing customer disconnects and/or a new customer reconnects in an existing service location

appropriate? If not, how should the tariff provisions governing these activities be modified?

POSITION: No position pending further development of the record.

ISSUE 44: 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 pending further development of the record.

ISSUE 45: 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, F.S.?

POSITION: The amount of rate reduction is subject to the resolution of other issues.

ISSUE 46: What are the appropriate service availability charges for WMSI?

POSITION: No position pending further development of the record.

OTHER ISSUES

ISSUE 47: Should the Utility be required to provide proof that it has adjusted its books for all Commission approved adjustments?

POSITION: Yes. To ensure that the Utility adjusts its books in accordance with the Commission's decision, WMSI should provide proof, within 90 days of the final order issued in this docket, that the adjustments for all the applicable NARUC USOA primary accounts have been made.

ISSUE 48: Has the Utility failed to return customer deposits in compliance with the refund procedures stated in Rule 25-30.311(5), Florida Administrative Code, and, if so, what amount of customer deposits shall the Utility be required to refund?

POSITION: No position pending further development of the record.

ISSUE 49: Did the Utility fail to maintain field employee travel records pursuant to Order No. PSC-94-1383-FOF-WU? If so, should the Utility be ordered to show cause why it failed to maintain field employee travel records pursuant to Order No. PSC-94-1383-FOF-WU, issued November 14, 1994?

POSITION: No position pending further development of the record.

ISSUE 50: **OPC** - Based on the evidence of this case, and pursuant to Section 367.121(1)(i), F.S., should the Commission find that WMSI has required ratepayers to subsidize nonutility activities? If so, what action should the Commission take?

UTILITY - Are there any non-utility expenses that the utility is requesting be recovered through customer rates? If so, what adjustments should be made?

POSITION: No position pending further development of the record.

ISSUE 51: Should this docket be closed?

POSITION: No position pending further development of the record.

e. Stipulated Issues

1. The parties agree that no used and useful adjustment for water plant facilities and storage is required.

2. The parties agree that the staff witnesses need not be made available until after 11:00 a.m., on October 6, 2010, if the panel so agrees.

f. Pending Motions

Staff is not aware of any pending motions at this time.

g. Pending Confidentiality Claims or Requests

Staff is not aware of any pending confidentiality claims or requests.

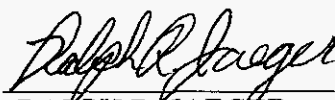
h. Objections to Witness Qualifications as an Expert

Staff has no objections to witness' qualifications as an expert.

i. Compliance with Order No. PSC-10-0499-PCO and PSC-10-0549-PCO-WU

Staff has complied with all requirements of the Order Establishing Procedure and the First Order Revising Order Establishing Procedure entered in this docket.

Respectfully submitted this 20th day of September, 2010.



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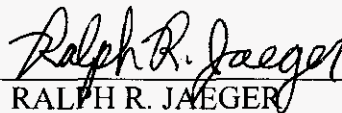
CERTIFICATE OF SERVICE

I HEREBY CERTIFY that the original of STAFF'S PREHEARING STATEMENT has been filed with Office of Commission Clerk and one copy has been furnished to the following by electronic and U.S. Mail, on this 20th day of September, 2010:

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