

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application of ST. GEORGE) ISLAND UTILITY COMPANY, LTD., for) increased rates and service avail-) ability charges for water service) in Franklin County)	DOCKET NO. 871177-WU ORDER NO. 20589 ISSUED: 1-11-89
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Pursuant to Notice, a Prehearing Conference was held on January 6, 1989, in Tallahassee, Florida, before Commissioner John T. Herndon, as Prehearing Officer.

APPEARANCES: B. KENNETH GATLIN, Esquire, Gatlin, Woods, Carlson & Cowdery, 1709-D Mahan Drive, Tallahassee, Florida 32308
On behalf of St. George Island Utility Company

STEPHEN C. BURGESS, Esquire, Office of Public Counsel, c/o Florida House of Representatives, The Capitol, Tallahassee, Florida 32399-1300
On behalf of the Citizens of the State of Florida

DEBRA SWIM, Esquire, Florida Public Service Commission, 101 East Gaines Street, Tallahassee, Florida 32399-0863
On behalf of the Commission Staff

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Counsel to the Commission

PREHEARING ORDERI. Background

On June 30, 1987, St. George Island Utility Company, Ltd., ("SGI" or "utility"), filed an application for an increase in water rates in Franklin County, Florida. The information provided did not satisfy the minimum filing requirements for a general rate increase and the utility was advised of the deficiencies. On September 1, 1988, the utility completed the minimum filing requirements and this date was set as the official date of filing. The approved test year for this rate proceeding is the twelve-month period ended December 31, 1987.

The utility has requested final rates designed to generate annual revenues of \$405,398 for water service. These requested revenues exceed test year revenues by \$292,508 (260%). Pending this Commission's consideration of final rates, the utility requested approval of interim rates designed to generate revenues of \$342,693, which represents an increase of \$229,803 (203.66%) over test year revenues.

By Order No. 20241, issued October 31, 1988, we suspended the utility's proposed rate schedules pursuant to Section 367.081(6), Florida Statutes. We suspended the rates to facilitate a more detailed examination of the utility's proposed increases than the sixty-day file and suspend period allows. By Order No. 20401, issued December 5, 1988, we granted interim rate relief to provide the utility with an opportunity to earn interim annual revenues of \$197,582, which represents an increase over adjusted test year revenues of

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\$74,250 (60.20%). There is no equity in the capital structure. The interim rate award was based on an overall cost of capital of 6.97%, which equals the weighted cost of debt, excluding pro forma debt for anticipated plant additions.

On December 20, 1988, SGI filed a Motion For Reconsideration of Order No. 20401. Specifically, SGI has requested this Commission's reconsideration of the requirement that SGI place \$6,249 per month into an escrow account to be held subject to refund.

On September 23, 1988, the Office of Public Counsel (OPC) served notice of its intervention in this docket, pursuant to Section 350.0611, Florida Statutes. By Order No. 20078, issued September 27, 1988, this Commission acknowledged OPC's intervention in this matter.

A formal hearing regarding SGI's request for increased rates is currently scheduled to be held on January 12 and 13, 1989, in Apalachicola, Florida.

II. Prefiled Testimony and Exhibits

Testimony of most witnesses to be sponsored by the parties has been prefiled. All testimony which has been prefiled in this case will be inserted into the record as though read after the witness has taken the stand and affirmed the correctness of the testimony and exhibits. All testimony remains subject to appropriate objections. Each witness will have the opportunity to orally summarize his or her testimony at the time he or she takes the stand. Upon insertion of a witness' testimony, exhibits appended thereto may be marked for identification. After opportunity for opposing parties to object and cross-examine, the exhibit may be moved into the record. All other exhibits will be similarly identified and entered at the appropriate time during hearing.

Witnesses are reminded that on cross-examination, responses to questions calling for a yes or no answer shall be answered yes or no first, after which the witness may explain the answer.

III. Order of Witnesses

Direct and rebuttal testimony shall be provided concurrently. Witnesses whose testimony has not been prefiled are indicated by an asterisk.

<u>Witness</u>	<u>Appearing for</u>	<u>Issues</u>
Norman Mears	SGI	Financial matters, reason for rate increase
Wayne Coloney, P.E.	SGI	Plant and system of SGI
Barbara Withers*	SGI (Rebuttal)	Documentation of Original Cost

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<u>Witness</u>	<u>Appearing for</u>	<u>Issues</u>
Gene Brown*	SGI, OPC	Utility records, rate base
Everett Broussard*	SGI, OPC	Utility records
James Dittmer, CPA	OPC	Rate base, expenses and revenues
Patrick Parrish, P.E.	OPC	Used and useful plant
Harry DeMeza	OPC	Original cost of plant
Cliff McKeown	Staff	DER requirements

IV. Basic Positions

UTILITY: The utility has complied with the minimum filing requirements and given sufficient notice and information to justify the revenues and rates that it has requested in its filing.

OPC: The Company has overstated its rate base and revenue requirement. OPC calculates that the required increase in water revenue is no more than \$124,574, after several adjustments are made to the Company's stated test year revenues. However, this figure could change pending the receipt of further discovery.

STAFF: The information gathered through discovery and prefiled testimony indicates that the quality of service is not fully satisfactory. It also appears that the utility may be entitled to a rate increase, but not of the magnitude requested. Certain adjustments need to be made to the utility's rate base and operating statements. The appropriate increase cannot be determined until the evidence presented at the hearing is analyzed.

IV. Issues and Positions

1. **ISSUE:** Is the applicant's quality of service satisfactory?

POSITIONS

UTILITY: Improvements are necessary as set forth in Mr. Coloney's testimony in order to assure that the system will be capable of serving the needs of present and future customers.

OPC: No. A large number of customer complaints have been filed with the Commission concerning inadequate service. However, this issue will be discussed in greater detail after customer testimony is presented at the formal hearing.

STAFF: No. Customer testimony must be reviewed.

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2. **ISSUE:** Has the applicant taken steps to improve the quality of service?

POSITIONS

UTILITY: Yes.

OPC: Insufficient steps have been taken.

STAFF: No position at this time.

3. **ISSUE:** Is the applicant's level of unaccounted for water reasonable?

POSITIONS

UTILITY: Yes.

OPC: No. Unaccounted for water exceeds ten percent.

STAFF: No, the applicant's level for unaccounted water is excessive.

4. **ISSUE:** What is the appropriate test year for this proceeding?

POSITIONS

UTILITY: A thirteen-month average test year ending December 31, 1987, is appropriate.

OPC: A year-end test year is appropriate.

STAFF: A thirteen-month average test year ending December 31, 1987, is appropriate.

5. **ISSUE:** What margin reserve, if any, should be included in the used and useful calculation?

POSITIONS

UTILITY: No margin reserve is appropriate. The water system is one-hundred percent used and useful.

OPC: No position at this time.

STAFF: No margin reserve is appropriate. The utility system is one-hundred percent used and useful.

6. **ISSUE:** What used and useful adjustments are appropriate?

POSITIONS

UTILITY: No used and useful adjustments are appropriate. The water system is one-hundred percent used and useful. When the pro forma plant improvements are completed, the plant will be one-hundred percent used and useful.

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OPC: The transmission and distribution system is eighty percent used and useful and plant-in-service should be reduced by \$323,332 and accumulated depreciation by \$65,074. OPC takes no position on the remaining portions of water plant.

STAFF: No used and useful adjustments are appropriate. The water system is one-hundred percent used and useful.

7. **ISSUE:** Should customer deposits be included as an offset to rate base instead of being included in the utility's working capital?

POSITIONS

UTILITY: No.

OPC: Yes. Since the used and useful rate base is significantly smaller than the capital structure, it is appropriate to reduce rate base by customer deposits of \$14,000.

STAFF: No position at this time.

8. **ISSUE:** Should land for water storage be included in the utility's test year rate base?

POSITIONS

UTILITY: Yes.

OPC: Appropriate costs associated with land acquisition can be included in rate base when the plant is brought into service.

STAFF: Appropriate costs associated with land acquisition can be included in rate base when the plant is brought into service.

9. **ISSUE:** What is the cost of pro forma plant additions currently required by DER?

POSITIONS

UTILITY: The capital improvements for immediate construction total \$403,500. The total improvements will cost \$421,500.

OPC: No position at this time.

STAFF: No position at this time.

10. **ISSUE:** Should pro forma plant additions of approximately \$136,000 for a new well and \$248,000 for a new storage tank be included in rate base?

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POSITIONS

UTILITY: Yes. These plant additions will be in service by June of 1989. At that time, they will be one-hundred percent used and useful.

OPC: No. Construction has not begun on the recommended improvements and completion will not be before June 30, 1989. Therefore, a two phase rate adjustment is appropriate. Phase I should be based on the utility's historical test year, after adjustments, and Phase II should be granted after the improvements are completed and have been inspected and approved by the Commission.

STAFF: No.

11. **ISSUE:** What is the proper basis for determining the cost of the water system?

POSITIONS

UTILITY: The original cost study should be used.

OPC: The utility's books and records should be used. The utility has not shown that its books and records are not available.

STAFF: No position at this time.

12. **ISSUE:** What is the original cost of the water plant?

POSITIONS

UTILITY: The original cost of the water system is \$2,647,702.

OPC: Actual records should be used to determine original cost. If original cost estimates are used, the original cost should be \$1,686,269 to reflect the following adjustments to the utility's original cost estimates. Unit cost adjustments to several sizes of the transmission and distribution mains should be reduced. Plant-in-service and accumulated depreciation should be reduced by at least \$610,254 and \$125,560, respectively, to reflect a more reasonable original cost. (These figures are estimates pending receipt of additional discovery).

STAFF: No position at this time.

13. **ISSUE:** Has the utility complied with the preservation of records requirements set forth in Rule 25-30.110(1)(a), Florida Administrative Code?

POSITIONS

UTILITY: No position at this time.

OPC: No.

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STAFF: No.

14. **ISSUE:** Has the transmission and distribution system been built to specifications that are not economically sound, in other words, was the system over-engineered? (Were expenditures for construction of the transmission and distribution system reasonable and prudent?)

POSITIONS

UTILITY: No.

CITIZENS: Yes.

STAFF: No position at this time.

15. **ISSUE:** Should plant items worth approximately \$108,236, not addressed in the applicant's original cost study, be included in test year plant in service.

POSITIONS

UTILITY: Yes.

OPC: No position at this time.

STAFF: No position at this time.

16. **ISSUE:** What is the appropriate level of utility plant-in-service?

POSITIONS

UTILITY: No position at this time.

OPC: No position at this time.

STAFF: No position at this time. This number will fall out from other calculations and adjustments.

17. **ISSUE:** Should labor costs associated with meter installation and transmission and distribution line extensions be capitalized or expensed?

POSITIONS

UTILITY: \$5,989 should be capitalized and the balance should be expensed.

OPC: Yes, \$7,903 in such costs should be capitalized and included in rate base.

STAFF: No position at this time.

18. **ISSUE:** Should adjustments be made to test year rate base to reflect year end balances?

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POSITIONS

UTILITY: No adjustments are necessary. The appropriate test year is the twelve-month period ended December 31, 1987.

OPC: The following adjustments should be made:

Plant-in-service	\$ 9,513
Depreciation reserve	(40,493)
Customer Advances for construction	1,500
CIAC	(10,923)
Accumulated Amort. of CIAC	5,748
Customer Deposits	<u>(14,100)</u>
Net Increase (Decrease)	
Total Rate Base Adjustment	(\$48,755)

STAFF: No adjustments are necessary.

19. **ISSUE:** Should CIAC be imputed in the utility's test year rate base?

POSITIONS

UTILITY: No position at this time.

OPC: No position at this time.

STAFF: No position at this time.

20. **ISSUE:** What is the utility's level of customer advances?

POSITIONS

UTILITY: The utility's level of customer advances is \$91,430.

OPC: No position at this time.

STAFF: No position at this time.

21. **ISSUE:** What is test year rate base?

POSITIONS

UTILITY: The utility's thirteen-month average test year rate base is \$2,162,875.

OPC: Phase I rate base should be \$953,385. Phase II rate base should be \$1,204,372.

STAFF: No position at this time. This number will fall out from other calculations and adjustments.

22. **ISSUE:** Should customer deposits be included in the capital structure?

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POSITIONS

UTILITY: No position at this time.

OPC: Customer deposits should be included as an offset to rate base.

STAFF: Customer deposits should be included in the capital structure.

23. ISSUE: What is the appropriate cost of customer deposits?

POSITIONS

UTILITY: Eight percent.

OPC: The appropriate cost is actual cost which is zero. If eight percent is used, interest must be included.

STAFF: The appropriate cost is actual cost up to eight percent.

24. ISSUE: Should pro forma debt be allowed in the applicant's capital structure?

POSITIONS

UTILITY: Yes. Pro forma debt should be allowed at 7.46 percent.

OPC: No.

STAFF: No.

25. ISSUE: What is the appropriate overall cost of capital?

POSITIONS

UTILITY: The appropriate cost of capital is 7.46 percent.

OPC: The appropriate cost of capital is 6.97 percent.

STAFF: The appropriate cost of capital is 6.97 percent.

26. ISSUE: Are test year salaries, wages and related payroll costs reasonable?

POSITIONS

UTILITY: No position at this time

OPC: No, certain adjustments are appropriate.

STAFF: No position at this time.

27. ISSUE: Should part-time labor used during computer "down time" be removed from expenses?

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POSITIONS

UTILITY: No.

OPC: Yes, \$2,069 should be removed as non-recurring.

STAFF: No position at this time.

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

POSITIONS

UTILITY: Total rate case expense is estimated to be \$92,400.

OPC: No position at this time.

STAFF: All reasonable and prudent expenses incurred in preparing and presenting the utility's case should be allowed.

29. ISSUE: Over what period should allowed rate case expense be amortized?

POSITIONS

UTILITY: If proforma adjustments are allowed, 4 years. If proforma adjustments are not allowed, 1 year.

OPC: Four years.

STAFF: Four years.

30. ISSUE: Should an adjustment be made to chemicals and purchased power expense for unaccounted for water of approximately thirty-five percent?

POSITIONS

UTILITY: No position at this time.

OPC: Operation and maintenance expenses should be reduced by \$4,154 to reflect a reduction in chemical and electrical expenses associated with unaccounted water in excess of ten percent.

STAFF: No position at this time.

31. ISSUE: Should chemical and electrical costs be annualized?

POSITIONS

UTILITY: No position at this time.

OPC: Yes, Operation and maintenance expenses should be increased by \$382 to reflect year-end customer growth.

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STAFF: No position at this time.

32. **ISSUE:** Should training costs for the utility's manager be removed from expenses?

POSITIONS

UTILITY: No position at this time.

OPC: Yes, these costs are non-recurring. Operation and maintenance expenses should, accordingly, be reduced by \$963.

STAFF: No position at this time.

33. **ISSUE:** Should insurance costs be reduced to reflect current expenses?

POSITIONS

UTILITY: No.

OPC: Yes, Operation and maintenance expenses should be reduced by \$9,211 to reflect a reduction in the costs of wind, flood, liability and automobile insurance.

STAFF: No.

34. **ISSUE:** Should fees collected from a homeowners' association, recorded as a "negative" expense, be removed from test year operations?

POSITIONS

UTILITY: Yes, because the utility will no longer collect these fees. O & M expenses should be increased by \$7,485.

OPC: Yes, because the utility will no longer collect these fees. O & M expenses should be increased by \$7,485.

STAFF: No position at this time.

35. **ISSUE:** Should non-utility expenses of \$1,303 be included in test year expenses?

POSITIONS

UTILITY: Agree to exclude.

OPC: No position at this time.

STAFF: No.

36. **ISSUE:** Should bank charges for insufficient funds be included in test year operation and maintenance expense?

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POSITIONS

UTILITY: \$810 should be excluded from test year operation and maintenance expenses.

OPC: \$1,030 should be excluded from test year operation and maintenance expenses.

STAFF: \$810 should be excluded from test year operation and maintenance expenses.

37. ISSUE: What is the appropriate level of test year O & M expenses?

POSITIONS

UTILITY: The appropriate adjusted test year O & M expenses are \$141,561.

OPC: No position at this time.

STAFF: No position at this time. This number will fall out from other calculations and adjustments.

38. ISSUE: What is the utility's test year net operating income or loss?

POSITIONS

UTILITY: The utility suffered an adjusted test year net operating loss of \$123,845.

OPC: No position at this time.

STAFF: No position at this time. This number will fall out from other calculations and adjustments.

39. ISSUE: What is the utility's revenue requirement?

POSITIONS

UTILITY: The utility's gross revenue requirement is \$405,398.

OPC: The appropriate revenue requirement is \$230,538 for Phase I and \$269,050 for Phase II.

STAFF: No position at this time. This number will fall out from other calculations and adjustments.

40. ISSUE: What are appropriate rates for this utility?

POSITIONS

UTILITY: The appropriate rates are those proposed in the MFRs.

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OPC: No position at this time.

STAFF: No position at this time. These will fall out from other calculations and adjustments.

41. **ISSUE:** Should the requested increase in system capacity charges, from \$250 per ERC to \$1,750 per ERC, be approved?

POSITIONS

UTILITY: Yes.

OPC: No position at this time.

STAFF: Yes, subject to the final numbers for plant-in-service, accumulated depreciation, CIAC and amortization of CIAC.

42. **ISSUE:** Should the requested increase in meter installation fees, from \$250 to \$375 for a 5/8" x 3/4" meter, be approved?

POSITIONS

UTILITY: Yes.

OPC: No position at this time.

STAFF: No, \$375 for installation of a meter is excessive, unless backflow prevention is included.

43. **ISSUE:** Should the utility be allowed to continue collecting meter installation charges for all meters larger than 5/8" x 3/4" at actual cost?

POSITIONS

UTILITY: No position at this time.

OPC: No position at this time.

STAFF: No. The costs of installation for the meters less than 2 inches should be specified. The costs of meters more than 2 inches should be recovered at actual costs. The tariff should include all such costs.

44. **ISSUE:** Should the utility be allowed to backbill for service at different meter sizes or at rates not previously approved in tariffs?

POSITIONS

UTILITY: The utility should be allowed to backbill to the extent that revenues are imputed. Backbilling can be authorized other than as set forth in the tariff.

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OPC: Revenues must be imputed to indicate accurate meter sizes and rates. The utility cannot backbill at rates not previously approved in tariffs.

STAFF: The utility can only backbill at rates approved in the tariff. Any changes in the rate schedule should be made on a going forward basis.

45. **ISSUE:** Should the utility be allowed to deny all further connections to the water system in the event the applicant is not allowed sufficient revenues in the instant proceeding to finance the improvements required by DER?

POSITIONS

UTILITY: Yes.

OPC: No position at this time.

STAFF: No.

VI. **Stipulated Issues**

The parties have stipulated the following:

1. An unsupported plant item worth \$2,090 will be excluded from utility plant-in-service.
2. The appropriate working capital allowance is zero.
3. The appropriate cost of debt, excluding pro-forma debt, is 6.97 percent.
4. Operation and maintenance expenses should be reduced by \$2,577 to exclude nonrecurring expenses.
5. Automobile expense for a general laborer of \$3,917 should be removed from expenses.
6. Telephone expense of \$1,200 should be removed from expenses.
7. Expenses of \$2,889 incurred outside the test year should be excluded from test year expenses.
8. Miscellaneous dues and donations of \$310 should be removed from expenses.

VII. **Exhibits**

<u>WITNESS</u>	<u>PROFERRED BY</u>	<u>EXHIBIT NO.</u>	<u>DESCRIPTION</u>
Mears	SGI	1	Curriculum Vita
Mears	SGI	2	MFRs
Mears	SGI	3	Capitalization of test year salaries

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<u>WITNESS</u>	<u>PROFERRED BY</u>	<u>EXHIBIT NO.</u>	<u>DESCRIPTION</u>
Coloney	SGI	4	Curriculum Vita
Coloney	SGI	5	8/16/86 letter from W. Coloney to N. Hicks
Coloney	SGI	6	7/23/86 letter from G. Brown to J. Kraynak
Coloney	SGI	7	7/22/86 letter from J. Kraynak to G. Brown
Coloney	SGI	8	1/5/87 letter from DER to N. Hicks
Coloney	SGI	9	3/20/87 letter from DER to G. Brown
Coloney	SGI	10	Engineering analysis of SGI system
Dittmer	OPC	11	Schedules 1 - 33 attached to testimony

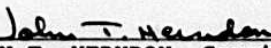
VIII. Pending Motions

The December 20, 1988 Motion For Reconsideration filed by SGI shall be considered and ruled upon in the course of the final hearing of this matter.

Based upon the foregoing, it is

ORDERED by Commissioner John T. Herndon, as Prehearing Officer, that this Prehearing Order shall govern the conduct of these proceedings, as set forth above, unless modified by the Commission.

By ORDER of Commissioner John T. Herndon, as Prehearing Officer, this 11th day of JANUARY, 1989.



JOHN T. HERNDON, Commissioner
and Prehearing Officer

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