

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application of HYDRATECH)	DOCKET NO. 880882-WU
UTILITIES, INC. for increase in)	ORDER NO. 21676
water rates in Martin County)	ISSUED: 8-3-89
)	

Pursuant to notice, a prehearing conference was held on August 2, 1989, before Commissioner Thomas M. Beard, as Prehearing Officer, in Tallahassee, Florida.

APPEARANCES: F. MARSHALL DETERDING, Esquire, Rose, Sundstrom & Bentley, 2548 Blairstone Pines Drive, Tallahassee, Florida 32301
On behalf of Hydratech Utilities, Inc.

ROBERT J. PIERSON, Esquire, Florida Public Service Commission, 101 East Gaines Street, Tallahassee, Florida 32399-0863
On behalf of the Commission Staff

PRENTICE P. PRUITT, Esquire, Florida Public Service Commission, 101 East Gaines Street, Tallahassee, Florida 32399-0863
Counsel to the Commission

PREHEARING ORDER

Case Background

On March 8, 1989, Hydratech Utilities, Inc. (Hydratech) completed the minimum filing requirements for a general rate increase and that date was established as the official date of filing. The approved test year for this proceeding is the projected twelve-month period ending December 31, 1989. Hydratech has requested final rates designed to generate annual water revenues of \$667,565, which exceed annualized test year revenues by \$278,908 (71.76 percent).

By Order No. 21163, issued May 5, 1989, this Commission suspended Hydratech's proposed rates and granted an interim rate increase, subject to refund. Hydratech has not filed revised tariff pages and the interim increase has not, therefore, been implemented.

DOCUMENT NUMBER-DATE

07854 AUG -3 1989

FPSC-RECORDS/REPORTING

ORDER NO. 21676
 DOCKET NO. 880882-WU
 PAGE 2

This case is currently scheduled for an administrative hearing on August 16 and 17, 1989.

Prefiled Testimony and Exhibits

Testimony of all witnesses to be sponsored by Hydratech and the Staff of this Commission (Staff) 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 associated 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 all parties and Staff have had the opportunity to object and cross-examine, the exhibit may be moved into the record. All other exhibits may be similarly identified and entered into the record at the appropriate time during the hearing.

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

Order of Witnesses

<u>Witness</u>	<u>Appearing for</u>	<u>Issues</u>
<u>Direct</u>		
Gerald Bobo, PE	Hydratech	1
Robert C. Nixon, CPA	Hydratech	2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16
Wesley Upham	Staff	1
Jane Brand	Staff	2

ORDER NO. 21676
 DOCKET NO. 880882-WU
 PAGE 3

<u>Witness</u>	<u>Appearing for</u>	<u>Issues</u>
<u>Rebuttal</u>		
Gerald Bobo, PE	Hydratech	1, 3, 6, 7, 10, 11, 12, 13, 14
Jeffrey S. Leslie, CPA	Hydratech	2
Robert Jackson, CPA	Hydratech	2
Robert C. Nixon, CPA	Hydratech	2, 3, 4, 5, 6, 7, 8, 9, 15

Basic Positions

Hydratech: The information contained in Hydratech's original filing and the increase in rates and revenues requested therein, adjusted for the amortization of the abandonment of a well and the capital and operating costs related to a replacement well, plus the additional rate case expense discussed in the rebuttal testimony of Gerald Bobo, are necessary in order to allow Hydratech the opportunity to recover its expenses of operation and provide it with a fair return on its investment used and useful in providing water service to its customers.

Staff: Staff's basic position is that a rate increase may be warranted, but certain adjustments need to be made to Hydratech's rate base and operating statements.

Issues and Positions

Quality of Service

1. ISSUE: Is the quality of service satisfactory?

POSITIONS

HYDRATECH: Yes. (Bobo)

STAFF: Pending the receipt of customer testimony, the quality of service appears satisfactory. (Upham)

ORDER NO. 21676
DOCKET NO. 880882-WU
PAGE 4

Rate Base

2. ISSUE: Should capitalized taxes on CIAC be included in plant-in-service?

POSITIONS

HYDRATECH: Yes. (Nixon, Leslie, Jackson)

STAFF: No, the average balance of \$240,113 in capitalized federal income taxes on CIAC should be removed from plant-in-service. (Brand)

3. ISSUE: What is the appropriate amount of working capital to include in rate base?

POSITIONS

HYDRATECH: The appropriate amount of working capital is that amount stated in the original MFRs, adjusted for inclusion of the additional average unamortized balance of total actual and estimated rate case expense for this proceeding. (Bobo, Nixon)

STAFF: The appropriate amount of working capital to include in rate base is \$73,620.

4. ISSUE: What is the appropriate level of test year rate base?

POSITIONS

HYDRATECH: The appropriate amount of test year rate base is as stated in the original MFRs, adjusted for inclusion of the average unamortized balance of rate case expenses, as adjusted, and the abandoned cost and replacement cost of the abandoned well, plus other stipulations made regarding rate base items. (Nixon)

STAFF: It appears that test year rate base is \$693,096, however, the appropriate level will be determined based upon the resolution of all of the rate base issues.

ORDER NO. 21676
DOCKET NO. 880882-WU
PAGE 5

Cost of Capital

5. ISSUE: What is the appropriate overall rate of return?

POSITIONS

HYDRATECH: The appropriate overall rate of return is as included in the MFRs, adjusted for the difference between the then-estimated cost of recent debt issues and the actual cost recently incurred by Hydratech. (Nixon)

STAFF: The appropriate overall rate of return is 12.31 percent.

Net Operating Income (NOI)

6. ISSUE: What are the appropriate amounts of rate case expense to be allowed?

POSITIONS

HYDRATECH: The appropriate amount of rate case expense is the total amount incurred and estimated to complete this proceeding, as discussed in Gerald Bobo's testimony, plus the unamortized balance of prior rate case expense at the estimated time of the Commission's final order in this case, which should be amortized over a four-year period. (Bobo, Nixon)

STAFF: Subject to information obtained during cross-examination, the appropriate amounts of current and unamortized prior rate case expense that should be allowed are \$66,300 and \$3,762, respectively, for a total of \$70,062.

7. ISSUE: What is the appropriate amount of pro forma rent expense to be allowed for the new well site?

POSITIONS

HYDRATECH: The appropriate amount of pro forma rent expense is the actual cost which Hydratech will be required to pay to the current land owner during the time that the rates approved in this proceeding will be in effect. (Bobo, Nixon)

ORDER NO. 21676
DOCKET NO. 880882-WU
PAGE 6

STAFF: Subject to information obtained during cross-examination, the appropriate amount of pro forma rent expense to be allowed is \$6,000, based upon a monthly rental expense of \$500.

- 8. ISSUE: What is the appropriate test year net operating income?

POSITIONS

HYDRATECH: This will be a fall-out number. (Nixon)

STAFF: It appears that test year net operating income is \$85,305, however, the appropriate amount will be determined based upon the resolution of all net operating income issues.

- 9. ISSUE: What is the appropriate revenue requirement?

POSITIONS

HYDRATECH: This number will fall out from a determination of all other issues. (Nixon)

STAFF: It appears that the appropriate revenue requirement is \$608,427, however, the correct amount will be determined based upon the resolution of all rate base and NOI issues.

Rates and Charges

- 10. ISSUE: Should the proposed miscellaneous service charges be approved?

POSITIONS

HYDRATECH: Yes. (Bobo, Nixon)

STAFF: Hydratech's existing miscellaneous service charges should be retained except that an after-hours violation reconnection charge should also be approved.

- 11. ISSUE: Should the proposed charge for reinspection of customer installations be approved?

ORDER NO. 21676
DOCKET NO. 880882-WU
PAGE 7

POSITIONS

HYDRATECH: Yes. (Bobo, Nixon)

STAFF: No, a more appropriate charge for reinspection of customer installations would be \$10.00.

12. ISSUE: Should the proposed meter installation charges be approved?

POSITIONS

HYDRATECH: The information contained in Schedule E-1, page 1 of 1, of Exhibit 1 of the MFRs, should be utilized to establish the appropriate private fire protection charges. (Bobo, Nixon)

STAFF: The proposed charge for 5/8" x 3/4" meters should be approved. Charges should also be established for all meter sizes up to and including 2".

13. ISSUE: Should the proposed temporary hydrant meter charge be approved?

POSITIONS

HYDRATECH: The information contained in Schedule E-2, page 2 of 7, of Exhibit 1 of the MFRs, should be utilized to establish the appropriate temporary hydrant meter charges. (Bobo, Nixon)

STAFF: Yes, the charge appears appropriate.

14. ISSUE: Should the proposed service installation charges be approved?

POSITIONS

HYDRATECH: The information contained in Schedule E-11, pages 4 and 5 of 5, should be utilized to establish the appropriate service line installation charges. (Bobo, Nixon)

STAFF: No position at this time.

ORDER NO. 21676
DOCKET NO. 880882-WU
PAGE 8

15. ISSUE: What bills and gallons should be used to calculate the final rates?

POSITIONS

HYDRATECH: The appropriate bills and gallons to be used are those contained in the original MFRs as projected for the test year 1989. (Nixon)

STAFF: No position at this time.

16. ISSUE: What final rates are appropriate?

POSITIONS

HYDRATECH: This number will fall out from the determination of all other issues.

STAFF: No position at this time. The final rates will fall out from the determination of all other issues.

Stipulations

Prior to the prehearing conference, Hydratech and Staff stipulated to the following:

1. Utility plant-in-service should be decreased by \$2,534 in order to correct the methodology used to calculate the appropriate allowance for funds used during construction.
2. The cost of Hydratech's abandonment of a new well field, due to the passage of a county ordinance which renders the surrounding land unusable, \$18,538, should be amortized over five years, resulting in an amortization expense of \$3,708 and a deferred debit of \$9,269, the latter to be included in working capital.
3. Utility plant-in-service should be increased by \$12,329 to reflect the construction costs of a replacement well.
4. All plant is 100 percent used and useful without any margin reserve.

ORDER NO. 21676
DOCKET NO. 880882-WU
PAGE 9

- 5. Accumulated amortization of CIAC and the associated amortization expense should be decreased by \$2,858 and \$5,937, respectively, in order to reflect the use of the correct composite rate and methodology.
- 6. Since negative retained earnings more than offset the shareholders' equity investment, no return on equity should be established.
- 7. Test year revenues and regulatory assessment fees should be increased by \$2,180 and \$50, respectively, to correct an error made in the projection of such revenues.
- 8. Projected hospital group insurance expense should be reduced by \$1,433 to reflect employee contributions.
- 9. Sales tax expense of \$5,091 for contractual services should be removed from test year operation and maintenance expenses.
- 10. The appropriate private fire protection charge should be based upon one-third of the Commission-approved base facility charge.

Exhibits

<u>Direct Witnesses</u>	<u>Proffered By</u>	<u>Exhibit No.</u>	<u>Description</u>
Gerald Bobo, PE	Hydratech	1	Maps of service territory
Gerald Bobo, PE	Hydratech	2	Engineering information
Gerald Bobo, PE	Hydratech	3	Affidavit of compliance with Rule 25-22.0406, F.A.C.

ORDER NO. 21676
 DOCKET NO. 880882-WU
 PAGE 10

<u>Witness</u>	<u>Proffered By</u>	<u>Exhibit No.</u>	<u>Description</u>
Gerald Bobo, PE	Hydratech	4	Affirmation of capital structure and accuracy of interim rate request
Robert C. Nixon, CPA	Hydratech	5	Financial, rate and engineering MFRs
Robert C. Nixon, CPA	Hydratech	6	Billing analysis - Schedule E-15 of MFRs
<u>Rebuttal Witnesses</u>			
Gerald Bobo, PE	Hydratech	7	County ordinance
Gerald Bobo, PE	Hydratech	8	Analysis of costs of old wellfield
Gerald Bobo, PE	Hydratech	9	Letter to Centel Cable and land lease
Gerald Bobo, PE	Hydratech	10	Costs for replacement well
Gerald Bobo, PE	Hydratech	11	Tests and awards
Gerald Bobo, PE	Hydratech	12	Daily operating reports

ORDER NO. 21676
 DOCKET NO. 880882-WU
 PAGE 11

<u>Witness</u>	<u>Proffered By</u>	<u>Exhibit No.</u>	<u>Description</u>
Gerald Bobo, PE	Hydratech	13	Flows
Gerald Bobo, PE	Hydratech	14	Letter from Fire Marshall
Gerald Bobo, PE	Hydratech	15	Engineering charges
Gerald Bobo, PE	Hydratech	16	Rate case expenses
Gerald Bobo, PE	Hydratech	17	application form - water service
Gerald Bobo, PE	Hydratech	18	Water test results
Gerald Bobo, PE	Hydratech	19	Tests sub- mitted to DER and DER's response
Robert C. Nixon, CPA	Hydratech	20	Hypothetical comparison of treatments of capitalized taxes on CIAC for S and C corporations
Robert C. Nixon, CPA	Hydratech	21	Calculation of current cost of capital

Staff has not prefiled or identified any exhibits as of the date of the prehearing conference, however, Staff reserves the right to use exhibits for the purpose of cross-examination.

ORDER NO. 21676
DOCKET NO. 880882-WU
PAGE 12

Based upon the foregoing, it is

ORDERED by Commissioner Thomas M. Beard, as Prehearing Officer, that this Prehearing Order shall govern the conduct of these proceedings unless modified by the Commission.

By ORDER of Commissioner Thomas M. Beard, as Prehearing Officer, this 3rd day of AUGUST, 1989.


THOMAS M. BEARD, Commissioner
and Prehearing Officer

(S E A L)

RJP