

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application of PALM COAST)	DOCKET NO. 890277-WS
UTILITY CORPORATION for increased)	ORDER NO. 22255
rates in Flagler County)	ISSUED: 12-1-89
)	

Pursuant to notice, a prehearing conference was held on November 20, 1989, and continued on November 27, 1989, before Commissioner Thomas M. Beard as Prehearing Officer, in Tallahassee, Florida.

APPEARANCES: B. KENNETH GATLIN, Esquire, and KATHRYN G.W. COWDERY, Esquire, Gatlin, Woods, Carlson & Cowdery, 1709-D Mahan Drive, Tallahassee, Florida 32308
On behalf of Palm Coast Utility Corporation

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On behalf of the Citizens of the State of Florida

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PREHEARING ORDERCase Background

By Order No. 18785, issued February 2, 1988, this Commission initiated an investigation into the level of Palm Coast Utility Corporation's (PCUC's) investment in utility plant. The investigation was assigned to Docket No. 871395-WS.

On May 19, 1989, during the pendency of the investigation, PCUC met the minimum filing requirements (MFRs) for a general rate increase and that date was established as the official date of filing. The approved test year for this proceeding is

DOCUMENT NUMBER-DATE

11662 DEC-1 1989

FPSC-RECORDS/REPORTING

ORDER NO. 22255
DOCKET NO. 890277-WS
PAGE 2

the twelve-month period ended December 31, 1988. PCUC proposed rates, for both interim and final purposes, designed to generate annual revenues of \$3,308,874 for water and \$1,819,965 for wastewater. These revenues exceed test year revenues by \$826,625 (33.3 percent) and \$359,531 (24.6 percent) for water and wastewater, respectively.

By Order No. 21570, issued July 18, 1989, this Commission suspended PCUC's proposed rates and granted an interim increase in water rates, subject to refund, and set a portion of PCUC's wastewater rates subject to refund.

By petitions dated July 17, 1989, James Martin and Patrick Ferrante, both customers of PCUC, requested permission to intervene in this proceeding. By Order No. 21664, issued August 2, 1989, Mr. Martin's petition was granted. Mr. Ferrante's petition was granted by Order No. 21665, issued August 2, 1989. On July 20, 1989, the Office of Public Counsel (OPC) served notice of its intervention in this proceeding. OPC's intervention was acknowledged by this Commission by Order No. 21666, also issued August 2, 1989.

Finally, since we found that the issues from the investigation docket were intrinsically related to PCUC's application for increased rates, by Order No. 21794, issued August 28, 1989, this Commission subsumed Docket No. 871395-WS into this docket.

This case is currently scheduled for an administrative hearing on December 6, 7 and 8, 1989.

Prefiled Testimony and Exhibits

Testimony of all witnesses to be sponsored by all of the parties 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

ORDER NO. 22255
 DOCKET NO. 890277-WS
 PAGE 3

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>For</u>	<u>Issues</u>
Wesley Scheibel	PCUC	27
John Guastella	PCUC	2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 39, 40, 47, 52, 60
Vito Pennacchio	PCUC	38, 41, 42, 43, 44, 45, 48, 49, 50, 51, 53, 55, 56, 57, 58, 59, 61
Robert Kelly *	PCUC	Mr. Kelly may be called to provide rebuttal testimony, if necessary
Thomas DeWard 17,	OPC	8, 9, 10, 11, 13, 14, 15, 16, 18, 19, 20, 21, 22, 23, 24, 25, 27, 28, 29, 30, 31, 32, 33, 34, 35, 38, 39, 40, 41, 42, 43, 44, 45, 48, 49, 50, 52, 54, 61, 63
J. Patrick Parrish	OPC	2, 3, 4, 5, 6, 7
Blanca Rodriguez	STAFF	1
Charles Houriet	STAFF	1
Ann Causseaux	STAFF	27

* Mr. Kelly was not identified as a witness prior to the prehearing conference, nor did he prefile any testimony.

ORDER NO. 22255
DOCKET NO. 890277-WS
PAGE 4

Basic Positions

PCUC - PCUC's basic position is that the rates requested in the rate adjustment application should be granted, so that the utility may have the opportunity to progress toward a reasonable rate of return on its investment.

OPC - Palm Coast and its water and wastewater utility systems is a unique situation requiring unique regulatory treatment. In Palm Coast, most of the transmission, distribution and collection mains to serve the entire development of approximately 46,000 lots has been constructed. Yet, the water and wastewater systems served only approximately 6,000 customers during the test year.

PCUC has collected, through its sister company ITT Community Development Corporation (ICDC), over \$56 million of prepaid contributions-in-aid-of-construction (CIAC), of which only a small percentage has been deemed to be "used and useful CIAC" available to reduce rate base. PCUC uses the vast bulk of this prepaid CIAC not to reduce rate base, as is done uniformly throughout the State of Florida, but to reduce the expenses of PCUC's sister companies in paying the costs associated with nonused and useful plant under certain guaranteed revenue agreements.

Not satisfied with this scheme of shifting the cost of carrying nonused and useful plant from its sister companies to future customers, PCUC also proposes to shift a substantial portion of these costs to the small number of current customers. PCUC accomplishes this by requesting the Commission to award it a 25.2 percent margin reserve for water and a 23.3 percent margin reserve for wastewater. These large margin reserves are requested despite the fact that PCUC collects 100 percent of its costs associated with nonused and useful plant under the various guaranteed revenue agreements. The Commission should not be a party to this scheme to shift these costs from PCUC's sister companies to the current customers.

Only after the Commission fully understands the unique Palm Coast situation will it be able to fashion the proper capital structure and rate base that will produce fair and reasonable rates which will provide PCUC with a just compensatory return on its investment in used and useful plant.

ORDER NO. 22255
DOCKET NO. 890277-WS
PAGE 5

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

Issues and Positions

Quality of Service

1. ISSUE: Is the quality of service satisfactory?

POSITIONS

PCUC: Yes, the quality of service is satisfactory (PCUC accepts the testimony of Department of Environmental Regulation witnesses sponsored by Staff).

OPC: No position at this time, pending customer testimony at the hearing.

STAFF: No position at this time, pending customer testimony at the hearing. (Rodriguez, Houriet)

Rate Base

2. ISSUE: Has PCUC properly stated unaccounted for water?

POSITIONS

PCUC: Yes. (Guastella)

OPC: No, PCUC has understated unaccounted for water by classifying plant use water as accounted for, unsold water, and deducting it from unaccounted for water. (Parrish)

STAFF: No position at this time.

3. ISSUE: Should a margin reserve be included in the used and useful calculations?

ORDER NO. 22255
DOCKET NO. 890277-WS
PAGE 6

POSITIONS

PCUC: Yes, the used and useful calculations should include a margin reserve. (Guastella)

OPC: No. PCUC has included a reserve of 25.2 percent for water and 23.3 percent for wastewater. This inclusion would force current ratepayers to carry a cost of development which should and can be recuperated from ICDC. (Parrish)

STAFF: Yes.

4. ISSUE: Does the inclusion of a provision for fire demand overstate the used and useful calculations for source of supply and treatment plant facilities?

POSITIONS

PCUC: No, the inclusion of a provision for fire demand is appropriate. (Guastella)

OPC: Yes, it is not appropriate to include a fire demand as part of the demand on well capacity, and fire demand is not met from plant production but from storage. (Parrish)

STAFF: No position at this time.

5. ISSUE: Is the used and useful calculation for storage plant facilities overstated as a result of a misstatement of capacity?

POSITIONS

PCUC: No, the used and useful calculation for storage plant facilities as appropriate. (Guastella)

OPC: Yes. PCUC has overstated the used and useful percentage for storage plant facilities due to misstatement of the capacity of the storage facilities and of the equalization demand. (Parrish)

STAFF: No position at this time.

ORDER NO. 22255
 DOCKET NO. 890277-WS
 PAGE 7

6. ISSUE: What are the appropriate amount(s) of used and useful plant for water?

POSITIONS

PCUC: As presented in the MFRs. (Guastella)

OPC: The following are the appropriate amounts of used and useful water plant: (Parrish)

Intangible Plant	100.0 percent
Source of Supply	77.8 percent
Treatment Plant	67.2 percent
Trans. & Dist. Plant	
Accts. 303, 304 & 330	55.4 percent
Accts. 331 (refunded), 334 & 339	100.0 percent
Acct. 331 (mains)	18.9 percent
Acct. 333	74.0 percent
Acct. 335	59.9 percent
General Plant	
Accts. 304 & 340	66.1 percent
All other Accts.	100.0 percent

STAFF: No position at this time.

7. ISSUE: What are the appropriate amount(s) of used and useful plant for wastewater?

POSITIONS

PCUC: As presented in the MFRs. (Guastella)

OPC: The following are the appropriate amounts of used and useful water plant: (Parrish)

Intangible Plant	100.0 percent
Pumping Plant	27.0 percent
Treatment Plant	76.9 percent
Collection & Interceptors	
Acct. 354	100.0 percent
Acct. 361	25.0 percent
Acct. 363	24.2 percent
General Plant	
Accts. 304 & 340	62.1 percent
All other Accts.	100.0 percent

ORDER NO. 22255
DOCKET NO. 890277-WS
PAGE 8

STAFF: No position at this time.

8. ISSUE: Are plant in service amounts overstated because PCUC has routinely capitalized certain repair items?

POSITIONS

PCUC: No. (Guastella)

OPC: Yes. PCUC has followed a practice of capitalizing items which are for the repair of existing plant. All such items should be removed from plant in service. (DeWard)

STAFF: No position at this time.

9. ISSUE: Are plant in service amounts overstated because PCUC has failed to provide documentation to support overhead charges and charges for AFUDC?

POSITIONS

PCUC: No. (Guastella)

OPC: Yes. PCUC has failed to provide original supporting documentation for capitalized overhead charges. All undocumented charges should be removed from plant in service. (DeWard)

STAFF: No position at this time.

10. ISSUE: Has PCUC failed to support all plant in service balances by providing original documentation to support all purchases?

POSITIONS

PCUC: No. (Guastella)

OPC: Yes. PCUC did not provide original contracts and invoices to support plant in service additions. All undocumented charges should be removed from plant in service. (DeWard)

ORDER NO. 22255
DOCKET NO. 890277-WS
PAGE 9

STAFF: No.

11. ISSUE: What ratemaking adjustments are appropriate for capitalized repair and replacement costs relating to early construction of the utility?

POSITIONS

PCUC: The extraordinary property loss treatment approved by the Commission in Order No. 18625, issued January 4, 1988, should be followed since it results in a fair allocation of costs between PCUC and its customers. (Guastella)

OPC: The ratepayers should not be made to support plant which was not properly installed. Wastewater plant in service should be reduced by \$459,132 and the associated accumulated depreciation by \$99,173. No adjustment is necessary for water if the Commission considers all water plant to be contributed as proposed by OPC. (DeWard)

STAFF: No position at this time.

12. ISSUE: Should the used and useful provision for CIAC be increased by \$30,404 to match the water plant provision (average balance) relating to an \$85,000 contribution of land?

POSITIONS

PCUC: Yes. (Guastella)

OPC: No position at this time.

STAFF: Yes.

13. ISSUE: If a margin of reserve is included, should the utility's provision for imputed CIAC be accepted?

POSITIONS

PCUC: PCUC's provision for imputed CIAC should be accepted. (Guastella)

ORDER NO. 22255
DOCKET NO. 890277-WS
PAGE 10

OPC: No margin of reserve is appropriate. (Parrish, DeWard)

STAFF: Yes.

14. ISSUE: Should CIAC be imputed to completely offset water plant in service as having been included in the price of the lots sold by ICDC?

POSITIONS

PCUC: No. (Guastella)

OPC: Yes. Even though PCUC has not collected these funds from ICDC, there is strong evidence to prove that ICDC did, in fact, collect the total cost of the water system in the price of the lots. Accordingly, \$3,490,085 in CIAC should be imputed for the water system. (DeWard)

STAFF: No.

15. ISSUE: Are CIAC balances understated because PCUC has failed to record as receivable balances all amounts currently due under the terms of original offering statements?

POSITIONS

PCUC: No. (Guastella)

OPC: Yes. PCUC must furnish a listing which details accounts receivable balances of prepaid connection charges as of December 31, 1988. An entry must be made to charge accounts receivable and credit CIAC. (DeWard)

STAFF: No.

16. ISSUE: Are wastewater CIAC balances in part overstated and water CIAC balances understated because PCUC has recorded water prepaid connection charges as wastewater CIAC?

ORDER NO. 22255
DOCKET NO. 890277-WS
PAGE 11

POSITIONS

PCUC: No. (Guastella)

OPC: Yes. An adjustment is necessary to properly allocate CIAC between accounts. (DeWard)

STAFF: No position at this time.

17. ISSUE: Are wastewater CIAC balances understated because PCUC has failed to demand payment in full from ICDC in accordance with the terms of offering statements?

POSITIONS

PCUC: No. (Guastella)

OPC: Yes. The offering statement set forth when prepaid connection charges are due. PCUC should demand payment from ICDC of all prepaid connection charges according to the original terms. (DeWard)

STAFF: No.

18. ISSUE: Are wastewater CIAC balances understated because PCUC has allowed ICDC to retain all interest, installment charges or amounts in excess of principal balances on wastewater prepaid connection charges which have been collected over time, as opposed to collection in full according to the terms of the offering statements?

POSITIONS

PCUC: No. (Guastella)

OPC: Yes. The amounts collected in excess of principal amounts should be remitted in full to PCUC. This will result in an increase in CIAC as it relates to existing customers. (DeWard)

STAFF: No position at this time.

ORDER NO. 22255
DOCKET NO. 890277-WS
PAGE 12

19. ISSUE: Should the CIAC trust account and the interest earned on the account be considered CIAC without any limitations being imposed by the trust?

POSITIONS

PCUC: This is not a rate case issue.

OPC: Yes, all of the funds should be considered CIAC without any limitations being imposed by the trust. (DeWard)

STAFF: This is not a rate case issue.

20. ISSUE: What adjustments, if any, are appropriate to accumulated amortization of CIAC for existing and imputed CIAC?

POSITIONS

PCUC: PCUC's proposed provisions for accumulated amortization of CIAC for existing and imputed CIAC are appropriate and no adjustments should be made. (Guastella)

OPC: All accumulated amortization related to imputed CIAC should be removed because OPC is not recommending any margin of reserve. Therefore, there should be no imputed CIAC or related amortization. (DeWard)

STAFF: Further review of the allocation is needed.

21. ISSUE: What adjustments, if any, are appropriate with regard to the reported balances for land?

POSITIONS

PCUC: No adjustments are appropriate with regard to the reported balances for land. (Guastella)

OPC: Land should be valued at original cost plus a reasonable calculation for inflation. PCUC has

ORDER NO. 22255
DOCKET NO. 890277-WS
PAGE 13

overstated rate base by including land at its appraised value. (DeWard)

STAFF: No position at this time.

22. ISSUE: Should the utility's proposed provision for prepaid income taxes on post-1986 CIAC collections be included in the rate base calculation?

POSITIONS

PCUC: Yes, the requested provision for prepaid taxes on post-1986 CIAC collections is an appropriate addition to rate base. (Guastella)

OPC: No, piecemeal working capital items are not properly includible in rate base. Rate base should, therefore, be reduced by \$293,019 for water and \$294,605 for wastewater. (DeWard)

STAFF: No position at this time.

23. ISSUE: What provision for working capital should be included in the rate base calculations?

POSITIONS

PCUC: The appropriate working capital allowance is \$126,939 for water and \$ 97,992 for wastewater. (Guastella)

OPC: None. PCUC has not proven that it has a working capital requirement nor that the formula approach is valid. Therefore, \$126,939 for water and \$97,992 for wastewater should be removed from rate base. (DeWard)

STAFF: No position at this time.

24. ISSUE: Should the utility's proposed provision for deferred investigation costs be included in the rate base calculation?

POSITIONS

PCUC: Yes. (Guastella)

OPC: No, piecemeal working capital items are not properly includible in rate base. Rate base should, therefore, be reduced by \$56,250 for water and \$56,250 for wastewater. (DeWard)

STAFF: The amount should be excluded if the formula approach is accepted.

25. ISSUE: What other adjustments, if any, are appropriate in the rate base calculation?

POSITIONS

PCUC: No other adjustments are appropriate to establish the rate base balance. (Guastella)

OPC: At this time, there are numerous interrogatories and requests for production of documents that PCUC has refused to answer. Therefore, it is impossible to tell what other issues may need to be raised. (DeWard)

STAFF: No position at this time.

26. ISSUE: What are the appropriate rate base amounts?

POSITIONS

PCUC: The appropriate rate base amounts are \$11,456,417 for water and \$ 4,647,428 for wastewater. (Guastella)

OPC: No position at this time. This issue is a summation matter.

STAFF: No position at this time. This issue is a summation matter.

ORDER NO. 22255
DOCKET NO. 890277-WS
PAGE 15

COST OF CAPITAL

27. ISSUE: Should a provision for prepaid income taxes on pre-1987 CIAC collections be included in the capital structure in the amount proposed by the utility?

POSITIONS

PCUC: Yes, a provision for prepaid income taxes on pre-1987 CIAC collections should be included in the capital structure in the amounts proposed by PCUC. (Scheibel)

OPC: No, the Commission properly excluded this item from the capital structure in Docket No. 870166-WS. (DeWard)

STAFF: No position at this time.

28. ISSUE: Is the provision for deferred investment tax credits (ITCs) understated?

POSITIONS

PCUC: The provision for deferred ITCs is appropriate. (Guastella)

OPC: Yes, deferred ITCs should be increased by \$264,356 for ITCs that PCUC failed to take. (DeWard)

STAFF: No position at this time.

29. ISSUE: Is the provision for deferred income taxes understated due to AFUDC considerations?

POSITIONS

PCUC: The provision for deferred income taxes is not understated. (Guastella)

OPC: Yes, an adjustment should be made to recognize additional deferred taxes. (DeWard)

ORDER NO. 22255
DOCKET NO. 890277-WS
PAGE 16

STAFF: No position at this time.

30. ISSUE: Is the provision for deferred income taxes understated due to property loss considerations?

POSITIONS

PCUC: No, the provision for deferred income taxes is not understated due to property loss considerations. (Guastella)

OPC: Yes, an adjustment should be made to recognize additional deferred taxes. (DeWard)

STAFF: No position at this time.

31. ISSUE: Should deferred income taxes be imputed or a penalty applied because the utility did not use the most accelerated tax depreciation available due to consolidation considerations?

POSITIONS

PCUC: No. (Scheibel)

OPC: Yes. Any ITT directives which have resulted in reduced tax depreciation must be analyzed. A pro forma adjustment should be made to record deferred taxes as if accelerated methods were followed. (DeWard)

STAFF: Yes.

32. ISSUE: Should additional CIAC be included in the capital structure as a cost-free source of capital for interest, installment charges or other amounts in excess of principal amounts for prepaid wastewater connection charges collected by ICDC but not remitted to PCUC?

POSITIONS

ORDER NO. 22255
DOCKET NO. 890277-WS
PAGE 17

PCUC: No. (Guastella)

OPC: Yes. The amounts collected in excess of principal amounts should be remitted to PCUC. This will result in an increase in cost-free CIAC being included in the capital structure for lot purchasers who are not current customers. (DeWard)

STAFF: No position at this time.

33. ISSUE: Should the CIAC which has been paid to ICDC in advance of plant being built be included in the capital structure as a cost-free source of capital?

POSITIONS

PCUC: No. (Guastella)

OPC: Yes. These monies represent a return of investment for which no interest is paid. Therefore, \$12,977,060 of CIAC should be included in the capital structure. (DeWard)

STAFF: No position at this time.

34. ISSUE: Is PCUC's proposed equity level prudent?

POSITIONS

PCUC: Yes. (Guastella)

OPC: No. By increasing equity to 74.23 percent, PCUC is totally disregarding its obligation to the ratepayers to keep expenses at a reasonable level. Should the Commission not include the additional sources of capital proposed by OPC, it should reduce the equity level to no more than 40 percent. (DeWard)

STAFF: No position at this time.

35. ISSUE: Are there any other adjustments that need to be made to PCUC's capital structure?

ORDER NO. 22255
DOCKET NO. 890277-WS
PAGE 18

POSITIONS

PCUC: No other adjustments to the capital structure are necessary or appropriate. (Guastella)

OPC: At this time, there are numerous interrogatories and requests for production of documents that PCUC has refused to answer. Therefore, it is impossible to tell what other issues may need to be raised. (DeWard)

STAFF: No position at this time.

36. ISSUE: What is the appropriate return on equity investment?

POSITIONS

PCUC: The appropriate return on equity is 12.51 percent. (Guastella)

OPC: The return on equity should agree with the leverage formula in effect at the time of the Commission's vote on this matter.

STAFF: The return on equity should agree with the leverage formula in effect at the time of the Commission's vote on this matter.

37. ISSUE: What is the overall cost of capital?

POSITIONS

PCUC: The overall cost of capital is 11.02 percent. (Guastella)

OPC: No position at this time. This issue is a summation matter.

STAFF: No position at this time. This issue is a summation matter.

ORDER NO. 22255
DOCKET NO. 890277-WS
PAGE 19

OPERATING INCOME

38. ISSUE: Should revenues be increased to reflect annualization of miscellaneous charges?

POSITIONS

PCUC: Yes, miscellaneous service charges (revenues) have been increased by \$6,578. (Pennacchio)

OPC: Yes, water revenues should be increased by \$13,533. (DeWard)

STAFF: Yes.

39. ISSUE: Should operating expenses be further reduced because of the level of unaccounted for water?

POSITIONS

PCUC: PCUC's proposed adjustments relating to unaccounted for water are reasonable and no other corrections are appropriate. (Guastella)

OPC: Purchased power, fuel and chemical expenses should be reduced by a total of \$18,596. (DeWard)

STAFF: No position at this time.

40. ISSUE: Should operating expenses be further reduced because of excess infiltration?

POSITIONS

PCUC: No, PCUC's proposed adjustments relating to infiltration are reasonable and no other corrections are appropriate. (Guastella)

OPC: Purchased power should be reduced by a total of \$12,997. (DeWard)

STAFF: No position at this time.

ORDER NO. 22255
DOCKET NO. 890277-WS
PAGE 20

41. ISSUE: Is the used and useful provision for the wastewater collection department overstated?

POSITIONS

PCUC: No, the used and useful provision for the wastewater collection department is not overstated. (Pennacchio)

OPC: Yes. Operating expenses should be reduced by \$10,027. (DeWard)

STAFF: No position at this time.

42. ISSUE: Are the used and useful provisions for the water and wastewater treatment departments overstated?

POSITIONS

PCUC: No, the used and useful provisions for the water and wastewater treatment departments are not overstated. (Pennacchio)

OPC: Yes. Operating expenses should be reduced by \$53,130 for water and \$23,754 for wastewater. (DeWard)

STAFF: No position at this time.

43. ISSUE: Is the used and useful provision for the water distribution department overstated?

POSITIONS

PCUC: Yes, the amount shown on Sch. B of Operating Departments for used and useful should be reduced by \$11,151 to \$144,227. (Pennacchio)

OPC: Yes. Operating expenses should be reduced by \$23,685 for water. (DeWard)

STAFF: No position at this time.

ORDER NO. 22255
DOCKET NO. 890277-WS
PAGE 21

44. ISSUE: Is the used and useful provision for the administrative and general (controller) department overstated?

POSITIONS

PCUC: No. (Pennacchio)

OPC: Yes. Operating expenses should be reduced by \$7,914 for water and \$6,126 for wastewater. (DeWard)

STAFF: No position at this time.

45. ISSUE: Should the provision for tank painting charges be reduced?

POSITIONS

PCUC: No, the provision for tank painting charges should not be reduced. (Pennacchio)

OPC: Yes, PCUC has not shown that this amortization is properly included in the test year. Operating expense for water should be reduced by \$5,292. (DeWard)

STAFF: No position at this time.

46. ISSUE: What are the appropriate depreciation expense provisions for this proceeding?

POSITIONS

PCUC: This issue is a summation matter depending upon the disposition of other issues.

OPC: This issue is a summation matter depending upon the disposition of other issues.

STAFF: This issue is a summation matter depending upon the disposition of other issues.

ORDER NO. 22255
DOCKET NO. 890277-WS
PAGE 22

47. ISSUE: Should the provision for amortization of the extraordinary property operating loss be removed from the operating statement?

POSITIONS

PCUC: No. (Guastella)

OPC: Yes.

STAFF: No position at this time.

48. ISSUE: What overall provision for investigation and rate case charges should be allowed?

POSITIONS

PCUC: Investigation and rate case expense of \$245,190 should be included in operating and maintenance expense. (Pennacchio)

OPC: PCUC's provision for investigation and rate case expense is not only excessive, but certain items should be removed as unreasonable. These items are shown on Schedule 17 of witness DeWard's Exhibit TCD-1. Operating expenses should be decreased by \$88,458 for water and \$88,458 for wastewater. Further, as a result of OPC's continuing review of documentation supplied by PCUC to support investigation and rate case expense, OPC will be proposing additional reductions to the amount to be recovered from the ratepayers. The continuing expensive and time-consuming campaign by PCUC's legal counsel to avoid supplying critical information to Staff and OPC dictates substantial adjustments to the legal bills associated with the investigation and this rate case. (DeWard)

STAFF: Prudently incurred costs should be allowed.

49. ISSUE: What is the appropriate term for amortization of deferred rate case charges and investigation expenses?

ORDER NO. 22255
DOCKET NO. 890277-WS
PAGE 23

POSITIONS

PCUC: A two-year amortization period is appropriate.
(Pennacchio)

OPC: The appropriate amortization period is four years;
however, due to the special considerations in this
case, OPC recommends a three-year amortization
period. (DeWard)

STAFF: The appropriate amortization period is either three
or four years.

50. ISSUE: Should depreciation expense be reduced to reflect
the capitalization of such amounts relating to
transportation and power operated equipment?

POSITIONS

PCUC: No. (Pennacchio)

OPC: Yes. A portion of the transportation and power
operated equipment is used for capital
improvements, therefore, the associated
depreciation should be capitalized. Depreciation
expense should be reduced by \$30,348 for water and
\$29,134 for wastewater. (DeWard)

STAFF: No position at this time.

51. ISSUE: Should a parent-debt adjustment be included in the
income tax calculation?

POSITIONS

PCUC: No parent-debt adjustment is necessary in the
income tax calculation. (Pennacchio)

OPC: No position at this time.

STAFF: No position at this time.

ORDER NO. 22255
DOCKET NO. 890277-WS
PAGE 24

52. ISSUE: Should an adjustment be made for excess deferred income taxes?

POSITIONS

PCUC: Yes, an adjustment to flow back deferred tax credits using the method prescribed in Section 203E of the Tax Reform Act would be appropriate. (Guastella)

OPC: Yes, in prior years, PCUC has deferred taxes at the 46 percent and 40 percent rates. These taxes must be reversed out to calculate the test year tax expense. (DeWard)

STAFF: No position at this time.

53. ISSUE: Are other adjustments appropriate in the income tax calculation?

POSITIONS

PCUC: No other adjustments are appropriate in the income tax calculation. (Pennacchio)

OPC: No position at this time.

STAFF: No position at this time.

54. ISSUE: What other adjustments are appropriate to properly portray test year operating income?

POSITIONS

PCUC: No other adjustments are appropriate to properly portray test year operating results. To the extent that this is a general question, any of PCUC's witnesses' testimony could be relevant.

OPC: At this time, there are numerous interrogatories and requests for production of documents that PCUC has refused to answer. Therefore, it is impossible to tell what other issues may need to be raised. (DeWard)

ORDER NO. 22255
DOCKET NO. 890277-WS
PAGE 25

STAFF: No position at this time.

DEPRECIATION RATES

55. ISSUE: Should continued use of the utility's present depreciation rates be allowed or should guideline rates be used?

POSITIONS

PCUC: Present depreciation rates should be permitted. (Pennacchio)

OPC: No position at this time.

STAFF: No position at this time.

56. ISSUE: What adjustments are appropriate if depreciation rates are changed?

POSITIONS

PCUC: No adjustments are appropriate since depreciation rates should not be changed. (Pennacchio)

OPC: No position at this time.

STAFF: Adjustments to the plant and CIAC reserve accounts may be appropriate.

REVENUE REQUIREMENT

57. ISSUE: What are the appropriate revenue requirements for this proceeding?

POSITIONS

PCUC: The appropriate revenue increases for this proceeding are \$826,625 for water and \$359,531 for wastewater. (Pennacchio)

OPC: No position at this time. This issue is a summation matter.

ORDER NO. 22255
DOCKET NO. 890277-WS
PAGE 26

STAFF: No position at this time. This issue is a summation matter.

RATES

58. ISSUE: What are the appropriate bills and gallons for rate setting purposes?

POSITIONS

PCUC: The appropriate bills and gallons for ratemaking purposes are shown on Schedule E-2 of the MFRs. (Pennacchio)

OPC: No position at this time.

STAFF: No position at this time.

59. ISSUE: What rates should be approved to generate the approved revenue amounts?

POSITIONS

PCUC: The appropriate final rates for water and wastewater are shown on Schedule E-1 of the MFRs. (Pennacchio)

OPC: No position at this time.

STAFF: No position at this time.

60. ISSUE: Should the utility be required to discontinue its collection of temporary-on charges?

POSITIONS

PCUC: No, the tariff should be modified to include the temporary-on charge. (Guastella)

OPC: No position at this time.

ORDER NO. 22255
DOCKET NO. 890277-WS
PAGE 27

STAFF: Yes. The utility has no tariff authority to collect temporary-on charges; however, the utility's existing tariff does contain the appropriate miscellaneous service charges and base facility charge rates.

61. ISSUE: Should interim rates be refunded?

POSITIONS

PCUC: No. (Pennacchio)

OPC: Yes, interim rates should be refunded with interest. (DeWard)

STAFF: No position at this time.

MISCELLANEOUS

62. ISSUE: Should the utility be required to pay regulatory assessment fees on guaranteed revenues?

POSITIONS

PCUC: No. (Pennacchio)

OPC: No position at this time.

STAFF: Yes.

63. ISSUE: Should any portion of the cost to repair and/or replace defective plant be offset by a \$2,000,000 settlement from an insurance company?

POSITIONS

PCUC: No.

OPC: To the extent the Commission permits recovery of any portion of the cost to repair or replace the defective plant, such costs should be offset by the \$2,000,000 settlement and any other collections ICDC may have effected. (DeWard)

ORDER NO. 22255
 DOCKET NO. 890277-WS
 PAGE 28

STAFF: No, based upon current information.

Exhibits

Below is a list of all exhibits that have been prefiled or identified thus far in this case. The parties and Staff shall identify all other exhibits that may be used in this proceeding no later than 12:00 p.m., Monday, December 4, 1989. These shall be listed in an addendum to this Order.

<u>Witness</u>	<u>Proffered By</u>	<u>Exhibit No.</u>	<u>Description</u>
Scheibel	PCUC	WS-A (Composite)	Sec. 118, I.R.C., proposed regulations and legal opinion
Guastella	PCUC	MFR Exhibit	Schedules A-1 - A-16, Schedule C-13, Schedules D-1 - D-8, Schedules F-1 & F-2, Schedule G
Guastella	PCUC	MFR Exhibit	Used & useful analysis
Guastella	PCUC	JG-1	FPSC Document/Record Request No. 3, Docket No. 840092-WS
Guastella	PCUC	JG-2	FPSC Document/Record Request No. 10
Guastella	PCUC	JG-3	Schedules 1 - 8
Guastella	PCUC	JG-4	Rate case expense exhibit
Guastella	PCUC	JG-5	Land appraisals
Guastella	PCUC	JG-6	Calculation of flow- back in accordance with Sec. 203E of TRA 1986

ORDER NO. 22255
 DOCKET NO. 890277-WS
 PAGE 29

<u>Witness</u>	<u>Proffered By</u>	<u>Exhibit No.</u>	<u>Description</u>
Pennacchio	PCUC	MFR Exhibit	Application, Schedules A-24 - A-30, Section B, Schedules C-2 & C-12, Section E
Pennacchio	PCUC	VP-1 (Composite)	1987 and 1988 Reg. Assessment Fee Returns
Pennacchio	PCUC	VP-2	Schedule B, rev. 11/7/89, O & M Expense Allocations 0753-Water Distribution
Pennacchio	PCUC	MFR Exhibit	Analysis of Operating Departments for U & U
DeWard	OPC	TCD-1	Schedules 1 - 30
DeWard	OPC	TCD-2	OPC's recommendation in Docket No. 871395-WS, including Exhibits A - U attached thereto
DeWard	OPC	TCD-3 (Composite)	Settlement and disbursement agreements/ letter to insurance co.
Parrish	OPC	JPP-1	Schedules A & H - summaries of U & U percentages for water and wastewater
Causseaux	STAFF	APC-1	A portion of Utility Consolidated Issue - CIAC and Related Connection Fees
Causseaux	STAFF	APC-2	Remainder of Utility Consolidated Issue - CIAC and Related Connection Fees

ORDER NO. 22255
 DOCKET NO. 890277-WS
 PAGE 30

<u>Witness</u>	<u>Proffered By</u>	<u>Exhibit No.</u>	<u>Description</u>
Causseaux	STAFF	APC-3	Memo from Donald C. Evans, Jr. to members of National Association of Water Companies

Stipulations

The parties and Staff have stipulated that miscellaneous revenues should be allocated between water and wastewater based upon the number of bills.

Rulings

The following are the motions that were considered at the prehearing Conference and the dispositions thereof.

Staff's Motion to Compel Responses to Requests For Admissions, filed November 9, 1989, was taken under advisement.

OPC's Motion to Expedite Responses to Citizen's Fifth Request For Production of Documents, filed November 13, 1989, was held in abeyance.

PCUC's Motion For Reconsideration of Order No. 22117, filed November 13, 1989, was held in abeyance.

OPC's Motion to Compel, filed November 22, 1989, was granted in part and denied in part. In addition, any ruling on the motion was held in reserve in part and in abeyance in part. The motion was granted insofar as it related to Requests For Production of Documents (PODs) Nos. 35 and 38. As for POD No. 38, PCUC was instructed to provide legible copies of test year forecasts. The motion was denied insofar as it pertained to PODs Nos. 34, 37 and 53. Any ruling on the motion was held in reserve insofar as related to Interrogatories Nos. 46 and 47. PCUC believes that it has provided this information but agreed that, to the extent it has not, it would be provided no later than November 28, 1989. Any ruling on the motion was also held in reserve insofar as it pertained to those matters discussed under "Other." PCUC agreed to provide this information no later than November 28, 1989. Any ruling on the

ORDER NO. 22255
DOCKET NO. 890277-WS
PAGE 31

motion was also held in reserve to the extent that it related to Interrogatories Nos. 49, 51 and 52. The parties were instructed to resolve these matters over the telephone between their experts. In addition, although the motion was denied as to Interrogatory No. 53, the parties were instructed to have their experts discuss this matter. Any ruling on the motion was held in abeyance insofar as it related to PODs Nos. 21 and 39 through 51.


At the prehearing conference, PCUC requested leave to file supplemental testimony. According to PCUC, the basis for its request are a number of previously unidentified issues. PCUC was instructed to file any such testimony no later than the close of business on Wednesday, November 29, 1989. Such testimony shall be subject to the objection that it does not pertain to a previously unidentified issue.

OPC also requested leave to file supplemental testimony at the prehearing conference. The reason for OPC's request is that, since responses to its discovery requests are still coming in, such responses may include some previously unknown information which might require supplemental testimony. OPC was instructed to file any such supplemental testimony no later than 12:00 p.m., Tuesday, December 5, 1989. Such testimony shall be subject to the objection that it does not pertain to any previously unknown information.

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 1st day of DECEMBER, 1989.


THOMAS M. BEARD, Commissioner
and Prehearing Officer

(S E A L)

RJP