

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application of Southern) DOCKET NO. 920655-WS
States Utilities, Inc. for) ORDER NO. PSC-93-0333-PHO-WS
Increased Water and Wastewater) ISSUED: March 4, 1993
Rates in Collier County (Marco)
Island Systems).)
_____)

Pursuant to Notice, a Prehearing Conference was held on February 26, 1993, in Tallahassee, Florida, before Commissioner Susan F. Clark, as Prehearing Officer.

APPEARANCES:

Kenneth A. Hoffman, Esquire, and Floyd Self, Esquire,
Messer, Vickers, Caparello, Madsen, Lewis, Goldman &
Metz, P.A., P.O. Box 1876, Tallahassee, Florida, 32302-
1876
On behalf of Southern States Utilities, Inc.

Stephen C. Reilly, Esquire, Office of Public Counsel, c/o
The Florida Legislature, 111 West Madison Street, Room
812, Tallahassee, Florida, 32399-1400
On behalf of the Citizens of the State of Florida.

Richard Bergmann, 58 North Collier Boulevard, Marco
Island, Florida, 33937.
On behalf of Richard Bergmann and Gulfview Apartments of
Marco Island, Inc.

Lila A. Jaber, Esquire and Rex Golden, Esquire, Florida
Public Service Commission, 101 E. Gaines Street,
Tallahassee, Florida 32399-0863
On behalf of the Commission Staff.

PREHEARING ORDER

I. CASE BACKGROUND

On August 10, 1992, Southern States Utilities, Inc., (Southern States or utility) filed an application for authority to increase water and wastewater rates and charges for its Marco Island systems in Collier County. On September 9, 1992, the utility completed the minimum filing requirements (MFRs) for a general rate increase and that date was established as the official filing date for this proceeding. The approved test year for this proceeding is the

DOCUMENT NUMBER-DATE

02458 MAR-4 83

projected twelve-month period ended April 30, 1993. The utility has requested final rates designed to generate annual revenues of \$8,571,656 for water and \$3,343,777 for wastewater. The corresponding increases are \$4,394,093 (105.18%) for water and \$1,519,000 for wastewater.

By Order No. PSC-92-1359-FOF-WS, issued November 23, 1992, this Commission suspended the utility's proposed rates and granted an interim water and wastewater rate increase, subject to refund. The Office of Public Counsel's (OPC) intervention was acknowledged by Order No. PSC-92-1050-PCO-WS, issued September 23, 1992. By Order No. PSC-93-0310-PCO-WS, issued February 25, 1993, the Commission granted the Petition to Intervene filed by Mr. Richard Bergman, a customer of the utility and President of Gulfview Apartments of Marco Island, Inc., also a customer of the utility.

This case is scheduled for an administrative hearing on March 8 and 9, 1993.

II. PROCEDURE FOR HANDLING CONFIDENTIAL INFORMATION

A. Any information provided pursuant to a discovery request for which proprietary confidential business information status is requested shall be treated by the Commission and the parties as confidential. The information shall be exempt from Section 119.07(1), Florida Statutes, pending a formal ruling on such request by the Commission, or upon the return of the information to the person providing the information. If no determination of confidentiality has been made and the information has not been used in the proceeding, it shall be returned expeditiously to the person providing the information. If a determination of confidentiality has been made and the information was not entered into the record of the proceeding, it shall be returned to the person providing the information within the time periods set forth in Section 367.156, Florida Statutes.

B. It is the policy of the Florida Public Service Commission that all Commission hearings be open to the public at all times. The Commission also recognizes its obligation pursuant to Section 367.156, Florida Statutes, to protect proprietary confidential business information from disclosure outside the proceeding.

In the event it becomes necessary to use confidential information during the hearing, the following procedures will be observed:

- 1) Any party wishing to use any proprietary confidential business information, as that term is defined in Section 367.156, Florida Statutes, shall notify the Prehearing Officer and all parties of record by the time of the Prehearing Conference, or if not known at that time, no later than seven (7) days prior to the beginning of the hearing. The notice shall include a procedure to assure that the confidential nature of the information is preserved as required by statute.
- 2) Failure of any party to comply with 1) above shall be grounds to deny the party the opportunity to present evidence which is proprietary confidential business information.
- 3) When confidential information is used in the hearing, parties must have copies for the Commissioners, necessary staff, and the Court Reporter, in envelopes clearly marked with the nature of the contents. Any party wishing to examine the confidential material that is not subject to an order granting confidentiality shall be provided a copy in the same fashion as provided to the Commissioners, subject to execution of any appropriate protective agreement with the owner of the material.
- 4) Counsel and witnesses are cautioned to avoid verbalizing confidential information in such a way that would compromise the confidential information. Therefore, confidential information should be presented by written exhibit when reasonably possible to do so.
- 5) At the conclusion of that portion of the hearing that involves confidential information, all copies of confidential exhibits shall be returned to the proffering party. If a confidential exhibit has been admitted into evidence, the copy provided to

the Court Reporter shall be retained in the Commission Clerk's confidential files.

III. PREFILED TESTIMONY AND EXHIBITS

Testimony of all witnesses to be sponsored by 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 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.

IV. ORDER OF WITNESSES

<u>Witness</u>	<u>Appearing For</u>	<u>Issues #</u>
<u>Direct</u>		
Bert T. Phillips	Utility	37, 39
Forrest L. Ludsen	Utility	19, 34, 36, 41, 55, 56, 59
Scott W. Vierima	Utility	26, 27, 28, 29, 42, 43, 48
Charles K. Lewis	Utility	17, 18, 23, 35
William (Dave) Denny	Utility	1, 13, 30, 31, 32, 33

Rafael A. Terrero	Utility	1, 2, 3, 4, 13, 20, 22, 30
Gerald C. Hartman	Utility	5, 6, 7, 8, 9, 10, 11, 12, 14
Bruce E. Gangnon	Utility	15, 16, 24, 25, 37, 38, 50, 51
J. Patrick Parrish	OPC	5, 6, 7, 10
Victoria A. Montanaro	OPC	15, 16, 37, 38
Stephen A. Stewart	OPC	35
Kimberly H. Dismukes	OPC	2, 3, 4, 13, 19, 30, 31, 32, 33, 35, 40, 42, 43, 44, 45, 46, 47, 48, 49
James V. Grob*	Staff	
Robert D. Glenn*	Staff	
Robert Dodrill	Staff	21

Rebuttal

Bert T. Phillips	Utility	
Forrest L. Ludsen	Utility	
Scott W. Vierima	Utility	
William (Dave) Denny	Utility	
Rafael A. Terrero	Utility	
Gerald C. Hartman	Utility	
Bruce E. Gangnon	Utility	
Peter J. Neuwirth	Utility	37

John F. Guastella	Utility	35
Arend J. Sandbulte	Utility	
Charles L. Sweat	Utility	35, 58, 61
Judith J. Kimball	Utility	21, 40, 44, 46, 47, 49
Lisa A. Spinazzola	Utility	
Karla Olson Teasley	Utility	45

*The parties have stipulated that Mr. Grob and Mr. Glenn's testimony may be read into the record without the need for their presence at the hearing.

V. BASIC POSITIONS

UTILITY: Southern States' need for rate relief is reflected by its rates of return and return on equity for its water and wastewater systems during the historic base year and projected test year. Southern States experienced a negative return on equity of -3.8% for combined water and wastewater operations for the historic year ended April 30, 1992. Further, at present rates, Southern States would experience a negative return on equity for water and wastewater operations during the projected test year of -11.37% and -6.16%, respectively (-9.77% combined).

The need for rate relief has resulted, in principal part, from significant additional investments in water and wastewater facilities and increased operations and maintenance expenses which have been incurred since rate base and rates were last established for these systems in Docket No. 850851-WS. These increases in investment in water and wastewater facilities and increased operations and maintenance expenses have been prudently incurred to meet customer growth, comply with environmental regulations, and improve quality of service.

Marco Island is located in an area designated as a "critical water supply area" by the South Florida Water Management District. In 1989, the Commission approved

the transfer of ownership of Southern States' predecessor entity, Deltona Utilities, Inc., from the Deltona Corporation to Southern States' parent, Topeka Group, Inc. ("Topeka"). Due in large part to the capital infusion and credit support provided by Southern States' parent, Topeka, and Topeka's parent, Minnesota Power and Light Company, Southern States has been able to initiate and conclude significant capital investments necessary to ensure a long-term source of high quality water supply to its Marco Island customers and compliance with DER consent orders pertaining to water and wastewater facilities. Improvements also have been made on the operations side of the business which are consistent with the operations of a professional utility company that intends to provide water and wastewater service for the long-term -- as opposed to the operations practices of developer-owned systems which generally are subordinated to the developer's primary interests in maximizing profits from lot sales. In addition, consistent with the Commission's decision in Docket Nos. 911188-WS and 920199-WS, Southern States has allocated administrative and general expenses, general plant and customer service costs based on the number of Marco Island customers. As determined by the Commission in the aforesaid dockets, this proposed allocation based on number of customers is consistent with Commission policy and precedent and reasonable since each customer receives equal benefits from these services and would thus be asked to contribute equally to the cost.

For these reasons as well as those reflected in further detail in the MFRs and testimony and exhibits of Southern States' witnesses, Southern States maintains that the requested increase in Southern States' annual revenue requirements is justified and the rates proposed by Southern States are just, reasonable and necessary to permit Southern States the opportunity to earn its overall requested rate of return of 10.74%.

OPC: The rates proposed by Marco Island are excessive. The Company has overstated its rate base and projected operation and maintenance expenses and understated projected revenues.

BERGMANN: Marco Island Utilities recent investment in new facilities has failed to consider longer term needs and alternatives that may have provided better solutions. Longer term, it will be necessary to move most sewerage treatment and water processing facilities off the Island. Water sourcing will probably be entirely off the Island within ten years. Investments made in 1990, 1991 and 1992 were not part of a well constructed long range plan that considered value for the customers.

STAFF: 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. The information gathered through discovery and prefiled testimony indicates, at this point, that the utility is entitled to some level of increase. The specific level cannot be determined until the evidence presented at hearing is analyzed.

VI. ISSUES AND POSITIONS

QUALITY OF SERVICE

ISSUE 1: Is the quality of service satisfactory?

POSITIONS

UTILITY: The quality of service provided by Southern States is safe, efficient and sufficient. (Denny, Terrero)

OPC: No position pending customer testimony at hearing.

BERGMANN: No. No one drinks the water on Marco Island. Bad taste, poor color and much sediment in the water. Suspended solids are always present. The addition of the R.O. plant has made no improvement in water quality, in fact the quality is worse than it was before the R.O. plant was built. Samples collected by Collier County for the Goodland Water System (water purchased from SSU's Marco Island Utility) show the recent deterioration in quality.

STAFF: No position pending customer testimony at hearing.

RATE BASE

ISSUE 2: Should the proposed \$2,039,052 projected cost of the water transmission main be reduced?

POSITIONS

UTILITY: The Company agrees that there was a double count in the amount of \$1,300,064 in water rate base associated with the water transmission main. However, the adjustment should be offset by the additional investment of \$1,365,542 in the R.O. plant during the projected test year. (Torrero)

OPC: Yes. If the Commission finds the 24 inch raw water main to be 100% used-and-useful, then Company's adjustment is overstated due to the inclusion of this cost in the historical test year. The year-end cost of the projected transmission line should be reduced by \$1,677,116. The average cost should be reduced by \$838,558.

BERGMANN: Yes. It should not be allowed at all as it is not used-and-useful.

STAFF: Yes. A \$1,677,116 reduction is appropriate to correct a double-counting error and to show the revised estimate of completion costs.

ISSUE 3: Should the estimated cost to upgrade an effluent line be removed?

POSITIONS

UTILITY: The Company has delayed completion of the effluent line in order to achieve cost savings. The line will not be completed prior to the end of the projected test year. However, rate base should not be adjusted for the \$157,732 estimated cost to complete the project because this amount is more than offset by the additional investment of \$1,365,542 in the R.O. plant during the projected test year. (Torrero)

OPC: Yes.

BERGMANN: Yes.

STAFF: Yes.

ISSUE 4: Should the estimated cost to replace catwalks be removed?

POSITIONS

UTILITY: No adjustment is appropriate. On February 16, 1993, the Company signed a contract with Mitchell and Stark Construction, Inc. which requires the catwalk replacement to be substantially completed by April 27, 1993 -- prior to completion of the projected test year. The contract cost is \$141,200. (Torrero)

OPC: Yes.

BERGMANN: Yes.

STAFF: No, since it appears that completion will occur during the test year.

ISSUE 5: What is the appropriate method for calculating used-and-useful plant?

POSITIONS

UTILITY: The appropriate method for calculating use and useful plant is set forth in the F Schedules of Volumes I (projected test year) and II (historic base year using year end rate base) of the MFRs. The Company and OPC agree that it is appropriate to use the maximum day usage (after confirming that no unusual occurrences existed on the maximum day used). Contrary to OPC's suggestions, it is inappropriate and inconsistent with Commission precedent and the evidence of record to determine the percentage of used-and-useful water treatment plant on an individual plant (rather than combined) basis or to consider potential capacity of the R.O. plant beyond the capacity permitted by DER. (Hartman).

OPC: A percentage determined as the ratio of the used capacity to the rates/permitted capacity, with care being taken

that the used capacity and the rates capacity are being compared on the same terms.

BERGMANN: Agrees with OPC.

STAFF: The hydraulic method as shown in the MFRs is appropriate.

ISSUE 6: Should a margin reserve be included in the calculations of used-and-useful plant?

POSITIONS

UTILITY: Yes, the margin reserve provides recovery for the additional increment of plant necessary for the Company to meet its statutory obligation to have facilities available which are able to, meet the increased demands of existing customers and the demands of future customers who request service during the period of time factored into the margin reserve. The margin reserve promotes economies of scale and benefits existing and future customers. (Hartman)

OPC: No. A margin reserve should not be included in the calculations of used-and-useful plant. The capacity associated with margin reserve should be paid for by future customers, not present customers. (Parrish)

BERGMANN: Agrees with OPC.

STAFF: Yes, for both water and wastewater.

ISSUE 7: What is the appropriate method for calculating margin reserve and the applicable ERCs?

POSITIONS

UTILITY: The margin reserve should be eighteen months for water treatment plants and twelve months for water distribution and wastewater collection facilities. However, the margin reserve for wastewater treatment plants impacted by the regulatory requirements imposed under DER Rule 17-600.405, F.A.C., should be four (4) years. (Hartman)

OPC: Citizen's disagree with including a margin reserve in the calculation of used-and-useful. (Parrish)

BERGMANN: Agrees with OPC.

STAFF: The utility's projections of 200 water ERCs and 100 wastewater ERCs per year are appropriate.

ISSUE 8: What is the used-and-useful percentage for the water distribution systems?

POSITIONS

UTILITY: The water distribution system is 100% used-and-useful. (Hartman)

OPC: Can not quantify at this time, but utilization appears to be less than 100%.

BERGMANN: No margin reserve collected from present customers.

STAFF: The used-and-useful percentage for the water distribution systems is 100%.

ISSUE 9: What is the used-and-useful percentage for the wastewater collection systems?

POSITIONS

UTILITY: The wastewater collection system is 100% used-and-useful. (Hartman)

OPC: Can not quantify at this time, but utilization appears to be less than 100%.

BERGMANN: Unable to quantify but utilization appears to be less than 100 percent.

STAFF: The used-and-useful percentage for the wastewater collection systems is 100%.

ISSUE 10: What is the used-and-useful percentage for the water treatment facilities?

POSITIONS

UTILITY: The used-and-useful percentage for the water treatment facilities is 100%. (Hartman)

OPC: At 6 MGD the R.O. plant is 49.2% used-and-useful.

BERGMANN: Very difficult to tell the used-and-useful percentage of water treatment facilities because of the utility's option to switch treated water output from lime plant to newer R.O. plant. It appears that the lime plant is being utilized to a greater degree than the R.O. plant.

STAFF: The used-and-useful percentage for the water treatment facilities is 93%.

ISSUE 11: What is the used-and-useful percentage for the wastewater treatment facilities?

POSITIONS

UTILITY: The wastewater treatment facilities are 85.6% used-and-useful. (Hartman)

OPC: Agrees with Staff.

BERGMANN: Agrees with Staff.

STAFF: The used-and-useful percentage for the wastewater treatment facilities is 77%.

ISSUE 12: What is the used-and-useful percentage for the recently added 24 inch raw water main on SR951?

POSITIONS

UTILITY: The 24 inch raw water main is 100% used-and-useful. (Hartman)

OPC: The portion of the 24 inch line which is complete appears to be approximately 50% used-and-useful. However, the investment in the new 24 inch line should not be placed in rate base unless the old lines that ran parallel to the new line have been removed from rate base.

BERGMANN: About 50 percent due to the present state of completion. The twenty-four inch line still feeds back into the 12 inch and 14 inch lines before the system reaches Marco. It will not reach used-and-useful percentages over about 50 percent until the twenty-four inch portion of the line is completed to the Island in 1995 or 1996.

STAFF: The raw water main is 100% used-and-useful.

ISSUE 13: Should rate base be reduced to designate certain "future use" plant sites as non-used-and-useful properties?

POSITIONS

UTILITY: No. OPC proposes removal of a 160 acre tract from rate base on the ground that the land is held for future use. This proposed adjustment should be rejected. The land serves as an available site for disposal of lime sludge on an emergency basis. In addition, the land is currently being tested as a potential new source of raw water supply which will be necessary since the Company will need a new source of raw water for the lime softening water treatment plant after December 31, 1994. (Denny, Terrero)

OPC: Yes. Rate base should be reduced by \$265,109 for land (lime disposal site) currently not in use by the Company. (Dismukes)

BERGMANN: Agrees with OPC.

STAFF: Agrees with OPC.

ISSUE 14: If a margin reserve is included in the used-and-useful calculation, should CIAC be imputed as an offsetting measure?

POSITIONS

UTILITY: No. Margin reserve is required because Southern States has a duty to provide service to customers when they apply if it is economically feasible to do so. Imputation of CIAC against the margin reserve unfairly negatively impacts the Company by: (1) penalizing the Company for having required capacity available to serve the customer by taking away the right of the Company to earn a return on the investment; and, (2) assuming that the margin reserve is a one-time event and not an on-going requirement. When a customer connects, that margin reserve does not stop but in fact an additional investment of margin reserve is required for the next customer that may or may not connect in the future. Further, it is speculative as to whether or how many customers will connect and the level of CIAC at the time of connection. (Hartman)

OPC: Yes. If the Commission grants the Company a margin reserve, CIAC should be imputed on this margin reserve.

BERGMANN: Agrees with OPC.

STAFF: Yes. In accordance with Commission policy, CIAC should be imputed if the used-and-useful determination includes a margin reserve.

ISSUE 15: Should deferred income taxes related to post-retirement benefits be included in rate base?

POSITIONS

UTILITY: Yes. The Company is collecting through rates the OPEBs net of the deferred tax expense. Since there is no current tax deductible method to fund these benefits available to the Company, it is appropriate for the ratepayers to pay the carrying costs on those taxes. (Gangnon)

OPC: The company should continue to recognize the postretirement obligation on a pay as you go basis. In the alternative, if the SFAS 106 methodology is adopted for calculating postretirement benefits, a tax advantaged

trust should be used and any deferred tax effect included in this filing associated with the adoption of SFAS 106 should be reversed.

BERGMANN: Agrees with OPC.

STAFF: Yes, but the provision should be adjusted to agree with the allowed expense.

ISSUE 16: If the Commission adopts SFAS 106 for ratemaking purposes, should rate base be reduced by the unfunded liability for post-retirement benefits?

POSITIONS

UTILITY: The Company intends to fully fund its plan through the establishment of a grantor trust. The Company is in the process of drafting the appropriate documents necessary to establish the grantor trust and anticipates establishment of the grantor trust. (Gangnon)

OPC: Yes. Marco Island states they will fund the liability associated with the SFAS 106 method of calculating the postretirement obligation. The company plans to eliminate the liability from the balance sheet by funding a revokable non-taxable trust. Since a revokable trust has been selected, the liability should be treated as an unfunded liability. If it is the intent of the Commission to reduce rate base by the amount of the unfunded liability, then the final order should reflect that intent and outline how the increasing unfunded liability will reduce rate base in the future.

BERGMANN: Yes. SFAS 106 is an inappropriate method for measuring post-retirement benefits for ratemaking purposes. If, however, the Commission adopts this methodology, the amount of the unfunded liability should be reflected in the capital structure as a zero cost source of funds. If it is the intent of the Commission to reduce rate base by the amount of the unfunded liability, then the final order should reflect that intent and outline how the increasing unfunded liability will reduce rate base in the future.

STAFF: Yes. The unfunded liability should reduce rate base.

ISSUE 17: What is the appropriate method for calculating working capital?

POSITIONS

UTILITY: Working capital should be calculated pursuant to the formula method of one-eighth of O&M expenses in accordance with (1) the Commission's MFRs and Rule 25-30.437, F.A.C., requiring an applicant to provide the information required by the MFRs, and (2) Order Nos. 21202 and 21627 issued by the Commission on May 8, 1989 and July 8, 1989, respectively, which require the use of the one-eighth of O&M method (or risk forfeiture of alternative method). This has been the Commission's policy to date. Recently, the formula method for calculating working capital was approved by the Commission in Docket Nos. 911188-WS and 920199-WS. (Lewis)

OPC: The appropriate method for calculating working capital is the balance sheet approach.

BERGMANN: Agrees with OPC.

STAFF: The formula approach should be used.

ISSUE 18: What is the proper allowance for working capital?

POSITIONS

UTILITY: As indicated in the Company's response to Issue No. 19, the one-eighth O&M method of determining working capital is appropriate. The Company utilized this method in this proceeding. The working capital for water of \$357,661 and wastewater of \$100,797 reflected in MFR Schedules A-17(W) and A-17(S), respectively, is appropriate. (Lewis).

OPC: The proper allowance is \$0 in the absence of a properly conducted balance sheet approach.

BERGMANN: Agrees with OPC.

STAFF: The provision should equal 1/8 of test year operating and maintenance expenses.

ISSUE 19: Is an adjustment necessary to allocate a portion of the Company's general plant to its acquisition efforts?

POSITIONS

UTILITY: No. (Ludsen)

OPC: Yes. The Company's general plant should be reduced by \$6,148. The associated accumulated depreciation should be reduced by \$3,000 and depreciation expense should be reduced by \$575. (Dismukes)

BERGMANN: Agrees with OPC.

STAFF: No.

ISSUE 20: Should plant-in-service be reduced for excessive costs incurred during the construction of the R.O. plant?

POSITIONS

UTILITY: No. There were no excessive costs during the construction of the R.O. plant. (Torrero)

OPC: Yes. Plant-in-service should be reduced by \$2,022,429. Accumulated depreciation should be reduced by \$168,432. Depreciation expense should be reduced by \$168,432.

BERGMANN: Plant-in-service should be reduced by \$2,000,000 due to excessive costs apparently incurred in engineering, construction and purchase of major processing equipment and components. Construction costs of plant appear to double those of similar facilities on a unit of capacity basis.

STAFF: If excessive costs were incurred, their removal would be appropriate to the extent imprudence on the utility's part can be demonstrated.

ISSUE 21: What is the appropriate value of the 43 acres land used for the percolation ponds?

POSITIONS

UTILITY: The value of the 43 acre percolation pond site is \$220,855.00 as reflected in the MFRs. (Kimball)

OPC: The cost may be excessive. OPC is waiting for a response to discovery.

BERGMANN: Agrees with Staff.

STAFF: The appropriate value for the 43 acres is \$280,000. Marco Island's allocated portion is \$220,855.

ISSUE 22: Was it prudent for the utility to construct an R.O. plant on Marco Island.

POSITIONS

UTILITY: Yes, the decision to construct the R.O. plant was prudent. (Terrero)

OPC: There is a legitimate question concerning the prudence of constructing an R.O. plant on Marco Island. Final resolution of this issue will depend upon testimony at the hearing.

BERGMANN: The construction of the plant, particularly the supporting wellfields on Marco Island was not prudent. The wellfields provide a marginal level of water quality and are highly subject to serious salt water intrusion. Even the consulting hydrologist on the project expects the service life to be limited to seven years.

A much better quality of water is available in the Golden Gate Estates area of Collier County and this is where Collier County Utilities and the City of Naples currently

source water. There are many other location options even closer to Marco.

The utility within the next five to ten years will probably have to source all raw water needs off Marco Island. It appears that the R.O. plant was built without consideration of alternatives and longer range system construction planning.

STAFF: No position pending further development of the record.

ISSUE 23: What is the rate base amount?

POSITIONS

UTILITY: The water rate base is \$25,690,359 and the wastewater rate base is \$11,412,839 per MFR Schedules A-1(W) and A-2(S), respectively. (Lewis).

OPC: The final amount is subject to the resolution of other issues.

BERGMANN: The final amount is subject to the resolution of other issues.

STAFF: The final amount is subject to the resolution of other issues.

COST OF CAPITAL

ISSUE 24: What adjustment(s), if any, should be made to accumulated deferred income taxes?

POSITIONS

UTILITY: No adjustment to accumulated deferred income taxes as reflected in the MFRs is appropriate. (Gangnon).

OPC: The outcome of this issue is dependent upon the resolution of other issues.

BERGMANN: The outcome of this issue is dependent upon the resolution of other issues.

STAFF: The outcome of this issue is dependent upon the resolution of other issues.

ISSUE 25: What is the appropriate amount of investment tax credits to be included in the test year capital structure?

POSITIONS

UTILITY: \$2,410,038 as shown on Schedules D-1, D-2(W) and D-2(S), pages 0147 through 0149 of Volume I of the MFRs. (Gangnon).

OPC: The final dollar amount is subject to the resolution of other issues.

BERGMANN: The final dollar amount is subject to the resolution of other issues.

STAFF: The final dollar amount is subject to the resolution of other issues.

ISSUE 26: Should the cost of debt capital be adjusted to reflect a reduced interest rate for the 15.50% fixed rate on the Company's \$19,500,000 of long-term mortgage bonds?

POSITIONS

UTILITY: No. This issue was decided by the court in Marco Island Utilities v. Public Service Commission, 566 So.2d 1325 (Fla. 1st DCA 1990) and implemented by Order No. 23841 in Docket No. 850151-WS. These decisions were again confirmed recently in Docket No. 920199-WS. (Vierima)

OPC: Yes. This fixed rate is excessive and the Company's inability to refinance the debt was the result of Deltona Utilities, Inc.'s acceptance of a contractual restriction which only allowed refinancing at the option of the bondholders.

BERGMANN: Agrees with OPC.

STAFF: No. The cost of debt for the fixed rate long-term mortgage bonds should not be adjusted.

ISSUE 27: What should be the regulatory treatment of the recently issued Collier County industrial development bond?

POSITIONS

UTILITY: Adjust the Company's capital structure. (Vierima)

OPC: These bonds should be included in the Company's capital structure by first replacing the \$6,018,821 of additional financing shown on Schedule D-5. If the amount of the bonds are in excess of this amount, then the difference should be used to reduce the Company's projected equity. The bonds should be placed in the capital structure at the actual cost rate.

BERGMANN: Entire amount in capital structure at cost.

STAFF: No position pending further development of the record.

ISSUE 28: What is the appropriate cost rate to attach to debt borrowed from the Topeka Group?

POSITIONS

UTILITY: 10.50% per Schedule D-5 of the MFRs. (Vierima)

OPC: The appropriate cost rate is 9.185%.

BERGMANN: Agrees with OPC.

STAFF: No position pending further development of the record.

ISSUE 29: What is the appropriate overall cost of capital including the proper components, amounts, and cost rates associated with the capital structure?

POSITIONS

UTILITY: The final determination for the overall cost of capital is subject to the resolution of other issues. (Vierima)

OPC: The final determination for the overall cost of capital is subject to the resolution of other issues.

BERGMANN: The final determination for the overall cost of capital is subject to the resolution of other issues.

STAFF: The final determination for the overall cost of capital is subject to the resolution of other issues.

NET OPERATING INCOME

ISSUE 30: Should the requested \$964,520 pro forma provision for increased costs at the Reverse Osmosis plant be approved?

POSITIONS

UTILITY: Yes, the pro forma adjustment was based on normal operations of the R.O. plant (exclusive of deviations relating to start-up). Any adjustments made should reflect normal operations to avoid the necessity of immediate re-filing to recover such costs. The Company suspects a double-counting of proposed adjustments is indicated in Issues 37, 38, and 39. (Denny, Terrero)

OPC: No. The Company has overstated chemicals and purchased power expense by \$624,317. Salaries for an R.O. Operator should be reduced by \$30,000. (Dismukes)

BERGMANN: Agrees with OPC.

STAFF: The requested \$964,520 pro forma adjustment should be approved absent evidence that this projection is unreasonable.

ISSUE 31: What other adjustments are necessary to electrical costs?

POSITIONS

UTILITY: The Company's position is that it is appropriate for the Commission to consider all known and measurable increases and decreases in expenses and investment; however, it is not appropriate to consider only known and measurable downward adjustments which affect the Company's revenue

requirements. Accordingly, the Company maintains that it is appropriate to consider this anticipated reduction in electrical costs if it is known and measurable as long as the Commission also considers known and measurable increases in expenses and investment such as those incurred during the projected test year for the R.O. plant. (Denny).

OPC: Yes. Test year expenses should be reduced by \$20,000 to reflect projected savings in electrical costs. Test year expenses should be increased for the additional consumption projected by Mr. Stewart. (Dismukes)

BERGMANN: Agrees with OPC.

STAFF: Test year expenses should be reduced by \$20,000 to reflect projected savings in electrical costs.

ISSUE 32: What other adjustments are necessary to chemical expenses?

POSITIONS

UTILITY: The Company's position is that it is appropriate for the Commission to consider all known and measurable increases and decreases in expenses and investment; however, it is not appropriate to consider only known and measurable downward adjustments which affect the Company's revenue requirements. Accordingly, the Company maintains that it is appropriate to consider this anticipated reduction in chemical costs if it is known and measurable as long as the Commission also considers known and measurable increases in expenses and investment such as those incurred during the projected test year for the R.O. plant. (Denny).

OPC: Water chemical expenses should be reduced by \$16,872 to reflect projected savings associated with installing a new odor control system. Chemical expenses should also be increased consistent with increased consumption projected by Mr. Stewart. (Dismukes)

BERGMANN: Agrees with Staff.

STAFF: Water chemical expenses should be reduced by \$16,872 to reflect projected savings associated with installing a new odor control system.

ISSUE 33: Should sludge hauling expenses be reduced?

POSITIONS

UTILITY: No. The sludge hauling expenses of \$55,215 reflected in the MFRs are fully justified. Sludge hauling expenses have increased due to the Company's need to obtain an independent contractor for sludge hauling services to comply with DER rules. No adjustment to these expenses is appropriate. (Denny).

OPC: Yes. Sludge hauling expenses should be reduced by \$25,908. (Dismukes)

BERGMANN: Agrees with OPC.

STAFF: The test year expense for sludge hauling should be reduced if that expense is not representative.

ISSUE 34: What is the appropriate allowance for rate case expense?

POSITIONS

UTILITY: The rate case expense requested by the Company in this proceeding, including legal, accounting and engineering fees as well as mailing, copying and other costs, is \$151,712 per Schedule B-10 of Volume I of the MFRs. Recovery of the total amount of rate case expense requested by the Company, as adjusted for the amount of rate case expenses actually incurred, is justified and appropriate. (Ludsen)

OPC: Rate case expense is excessive.

BERGMANN: Rate case expense is excessive and there appears to be no prudent effort to control professional fees. Are all costs properly accounted for and do they duplicate any normal business expenses in clerical and support areas?

STAFF: The allowed provision for rate case expense should reflect actual payments and estimated completion costs to the extent they are reasonable and prudent.

ISSUE 35: Has the Company properly annualized test year revenues, and if not, what adjustments are appropriate?

POSITIONS

UTILITY: Yes, the Company has properly annualized test year revenues and no adjustments are justified or appropriate. (Sweat, Guastella, Lewis)

OPC: No. The Company has failed to weather normalize test year revenue. The Company has understated test year residential consumption by 362,139,000 gallons. (Stewart) Test year revenue should be increased as follows: (Dismukes and Stewart)

Effluent Sales	\$ 10,000
Normalized Residential Consumption	\$579,422
Marco Shores Billing Errors	\$ 11,000
Effluent Sales to R&B Lawn Service	\$ 1,206

BERGMANN: Agrees with OPC.

STAFF: Test year revenues should be increased to reflect revenues from R&B Lawn Service and any other unrecognized revenue adjustments.

ISSUE 36: Is an adjustment necessary to allocate a portion of the Company's administrative and general expenses and general plant depreciation expense to its acquisition efforts?

POSITIONS

UTILITY: No. (Ludsen)

OPC: Yes. The Company's administrative and general expenses should be reduced by \$2,537 and depreciation expenses should be reduced by \$575 to reflect an allocation to the Company's acquisition efforts. Any proforma adjustments

to the A&G and general plant depreciation should also reflect similar adjustments. (Dismukes)

BERGMANN: Agrees with OPC.

STAFF: No.

ISSUE 37: What is the appropriate expense for post-retirement benefits other than pensions for the test year?

POSITIONS

UTILITY: The Commission should approve the Company's request to recover \$67,274 in costs reflecting the Marco Island customers' allocated share of post-retirement benefits other than pensions ("OPEBs") for the test year. The Company has thoroughly analyzed the current level of OPEBs offered to employees and weighed its current substantive plan against alternative levels of OPEBs. The Company has concluded and maintains that the current level of OPEBs provided to its employees is necessary to attract and retain quality, experienced employees which in turn is necessary to maintain a high quality of service. The Company does not plan to reduce OPEBs to the level indicated in any of the alternative plans reflected in the actuarial study dated May 29, 1992. Further, the testimony of Company witness Mr. Neuwirth confirms that the level of OPEBs provided by the Company is conservative when compared with OPEBs offered by utilities in the State of Florida and throughout the nation. Indeed, the level of OPEBs provided by Southern States was lower than the eight Florida utilities analyzed by Mr. Neuwirth. In addition, based on the testimony of Company witnesses Mr. Gangnon and Mr. Neuwirth, the adjustments proposed by OPC witness Ms. Montanaro should be rejected. (Phillips, Gangnon, Neuwirth)

OPC: There are currently no employees of the Marco Island system receiving postretirement benefits. Therefore, no allowance should be given for postretirement benefits. However, if the Commission does adopt the SFAS 106 methodology for measuring the postretirement benefit,

then the appropriate expense would be \$13,940.
(Montanaro)

BERGMANN: Agrees with OPC.

STAFF: A reasonable allowance for OPEB expense calculated according to FAS 106 is appropriate.

ISSUE 38: If the Commission approves the accrual method for post-retirement benefits, should that portion of benefits related to construction be removed?

POSITIONS

UTILITY: Yes, the Company believes that the portion of OPEBs related to construction (18.02%) should be removed from expenses, capitalized, and recovered in rate base on an annualized basis. (Gangnon).

OPC: Agrees with Staff. (Montanaro)

BERGMANN: Agrees with Staff.

STAFF: Yes, the allowed provision should be reduced by 18.02% for construction related costs. This reduction should not be added to the rate base determination.

ISSUE 39: Should the Commission allow the utility's 5.00% increase to payroll expense, and, if not, what adjustments are appropriate?

POSITIONS

UTILITY: The 5% increase to payroll should be approved without adjustment. The Company's actual payroll increase was 5.2%. The increase did not consist of an across the board 5% increase but rather merit increases (evaluated on a case by case basis), step adjustments (lowest grade employee hired at below market salaries and gradually brought up to market levels), incentive adjustments (i.e., obtaining operator licenses or upgrading licenses) and education reimbursements. These adjustments contribute to the Company's ability to provide the

highest qualified, experienced, licensed workforce possible. There has been no prefiled testimony, pleading or other factual predicate identified to the Company which suggests that any portion of the 5% increase was unreasonable or imprudently made. Therefore, the Company has not had the opportunity to address and rebut any allegation in such regard. Finally, the Commission approved this increase in Docket Nos. 911188-WS and 920199-WS. (Phillips)

OPC: The Company has not justified this increase.

BERGMANN: The 5 percent increase in total pooled payroll expense should not be approved. It ensures an ongoing approval of increased staffing levels. Where are the economics of scale that the Utility says they can achieve while still providing superior service? A 5 percent pay increase for an individual employee may be reasonable but increasing the pooled salary level at a 5 percent annual rate is unreasonable. The pool increases should be limited to 2 percent to keep it less than the projected Consumer Price Index increase rate.

STAFF: A 4.59% increase is appropriate since it excludes the increment associated with executive bonuses. It appears that a provision for officer bonuses is already included in the test year.

ISSUE 40: Should common expenses be reduced to reflect projected savings due to consolidation or closing of customer service offices?

POSITIONS

UTILITY: This downward proforma adjustment is appropriate only if the Commission makes upward proforma adjustments for the new Marco Island office and the expense based on the dollars associated with correcting the capital versus expense treatment of health insurance premiums. As previously stated, if the Commission makes known and measurable adjustments, it must consider both downward and upward adjustments. Accordingly, reduction of common expenses to reflect projected savings due to consolidation or closing of customer service offices

should be accompanied by increases to common expenses of \$17,726 for the new Marco Island office (OPC agrees with this adjustment) and \$5,739 to properly expense health insurance premiums through the projected test year. (Kimball)

OPC: Yes. Test year expenses should be reduced by \$2,696. (Dismukes)

BERGMANN: Agrees with OPC.

STAFF: Yes, the adjustment should reflect the overall net reduction to expenses.

ISSUE 41: Should property taxes be reduced in relation to corresponding used-and-useful adjustments to plant?

POSITIONS

UTILITY: The only plant which is less than 100% used-and-useful is the wastewater treatment plant. The Company does not agree with any adjustment to property taxes based on allegations of a relationship to used-and-useful plant. If the Commission should disagree with the Company's used-and-useful evidence/position and finds that property taxes should be adjusted, any related adjustments to property taxes should reflect that Collier County only taxes 25% of the non-used-and-useful plant. (Ludsen)

OPC: Yes. There is no logical reason to require current ratepayers to pay property taxes on plant which is considered non-used-and-useful.

BERGMANN: Agrees with OPC.

STAFF: Yes. Consistent with the used-and-useful adjustment to plant, a corresponding reduction to property taxes is appropriate. Additionally, the reduction should be determined after the 25% adjustment factor is applied.

ISSUE 42: Should interest income earned on utility deposits made by Southern States be moved above the line for ratemaking purposes?

POSITIONS

UTILITY: No. (Vierima)

OPC: Yes. Unless the Commission utilizes the balance sheet approach to working capital and excludes these deposits from current assets, the interest income in the amount of \$1,400 should be moved above the line for ratemaking purposes. (Dismukes)

BERGMANN: Agrees with OPC.

STAFF: No.

ISSUE 43: Should interest income earned on customer deposits be moved above the line for ratemaking purposes?

POSITIONS

UTILITY: No. (Vierima)

OPC: Yes. Interest income in the amount of \$2,216 should be moved above the line. (Dismukes)

BERGMANN: Agrees with OPC.

STAFF: No.

ISSUE 44: Should an adjustment be made to reduce the Company's test year bad debt expense?

POSITIONS

UTILITY: No, per the testimony of Company witness Kimball. (Kimball)

OPC: Yes. Test year expenses should be reduced by \$3,349. (Dismukes)

BERGMANN: Agrees with OPC.

STAFF: Some adjustment is appropriate. The final amount is not yet determined.

ISSUE 45: Should an adjustment be made to reduce the Company's test year legal expenses?

POSITIONS

UTILITY: No, per the testimony of Company witness Teasley. (Teasley)

OPC: Yes. Test year expenses should be reduced by \$997 for legal costs associated with DER/EPA violations and by \$227 for legal costs associated with condemnation legislation. (Dismukes)

BERGMANN: Agrees with OPC.

STAFF: No.

ISSUE 46: Should an adjustment be made to salaries related to gas promotional employees?

POSITIONS

UTILITY: No. (Kimball)

OPC: Yes. Test year expenses should be reduced by \$3,126. (Dismukes)

BERGMANN: Agrees with OPC.

STAFF: Payroll costs that are incurred to promote the gas business should be charged to that division.

ISSUE 47: Should an adjustment be made to remove expenses associated with MPL Organizational Development charges?

POSITIONS

UTILITY: No. (Kimball)

OPC: Yes. Test year expenses should be reduced by \$599 for MPL Organizational Development charges. (Dismukes)

BERGMANN: Agrees with OPC.

STAFF: Some adjustment is appropriate. The final amount is not yet determined.

ISSUE 48: Is an adjustment necessary for expenses charged to the Company by the Topeka Group, Inc. and Minnesota Power and Light Company?

POSITIONS

UTILITY: No. (Vierima)

OPC: Yes. An adjustment is necessary to remove costs that have been allocated to Marco from MPL in the amount of \$5,243. (Dismukes)

BERGMANN: Agrees with OPC.

STAFF: No.

ISSUE 49: Is an adjustment necessary to remove abnormal repair expense?

POSITIONS

UTILITY: No. (Kimball)

OPC: Yes. These expenses should be amortized over four years. Test year expenses should be reduced by \$9,920. (Dismukes)

BERGMANN: Agrees with OPC.

STAFF: Initial review indicates that the disputed repair is neither material nor abnormal.

ISSUE 50: Is an ITC interest synchronization adjustment appropriate, and, if so, what is the proper amount?

POSITIONS

UTILITY: The Company realizes that it is past Commission practice to make this adjustment. However, the Company does not believe that such an adjustment is proper because, in actuality, there is no interest expense associated with ITCs. Therefore, the Company is unable to deduct such phantom interest expense for IRS tax purposes. (Gangnon)

OPC: Yes. The amount depends on the resolution of other issues.

BERGMANN: No opinion.

STAFF: An interest synchronization adjustment is appropriate but the amount depends on resolution of other issues.

ISSUE 51: Is a parent debt adjustment appropriate, and, if so, what is the proper amount?

POSITIONS

UTILITY: The Company has included the parent-debt adjustment in the calculation of income tax expense on Schedule B-16(W), page 0088 and Schedule B-17(S), page 0118 of the MFRs. Thus, no adjustment is appropriate. (Gangnon)

OPC: Yes. The parent debt adjustment is appropriate and should be applied to the test year adjusted rate base.

BERGMANN: Agrees with OPC.

STAFF: A parent debt adjustment is appropriate, but the final amount is subject to the resolution of other issues.

ISSUE 52: What is the appropriate provision for test year income taxes?

POSITIONS

UTILITY: The final amount is subject to the resolution of other issues.

OPC: The final amount is subject to the resolution of other issues.

BERGMANN: Agrees with Staff.

STAFF: The final amount is subject to the resolution of other issues.

ISSUE 53: What is the adjusted operating income amount before any revenue increase?

POSITIONS

UTILITY: The final amount is subject to the resolution of other issues.

OPC: The final amount is subject to the resolution of other issues.

BERGMANN: The final amount is subject to the resolution of other issues.

STAFF: The final amount is subject to the resolution of other issues.

REVENUE REQUIREMENT

ISSUE 54: What are the revenue requirements?

POSITIONS

UTILITY: The Company's revenue requirements are \$8,571,656 for water and \$3,343,777 for wastewater.

OPC: The final amount is subject to the resolution of other issues.

BERGMANN: The final amount is subject to the resolution of other issues.

STAFF: The final amount is subject to the resolution of other issues.

RATES

ISSUE 55: Should special rates be authorized for the bulk water service customer, Marco Shores, an affiliate of Marco Island which provides water service to a separate service area?

POSITIONS

UTILITY: The Company does not believe an adjustment is appropriate at this time. (Ludsen)

OPC: Same as Staff.

BERGMANN: Agrees with Staff.

STAFF: Marco Shores rates should be set at a level that allows for recovery of Marco Island's cost of providing service.

ISSUE 56: Should Marco Island's rates be set on a stand-alone basis in light of the recent Commission decision in Docket No. 920199-WS granting statewide rates to 127 systems of Southern States Utilities, Inc.?

POSITIONS

UTILITY: Yes, the rates should be stand-alone for this proceeding. (Ludsen)

OPC: No position.

BERGMANN: The Commission has awarded a statewide rate for Southern States Utilities. The Company has the burden of proof to establish why this rate is inappropriate for its Marco Island systems.

STAFF: Yes. Rates should be set on a stand-alone basis.

ISSUE 57: What final rates should be authorized?

POSITIONS

UTILITY: The determination of final rates is subject to the resolution of other issues.

OPC: The determination of final rates is subject to the resolution of other issues.

BERGMANN: The determination of final rates is subject to the resolution of other issues.

STAFF: The determination of final rates is subject to the resolution of other issues.

ISSUE 58: What are the appropriate rates for the sale of treated effluent?

POSITIONS

UTILITY: The Company's current authorized rate of \$.25 per 1,000 gallons of reclaimed water is appropriate. The Commission should continue to recognize that agreements for the sale of treated effluent must be approached on an individual, case-by-case basis. No evidence has been submitted which would justify an imputation of revenues based on the Company's existing agreements with the Island County Club, Inc., Marco Shores Country Club and R&B Lawn Service. (Sweet)

OPC: The Company has not demonstrated that \$.25 per 1,000 gallons is reasonable.

BERGMANN: The Utility should do everything possible to reduce use of potable water for irrigation purposes on Marco Island. The \$.25 per thousand gallons for effluent used on Marco seems reasonable. If anything the rate for new users on Marco that would replace potable water now used for irrigation with wastewater treatment plant effluent should be even more attractive.

STAFF: The currently authorized rate of \$.25 per 1,000 gallons should be continued for all current customers. Additionally, a flow meter should be installed at the treatment plant for customers who obtain the treated effluent directly from the treatment plant site.

ISSUE 59: 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?

POSITIONS

UTILITY: The Company believes the rate relief requested is justified. Therefore, no refund of interim rates is expected since the proposed final rates exceed the interim rates authorized by the Commission. (Ludsen)

OPC: The final amount is dependent upon the resolution of other issues.

BERGMANN: The determination of the appropriate amount of refund, if any, is subject to the resolution of other issues.

STAFF: The determination of the appropriate amount of refund, if any, is subject to the resolution of other issues.

ISSUE 60: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, Florida Statutes?

POSITIONS

UTILITY: The final amount is dependent upon the resolution of other issues.

OPC: No position at this time.

BERGMANN: Agrees with Staff.

STAFF: The determination of the appropriate amount by which to reduce rates after four years is subject to the resolution of other issues.

OTHER

ISSUE 61: Is the utility taking adequate steps to reduce the need for potable water for irrigation purposes?

POSITIONS

UTILITY: Yes. (Sweat)

OPC: No.

BERGMANN: No. The Utility has made no significant effort to reduce use of potable water for irrigation purposes. In fact the use of potable water for lawn sprinkling, swimming pools and other irrigation has probably increased as a percentage of water used in the past several years.

Key Areas:

1. No effort to educate users with defined and specific programs to conserve potable water.
2. No rate structure adjustments to promote the conservation of potable water for non human use.
3. No effort to maximize use of wastewater treatment plant effluent for commercial and residential irrigation on Marco Island.
4. No dialogue with Island civic organizations to develop programs for potable water conservation.

STAFF: Yes. The utility's Five Year Water Conservation Program for Marco Island is adequate in this regard. The utility has a conservation program which educates customers and provides presentation to local organizations. Additionally, treated effluent issued for irrigation purposes for 2 golf courses and a lawn service business.

VII. EXHIBIT LIST

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
Bert Phillips	Utility	BTP-1	Water Utility Benchmarks Revised - <u>Standard &</u> <u>P o o r ' s</u>

Credit week
dated June 15,
1992

Forrest Ludsen	Utility	FLL-1	Financial, Rate and Engineering Minimum Filing Requirements of Southern States Utilities, Inc. (Previously filed with the Commission and All Parties)
	Utility	FLL-2	Supplemental Information Supplied by Southern States on September 9, 1992 to Comply with the Commission's Minimum Filing Requirements (Previously filed with the Commission and All Parties)
	Utility	FLL-3	Descriptions of the Duties and Responsibilities of the Administrative and General Departments of Southern States
Scott W. Vierima	Utility	SWV-1	Sample of 1991 Bank Rejection Letters and Chronology of Financing Events

Utility	SWV-2	Estimated Average Cost incurred by SSU in utilizing Minnesota Power professional staff
Utility	SWV-3	List of specific documents provided to OPC in this docket and Docket No. 920199-WS concerning apportioned D&O and excess liability insurance costs for SSU
Utility	SWV-4	Composite Schedule Apportionment of specific amounts paid and methodologies employed for directors and officers and excess liability insurance premiums
Staff	SWV-5	Staff Interrogatories 1, 8, 9, and 10
Staff	SWV-6	Updated Schedules D-4, D-5, & D-6

Rafael A. Terrero	Utility	RAT-1	Summary of Major Marco Island Water and Wastewater System Improvements
	Utility	RAT-2	SFWMD Approval of R/O Plant Construction
	Utility	RAT-3	Costs of Reverse Osmosis Plant and Related Facilities Construction
	Utility	RAT-3A	Schedule of Water Plant and Sewer Plant-in-service by Primary Account
	Utility	RAT-4	Copies of Each Contract and Change Order Associated with Reverse Osmosis Plant
	Utility	RAT-4A	Staff Memoranda Dated December 8, 1988 and June 21, 1989 in Docket No. 870648-WS
	Utility	RAT-5	Capital Budget of Deltona Utilities, Inc.
Gerald C. Hartman	Utility	GCH-1	Florida Public Service

		Commission Methodology for Determining the Average Service Life for R.O. Permeators
Utility	GCH-2	Letter from Palm Coast Utilities Corporation
Utility	GCH-3	Excerpt from Chapter 17-600, F . A . C . , Specifically Section 17- 600.405, F.A.C.
Utility	GCH-4	Memorandum of Understanding Between Florida Department of Environmental Regulation and Florida Public Service Commission
Utility	GCH-5	Excerpt from Chapter 17-610, F . A . C . , Specifically Section 17- 610.462, F.A.C.
Utility	GCH-6	Excerpt from EPA Manual MCD- 05 "Design Criteria for Mechanical, Electric, and Fluid System and Component Reliability"

	Utility	GCH-7	Summary of R.O. and lime softening treatment production for the month of December 1992
	Utility	GCH-8	Staff memorandum dated 11/14/82
	Utility	GCH-9	Late-filed Exhibit No. 5 of the Deposition of Gerald C. Hartman, P.E., entitled Collier County Fire Flow Ordinance
Peter J. Neuwirth	Utility	PJN-1	Actuarial Valuation of the Retiree Health and Death Benefits Provided by the SSU Services, Inc. dated January 28, 1992
	Utility	PJN-2	Retiree Medical Plan Comparison
John F. Guastella	Utility	JFG-1	Daily rainfall records for Marco Island for 1981-1982
	Utility	JFG-2	Page 10 from Technical Publication 91-

			02 of the South Florida Water Management District
	Utility	JFG-3	Two Charts showing discrepancies in data used by Mr. Stewart and data provided to SSU by SFWMD
Charles L. Sweat	Utility	CLS-1	Recent Articles on Water Supply Problems
	Utility	CLS-2	Marco Island Conservation Plan (draft)
Judith J. Kimball	Utility	JJK-1	Appendix 18-B to Response to O P C Interrogatory 18 and revised Appendix 18-B to revise response to OPC Interrogatory 18
	Utility	JJK-2	Response to OPC Interrogatory 137
Lisa A. Spinazzola	Utility	LAS-1	Newspaper articles on water shortage and conservation issues
	Utility	LAS-2	SSU Water Conservation

		Plan Program Handbook
Utility	LAS-3	1991-1993 Schedules, Generic Conservation Speech, and Sample Handouts
Utility	LAS-4	SSU Quarterly Newsletter
Utility	LAS-5	Samples of Business Reply Cards and Letters
Utility	LAS-6	List of 4-H groups receiving grants, program summaries, and newspaper articles
Utility	LAS-7	Copies of Letter and Awards to SSU for its conservation programs
Utility	LAS-8	Example of Water Information and Conservation Education Advertisements
Utility	LAS-9	SSU News Releases on Water Conservation

Bruce E. Gangnon	Staff	BEG-1	S t a f f Interrogatory no. 29
	Staff	BEG-2	Late-filed exhibits nos. 1, 3-10, from Gangnon 9/3/92 deposition
	Staff	BEG-3	Late-filed exhibits nos. 1-11, from Gangnon 2/1/93 deposition
Victoria Montanaro	OPC	Ex. 1	Summary of SFAS 106 Adjustments
	OPC	Ex. 2	Actuarial Valuation of Current and Alternative Retiree Health Benefits-SSU Services Inc.
	OPC	Ex. 3	Pension Plan for Employees SSU Services, Inc. Summary of Participant Data
	OPC	Ex. 4	January 31, 1992 Memo Re: Retiree Health and Death Benefits
	Staff	VAM-5	<u>Tallahassee</u> <u>Democrat</u> article dated September 27, 1992 (attached

			to Montanaro's 1 0 / 2 7 / 9 2 deposition) in Docket No. 920199-WS
	Staff	VAM-6	<u>Wall Street</u> <u>Journal</u> article dated August 1 8 , 1 9 9 2 (attached to Montanaro's 1 0 / 2 7 / 9 2 deposition)
Stephen A. Stewart	OPC	SAS-1	Consisting of two schedules.
Kimberly Dismukes	OPC	KHD-1	Consisting of seven schedules and Exhibit (K H D - 2) consisting of e i g h t schedules.
Robert Dodrill	Staff	Ex. 1	Audit Report
James V. Grob	Staff	Ex. 1	Consent Order No. 91-1537

Parties and Staff reserve the right to identify additional exhibits for the purpose of cross-examination. Staff intends to request administrative notice of SFAS 106, along with the following Orders:

Order No. PSC-93-0301-FOF-WS, issued February 25, 1993.

Order No. PSC-92-0708-FOF-TL, issued July 24, 1992

Order No. PSC-92-1197-FOF-EI, issued October 22, 1992

Order No. PSC-93-0108-FOF-TL, issued January 21, 1993

Order No. PSC-93-0165-FOF-EI, issued February 2, 1993

Order No. 23660, issued October 24, 1990

Order No. PSC-92-0594-FOF-SU, issued July 1, 1992

Staff also intends to request administrative notice of the Commission's decision in Docket No. 920199-WS (Southern States).

VIII. PROPOSED STIPULATIONS

CATEGORY A

The parties agree to the final resolution, including all requests for reconsideration and appeals of the Commission's decision in Docket No. 920199-WS on the following issues:

1. In consideration of the gain associated with sale of the St. Augustine Shores system, test year expenses for Marco Island should be reduced by \$11,722 for water and \$2,755 for wastewater. Further, OPC agrees to withdraw its proposed adjustment for the removal of dollars associated with the gain from the equity portion of the Utility's capital structure. Based on this stipulation, the Utility withdraws the following portions of Mr. Sandbulte's rebuttal testimony: page 4, line 9 beginning with the word "First" through line 13 ending with the word "structure"; page 4, line 20 through page 6, line 1; and page 6, line 18 through page 9, line 5. Based on this stipulation, OPC withdraws the following portions of Ms. Dismukes' testimony: page 2, line 2 beginning with the word "In" through page 3, line 1 ending with the word "Shores"; page 25, line 17 through page 26, line 13; and OPC agrees that Ms. Dismukes' Exhibit (KHD) 1, Schedule 7 is modified to be consistent with this stipulation.
2. General plant should be allocated based on the number of customers. Administrative and general expenses should be allocated based on the number of customers. Based on this stipulation, the Utility agrees to withdraw page 8, line 10 through page 14, line 18 of Mr. Ludsen's direct testimony and page 1, line 4 through page 9, line 13 of Mr. Ludsen's rebuttal testimony. Based on this stipulation, OPC agrees to withdraw the following portions of Ms. Dismukes' testimony: page 2, line 19 beginning with the word "In" through line 21

ending with the word "Island"; page 4, line 14 through page 17, line 21; page 22, line 21 through page 24, line 1; and Schedules 2 and 3 to Exhibit (KHD) ___1.

3. No adjustment is necessary for the Price Waterhouse study regarding the Employee Saving Plan.

CATEGORY B

Those stipulations where OPC, Mr. Bergmann, the utility, and Staff agreed are set forth below:

1. The rate base provision for deferred income taxes should be reduced to the extent prepaid amounts (debit accounts) correspond to interim rates from Docket No. 900329-WS which are to be refunded.
2. Test year revenues should be adjusted to reflect the authorized rates prior to Docket No. 900329-WS.
3. Test year expenses should be reduced by \$2,024 to reflect above-the-line treatment for vendor discounts.
4. The cost of debt capital should be adjusted to reflect the change in interest rates as of the time of the hearing for variable-cost debt components.
5. Implementation of FAS 109 should be revenue neutral.
6. The test year provision for merger costs should be amortized over 5 years for a \$380 (\$477 x 80%) reduction to expenses.
7. Test year expenses should be reduced by \$24 to remove charitable contributions.
8. Test year expenses should be reduced by \$163 to remove chamber of commerce dues and other public relations expenses from the test year.
9. Gas advertising expenses should be reduced as follows:

Gas Promotional	\$388
Condemnation Expenses	\$ 67
Lehigh Promotional	\$ 19

Lehigh Rate Case	\$ 12
Public Relations	\$ 89
Not Supported	\$ 13

10. Test year expenses should be reduced as follows:

Drinking Water Analysis	\$2,895
Write-Off Variance in General Ledger	\$3,484
Reconciliation Adjustment	\$ 167
1990 Accounts Payable Write-Off	\$ (19)
Write-Off Deferred Rip-Rap	\$4,435

11. Test year expenses should be reduced by \$3,316 to reflect an over accrual of materials and supplies.
12. The utility should file a service availability case for the Marco Island systems within two years.
13. The AFPI rate should be adjusted to conform with the approved cost of capital, the used-and-useful reduction to net plant, the used-and-useful adjustment to property taxes, and all other used-and-useful corrections.
14. If the Commission approves the accrual method for post-retirement benefits, expenses should be reduced by \$2,987.
15. Depreciation expense should be reduced by \$7,500 to reflect retirement of percolation ponds. Since this is a normal retirement, plant-in-service and accumulated depreciation should each be reduced by \$135,000.
16. Test year expenses should be reduced by \$199 to remove a duplicate payment to Minnesota Power and Light for intangible taxes.
17. The AFUDC rate (Allowance for Funds Used During Construction) should conform to the authorized cost of capital.
18. The appropriate cost rate for the deferred investment tax credits is the weighted cost rate of short-term debt, long-term debt, common stock and preferred stock shown on Schedule D of the MFRs because the Company has made a valid election under Section 46(f)(2) of the Internal Revenue Code (IRC).

19. Plant-in-service should be increased by \$900 for the R.O. Clearing Test which was expensed and should have been capitalized and by \$3,460 for the rebuilding of a lime sludge pump, which was expensed and should have been capitalized.
20. Test year expenses should be reduced by \$900 for the R.O. Clearing Test which was expensed and should have been capitalized and by \$3,460 for the rebuilding of a lime sludge pump which was expensed and should have been capitalized.

CATEGORY C

Those stipulations where the utility and Staff agreed, but none of the other parties took positions or participated in the stipulations are set forth below:

1. Private fire protection rates should be equivalent to 1/3 the approved base facility charges for comparable meter sizes of 4" and above for fire hydrants and 2" and above for sprinkler systems.
2. The wastewater gallonage charge should be calculated based on the assumption that 80% of water sold to residential customers, 96% of water sold to general service customers, and 100% of water sold to bulk wastewater service customers is returned to the wastewater system.
3. The cap for residential wastewater service should be approved at 10,000 gallons.
4. The new final rates should be effective for services rendered on or after the stamped approval date of the tariff sheets. The utility should be allowed to prorate the customer bills so that the rates become effective on the same day for all customers.
5. The cost of equity should be set using the leverage formula in effect at the time of the Agenda Conference for the final order in this case. The range for the cost of equity should be plus or minus 100 basis points.

X. PENDING MOTIONS

1. Motion to File Supplemental Testimony filed by OPC.

2. Motion to Compel filed by OPC.

XII. POST-HEARING PROCEDURE

Rule 25-22.056(3)(a), Florida Administrative Code, requires each party to file a post-hearing statement of issues and positions. You must include in that statement, a summary of each position of no more than 50 words, marked with an asterisk. In the absence of the summary statement, the prehearing position on that issue will be used in the staff recommendation. The rule also provides that any issue or position not included in the post-hearing statement is considered waived. If a party's position has not changed since the prehearing order was issued, the post-hearing statement can simply restate the prehearing position.

All post-hearing memoranda, including findings of fact, conclusions of law, statement of issues and positions, and briefs, shall total no more than 50 pages, and shall be filed simultaneously. Arguments in briefs must be identified by issue number. Proposed findings of fact and conclusions of law are not required. However, if proposed findings of fact are submitted, each one must cite to the record, identifying transcript page and line. All proposed findings of fact which relate to a particular issue shall be grouped together and shall identify the issue number to which they relate. Each proposed finding of fact shall be separately and consecutively numbered. Any written statement which is not clearly designated as a proposed finding of fact shall be considered to be legal argument rather than a proposed finding of fact.

Based upon the foregoing, it is,

ORDERED by Commissioner Susan F. Clark, 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 Susan F. Clark, as Prehearing Officer, this 4th day of March, 1993.



Susan F. Clark, Commissioner
and Prehearing Officer

(S E A L)
LAJ

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by this order, which is preliminary, procedural or intermediate in nature, may request: 1) reconsideration within 10 days pursuant to Rule 25-22.038(2), Florida Administrative Code, if issued by a Prehearing Officer; 2) reconsideration within 15 days pursuant to Rule 25-22.060, Florida Administrative Code, if issued by the Commission; or 3) judicial review by the Florida Supreme Court, in the case of an electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or wastewater utility. A motion for reconsideration shall be filed with the Director, Division of Records and Reporting, in the form prescribed by Rule 25-22.060, Florida Administrative Code. Judicial review of a preliminary, procedural or intermediate ruling or order is available if review of the final action will not provide an adequate remedy. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.