

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application of SOUTHERN STATES)	DOCKET NO. 880520-WS
UTILITIES, INC. for a rate increase)	ORDER NO. 20770
in Marion County.)	ISSUED: 2-17-89

Pursuant to Notice, a Prehearing Conference was held on February 10, 1989, in Tallahassee, before Commissioner Gerald L. Gunter, as Prehearing Officer.

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 Southern States Utilities, Inc.

CHARLES J. REHWINKEL, Esquire, Associate Public Counsel, The Office of Public Counsel, c/o The Florida House of Representatives, The Capitol, Tallahassee, Florida 32399-1300
On behalf of the Citizens

ROBERT J. PIERSON, Esquire, Florida Public Service Commission, 101 East Gaines Street, Tallahassee, Florida 32399-0850
On behalf of the Commission Staff

PRENTICE P. PRUITT, Esquire, Florida Public Service Commission, 101 East Gaines Street, Tallahassee, Florida 32399-0850,
Counsel to the Commission

PREHEARING ORDERBACKGROUND

On September 1, 1988, Southern States Utilities, Inc. (Southern States or utility) completed 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 docket is the projected twelve-month period ending December 31, 1988.

The utility has requested final revenues which are designed to produce the following increase or decrease over projected 1988 test year revenues.

	<u>TOTAL</u>	<u>INCREASE OR (DECREASE) AMOUNT</u>	<u>INCREASE OR (DECREASE) PERCENTAGE</u>
<u>WATER</u>			
CITRUS PARK/ SALT SPRINGS	\$ 85,463	\$ 7,639	9.82
<u>SEWER</u>			
SOUTH FORTY	\$ 57,518	(\$19,859)	(25.67)
SALT SPRINGS	\$ 47,557	(\$ 3,367)	(6.61)
CITRUS PARK	\$115,217	\$76,805	199.95

DOCUMENT NUMBER-DATE

01799 FEB 17 1989

FPSC-RECORDS/REPORTING

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By Order No. 20236, issued October 31, 1988, the Commission suspended the utility's proposed rates and granted interim rates subject to refund.

A formal hearing on Southern States' application for increased rates is currently scheduled to be held on February 23 and 24, 1989, in the utility's service area.

PREFILED TESTIMONY AND EXHIBITS

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

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

ORDER OF WITNESSES

<u>Direct</u>	<u>Appearing For</u>	<u>Issues</u>
C. W. Sheffield	Southern States	1
Charles K. Lewis	Southern States	1, 2, 3, 4, 5, 9, 11, 12, 15, 19, 20, 21, 22
Charles L. Sweat	Southern States	15
William A. Becker	Southern States	2, 3, 8
Richard L. Johnson, Jr.	Southern States	1
James T. Deason	OPC	13, 14, 18
Harry De Meza	OPC	3, 14
Gary P. Miller	Staff	1
William E. Darling	Staff	1
Mark A. Cicchetti	Staff	5
<u>Rebuttal</u>		
John F. Guastella	Southern States	5, 15, 18
William A. Becker	Southern States	2, 3, 16, 17

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BASIC POSITIONS

UTILITY: Southern States Utilities, Inc. basic position is that it should be granted the rate increase requested in Marion County in order to have an opportunity to earn a fair and reasonable rate of return.

OPC: OPC's basic position is that Southern States should not be entitled to recover more than its investment in Southern States' Marion County systems (purchase price) plus its actual honest and prudent investment in additions to the purchase price cost of its investment. In addition, the Commission should not grant Southern States rates based on more than its total actual investment in plant used and useful in providing utility service to its customers.

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

ISSUES AND POSITIONS

Quality of Service

1. ISSUE: Is the quality of service satisfactory?

POSITIONS

SOUTHERN STATES: Yes. (Sweat, Johnson and Sheffield)

OPC: No position at this time. Customer testimony must be considered.

STAFF: No position at this time. Customer testimony must be considered. (Miller, Darling)

Rate Base

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

POSITIONS

SOUTHERN STATES: The plant and system is 100 percent used and useful. However, should the Commission determine that the used and useful percentage is less than 100 percent, a 15 percent margin of reserve should be added. (Lewis, Becker)

OPC: No.

STAFF: Yes, based upon the average number of customers in equivalent residential connections (ERCs), the average yearly customer growth in ERCs for the most recent five-year period and the construction time necessary for additional capacity.

3. ISSUE: What used and useful adjustments should be made to plant?

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POSITIONS

SOUTHERN STATES: No adjustments are appropriate. All plant is 100 percent used and useful. (Lewis, Becker)

OPC: The following are the appropriate used and useful percentages: (De Meza)

Citrus Park Water	24.6 percent
Citrus Park Sewer	34.6 percent
South Forty Water	40.0 percent
South Forty Sewer	70.2 percent
Salt Springs Water (current)	57.8 percent
Salt Springs Water (future)	15.8 percent
Salt Spring Sewer	37.8 percent

STAFF: The Salt Springs water treatment plant is 61 percent used and useful. The Salt Springs wastewater treatment plant is 45 percent used and useful. All remaining plant appears to be 100 percent used and useful.

4. ISSUE: Should the projected plant additions for the Salt Springs water system and the South Forty sewer system be included in plant-in-service?

POSITIONS

SOUTHERN STATES: Yes. (Lewis)

OPC: No, these plant additions were not completed at the end of the test year. Therefore, plant-in-service should be reduced by \$40,087 for the Salt Springs water system and by \$47,400 for the South Forty sewer system.

STAFF: No, these plant additions were not completed at the end of the test year. Therefore, plant-in-service should be reduced by \$40,087 for the Salt Springs water system and by \$47,400 for the South Forty sewer system.

5. ISSUE: Should the projected plant additions for the Salt Springs water system and the South Forty sewer system be included in CWIP?

POSITIONS

SOUTHERN STATES: Yes, if the plant additions are not included in plant-in-service. (Lewis, Guastella)

OPC: OPC will take no position on this issue.

STAFF: Yes, CWIP in the amounts of \$50,697 for the Salt Springs water system and \$33,744 for the South Forty Sewer system should be included in rate base. (Cicchetti)

6. ISSUE: Should the Citrus Park sewer land account be adjusted by \$26,763 to remove the thirteen-month average balance of capitalized interest?

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POSITIONS

SOUTHERN STATES: No position at this time.

OPC: Yes.

STAFF: Yes, although the utility should be allowed to capitalize interest on the Citrus Park sewer land, the interest should be reflected in Account 380, Treatment and Disposal Equipment. Further, interest should be capitalized only for the period that construction activities were in progress to get the land ready for its intended use.

7. ISSUE: Should the thirteen-month average balance of interest capitalized on the utility's construction projects, \$45,834 for the Citrus Park sewer system, \$3,196 for the Salt Springs water system and \$1,938 for the South Forty sewer system be allowed in rate base?

POSITIONS

SOUTHERN STATES: No position at this time.

OPC: No. Since the Citrus Park sewer additions were placed in service in January of 1987, capitalized interest or AFUDC of \$69,533.09 should not be allowed.

STAFF: Yes, however, the utility should be penalized one-hundred basis points on the cost of debt, the rate at which interest was capitalized, for failure to comply with Rule 25-30.116, Florida Administrative Code. Further, interest capitalized during the test year should be excluded from the CWIP balances for the Salt Springs water system and the South Forty sewer system.

8. ISSUE: Should the \$30,340 wastewater pre-treatment facility installed to serve a laundromat on the Salt Springs sewer system be excluded from rate base?

POSITIONS

SOUTHERN STATES: No. (Becker)

OPC: Yes.

STAFF: Yes.

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

POSITIONS

SOUTHERN STATES: The appropriate levels of utility plant-in-service are as follows: (Lewis)

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WATER

Thirteen-Month Average (1987)

<u>Salt Springs</u>	<u>Citrus Park</u>	<u>Total County</u>
\$117,007	\$170,547	\$287,554

Thirteen-Month Average (1988)

<u>Salt Springs</u>	<u>Citrus Park</u>	<u>Total County</u>
\$182,323	\$177,266	\$359,589

SEWER

Thirteen-Month Average (1987)

<u>So. Forty</u>	<u>Salt Springs</u>	<u>Citrus Park</u>	<u>Total County</u>
\$196,608	\$258,764	\$215,795	\$671,167

Thirteen-Month Average (1988)

<u>So. Forty</u>	<u>Salt Springs</u>	<u>Citrus Park</u>	<u>Total County</u>
\$264,733	\$295,669	\$387,690	\$948,092

OPC: No position at this time. This will be a calculation based upon the disposition of other issues.

STAFF: No position at this time. This will be a calculation based upon the disposition of other issues.

10. ISSUE: Should contributions-in-aid-of-construction (CIAC) be imputed for the number of ERCs included in any allowed margin reserve?

POSITIONS

SOUTHERN STATES: No.

OPC: If a margin reserve is allowed by the Commission, then CIAC should be imputed at least for the South Forty and Salt Springs sewer systems which are not built out.

STAFF: No. The Citrus Park water system is essentially built-out and has no capacity charge. The Citrus Park, Salt Springs and South Forty sewer systems are also built-out. The Salt Springs water system does not have a service availability charge.

11. ISSUE: Should accumulated depreciation be recalculated from September 1, 1985, to December 31, 1987, to reflect the guideline rates approved for the system in Orders Nos. 13679 and 13795?

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POSITIONS

SOUTHERN STATES: Yes, accumulated depreciation should be adjusted as follows: (Lewis)

Citrus Park/Salt Springs water	(\$ 5,977)
South Forty sewer	(\$ 4,833)
Salt Springs sewer	(\$ 11,157)
Citrus Park Sewer	(\$ 5,669)

OPC: No.

STAFF: Yes, accumulated depreciation should be adjusted as follows:

Citrus Park/Salt Springs water	(\$ 5,977)
South Forty sewer	(\$ 4,833)
Salt Springs sewer	(\$ 11,157)
Citrus Park Sewer	(\$ 5,669)

12. ISSUE: What are the appropriate balances of accumulated depreciation?

POSITIONS

SOUTHERN STATES: The appropriate balances of accumulated depreciation are as follows: (Lewis)

WATER

Thirteen-Month Average (1987)

<u>Salt Springs</u>	<u>Citrus Park</u>	<u>Total County</u>
\$12,763	\$ 28,176	\$40,939

Thirteen-Month Average (1988)

<u>Salt Springs</u>	<u>Citrus Park</u>	<u>Total County</u>
\$18,464	\$ 37,749	\$56,213

SEWER

Thirteen-Month Average (1987)

<u>So. Forty</u>	<u>Salt Springs</u>	<u>Citrus Park</u>	<u>Total County</u>
\$76,146	\$64,503	\$43,795	\$184,444

Thirteen-Month Average (1988)

<u>So. Forty</u>	<u>Salt Springs</u>	<u>Citrus Park</u>	<u>Total County</u>
\$87,886	\$85,219	\$59,461	\$232,566

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OPC: No position at this time. This will be a calculation based upon the disposition of other issues.

STAFF: No position at this time. This will be a calculation based upon the disposition of other issues.

13. ISSUE: Should a negative acquisition adjustment be recognized for the purpose of determining rate base as of September 1, 1985?

POSITIONS

SOUTHERN STATES: No.

OPC: Yes. (Deason)

STAFF: No position.

14. ISSUE: What is the appropriate level of rate base as of September 1, 1985?

POSITIONS

SOUTHERN STATES: \$352,178.

OPC: The appropriate rate base, as of September 1, 1985, should be found to be \$174,618. This is the purchase price paid by Southern States. (Deason, De Meza)

STAFF: No position at this time.

15. ISSUE: What is the test year rate base?

POSITIONS

SOUTHERN STATES: The thirteen-month average test year rate base for water is \$155,660 for the Salt Springs system and \$56,778 for the Citrus Park system, for a total water rate base of \$212,438. The thirteen-month average test year rate base for sewer is \$207,701 for the South Forty system, \$146,581 for the Salt Springs system and \$500,117 for the Citrus Park system. (Sweat, Lewis, Guastella)

OPC: No position at this time. This will be a calculation based upon the disposition of other issues.

STAFF: No position at this time. This will be a calculation based upon the disposition of other issues.

Net Operating Income

16. ISSUE: Is the utility's level of unaccounted-for water reasonable?

POSITIONS

SOUTHERN STATES: Yes. (Becker)

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OPC: No. Unaccounted-for water was calculated to be seventeen percent at Citrus Park and sixteen percent at Salt Springs, which is excessive.

STAFF: No. Unaccounted-for water was calculated to be seventeen percent at Citrus Park and sixteen percent at Salt Springs, which is excessive.

17. ISSUE: Should an adjustment be made to chemicals and purchased power expenses for unaccounted-for water?

POSITIONS

SOUTHERN STATES: No. (Becker)

OPC: Yes. Purchased power and chemical expenses should be reduced by seven percent at Citrus Park and by six percent at Salt Springs.

STAFF: Yes. Purchased power and chemical expenses should be reduced by seven percent at Citrus Park and by six percent at Salt Springs.

18. ISSUE: Should depreciation expense be calculated based upon original cost or the purchase price?

POSITIONS

SOUTHERN STATES: Original cost. (Guastella)

OPC: Purchase price. (Deason)

STAFF: No position.

19. ISSUE: What amount of rate case expense should be borne by the ratepayers?

POSITIONS

SOUTHERN STATES: \$50,137 incurred through January 31, 1989, plus \$12,000 estimated through the conclusion of the hearing process. (Lewis)

OPC: Only that amount proven by the company to reasonably and prudently incurred.

STAFF: \$28,801 incurred to date, plus any additional reasonable and prudent costs incurred in the hearing process.

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

POSITIONS

SOUTHERN STATES: The applicant's net operating income for water is \$5,915 for the year ended December 31, 1987, and \$21,711 for the test year ended December 31, 1988. The

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net operating income for sewer is \$32,767 for the year ended December 31, 1987, and \$87,320 for the test year ended December 31, 1988. (Lewis)

OPC: No position at this time. This will be a calculation based upon the disposition of other issues.

STAFF: No position at this time. This will be a calculation based upon the disposition of other issues.

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

POSITIONS

SOUTHERN STATES: \$301,098. (Lewis)

OPC: No position at this time. This will be a calculation based upon the disposition of other issues.

STAFF: No position at this time. This will be a calculation based upon the disposition of other issues.

Rates

22. ISSUE: Are the rates and rate structure proposed by the utility appropriate?

POSITIONS

SOUTHERN STATES: Yes. (Lewis)

OPC: No position at this time. This will be a calculation based upon the disposition of other issues.

STAFF: Yes, subject to modification when the final revenue figures are established subsequent to the hearing, if modifications are indicated.

STIPULATIONS

The following issues have been stipulated by Southern States, OPC and Staff.

1. Utility plant-in-service should be reduced by \$9,200 for the Salt Springs water system to remove misclassified plant.
2. The appropriate balances of CIAC are as follows:

Citrus Park/Salt Springs Water	(\$139,729)
Salt Springs Sewer	(\$116,222)
Citrus Park Sewer	(\$105,587)
3. Accumulated depreciation and depreciation expense should be reduced by \$303 and \$214, respectively, to remove depreciation associated with the misclassified Salt Springs water plant.

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4. The appropriate balances of accumulated amortization of CIAC are as follows:

Citrus Park/Salt Springs Water	\$ 35,113
Salt Springs Sewer	\$ 47,495
Citrus Park Sewer	\$ 29,776
5. Working capital should be reduced by \$1,520 for water and \$2,192 for sewer to exclude "possible acquisition" costs.
6. The appropriate cost of debt is 8.91%.
7. The appropriate cost of equity is 14.35 percent.
8. Southern States is an Option 2 company and ITCs should, therefore, be assigned a cost rate based upon the cost for long term debt, preferred stock and common equity.
9. The appropriate overall cost of capital is 10.28%.
10. The appropriate amount of income tax expense will be calculated based upon the determination of other issues. Interest reconciliation and synchronization adjustments must be included in the calculation.
11. The appropriate test year depreciation expense should be calculated using the guideline rates contained in Rule 25-30.140, Florida Administrative Code.
12. The composite rate for test year depreciation should be used to calculate test year CIAC amortization expense.
13. The allowed rate case expense should be amortized over four years.
14. If final revenues are found to be less than interim revenues, Southern States should refund the excess revenues collected, with interest, pursuant to Rule 25-30.360, Florida Administrative Code.

The following issues have been stipulated by Southern States and Staff. OPC will not take positions on these issues.

15. The appropriate method to calculate working capital is the balance sheet method. The working capital allowance should be allocated based on operation and maintenance (O&M) expenses as follows:

Citrus Park/Salt Springs Water	\$5,703
South Forty Sewer	\$2,221
Salt Springs Sewer	\$1,981
Citrus Park Sewer	\$4,022
16. The allowed rate case expense should be allocated to the water and sewer systems based on the ratio of customers in each Marion County system to total Marion County customers.

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17. Southern States' proposed miscellaneous service charges are in accordance with Second Revised Staff Advisory Bulletin No. 13 and should be approved. These charges are as follows:

WATER

<u>Description</u>	<u>Charge During Regular Hours</u>	<u>Charge After Regular Hours</u>
Initial Connection	\$ 15.00	\$ 15.00
Normal Reconnection	\$ 15.00	\$ 15.00
Violation Reconnection	\$ 15.00	\$ 15.00
Premises Visit Charge	\$ 10.00	\$ N/A

SEWER

<u>Description</u>	<u>Charge During Regular Hours</u>	<u>Charge After Regular Hours</u>
Initial Connection	\$ 15.00	\$ 15.00
Normal Reconnection	\$ 15.00	\$ 15.00
Violation Reconnection	\$ 50.00*	\$ 50.00*
Premises Visit Charge**	\$ 10.00	\$ N/A

* Pursuant to Rule 16.0, Sewer Tariff Sheet No. 11

** Applicable to "Sewer Only" customers

18. Southern States' level of CIAC is not in compliance with Rule 25-30.580, Florida Administrative Code. However, in view of no growth, no change in policy is necessary in this proceeding.

EXHIBITS

<u>Witness</u>	<u>Proffered By</u>	<u>Exhibit No.</u>	<u>Description</u>
Charles Sweat	Southern States	1	Schedule E-3WS (location map of service areas).
Charles Lewis	Southern States	2	Schedules F-1 through F-26, R-1W through R-12WS-A of the minimum filing requirements.
William Becker	Southern States	3	Schedules E-1W, E-2S, E-3WS and E-WS.
Gary Miller	Staff	4	11/30/88 letter discussing 11/14/88 water system sanitary survey.

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<u>Witness</u>	<u>Proffered By</u>	<u>Exhibit No.</u>	<u>Description</u>
William Darling	Staff	5 (Composite)	11/14/88 waste-water reconnaissance reports.
Mark Cicchetti	Staff	6	Derivation of CWIP method.
Mark Cicchetti	Staff	7	Example application of CWIP model.
Mark Cicchetti	Staff	8	Schedules applying CWIP method to Citrus Park/ Salt Springs & South Forty systems.

Pending Motions

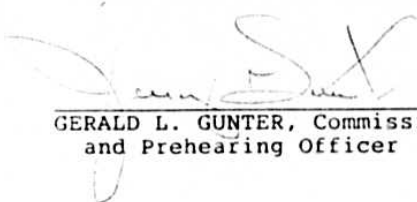
At the prehearing conference, the Prehearing Officer considered OPC's motion for the Commission to accept its late-filed prehearing statement. Southern States did not oppose the motion. OPC's motion is, therefore, granted.

Based upon the foregoing, it is

ORDERED by Commissioner Gerald L. Gunter, as Prehearing Officer, that this Prehearing Order shall govern the conduct of these proceedings unless modified by the Commission. It is further

ORDERED that the motion by the Office of Public Counsel, for the Commission to accept its late-filed prehearing statement, is hereby granted.

By ORDER of Commissioner Gerald L. Gunter, as Prehearing Officer, this 17th day of February, 1989.


GERALD L. GUNTER, Commissioner
and Prehearing Officer

(S E A L)

RJP