

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application of SOUTHERN STATES )	DOCKET NO. 890868-WS
UTILITIES, INC. for increase in water )	ORDER NO. 22950
rates in Seminole County )	ISSUED: 5-16-90
_____ )	

Pursuant to notice, a prehearing conference was held on May 3, 1990 before Commissioner Betty Easley, as Prehearing Officer, in Tallahassee, Florida.

APPEARANCES: WAYNE L. SCHIEFELBEIN, Esquire, Gatlin, Woods, Carlson & Cowdery, 1709-D Mahan Drive, Tallahassee, Florida 32308  
On behalf of Southern States Utilities, Inc.

NOREEN S. DAVIS, Esquire, Florida Public Service Commission, 101 East Gaines Street, Tallahassee, Florida 32399-0863  
On behalf of the Commission Staff

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

PREHEARING ORDER

I. Case Background

The Seminole County system of Southern States Utilities, Inc. (Southern States or utility) is a Class B water utility and a Class C wastewater utility with approximately 3,107 water customers and 323 wastewater customers as of April 30, 1989. On November 3, 1989, the utility filed its application for a rate increase and its Minimum Filing Requirements (MFRs). There were deficiencies in the MFRs. On January 4, 1990, Southern States filed its amended MFRs which corrected the deficiencies and January 4, 1990, was established as the official filing date.

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REC-RECORDS/REPORTING

ORDER NO. 22950  
DOCKET NO. 890868-WS  
PAGE 2

In its application, the utility requested final rates which would produce annual operating revenues of \$691,007 for water service and \$368,276 for wastewater service. Those requested revenues exceed projected 1990 test year revenues by \$140,107 (25.43 percent) and \$132,873 (56.44 percent) for water and wastewater, respectively. The utility requested an interim increase of water rates based on test year actual data. The requested interim increase exceeds test year annual revenues by \$43,578 (8.11 percent) for water. The utility did not request an interim increase in its wastewater rates.

The test year for this rate application is the projected twelve-month period ended December 31, 1990, based on an historical base year ended April 30, 1989.

By Order No. 22620, issued March 1, 1990, this Commission suspended the utility's proposed rates and granted an interim water rate increase, subject to refund.

This case is scheduled for an administrative hearing on May 22, and 23, 1990.

## II. Prefiled Testimony and Exhibits

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

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

ORDER NO. 22950  
 DOCKET NO. 890868-WS  
 PAGE 3

### III. Order of Witnesses

<u>Witness</u>	<u>Appearing for</u>	<u>Issues</u>
<u>Direct</u>		
Chuck K. Lewis	Utility	3, 5, 6, 7, 8, 9, 10, 11, 13, 14, 15, 16, 19, 20, 22, 23, 24, 25, 26, 27, 28
Bruce E. Gangnon	Utility	12, 21
Charles L. Sweat	Utility	1, 17, 18, 28
Rafael A. Terrero	Utility	1, 2, 4, 5, 17, 18
Roberto Ansag	Staff	1
W. E. Darling	Staff	1

### IV. Basic Positions

Southern States: The existing water and wastewater rates are insufficient to provide a fair return on the Applicant's investment in property used and useful in the public service. Using the 12 months ended April 30, 1989 as a base historic test year, Applicant received a 7.52 percent and a (0.51 percent) return (loss) on its investment for water and wastewater operations, respectively, in Seminole County. Under existing rates and using the approved projected test year ending December 31, 1990, Applicant expects to receive a 2.90 percent and a (1.63 percent) return (loss) on such investment. Applicant believes that for the projected test year, a fair and reasonable rate of return on a water rate base of \$1,675,603 and a wastewater rate base of \$1,013,511 is 10.89 percent.

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

ORDER NO. 22950  
DOCKET NO. 890868-WS  
PAGE 4

V. Issues and Positions

Quality of Service

1. ISSUE: Is the quality of service satisfactory?

POSITIONS

SOUTHERN STATES: Yes. (Terrero, Sweat)

STAFF: No position at this time pending customer testimony.

Rate Base

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

POSITIONS

SOUTHERN STATES: Yes. (Terrero)

STAFF: Yes, but the level cannot be ascertained at this time.

3. ISSUE: Should CIAC be imputed on margin reserve?

POSITIONS

SOUTHERN STATES: No. (Lewis)

STAFF POSITION: Yes.

4. ISSUE: Except for the Chuluota wastewater system, what used and useful adjustments should be made to the water and wastewater systems?

POSITIONS

SOUTHERN STATES: The company continues to review its position on the Florida Central Commerce Park wastewater system. All of the remaining existing water distribution and wastewater systems are 100% used and useful. (Terrero)

STAFF: No position at this time.

ORDER NO. 22950  
 DOCKET NO. 890868-WS  
 PAGE 5

5. ISSUE: What adjustments should be made to plant-in-service and CIAC for non-used and useful plant?

POSITIONS

SOUTHERN STATES: No adjustment should be made. (Lewis, Terrero)

STAFF: No position at this time.

6. ISSUE: What adjustments should be made to accumulated depreciation and CIAC amortization to remove depreciation and CIAC amortization on non-used and useful plant?

POSITIONS

SOUTHERN STATES: The company continues to review its position on Florida Central Commerce Park. (Lewis)

STAFF: An adjustment should be made for Florida Central Commerce Park; however, the amount cannot be determined at this time.

7. ISSUE: What is the appropriate average balance of wastewater CIAC for the projected test year ended December 31, 1990?

POSITIONS

SOUTHERN STATES: Projected: Sewer \$ 755,690 (Lewis)

STAFF: No position at this time.

8. ISSUE: What is the appropriate balance of accumulated amortization of CIAC for the projected test year ended December 31, 1990?

POSITIONS

SOUTHERN STATES: Projected: Water \$ 211,407  
 Sewer \$ 77,761 (Lewis)

STAFF: No position at this time.

ORDER NO. 22950  
 DOCKET NO. 890868-WS  
 PAGE 6

9. ISSUE: Should the \$400,000 advance from Park Industrial Venture be excluded from the cost of capital calculation and included in the rate base calculation?

POSITIONS

SOUTHERN STATES: Agree with Staff, pending resolution of the numbers. (Lewis)

STAFF: Yes, however, this amount should be adjusted to reflect the portion of the advance that has been refunded by connection fees as CIAC, and should be further reduced to exclude any amounts that have been refunded from utility operations. Any unrefunded amount should be reflected in rate base as an advance for construction.

10. ISSUE: What is the appropriate working capital allowance?

POSITIONS

SOUTHERN STATES: Projected: Water \$ 39,524  
 Sewer \$ 18,818 (Lewis)

STAFF: No position at this time.

11. ISSUE: What are the appropriate rate bases for the projected test year ended December 31, 1990?

POSITIONS

SOUTHERN STATES: Projected: Water \$1,675,603  
 Sewer \$1,013,511 (Lewis)

STAFF: These are fall-out numbers.

COST OF CAPITAL

12. ISSUE: Should zero-cost preferred stock be reflected in the capital structure of the Seminole County Division of Southern States Utilities, Inc.?

ORDER NO. 22950  
DOCKET NO. 890868-WS  
PAGE 7

POSITIONS

SOUTHERN STATES: No, for the reasons given in responses to Staff Interrogatories Nos. 1, 2, 3. (Lewis)

STAFF: Yes. As an operating division of SSU, the Seminole County Division does not have a separately identifiable capital structure. Therefore, the consolidated capital structure of SSU, which includes zero-cost preferred stock, should be used for ratemaking purposes.

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

POSITIONS

SOUTHERN STATES: 10.89% (Lewis)

STAFF: 10.06%

NET OPERATING INCOME

14. ISSUE: What are the appropriate projected test year revenues for wastewater before any revenue increase?

POSITIONS

SOUTHERN STATES: Sewer \$ 235,403 (Lewis)

STAFF: The appropriate projected test year revenues before any revenue increase should be based on the projected billing data for the test year 1990, i.e., the present rates should be applied to the projected billing data to determine the test year revenues before any increase. The wastewater revenues will be determined after adjustments to the billing determinants are made.

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

ORDER NO. 22950  
 DOCKET NO. 890868-WS  
 PAGE 8

POSITIONS

SOUTHERN STATES: Projected legal rate case expense is \$35,000. Publications, noticing, and reproduction rate case expenses are \$5,000. (Lewis)

STAFF: No position at this time.

16. ISSUE: What is the level of unaccounted-for-water and how much should be allowed in this case?

POSITIONS

SOUTHERN STATES: The appropriate level is stated in the MFRs. All should be allowed. (Terrero, Sweat)

STAFF: Staff cannot ascertain the appropriate level at this time. 10% should be allowed.

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

POSITIONS

SOUTHERN STATES: No. (Terrero, Sweat)

STAFF: No position at this time.

18. ISSUE: What is the appropriate depreciation expense?

POSITIONS

SOUTHERN STATES: Projected: Water \$ 116,820  
 Sewer \$ 83,033 (Lewis)

STAFF: No position at this time.

19. ISSUE: What is the appropriate balance of regulatory assessment fees?

ORDER NO. 22950  
DOCKET NO. 890868-WS  
PAGE 9

POSITIONS

SOUTHERN STATES: Regulatory assessment fees should reflect the approved revenue requirements. (Lewis)

STAFF: No position at this time.

20. ISSUE: What is the appropriate income tax expense?

POSITIONS

SOUTHERN STATES: The expense level cannot be determined at this time, but will reflect the effect of other adjustments to NOI, adjustments for interest reconciliation and synchronization and the parent debt adjustment. (Gangnon)

STAFF: The expense level cannot be determined at this time, but will reflect the effect of other staff adjustments to NOI, adjustments for interest reconciliation and synchronization and the parent debt adjustment.

21. ISSUE: What are the appropriate revenue requirements?

POSITIONS

SOUTHERN STATES:

Projected:	Water	\$	691,007
	Sewer	\$	368,276 (Lewis)

STAFF: No position at this time.

RATES

22. ISSUE: Should the billing analysis, as stated in the MFRs, be adjusted?

POSITIONS

SOUTHERN STATES: Yes. The extent is not known at this time. (Lewis)

ORDER NO. 22950  
DOCKET NO. 890868-WS  
PAGE 10

STAFF: Yes. The billing analysis, as stated in the MFRs, should be adjusted. The extent of the adjustment is not known at this time.

23. ISSUE: What are the appropriate water and wastewater rates?

POSITIONS

SOUTHERN STATES: As reflected in the MFRs, but subject to the agreed adjustments and using the proposed billing determinants. (Lewis)

STAFF: No position at this time.

24. ISSUE: Should the service availability charges be adjusted?

POSITIONS

SOUTHERN STATES: No. (Lewis)

STAFF: No position at this time.

25. ISSUE: Should the wastewater rates continue to be uniform for Seminole County?

POSITIONS

SOUTHERN STATES: Yes. (Lewis)

STAFF: No position at this time on uniform wastewater rates.

26. ISSUE: Should AFPI charges be approved for the Chuluota wastewater system and the Florida Central Commerce Park wastewater system?

POSITIONS

SOUTHERN STATES: Agree with staff as to methodology. (Lewis)

ORDER NO. 22950  
DOCKET NO. 890868-WS  
PAGE 11

STAFF: Yes, AFPI charges should be calculated using the Commission's standard AFPI formula, pending the final determination of non-used and useful plant for these systems.

27. ISSUE: Should a charge be implemented for spray irrigation? If so, who should pay the charge?

POSITIONS

SOUTHERN STATES: Yes. The company supports the establishment of a rate for treated effluent for spray irrigation. What this will do is reduce the charge for wastewater by the amount of revenues to be derived from effluent water. The charge would be only applicable to the Florida Commerce Park unit because none of the other systems have in place the necessary piping to transport effluent to individual property owners for use. In the future, it would be the intention of the utility to review opportunity for expanding effluent disposal where cost effective. This will reduce the cost to the individual property owner in that they will not have to use and pay for potable water for irrigation purposes and, therefore, is a positive conservation effort on the part of the utility. (Sweat, Lewis)

STAFF: No position at this time.

VI. Proposed Stipulations

The utility and Staff have arrived at the following proposed stipulations:

1. The Chuluota wastewater treatment plant is 39% used and useful.
2. Plant-in-service should be increased by \$1,287 for water and reduced by \$10,553 for wastewater to reconcile the December 31, 1985 plant balances to Order No. 17043.
3. Plant-in-service should be increased by \$9,799 for water and \$7,255 for wastewater to correct utility errors from January 1, 1986 through April 30, 1989.

ORDER NO. 22950  
DOCKET NO. 890868-WS  
PAGE 12

4. Unauthorized AFUDC totalling \$11,888 for the Chuluota water plant should be excluded from plant-in-service.
5. The appropriate average balance of plant-in-service for the projected test year ended December 31, 1990 is \$2,813,305 for water and \$1,935,688 for wastewater.
6. An adjustment of \$229,493 should be made to plant-in-service for the non-used and useful plant for the Chuluota wastewater system.
7. \$5,717 in accumulated depreciation for the Chuluota wastewater system should be removed for non-used and useful plant.
8. The appropriate average balance of utility land and land rights for the projected test year ended December 31, 1990 is \$71,272 for water and \$140,719 for wastewater.
9. The appropriate average balance of accumulated depreciation for the projected test year ended December 31, 1990 is (\$871,170) for water and (\$195,605) for wastewater.
10. CIAC should be adjusted by \$65,703 for water and \$34,458 for wastewater to reflect the correct additions to CIAC from January 1, 1986 to April 30, 1986.
11. The appropriate average balance of CIAC for water for the projected test year ended December 31, 1990 is \$706,030.
12. Accumulated amortization of acquisition adjustment should be adjusted by \$618 to reconcile the December 31, 1985 balance to Order No. 17043.
13. The appropriate balance of accumulated amortization of acquisition adjustment for the projected test year ended December 31, 1990 is \$18,138.
14. The working capital allowance should be 1/8 of the operation and maintenance expenses allowed in this case.

ORDER NO. 22950  
DOCKET NO. 890868-WS  
PAGE 13

15. The following adjustments should be made to the utility's books to exclude unauthorized AFUDC:

FCCP Wastewater	\$ 1,763
Chuluota Wastewater	\$ 92,528
Chuluota Water	\$ 19,798

- 16. The utility should not be allowed to accrue AFUDC on that portion of CWIP for the Florida Central Commerce Park wastewater treatment plant that was contributed or financed by advances for construction, since no capital costs are associated with these amounts.
- 17. An adjustment of \$26,604 should be made to the utility's books and records to exclude AFUDC accrued on CIAC and advances for construction.
- 18. The average balance of accumulated deferred income taxes at 12/31/90 should be \$1,275,828. This is a total company figure before reconciliation of capital structure to rate base. This reflects an adjustment to deferred tax expense for CIAC gross-up.
- 19. The cost of common equity is 13.95%, based on the current leverage formula.
- 20. The appropriate projected test year water revenues before any revenue increase are \$564,984.
- 21. Operation and maintenance expenses for water should be decreased by \$1,920 to remove the fine assessed by the Department of Environmental Regulation for violating various rules of Florida Administrative Code Chapters 17-16 and 17-22.
- 22. Operation and maintenance expenses should be decreased by \$3,012 for water and \$4,213 for wastewater to exclude the utility's adjustment for the increase in the cost of purchased water and sewer which was effective June 1, 1988.
- 23. Operation and maintenance expenses should be decreased by \$2,806 for water and \$1,444 for wastewater to exclude pass through items from the index calculation of projected 1990 operation and maintenance expense.
- 24. Four years is the appropriate amortization period for rate case expense.

ORDER NO. 22950  
DOCKET NO. 890868-WS  
PAGE 14

25. The appropriate balance of taxes other than income taxes, excluding regulatory assessment fees are as follows:

	<u>Water</u>	<u>Wastewater</u>
Real & Personal Property:	\$5,850	\$9,259
Payroll:	\$9,868	\$6,926

26. Regulatory assessment fees should be calculated at 4.5% on a prospective basis.
27. The Seminole County water rates should continue to be uniform.
28. The miscellaneous service charges should be increased in accordance with Second Revised Staff Advisory Bulletin No. 13. However, the request for an "after hours" charge of \$20.00 should be denied due to inadequate support.
29. Private fire protection charges are a part of the structure of the water rates and are automatically adjusted, i.e., private fire protection charges are one-third of the base facility charge for a comparable size meter.

#### VIII. Exhibits

<u>Witnesses</u>	<u>Preferred By</u>	<u>I.D. No.</u>	<u>Description</u>
C. Sweat	Utility	CLS-1	Vol. 1-Supp. Index/MFRs
		CLS-2	Vol. 3-Supp. Index/MFRs
		CLS-3	Responses to Staff's 2nd Set of Interrog. Nos. 18, 19
R. Terrero	Utility	RAT-1	Sched. E-7/MFR
		RAT-2	Sched. F-1 - F-10/MFRs and Appendix

ORDER NO. 22950  
 DOCKET NO. 890868-WS  
 PAGE 15

<u>Witnesses</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
		RAT-3	Vol. 1-Supp. Index/MFR
		RAT-4	Vol. 2-Supp. Index/MFR
		RAT-5	Responses to Staff's 2nd Set of Interrog., Nos. 11-17n
B. Gangnon	Utility	BEG-1	Sched. C-4 - C-11/MFRs
		BEG-2	Revised C Schedules C-5, C-7, C-8, C-9/MFRs
C. Lewis	Utility	CKL-1	Sched. A-1 - A-19/MFRs
		CKL-2	Sched. B-1 - B-15/MFRs
		CKL-3	Sched. D-1 - D-7/MFRs
		CKL-4	Sched. E-1 - E-16/MFRs
		CKL-5	Sched. G-1 - G-6/MFRs
		CKL-6	Billing Analysis/ MFRs
		CKL-7	Responses to Staff's 1st Set of Interrog., Nos. 1-10, Second Set of Interrog. No. 17o.
W. Darling	Staff	WED-1	Inspection Report - Chuluota
		WED-2	Inspection Report - Fla. Central Commerce Park

ORDER NO. 22950  
DOCKET NO. 890868-WS  
PAGE 16

Staff asks that notice be taken of the following Commission Orders: Order No. 20434 in Docket No. 871134-WS regarding the imputation of CIAC on margin reserve and Order No. 22844 in Docket No. 890360-WS regarding the level of unaccounted-for-water.

Utility and Staff reserve the right to identify exhibits for the purpose of cross-examination or re-direct.

IX. Rulings

1. The utility's request to file a late-filed exhibit detailing remaining rate case expenses is granted.
2. Mr. Gangnon's prefiled testimony may be stipulated to be entered into the record as though read, without his appearing at the hearing, if the areas Staff intended to cover through cross-examination can be satisfactorily accomplished through interrogatories or deposition.
3. Direct testimony from a company witness may be provided at the hearing to address the issue of a charge for spray irrigation which was identified at the Prehearing Conference.

Based upon the foregoing, it is

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

By ORDER of Commissioner Betty Easley, as Prehearing Officer, this 16th day of MAY, 1990.

  
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BETTY EASLEY, Commissioner  
and Prehearing Officer

( S E A L )

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ORDER NO. 22950  
DOCKET NO. 890868-WS  
PAGE 17

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 sewer 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.