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REPLY TO: Tallahassee

October 16, 1992

HAND DELIVERY

Mr. Steve Tribble, Director  
Division of Records and Reporting  
Florida Public Service Commission  
101 East Gaines Street  
Tallahassee, Florida 32399-0850

Re: FPSC Docket No. 920199-WS

Dear Mr. Tribble:


Enclosed herewith for filing in the above-referenced docket are the original and fifteen copies of Southern States' Prehearing Statement. Also enclosed is a 5 1/4" diskette in Wordperfect 5.0 format with this document on it named Giga.pre.

Please acknowledge receipt of these documents by stamping the extra copy of this letter "filed" and returning the same to me.

- ACK 3
- AFA 3
- APD \_\_\_\_\_
- CAF \_\_\_\_\_
- CMU \_\_\_\_\_
- CTR \_\_\_\_\_
- EDS \_\_\_\_\_
- LES 1 KAH/amb
- LM 1 Enclosures
- OPD \_\_\_\_\_
- ROM \_\_\_\_\_
- SEC 1
- WES 1
- OTH \_\_\_\_\_

Thank you for your assistance with this filing.

Sincerely yours,

  
Kenneth A. Hoffman

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DIVISION OF RECORDS

DOCUMENT NUMBER-DATE  
12206 OCT 16 1992  
FPSC-RECORDS/REPORTING

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application of Southern )  
States Utilities, Inc. and Deltona )  
Utilities, Inc. for Increased )  
Water and Wastewater Rates in )  
Citrus, Nassau, Seminole, Osceola, )  
Duval, Putnam, Charlotte, Lee, )  
Lake, Orange, Marion, Volusia, )  
Martin, Clay, Brevard, Highlands, )  
Collier, Pasco, Hernando, and )  
Washington Counties. )

Docket No. 920199-WS  
Filed: October 16, 1992

**SOUTHERN STATES UTILITIES, INC.'S  
PREHEARING STATEMENT**

SOUTHERN STATES UTILITIES, INC. and DELTONA UTILITIES, INC. (hereafter collectively referred to as "Southern States"), pursuant to Order No. PSC-92-0638-PCO-WS, and Rule 22.038 (3), Florida Administrative Code, respectfully submit the following Prehearing Statement in the above-captioned docket. Southern States notes that an Issues Identification Conference has not been held in this docket and that the positions reflected in this Prehearing Statement are in response to a list of issues provided by counsel for the Commission Staff to all parties on or about September 29, 1992. Southern States reserves the right to amend this Prehearing Statement to address matters reflected in rebuttal testimony and exhibits (which are not due to be filed until October 26, 1992), additional issues raised by a party or Staff, and to present testimony and other evidence addressing issues ultimately reflected in the Prehearing Order.

**A. WITNESSES**

Southern States will present the direct testimony of the following witnesses:

1. Mr. Arend J. Sandbulte (description of Minnesota Power & Light Company's business, service territory, philosophy regarding diversification into Florida water and wastewater industry, and future plans in Florida).

2. Mr. Bert T. Phillips (overview of rate filing, Southern States' corporate goals and philosophy, and benefits to customers due to affiliation with Southern States Utilities, Inc.).

3. Mr. Forrest L. Ludsen (O&M and A&G expenses, allocations, and steps taken in response to Staff's September 1988 Management Audit Report).

4. Mr. Scott W. Vierima (cost of capital).

5. Mr. Bruce Gangnon (state and federal income tax issues and FASB 106).

6. Mr. Gerald C. Hartman (used and useful analysis).

7. Mr. Gary S. Morse (used and useful analysis).

8. Mr. Charles K. Lewis (cost of service).

9. Mr. Charles L. Sweat (quality of service).

10. Ms. Helena Loucks (rate design).

11. Mr. Joseph P. Cresse (rate design).

Rebuttal testimony will be submitted by Southern States on or before October 26, 1992.

**B. EXHIBITS**

Southern States intends to present the following exhibits:

Bert T. Phillips

BTP-1

Major Additions Placed  
in Service in 1990 and  
1991

	BTP-2	Water Utility Benchmarks Revised - <u>Standard &amp; Poor's</u> <u>Creditweek</u> dated June 15, 1992
Forrest L. Ludsen	FLL-1	Financial, Rate and Engineering Minimum Filing Requirements of Southern States Utilities, Inc. and Deltona Utilities, Inc. (previously filed with the Commission)
	FLL-2	S u p p l e m e n t a l Information Supplied by Southern States on June 17, 1992 to Comply with the Commission's Minimum Filing Requirements (previously filed with the Commission)
	FLL-3	FPSC September 1988 Management Audit Report
	FLL-4	P S C A u d i t Correspondence
	FLL-5	Pre and Post-Audit Report Staffing Modifications of Southern States
	FLL-6	Descriptions of the D u t i e s a n d Responsibilities of the Administrative and General Departments of Southern States
Scott W. Vierima	SWV-1	Sample of 1991 Bank Rejection Letters and Chronology of Financing Events
Gerald C. Hartman	GCH-1	Florida Public Service Commission Methodology for Determining the

		Average Service Life for R.O. Permeators
	GCH-2	Letter from Palm Coast Utilities Corporation
Gary S. Morse	GSM-1	Schedule F - 5 (Corrected) - Beechers Point
	GSM-2	Schedule F - 5 (Corrected) - Amelia Island
	GSM-3	Schedule F - 8 (Corrected) - Amelia Island
Charles L. Sweat	CLS-1	Southern States Contributions to Innovative Reuse of Effluent
	CLS-2	Complaints Received by the Florida Public Service Commission from Southern States' Customers
Helena Loucks	HL-1	Residential Bill under Required Stand Alone Rates at Average Usage
	HL-2	Weighted Average Residential Bills for Water and Wastewater Service at Average Usage
	HL-3	Conversion to Monthly Billing and ERCs Using AWWA Standards
	HL-4	Systems with Residential Bills Higher than the Proposed Maximum Bill
	HL-5	Recalculated System Revenues Using Proposed Maximum Bill

	HL-6	Systems Contributing to Proposed Maximum Bill Adjustment
Joseph P. Cresse	JPC-1	Resume of Joseph P. Cresse
	JPC-2	Revenues Required to Be Reduced For Systems Which Exceed Maximum Residential Bill At 10,000 Gallons Consumption

Southern States reserves the right to submit additional exhibits as part of its prefiled rebuttal testimony which will be filed on or before October 26, 1992.

**C. BASIC POSITION**

Southern States filed its Application for Increased Water and Wastewater Rates ("Application") and Minimum Filing Requirements ("MFRs") on May 11, 1992. The official date of filing of the MFRs was established by the Commission as June 17, 1992.

Southern States' Application encompasses 90 water and 37 wastewater systems located in 19 counties throughout the State of Florida. These 127 systems constitute all but two of the Commission regulated water and wastewater systems operated by Southern States in Florida. The Marco Island water and wastewater systems were not included in this Application due to the significant amount of investment in facilities placed into service following the 1991 historic test year in this docket. Southern States has filed a separate application for its Marco Island water and wastewater systems in Docket No. 920655-WS.

Southern States requests annual revenues of \$18,006,393 for water operations and annual revenues of \$10,872,112 for wastewater operations. These requests represent annual increases of \$5,071,970 for water operations and \$3,601,165 for wastewater operations based on rates in effect on the date of submission of the Application. These revenue requirements are based on a historic test year for the twelve months ended December 31, 1991. Southern States' need for rate relief is reflected by its rates of return and returns on equity for its water and wastewater systems during the historic test year. Under rates in existence during the historic test year (prior to interim rates authorized by the Commission in this docket), Southern States would experience a rate of return for the water systems of only 3.07% (a -7.07% return on equity) and a rate of return for the wastewater systems of only 1.74% (a -10.18% return on equity). These historic test year returns have been further deteriorated following the First District Court of Appeal's affirmance of the Commission's order in Docket 920399-WS and the resulting diminution of test year revenues due to the refund of interim rates approved in that docket.

The need for rate relief has resulted, in principal part, from 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 (over varying periods of time) for the 127 systems. These increases in investment in water and wastewater facilities and increased operations and maintenance expenses have been prudently incurred

to meet customer growth and to comply with environmental regulations.

Southern States has an excellent history of providing sufficient, high quality water and wastewater services to its customers. Based on and following the Commission's September 1988 Management Audit Report, numerous steps have been taken to transition Southern States from its prior management and operating practices which were reflective of those practiced by small water and wastewater utilities to a current state of highly professional management and operating departments necessary to the provision of high quality, environmentally sound water and wastewater services to the approximately 160,000 customers of Southern States. The implementation of these improved and specialized management, operating, financial, accounting, budgeting and human resources functions and procedures provide the benefits of economies of scale to Southern States' customers and are necessary to assure the long-term provision of high quality water and wastewater services which comply with ever increasing environmental requirements. Southern States' administrative and general ("A&G"), customer service and other common costs are reasonable. These costs have been pooled with the A&G, customer service and other common costs of the recently acquired Lehigh Utilities, Inc. ("Lehigh") and reallocated to all customers served by each of the systems operated by Southern States, including Lehigh, based on number of customers. The 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 costs.

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 are justified and the rates proposed by Southern States are just, reasonable and necessary to permit Southern States the opportunity to earn its requested overall rate of return of 11.57%.

**D. ISSUES AND POSITIONS**

**QUALITY OF SERVICE**

**EVERY SYSTEM**

**ISSUE 1: Is the quality of service provided by the utility satisfactory?**

**SOUTHERN STATES: The quality of service provided by each of the water and wastewater systems included in the docket is safe, efficient and sufficient.**

**ISSUE 2: What adjustments should be made and what corrective action should the Commission require for those systems that are not currently meeting Department of Environmental Regulation standards?**

**SOUTHERN STATES: No adjustments are appropriate. Southern States either is in compliance or is taking the necessary steps to achieve compliance with all DER standards. Since safe, efficient and sufficient service is being provided to each system, no**

Commission ordered corrective actions are required.

**RATE BASE**

**GENERAL**

**ISSUE 3: What is the appropriate method for calculating margin reserve?**

**SOUTHERN STATES:** The margin reserve should be eighteen months for water treatment plants and twelve months for water distribution and wastewater collection facilities. However, the margin reserves for wastewater treatment plants impacted by the regulatory requirements imposed under DER Rule 17-600.405, F.A.C., should be four (4) years. The Company notes that the Commission has approved a Memorandum of Understanding with DER which requires the Commission to consider and recognize the impact of this rule on their wastewater treatment plant planning and expansion.

**ISSUE 4: What is the appropriate method for calculating used and useful?**

**SOUTHERN STATES:** The appropriate method for calculating used and useful is the component method as presented in the MFRs.

**ISSUE 5: What is an acceptable level of unaccounted-for water?**

**SOUTHERN STATES:** Despite Commission precedent referring to industry standards which indicate that a 15% level of unaccounted for water is acceptable, the Commission has steadfastly held to a 10% standard. The standard should be 15%. Age and geological development conditions must be given consideration in any determination of unaccounted for water.

**ISSUE 6: For those systems where a margin reserve is included in the used and useful calculation, should CIAC be imputed as an offsetting measure?**

**SOUTHERN STATES:** No. The margin reserve is required because Southern States has a duty to provide service to customers when they apply. It cannot logically be argued that a system must be or even can be designed solely to serve the customers which exist on any given day. However, the imputation of CIAC unfairly penalizes Southern States because whether or not customers will actually hook on to a system is fortuitous and beyond the Company's control. Also, there is no guarantee that the CIAC levels which exist today, and thus would be utilized to compute the imputation, will not be decreased by the Commission in the future. Under such a scenario, Southern States will never be able to recover a portion of its prudently invested funds. Therefore, the imputation would be premised on two totally speculative events whereas the Company's duty to stand ready to serve customers is real and remains a regulatory requirement imposed on the Company under Chapter 367, Florida Statutes.

**ISSUE 7: What is the appropriate method for allocating general plant, and are any adjustments necessary?**

**SOUTHERN STATES:** The Commission should adhere to its unwavering precedent and allocate Southern States' general plant based on the number of customers served by each system. No customer benefits any more or less from the services provided utilizing general plant assets. No customer should contribute more

than any other for such assets. No adjustments are necessary to general plant.

**ISSUE 8: Should the Commission allow the utility's \$1,007,212 addition to computer equipment in 1991, and, if not, what adjustments should be made?**

**SOUTHERN STATES:** Southern States' investments in computer equipment have been prudently made and are at reasonable levels. The investments in computer facilities often were the product of the Company's compliance with the Commission's 1988 Management Audit of the Company. There has been no prefiled testimony, pleading or other factual predicate identified to the Company which suggests that any portion of its investment in computer equipment has been imprudently made or that the level of such investments is unreasonable. Therefore, the Company has not had the opportunity to address and rebut any allegation in such regard. No adjustment is appropriate.

**ISSUE 9: Should the Commission allow the utility's proposed adjustment to reduce accumulated depreciation for the retirement of computer software?**

**SOUTHERN STATES:** Yes. Southern States' proposed adjustment is consistent with past Commission practice. There has been no prefiled testimony, pleading or other factual predicate which suggests either that the proposed adjustment is not reasonable or that the Company's actions which lead to the proposal were unreasonable. Therefore, the Company has not had the opportunity to address and rebut any allegation in such regard.

**ISSUE 10:** Should the rate base provision for deferred income taxes be reduced to the extent prepaid amounts (debit accounts) correspond to interim rates from Docket No. 900329-WS which are to be refunded?

**SOUTHERN STATES:** No position at this time.

**ISSUE 11:** What is the appropriate method for allocating deferred income taxes related to CIAC?

**SOUTHERN STATES:** Per the MFRs.

**ISSUE 12:** Should deferred taxes related to CIAC gross-up charges be allocated based on CIAC collected?

**SOUTHERN STATES:** No position at this time.

**ISSUE 13:** Should deferred income taxes related to post-retirement benefits be included in rate base?

**SOUTHERN STATES:** No position at this time.

**ISSUE 14:** If the Commission adopts SFAS 106 for ratemaking purposes, what is the appropriate treatment of the unfunded liability for post-retirement benefits other than pensions?

**SOUTHERN STATES:** Southern States intends to fully fund its liability for post-retirement benefits other than pensions. For ratemaking purposes, any unfunded liability should be treated consistent with proposed Rule 25-14.012, F.A.C.

**ISSUE 15:** What is the appropriate method for calculating working capital?

**SOUTHERN STATES:** 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 rate case expense associated with advocating an alternative method). This has been the Commission's policy to date. No prefiled testimony, pleading or other factual predicate has been identified which justifies deviation from Order Nos. 21202 and 21627 and the Commission policy established therein and carried out to date. Therefore, the Company is not able to address and rebut any allegation that such a deviation would be appropriate.

**SYSTEM SPECIFIC**

**Citrus County**

**ISSUE 16: Have the proper plant retirements been made for the Rolling Green water treatment plant, and, if not, what adjustments are necessary?**

**SOUTHERN STATES: The interconnect was not completed until May 1992 and the associated retirements have not been booked. The Company projects the retirements to be as follows:**

304.2	Structures & Improv - Source of Supply	\$1,252.14
304.3	Structures & Improv - Treatment Plant	627.26
305.2	Collection Reservations	4.06
307.2	Wells & Springs	16,599.46
309.2	Supply Mains	7.96
310.2	Power Generation Equipment	4.58
339.2	Other Plant & Misc - Equip-Pumping Plant	(5.14)

The accumulated depreciation for these retirements is:

304.2	Structures & Improv - Source of Supply	\$ 118.60
304.3	Structures & Improv - Treatment Plant	60.36
305.2	Collection Reservations	.20
307.2	Wells & Springs	1,679.88
309.2	Supply Mains	.40
310.2	Power Generation Equipment	.22
339.2	Other Plant & Misc - Equip-Pumping Plant	(.26)

The CIAC associated with the retired assets is \$16,568.64 and accumulated amortization of CIAC associated with the retired assets is \$902.44.

**ISSUE 17: Should Rosemont and Rolling Green be considered one system for rate making purposes, and if not, how should the rate base improvements at Rosemont be shared between the two systems' customers?**

**SOUTHERN STATES:** The Rosemont and Rolling Green systems were not interconnected until December 23, 1991. Southern States remains without Commission authority to treat these previously segregated systems as one system for ratemaking purposes. Southern States does not oppose doing so as long as the combined revenue requirements are met.

**ISSUE 18: What adjustments should be made for the Golden Terrace water treatment plants that are expected to be taken off line as a result of the interconnections with the City of Zephyrhills?**

**SOUTHERN STATES:** The decision whether the facilities will be taken off line has not been made. The interconnect has not been agreed upon and is not constructed. If the interconnect will occur, it will be outside the test year. If the Commission considers this potential interconnect, associated plant should be retired in a manner consistent with Commission precedent. The

costs associated with the retirement of the plant (i.e., DER approval of abandonment of plant, etc.) as well as the Company's investment in the interconnect and associated impact fees must be included in the Company's revenue requirements in this proceeding. If these types of adjustments are to be made, the Company believes the millions of dollars of additional investments made and construction projects completed and in-service should be recoverable in this proceeding.

**Clay County**

**ISSUE 19: Should the no. 2 well at Keystone Heights be included in the used-and-useful calculation?**

**SOUTHERN STATES:** Yes. The well currently is providing service to our customers and was providing service prior to the test year. The Company has spent \$9,800 to correct problems with the well and place it back in service. This investment also should be considered in this proceeding. The Company already is negatively impacted by the absence of O&M expenses associated with running this well. If the Commission goes beyond the 1991 test year to determine plant in service and adjust used and useful downward, it also must make upward adjustments.

**Lake County**

**ISSUE 20: Are the water plant additions at Quail Ridge classified in the proper accounts, and, if not, what are the appropriate classifications?**

**SOUTHERN STATES:** The plant additions are misclassified and should be reclassified as follows:



Account 331.4 (Transmission and Distribution) \$43,192  
Account 330.4 (Distribution Reserves) \$27,431

**ISSUE 21:** Is the \$39,472 water plant addition to Account No. 310.2, Power Generation Equipment, at Venetian Village properly classified, and, if not, what are the appropriate adjustments?

**SOUTHERN STATES:** No position at this time.

**ISSUE 22:** Should the utility be required to install a second well for the Fern Terrace water system?

**SOUTHERN STATES:** No. The Company does not believe a second well is justified based on the criteria for a second well in FDER 17-555. This issue currently is being pursued with DER which has jurisdiction over this issue. If the Commission requires Southern States to install a second well, the associated costs should be considered in this proceeding.

**ISSUE 23:** Is all of the plant at Grand Terrace classified in the correct NARUC accounts?

**SOUTHERN STATES:** Yes.

**Marion County**

**ISSUE 24:** Are the three wastewater plant tanks at Salt Springs properly booked?

**SOUTHERN STATES:** No position at this time.

**ISSUE 25:** Was the old plant at Salt Springs properly retired, and if not, what adjustments are appropriate?

**SOUTHERN STATES:** The retirements of the Salt Springs plant are as follows:

304.200	Structures & Improvements-Source	\$ 351.54
304.300	Structures & Improvements-Treatments	440.34
305.200	Collecting & Impounding Reservoir	9.27
307.200	Wells & Springs	8,367.43
309.200	Supply Mains	26.10
310.200	Power Generation Equipment	11.08
311.200	Pumping Equipment	7,692.71
320.300	Water Treatment Equipment	<u>1,805.97</u>
		\$18,704.45

These amounts are small because the original assets belonged to the U.S. Forestry Department. The above costs reflect change outs or upgrades.

Accumulated Depreciation as of December, 1991.

304.200	Structures & Improvements-Source	\$ 144.65
304.300	Structures & Improvements-Treatments	190.34
305.200	Collecting & Impounding Reservoir	.23
307.200	Wells & Springs	1,573.00
309.200	Supply Mains	2.75
310.200	Power Generation Equipment	0.00
311.200	Pumping Equipment	2,321.34
320.300	Water Treatment Equipment	<u>3,339.00</u>
		\$7,561.31

CIAC in November 1990, before the new Salt Springs Water Plant was transferred to plant-in-service, totaled \$21,426.50. The amount of CIAC associated with the retirement of this plant is estimated to be \$3,702.50. Accumulated amortization of CIAC in the amount of \$3,702.50 would also be retired. The loss which would be recognized on this retirement is \$11,143.14.

Martin County

ISSUE 26: Should those plant improvements at Fox Run not required by Order No. 21408 be included in the rate base?

SOUTHERN STATES: No position at this time.

ISSUE 27: Should the purchased storage shed at the Fox Run Water plant be capitalized?

SOUTHERN STATES: No position at this time.

ISSUE 28: Should the Fox Run wastewater treatment facilities be retired when the Martin County system is

available to interconnect, and, if so, what are the appropriate adjustments?

SOUTHERN STATES: Yes, the plant should be retired if such an interconnect is made available. However, any adjustment which might be appropriate if the Martin County system is "available" to interconnect would be based on mere speculation of what might occur at some unknown and indefinite time in the future. Adjustments based on such speculation are not appropriate. If the Commission decides otherwise, the Company must be permitted to recover in this proceeding the prospective investments in the interconnect, projected capacity fees, etc. and the plant to be retired must be treated in accordance with Commission precedent.

Putnam County

ISSUE 29: What adjustments should be made related to the River Park water plant abandonment?

SOUTHERN STATES: The Company assumes that this issue relates to the #2 water plant. The plant was not abandoned. Therefore, no adjustment would be appropriate.

ISSUE 30: Should an adjustment be made to exclude the River Park no. 2 plant from used and useful?

SOUTHERN STATES: This issue appears to be a duplication of Issue No. 29.

ISSUE 31: What adjustments should be made for the new equipment added to the Silver Lake Oaks system?

SOUTHERN STATES: Used and useful should be adjusted to reflect the additional equipment. The finished water storage tanks

should be 67% used and useful and the high service pumps should be 36% used and useful.

**ISSUE 32: Should Hermits Cove and St. Johns Highlands be considered one system for ratemaking purposes?**

**SOUTHERN STATES:** The Company does not oppose such ratemaking treatment as long as the combined revenue requirements are recovered.

**ISSUE 33: Should Interlachen Lake Estates and Park Manor be considered one system for ratemaking purposes?**

**SOUTHERN STATES:** The Company does not oppose such ratemaking treatment as long as the combined revenue requirements are recovered.

**ISSUE 34: Should Saratoga Harbor and Welaka be considered one system for ratemaking purposes?**

**SOUTHERN STATES:** The Company does not oppose such treatment as long as the combined revenue requirements are recovered.

**Volusia County**

**ISSUE 35: Should the expenses for the program to clean and seal the collection system and correct the infiltration problem at Jungle Den be capitalized?**

**SOUTHERN STATES:** No. The work performed is expected to be performed every three (3) years. The expense should be amortized over three (3) years.

**ISSUE 36: Is infiltration for the Jungle Den wastewater system excessive, and, if so, what adjustments are appropriate?**

SOUTHERN STATES: No. Based on the allowable design criteria, the level of infiltration is acceptable.

ISSUE 37: What is the fire flow requirement for the Deltona Lakes system?

SOUTHERN STATES: 2500 GPM for 2 hours.

EVERY SYSTEM

ISSUE 38: Should plant-in-service be adjusted?

SOUTHERN STATES: No.

ISSUE 39: Which systems should be allowed a margin reserve in used-and-useful and in what amount?

SOUTHERN STATES: Per the MFRs (Schedule F-8).

ISSUE 40: Which systems have excessive unaccounted-for water and what adjustments are appropriate as a result?

SOUTHERN STATES: No systems have excessive unaccounted for water and no adjustments are appropriate.

ISSUE 41: Which systems have excessive infiltration and what adjustments are appropriate as a result?

SOUTHERN STATES: No systems have excessive infiltration. Therefore, no adjustment should be made.

ISSUE 42: Which water systems are devoting fire flow capacity to connect new customers, and what action should the Commission take as a result?

SOUTHERN STATES: None. No action should be taken by the Commission. No county has informed the Company that fire flow requirements are not being met. Fire flow is a level of service issue and there has been no prefiled testimony, pleadings or other

factual predicate which suggests that new customers are being served by fire flow capacity. Therefore, the Company has not had the opportunity to address or rebut any allegation to the contrary.

**ISSUE 43: Which systems should include a fire flow allowance in used-and-useful and in what amount?**

**SOUTHERN STATES:** Per the MFRs.

**ISSUE 44: What are the used-and-useful percentages for the water treatment facilities?**

**SOUTHERN STATES:** The used and useful percentages should be as set forth in the MFRs.

**ISSUE 45: What are the used-and-useful percentages for the water distribution systems?**

**SOUTHERN STATES:** The used and useful percentages should be as set forth the MFRs.

**ISSUE 46: What are the used-and-useful percentages for the wastewater treatment facilities?**

**SOUTHERN STATES:** The percentages set forth in the MFRs should be adjusted upward for wastewater treatment plants which are impacted by DER Rule 17-600.405, F.A.C., and thus require a four (4) year margin reserve. The Commission's recent approval of the Memorandum of Understanding with DER in which the Commission agrees to acknowledge and recognize the impact of Rule 17-600.405, F.A.C., requires modification of the used and useful percentages set forth in the MFRs. The resulting increase in revenue requirements should be used to set off against any downward adjustments the Commission ultimately might decide are necessary.

**ISSUE 47: What are the used-and-useful percentages for the wastewater collection systems?**

**SOUTHERN STATES:** The used and useful percentages should be as set forth in the MFRs.

**ISSUE 48: Should accumulated depreciation be adjusted?**

**SOUTHERN STATES:** Fall-out number.

**ISSUE 49: Should CIAC be adjusted?**

**SOUTHERN STATES:** The Company has kept CIAC records and produced substantial competent support for designated CIAC levels. No adjustment to CIAC is appropriate other than those associated with plant retirements which the Commission may determine are appropriate.

**ISSUE 50: Should accumulated amortization of CIAC be adjusted?**

**SOUTHERN STATES:** Fall-out numbers.

**ISSUE 51: What are the proper amounts for investment in land to be included in the rate bases?**

**SOUTHERN STATES:** Land to be included in rate base is set forth in the MFRs. The Deltona land which was controversial in previous Docket No. 900329-WS has been adjusted by the Company based upon appraisals of original cost performed by independent appraisers. There has been no prefiled testimony, pleadings or other factual predicate identified to the Company which suggests that any portion of the identified investments in land are unreasonable or were imprudently made. Therefore, the Company has not had the opportunity to address or rebut any allegation to the contrary.

**ISSUE 52: What are the proper allowances for working capital?**

**SOUTHERN STATES:** As indicated in the Company's response to Issue No. 15, the one-eighth O&M method of determining working capital is appropriate. The Company utilized this method in this proceeding. The working capital reflected in the MFRs is appropriate.

**ISSUE 53: What are the rate bases?**

**SOUTHERN STATES:** The rate bases are as set forth in the MFRs subject to any adjustments approved by the Commission.

**COST OF CAPITAL**

**General**

**ISSUE 54: What is the appropriate rate of return on equity?**

**SOUTHERN STATES:** The appropriate rate of return on equity is set forth in the MFRs per the Commission's most recent authorized leverage graph.

**ISSUE 55: Should the cost of debt capital be adjusted to reflect reduced interest rates for variable-cost debt components?**

**SOUTHERN STATES:** The cost of debt capital should be adjusted to reflect either increased or reduced interest rates for variable-cost debt components as they exist at a reasonable time before the evidentiary hearings in this proceeding.

**ISSUE 56: What is the appropriate cost rate for deferred investment tax credits?**

**SOUTHERN STATES:** Per the MFRs.

**ISSUE 57: What is the appropriate amount of accumulated**



deferred income taxes to be included in the capital structure?

SOUTHERN STATES: Per the MFRs.

ISSUE 58: What is the appropriate overall cost of capital including the proper components, amounts, and cost rates?

SOUTHERN STATES: Per the MFRs as modified by the Company's response to Issue No. 55.

NET OPERATING INCOME

General

ISSUE 59: Should the provision for outside accounting services be reduced to reflect any projected future savings?

SOUTHERN STATES: No. If projections of possible savings are to be considered, the Company also should be permitted to recover in this proceeding the actual cost increases experienced since the test year ended as well as a return on its investments made since the test year. These cost increases and investments at least are known and quantifiable whereas speculative levels of savings are not.

ISSUE 60: Should those penalties that were not deducted for income tax filing purposes be excluded for ratemaking purposes?

SOUTHERN STATES: The Company does not understand this issue as written.

ISSUE 61: Are administrative salaries reasonable, and, if not, what adjustments are appropriate?

**SOUTHERN STATES:** Administrative salaries are reasonable and no adjustment is appropriate. There has been no prefiled testimony, pleading or other factual predicate identified to the Company which suggests that any portion of administrative salaries are not reasonable. Therefore, the Company has not had the opportunity to address and rebut any allegation in such regard.

**ISSUE 62:** What is the appropriate method for allocating administrative and general expenses, and what adjustments are appropriate?

**SOUTHERN STATES:** No adjustments are appropriate. The allocation of these expenses based on customers is appropriate for the following reasons: (1) it is the method invariably used by the Commission in all prior Southern States and, to the Company's knowledge, other water/wastewater utilities rate proceedings; (2) no customer will contribute more than any other customer; (3) customer usage (ERCs) has no impact on the levels of A&G expenses; (4) direct labor is distorted by DER staffing requirements (rules and permits) as well as the unusual occurrences, *i.e.*, line breaks, which may require additional personnel or overtime in the test year; (5) economies of scale are recognized whereas an allocation in the manner advocated by Public Counsel obliterates such economies; and (6) the other reasons presented in the Company's evidence.

**ISSUE 63:** What is the appropriate allowance for rate case expense?

SOUTHERN STATES: The rate case expense requested by the Company in this proceeding, including legal, accounting and consulting fees as well as mailing, copying and other costs, is approximately \$13,000 per system. There is no way that this extraordinary low level of expenses per system could have been achieved if each system were filed individually. The Company is aware of no litigated rate proceeding in which rate case expense is anywhere near this low figure. Recovery of the total amount of rate case expense requested by the Company, as adjusted for the amount of rate case expense actually incurred, is appropriate.

**ISSUE 64:** Should the Commission allow the \$188,107 proforma increase to customer accounting and the \$76,419 proforma increase to general expenses which the utility projects due to the acquisition of Lehigh Utilities, and, if not, what adjustments are appropriate?

SOUTHERN STATES: Calling the pro forma adjustment a "projection" is a misnomer. The adjustment represents the roll-in of actual customer account and A&G expenses of Lehigh on an annualized basis after reductions for costs eliminated after the acquisition of Lehigh. No adjustments are appropriate.

**ISSUE 65:** Should the Commission allow the utility's \$148,041 proforma adjustment to recapture three months of allocated Lehigh administrative and general expenses be approved, and, if not, what adjustments are appropriate?

**SOUTHERN STATES:** The pro forma adjustment should be approved since it was required merely to produce the accurate total of combined Lehigh and Southern States A&G expenses. A&G services now are provided by Southern States and related expenses are allocated to all systems based on the number of customers served. The Commission either must permit recovery of these A&G expenses as proposed by the Company in this proceeding or permit Lehigh Utilities, Inc. to recover the \$148,041 solely from Lehigh customers in Docket No. 911188-WS in the absence of some evidence, which has not been produced to date, that the costs are unreasonable or imprudently incurred. To do otherwise would deny the Company recovery of prudently incurred and reasonable operating expenses in violation of law.

**ISSUE 66:** Should the Commission allow the utility's \$1,435,469 proforma adjustment for post-retirement benefits, and, if not, what adjustments are appropriate?

**SOUTHERN STATES:** The Commission should permit Southern States to recover the entire amount of FASB 106 expenses requested. The Company agrees to fully fund its FASB 106 expenses. The failure to provide for these expenses will negatively impact the Company's ability to obtain the lowest cost financing since investors and lenders will be confronted with significant unfunded liabilities in the absence of such recovery.

**ISSUE 67:** Should the Commission allow the utility's 3.63% escalation factor for operating and maintenance expenses other than payroll and rate case expense,

**and, if not, what adjustments are appropriate?**

**SOUTHERN STATES:** Yes. By the time final rates are established in this proceeding, the level of costs which Southern States seeks escalation will be approximately fifteen (15) months old. The requested escalation would be available to the Company but for the dire financial circumstances facing the Company which required a general rate increase. Since the Commission's indexing provision itself constitutes a recognition of the existence of inflation, the indexing adjustment should not be denied to the Company.

**ISSUE 68:** Should the Commission allow the utility's 5.00% increase to payroll expense, and, if not, what adjustments are appropriate?

**SOUTHERN STATES:** The 5% increases 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 employees hired at below market salaries and gradually brought up to market levels, incentive adjustments (i.e., obtaining operator licenses or upgrading licenses) education reimbursements. These adjustments contribute to the Company's ability to provide the highest quality service to our customers by ensuring a highly qualified, experienced, licensed workforce. 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.

**ISSUE 69: Should operating expenses be adjusted?**

**SOUTHERN STATES:** No adjustment to operating expenses is appropriate.

**ISSUE 70: Should depreciation expense be adjusted?**

**SOUTHERN STATES:** No adjustment to depreciation expense is appropriate.

**ISSUE 71: Should taxes other than income taxes be adjusted?**

**SOUTHERN STATES:** No adjustment to taxes other than income is appropriate except the regulatory assessment for which will be a fall-out number.

**ISSUE 72: What is the appropriate provision for test year income taxes?**

**SOUTHERN STATES:** Fall-out number.

**ISSUE 73: Is a parent debt adjustment appropriate, and, if so, what is the proper amount?**

**SOUTHERN STATES:** The Company has included the parent debt adjustment in the MFRs and no adjustment is appropriate.

**ISSUE 74: What is the adjusted operating income amount before any revenue increase?**

**SOUTHERN STATES:** Per the MFRs.

**REVENUE REQUIREMENT**

**ISSUE 75: What are the systems' revenue requirements?**

**SOUTHERN STATES:** Per the MFRs.

**ISSUE 76: Should the base facility and gallonage charge rate structure be implemented for all systems?**

**SOUTHERN STATES: Yes.**

**ISSUE 77: Is a wastewater gallonage cap of 10,000 gallons appropriate for all systems, and, if not, what is (are) the appropriate cap(s)?**

**SOUTHERN STATES: Southern States has proposed a 10,000 gallon cap. Southern States does not oppose a lower cap if the Commission believes a lower cap is prudent. However, the Company anticipates that establishing a lower cap will increase the gallonage charge and result in increased customer dissatisfaction.**

**ISSUE 78: Should the wastewater gallonage charges be calculated assuming 80% of water sold to residential customers and 96% of water sold to general service customers is returned to the wastewater systems?**

**SOUTHERN STATES: The Company is not aware of any factual predicate which would justify this assumption. The wastewater gallonage charge should be established at the levels set forth in the MFRs.**

**ISSUE 79: Should the residential wastewater base facility charge be increased by the American Waterworks Association factors?**

**SOUTHERN STATES: Southern States does not oppose the elimination of the proposed factoring. However, rates must be adjusted to meet the Company's revenue requirements if the factoring is eliminated.**

**ISSUE 80: Should the Commission approve the utility's request to create a base facility charge for meter sizes (8" and 10" meters) not included in the utility's present tariffs?**

**SOUTHERN STATES:** Yes. The Company's request that base facility charges be established is premised solely on the Company's desire to have these charges available for future customers who require service from such meters. By establishing these charges now, Southern States will avoid unnecessary inconvenience to customers in the future as well as unnecessary applications to the Commission for such approval in the future (with associated use of Commission, Commission Staff and Company time.

**ISSUE 81: Should public fire protection rates be eliminated?**

**SOUTHERN STATES:** No position at this time.

**ISSUE 82: Should private fire protection rates be calculated by dividing the approved base facility charges for each applicable meter size by 1/3?**

**SOUTHERN STATES:** No position at this time.

**ISSUE 83: Should a private fire protection rate for 5/8" x 3/4" lines be approved?**

**SOUTHERN STATES:** No position at this time.

**ISSUE 84: Should the utility convert all billing cycles to a monthly basis?**

**SOUTHERN STATES:** Yes. Conversion of all systems to monthly billing cycles is administratively efficient.

**ISSUE 85: Should the Commission adopt the utility's proposed**



**rate structure, and, if not, what is the appropriate rate structure?**

**SOUTHERN STATES:** Yes. The Company's proposed rate structure is designed to achieve reasonable rates for all customers. The proposed rate caps result in a minimal subsidy of approximately 1.9% of certain water and wastewater customers. This level of subsidy is significantly below subsidies frequently encountered in utility ratemaking. The Company hopes to encourage growth on the systems benefitting from the proposed rate caps which, if achieved, would reduce or even eliminate even this minimal subsidy in the future.

**EVERY SYSTEM**

**ISSUE 86:** What adjustments, if any, to the Bills and Gallons identified in Schedules No. E-2A of the MFRs are appropriate?

**SOUTHERN STATES:** No adjustment is appropriate. There has been no prefiled testimony, pleading or other factual predicate identified to the Company which suggests that any adjustment to the Bills and Gallons identified in Schedules No. E-2A of the MFRs is appropriate.

**ISSUE 87:** Which systems should have charges for the sale of effluent, and what should the charges be?

**SOUTHERN STATES:** The only systems where effluent sales take place are: Deltona Lakes (Deltona Golf and Country Club) and Florida Central Commerce Park. The charge collected for Deltona Lakes is 6 cents per 1000 gallons over the twenty year life of the

Agreement. The charge for Florida Central Commerce Park is 12 cents per sprinkler head. No other sales occur. Contracts for effluent reuse also exist on the University Shores, Point O'Woods, Amelia Island and Deltona Lakes (Glen Abbey Golf and Country Club) systems. No charge is provided for in these contracts. The Commission must remember that effluent reuse is still in the pioneering stage and Southern States is a staunch advocate and provider of significant levels of reuse. However, recipients of reuse have not been required to accept reuse water, particularly where sufficient water was available to such recipients from their own wells. No incentive existed for accepting our reuse water. It would not be appropriate for the Commission to now impose charges or attempt to impute revenues where contracts do not permit Southern States to collect such charges, particularly in the absence of any established policy or precedent from this Commission.

**ISSUE 88:** Are the existing customer deposits being kept in accordance with Rule 25-30.311, Florida Administrative Code?

**SOUTHERN STATES:** Yes.

**ISSUE 89:** What are the appropriate final rates?

**SOUTHERN STATES:** Fall-out number.

**ISSUE 90:** 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?**

**SOUTHERN STATES:** Fall-out number.

**ISSUE 91:** 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?

**SOUTHERN STATES:** No.

**OTHER**

**ISSUE 92:** Should the Commission adjust the utility's proposed allowance for funds prudently invested (AFPI) charges?

**SOUTHERN STATES:** No.

**ISSUE 93:** Should the Commission adjust the utility's proposed allowance for funds used during construction (AFUDC) calculation?

**SOUTHERN STATES:** No.

**E. STIPULATIONS**

None at this time.

**F. PENDING MOTIONS**

1. Southern States' Third Motion for Temporary Protective Order for Confidential Information and Notice of Intent to Request Confidential Classification - filed on September 21, 1992.

2. Southern States' Second Request for Confidential Classification and Motion for Protective Order - filed on September 22, 1992.


3. Southern States' Motion for Protective Order regarding Public Counsel's Notice of Deposition of Karla Teasley and Brian Armstrong - filed on October 8, 1992.

4. Southern States' Request for Oral Argument on Motion for Protective Order - filed on October 8, 1992.

5. Southern States' Third Request for Confidential Classification and Motion for Protective Order - filed on October 12, 1992.

6. Southern States' Motion for Expedited Responses to Discovery - filed on October 14, 1992.

Respectfully submitted,

  
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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a copy of the foregoing Southern States' Prehearing Statement was furnished by U. S. Mail, this 16th day of October, 1992, to the following:

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