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# APGAR, PELHAM, PFEIFFER & THERIAQUE

Attorneys at Law

Robert C. Apgar  
Thomas G. Pelham  
G. Steven Pfeiffer  
David A. Theriaque

909 East Park Avenue  
Tallahassee, Florida 32301  
Telephone: 904/222-5984  
Facsimile: 904/222-7144

August 29, 1994

## BY HAND DELIVERY

ORIGINAL  
FILE COPY

Ms. Blanca S. Bayo, Director  
Division of Records and Reporting  
101 East Gaines Street  
Tallahassee, Florida 32301

Re: Petition for Interim and Permanent Rate Increase in Franklin County, Florida,  
by St. George Island Utility Company, Ltd., FPSC Docket No. 940109-WU.

Dear Ms. Bayo:

Enclosed for filing in the above docket are the original and fifteen copies of the following documents:

- (1) Position Statements of St. George Island Utility Company, Ltd.;
- (2) Post-Hearing Memorandum of Law of St. George Island Utility Company, Ltd.; and
- (3) Proposed Findings of Fact of St. George Island Utility Company, Ltd.

ACK \_\_\_\_\_  
 AFA \_\_\_\_\_  
 APP \_\_\_\_\_  
 CAF \_\_\_\_\_  
 CMU \_\_\_\_\_  
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 EAG \_\_\_\_\_  
 LEG \_\_\_\_\_  
 LIN \_\_\_\_\_  
 OPC \_\_\_\_\_  
 RCH \_\_\_\_\_

Also enclosed is a copy of each of the above documents on diskette in version 5.1, Word Perfect.

Please acknowledge receipt and filing of the above by stamping the duplicate copy of this letter and returning it to the undersigned.

SEC: **RECEIVED & FILED**  
 WAS: *[Signature]*  
 OTH: *[Signature]*  
 FPSC-BUREAU OF RECORDS

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*Post Hearing*  
 DOCUMENT NUMBER-DATE  
 08871 AUG 29  
 FPSC-RECORDS/REPORTING

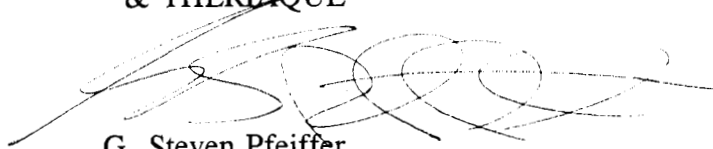
Ms. Blanca S. Bayo  
August 29, 1994  
Page 2

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Thank you for your assistance.

Sincerely,

APGAR, PELHAM, PFEIFFER  
& THERIAQUE

A handwritten signature in black ink, appearing to read 'G. Steven Pfeiffer', with a large, stylized flourish extending to the right.

G. Steven Pfeiffer

GSP/rd  
Enclosures

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for Interim and )  
Permanent Rate Increase in )  
Franklin County, Florida by )  
ST. GEORGE ISLAND UTILITY )  
COMPANY, LTD. )

DOCKET NO. 940109-WU  
Filed: August 29, 1994

ORIGINAL  
FILE COPY

POSITION STATEMENTS OF  
ST. GEORGE ISLAND UTILITY CO., LTD.

Petitioner St. George Island Utility Company, Ltd. in accordance with Rule 22.056, Florida Administrative Code, submits these position statements. Petitioner has also filed Proposed Findings of Fact and a Post Hearing Memorandum of Law.

References

The Petitioner, St. George Island Utility Company, Ltd. will be referenced as "SGIU."

The Florida Public Service Commission will be referenced as "the Commission."

References to the transcript of the final hearing shall be designated "Tr." followed by the volume and page number. For example the opening of the hearing would be referenced "Tr. v.1, p.5."

BASIC POSITION

SGIU began providing water service to residents of St. George Island, Franklin County, Florida in 1979. SGIU operated the utility without any increase in rates until 1989, when it filed its first petition for rate increase with the Commission.

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*[Signature]*  
FPSC-BUREAU

DOCUMENT NUMBER-DATE

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(Docket No. 871177-WU). The Commission approved only a modest increase in its final order (Order No. 21122), and directed SGIU to implement improvements to the system. SGIU has implemented all of these improvements and a number of others on its own initiative, even though it has been operating under circumstances where the utility's revenues are insufficient to meet expenses. In order to continue offering satisfactory quality of service, SGIU needs to increase its rates so that the utility is able to meet expenses and so that investors receive a fair return. SGIU has based its application on the 1992 test year. It has supplemented 1992 expenses with pro forma adjustments at a level to serve 1992 customers. The pro forma adjustments all relate to programs and improvements needed to ensure satisfactory quality of service.

**ISSUE 1: Is the quality of service provided by St. George Island Utility Co., Ltd. satisfactory?**

\*The quality of service provided by SGIU is satisfactory, and has improved dramatically since Mr. Brown took direct responsibility for the management of the utility. SGIU has implemented the programs directed by the Commission, is able to meet peak load demand without interruption of service, and experiences few customer complaints.\*

**ISSUE 2: Has St. George accurately stated the original cost of the water system?**

\*Yes. The issue of original cost was fully litigated in the prior rate case involving SGIU. No new evidence has been presented in this proceeding. Under *res judicata* and collateral estoppel, the Commission cannot revisit original cost issues in this proceeding. The evidence in this proceeding supports the prior determination.\*

**ISSUE 3: Should the utility's pro forma adjustment of \$21,000 for engineering design fees, as stated in Audit Exception No. 14, be removed?**

\*No. This adjustment to rate base is for previously unrecorded fees incurred in construction of the elevated tank. Invoices are included in response to the Audit exception. The costs are not a duplication of expenses and have not been previously capitalized.\*

**ISSUE 4: Should plant in service be reduced by \$1,295 for leasehold improvements?**

\*The reduction should be \$647, or half of the leasehold improvements. The cost of improvements should be adjusted to reflect only the portion allocated to utility use, which is 50 percent of the total.\*

**ISSUE 5: Is an adjustment necessary to reflect the use of office furniture and equipment by utility affiliates?**

\*No. The use of office furniture and equipment by utility affiliates is so minimal that it cannot be meaningfully calculated. All of the furniture and substantially all of the equipment used by SGIU belongs to an affiliate and is used far more than any affiliate uses equipment of SGIU.\*

**ISSUE 6: Should adjustments be made to plant and contributions in aid of construction?**

\*An adjustment of \$44,440 should be made to reflect contributions received in 1991 but not booked until 1993. An adjustment ascribing higher connection fees to certain lots should not be made because the lots were subject to and paid the previously approved lower rates.\*

**ISSUE 7: Does the utility's case in chief present an appropriate matching of rate base, on the one hand, with revenues and expenses on the other?**

\*Yes. SGIU, with the Commission's approval, used 1992 as the test year. SGIU included pro forma adjustments for programs not in place in 1992, recognizing the level of costs necessary to serve 1992 customers. The introduction of revenues or costs that do not apply to the test year are inappropriate.\*

**ISSUE 8: What is the appropriate level of test year rate base?**

\*The appropriate level of test year rate base is \$791,175. This figure adjusts the originally requested rate base to

recognize the effect of prehearing stipulations and reduced pro forma costs based on evidence presented at the hearing.\*

**ISSUE 9: What capital structure should be used for ratemaking purposes?**

\*The capital structure should be 100 percent debt, treating the negative equity balance consistently with the Commission's treatment in Order No. 21122. Long and short term debt should be reconciled to rate base on a pro rata basis with customer deposits reflected in the utility's average test year balance.\*

**ISSUE 10: What is the weighted average cost of capital including the proper components, amounts and cost rates associated with the capital structure used for ratemaking purposes?**

\*The weighted average cost of capital is 8.04 percent composed of:

	<u>Ratio</u>	<u>Cost Rate</u>	<u>Weighted Cost</u>
Long term debt	89.90%	7.68%	6.90%
Short term debt	8.60	12.17	1.05
Customer deposits	<u>1.49</u>	<u>6.00</u>	<u>0.09</u>
	100.00%		8.04%

The cost of customer deposits is reduced to reflect current cost under Commission rules.\*

**ISSUE 11: Should the numerous pro forma adjustments to the test year in this case be contrasted with those requested in the immediately prior dismissed rate case?**

\*No. SGIU is seeking through pro forma adjustments to implement programs that are important to quality of service, and that are not now part of SGIU's rate structure. Without the

programs SGIU will have difficulty maintaining satisfactory service. The programs should be evaluated on their merits.\*

**ISSUE 12: Are the expenses claimed by St. George comparable to those experienced by other Class B water utilities under Commission jurisdiction and, if not, are any adjustments appropriate?**

\*SGIU expenses are not comparable to the expenses of most other Class B utilities. SGIU provides service to a unique area with unique problems that add to the cost of service. It is inappropriate to compare SGIU and other utility expenses without accounting for unique issues confronted by SGIU.\*

**ISSUE 13: Should test year expenses be adjusted to reflect an additional allocation of expenses to utility affiliates?**

\*No. While SGIU affiliates may benefit marginally from SGIU expenses, the benefit to affiliates is minimal, below anything that can be meaningfully calculated. SGIU benefits far more significantly from affiliate expenses as demonstrated by the written lease.\*

**ISSUE 14: Should employee salaries and wages be reduced?**

\*No. SGIU service has improved because good employees have stayed. If employees are not adequately compensated they will leave. SGIU has suffered in the past when employees left for better positions. SGIU needs its present full-time employees to



meet responsibilities imposed by government regulation, and to provide adequate service.\*

**ISSUE 15: Should pension benefits be reduced?**

\*No. A pension program is important to a maintaining employee stability. SGIU has established a program that places pension funds in an account that is independently managed. The program is not only desirable, it is fair to SGIU employees.\*

**ISSUE 16: Should an adjustment be made to reduce engineering contractual services by \$1,959 as suggested in Audit Disclosure No. 6?**

\*No. SGIU uses the services of Wayne Coloney and other engineers for advice and guidance that benefits the interests of SGIU and its customers. While day-to-day engineering tasks are provided by less expensive firms, the oversight and counsel of Mr. Coloney has proved invaluable to SGIU.\*

**ISSUE 17: Should any adjustment be made to contractual services-accounting?**

\*No. Bookkeeping and accounting responsibilities have increased in recent years. By using the services of two accountants, one with day-to-day responsibilities and one with oversight responsibilities, SGIU has improved its books and records from 1989 to 1992, and since 1992.\*

**ISSUE 18: Should an adjustment be made to reduce legal contractual services?**

\*The need for legal services will likely decrease from the \$24,000 requested, but will always be at least \$12,000 annually in order to ensure that legal documents are competently negotiated and drafted and to ensure that responsibilities imposed by regulatory agencies are met.\*

**ISSUE 19: Should an adjustment be made to reduce management fees?**

\*Management fees should not be adjusted in any manner that will render it impossible for SGIU to hire and keep a competent manager. At minimum, an annual salary of \$42,000 plus all employee benefits is required to recruit and keep competent management.\*

**ISSUE 20: Should an adjustment be made to contractual services-other?**

\*The services are needed in order to maintain quality service. The expense should be reduced by \$27,845 to reflect Stipulation 21, triennial testing fees that were reflected as annual, duplication of sample pickup costs, and the reduction in tank maintenance and pipe cleaning expense.\*

**ISSUE 21: Should transportation expenses be reduced?**

\*No. SGIU employees are compensated a set amount for travel. Actual travel that they undertake on behalf of the

utility exceeds the allowance. It would be more costly for SGIU to own and maintain its own vehicles.\*

**ISSUE 22: Should an adjustment be made to reduce insurance expense?**

\*SGIU needs to maintain worker's compensation, casualty and liability insurance. Inadequate expense was allocated in the prior rate proceeding to obtain insurance. Total insurance costs can be reduced by \$23,799 based upon actual costs that SGIU has incurred to obtain needed insurance.\*

**ISSUE 23: Is St. George's level of unaccounted for water excessive, and if so, should an adjustment be made to the chemical purchased power expense?**

\*No. SGIU's unaccounted for water is within normal ranges, especially when the unusual length of the SGIU delivery system is considered.\*

**ISSUE 24: Should any adjustment be made to bad debt expense?**

\*No. SGIU experiences unusually high bad debt expenses on account of a transient population with many customers who rent residences on a month-to-month basis.\*

**ISSUE 25: Should miscellaneous expenses be reduced?**

\*Miscellaneous expenses should be reduced by \$3,544 to adjust for items identified in the audit and not disputed by

SGIU. Otherwise, miscellaneous expense items reclassify test year expenses and reflect an increase in expenses.\*

**ISSUE 26: What is the appropriate amount of rate case expense?**

\*Rate case expense is \$154,734.88. Annual amortization expense is \$38,683.72. This includes \$134,024.88 incurred through the initial hearings, \$20,710.00 to complete the extended hearings, and estimates for preparation of post-hearing filings.\*

**ISSUE 27: Should an adjustment be made to amortization expenses for the system analysis, aerator analysis, hydrological study, and fire projection studies?**

\*These programs are needed to maintain good quality service. The expenses can be reduced by \$22,029 to reflect confirmed reductions in the cost of obtaining the services and to amortize the study costs over five years rather than two years.\*

**ISSUE 28: Should an adjustment be made to taxes other than income?**

\*Taxes other than income should be reduced by \$3,101 in accordance with Audit Exception No. 28. SGIU has not taken issue with the exception.\*

**ISSUE 29: Should test year expenses be adjusted to eliminate the cost of maintaining the old generator?**

\*No. SGIU now has two generators. It had one during the test year. These generators need to be maintained.\*

**ISSUE 30: Does the utility's case in chief present an appropriate matching of revenues and expenses?**

\*Yes. Revenues and expenses are both taken from the 1992 test year. Pro forma expenses represent additional costs necessary to provide adequate service to test year customers. There is no justification to include revenues or expense from another period not associated with test year customers.\*

**ISSUE 31: What is the appropriate level of test year operating income?**

\*The appropriate level of test year operating income is \$63,610, after adjusting the requested amount to recognize the effect of prehearing stipulations and reduced pro forma costs based on evidence presented at the hearing.\*

**ISSUE 32: What is the total revenue requirement?**

\*The total revenue requirement is \$629,279, after adjusting the requested amount to recognize the effect of prehearing stipulations and reduced pro forma costs based upon evidence presented at the hearing.\*

**ISSUE 33: What are the appropriate rates and charges and their effective dates?**

\*Appropriate rates to recover adjusted revenue requirements range from a monthly charge of \$30.91 for a 5/8" x 3/4" residential and general service meter, and a gallonage charge of \$2.84 per MG.\*

**ISSUE 34: Should the utility's service availability policy and charges be revised?**

\*The appropriate reduction after four years, based on the adjusted rate case expense, ranges from a monthly charge of \$1.98 for a 5/8" x 3/4" residential and general service meter, and a gallonage charge of \$0.18 per MG.

**ISSUE 35: Should the utility's service availability charges be escrowed?**

\*No. Placing funds in escrow serves to frustrate management of the utility, cause confusion in operations, and to delay payment for needed equipment and supplies. There has been no showing that SGIU has not met its obligations to provide service to customers who have paid service availability charges.\*

**ISSUE 36: 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?**

\*The appropriate reduction after four years ranges from \$1.99 for residential and general service, and \$0.18 per MG for gallonage charges.\*

**ISSUE 37: 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?**

\*No portion of the interim rate increase should be refunded.\*

**ISSUE 38: Should the utility's AFPI charge be adjusted?**

\*AFPI will be calculated and collected in the designated "Plantation areas" in accordance with Stipulation 20d.\*

**ISSUE 39: Does the utility keep its books and records in substantial compliance with the Commissions Rules and Regulations and, if not, should it be penalized?**

\*Yes. The Commission determined that SGIU books were kept in substantial compliance with rules and regulations in 1992. The books have improved since then. There is no evidence in this proceeding that would justify a finding that the books and records are not in substantial compliance.\*

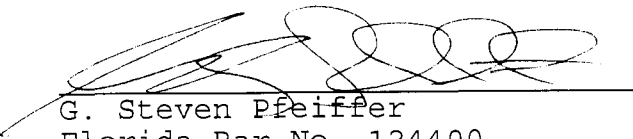
**ISSUE 40: What is the number of ERCs that the utility is currently serving and what is the maximum number of ERCs that the utility is capable of serving while maintaining compliance with the regulatory agencies?**

\*The utility is presently serving approximately 1200 ERCs and is capable of serving well in excess of 1541 ERCs while maintaining compliance with all government regulations.\*

**ISSUE 41: Is additional capacity required of the utility, and if so, what specific actions, if any, are necessary in order to achieve additional capacity?**

\*The utility is fully capable of meeting existing needs and projected growth through 1998. By constructing improvements recommended by its engineers, SGIU is capable of meeting needs of its customers in the future. SGIU is fully capable of implementing needed improvements.\*

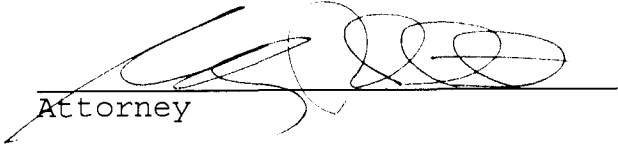
Respectfully submitted this 29<sup>th</sup> day of August, 1994.

  
G. Steven Pfeiffer  
Florida Bar No. 124400  
APGAR, PELHAM, PFEIFFER  
& THERIAQUE  
909 East Park Avenue  
Tallahassee, Florida 32301  
Telephone: 904/222-5984

**Attorneys for St. George  
Island Utility Company, Ltd.**

**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by hand delivery to Robert Pierson and Suzanne Summerlin, Florida Public Service Commission, 101 East Gaines Street, Tallahassee, Florida 32399-0863; and to Harold McLean, Associate Public Counsel, Claude Pepper Building, Room 812, 111 West Madison Street, Tallahassee, Florida 32399-1400; and a copy has been furnished by U.S. Mail to Barbara Sanders, St. George Island Water and Sewer District, Post Office Box 157, Apalachicola, Florida 32320 this 29<sup>th</sup> day of August, 1994.

  
Attorney