

MEMORANDUM

DATE: March 1, 1996

TO: Mary A. Bane, Deputy Executive Director/Technical

FROM: Chuck Hill, Director, Division of Water and Wastewater
Lila Jaber, Chief, Bureau of Water and Wastewater, Division
of Legal Services

RE: March 5, 1996 Agenda Conference, Item No. 29 regarding
Docket No. 941151-WS, Application for transfer of facilities
from Orange-Osceola Utilities, Inc. to Southern States
Utilities, Inc.

In Item No. 29 staff is recommending that Docket No. 941151-WS be merged into Docket No. 950495-WS for the purpose of addressing the protested portion of Order No. PSC-95-1325-FOF-WS issued in Docket No. 941151-WS. Additionally, staff is recommending that the parties be allowed to prefile testimony limited to the issue of whether capitalized interest should be included in Orange-Osceola Utilities, Inc.'s (OOU) rate base, and that Docket No. 941151-WS be closed.

This recommendation was originally scheduled for the February 20, 1996 Agenda Conference, but was deferred to allow the parties time to determine if they could reach a stipulation regarding this matter. On February 29, 1996, the parties submitted their proposed stipulation. Our staff has reviewed the stipulation and believes it should be approved. Approval of the stipulation, however, materially alters staff's original recommendation as presented in Item No. 29.

Although it might be less confusing for us to request another deferral of the item and submit a revised recommendation, we believe it is important that this recommendation be heard as soon as possible. In the event the Commission decides to approve staff's original recommendation to combine the dockets, the parties will need to prefile testimony regarding the AFUDC/capitalized interest issue prior to the rate case hearing to be held in Docket No. 950495-WS. Postponement of a determination on this recommendation will severely limit the amount of time which the parties have to prepare their additional testimony. Therefore, we are requesting permission to orally amend staff's original recommendation at agenda as discussed below.

OOU and Southern States Utilities, Inc. (SSU) have proposed to stipulate with the Florida Public Service Commission (PSC) to all issues related to the net book value of the former OOU water and wastewater facilities up through the end of the period ended December 31, 1994, as established in Order No. PSC-95-1325-FOF-WS with the exception of the AFUDC/capitalized interest and other

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

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adjustments outlined in Exhibit A to the stipulation, provided the PSC will hear the AFUDC/capitalized interest issue in this transfer proceeding separate and apart from the SSU rate case proceeding and will consider the other adjustments outlined in Exhibit A either at the time of entering into this Stipulation or within the rate case proceeding in Docket No. 950495-WS. A copy of the proposed stipulation is included as Attachment A.

We believe the proposed Stipulation is an acceptable alternative to staff's original recommendation. Also, our staff has reviewed the proposed adjustments to accumulated depreciation and is prepared to make a recommendation on them at this time. Our auditors previously determined that a number of adjustments were necessary to correct the utility's level of accumulated depreciation. In determining whether or not a stipulation was possible, the utilities found two additional items which they believe should be adjusted. Regarding the first adjustment, the utility retired several plant items and appropriately made the corresponding adjustment to accumulated depreciation on its books. However, in recalculating the appropriate level of accumulated depreciation for the transfer docket the auditors and utility inadvertently omitted those depreciation adjustments from the final calculation. Our staff believes it would be appropriate to make those adjustments at this time.

The second adjustment is more in the nature of a mathematical error. OOU previously utilized incorrect depreciation rates. In response to the audit, the utility submitted a recalculation of its accumulated depreciation based on the Commission's guideline depreciation rates. The utility included the depreciation associated with the AFUDC in that calculation. The audit exception regarding removal of the AFUDC included an accumulated depreciation adjustment that was based on the depreciation rates that the utility previously used rather than the Commission's guideline rates. Staff utilized the auditor's adjustment in their final calculation of the utility's accumulated depreciation. Staff agrees with the utility that in light of the previous corrections that were made by the utility, the depreciation that was removed to reflect the removal of AFUDC from plant in service should have been based upon the guideline rates rather than the utility's previous rates. Therefore, our staff believes it would be appropriate to make this adjustment as well. It should be noted that the utilities still do not agree with the removal of the AFUDC from plant in service, but to the extent that it is removed, the associated depreciation that is removed should be based upon the Commission's guideline rates.

Approval of the utility's proposed adjustments reduces the level of accumulated depreciation by \$6,381 for water and \$233,895

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for wastewater. Our staff's calculation of rate base including these adjustments is included as Attachment B. The water and wastewater rate base is shown on Schedules Nos. 1 and 3, respectively. Adjustments to rate base are itemized on Schedules Nos. 2 and 4.

Therefore, we propose to change the recommendation statement on Issue 1 to read as follows:

No. OOU's and SSU's proposed stipulation should be approved. The AFUDC/capitalized interest issue in Docket No. 941151-WS should be heard separate and apart from the SSU rate case proceeding in Docket No. 950495-WS. Also, the rate base, which for transfer purposes reflects the net book value, should be established as \$2,146,418 for the water system and \$7,352,200 for the wastewater system.

If the Commission approves staff's new recommendation on Issue 1, Issue 2 will become a moot issue. Also, if the Commission approves staff's new recommendation on Issue 1, the recommendation on Issue 3 should be changed to read as follows:

No. The docket should remain open pending completion of the hearing on the AFUDC/capitalized interest issue.

Prior to the writing of staff's original recommendation, a separate hearing for the AFUDC/capitalized interest issue was scheduled for July 1 and 2, 1996 in the transfer docket, Docket No. 941151-WS. Therefore, approval of the proposed Stipulation will not present a scheduling problem for these dockets.

cc: John Williams, Division of Water and Wastewater
Marshall Willis, Division of Water and Wastewater
Billie Messer, Division of Water and Wastewater
Martha Golden, Division of Water and Wastewater
Tim Vaccaro, Division of Legal Services

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for Transfer of)
Facilities from ORANGE-OSCEOLA)
UTILITIES, INC. to SOUTHERN STATES) Docket No. 941151-WS
UTILITIES, INC. in Osceola County,)
including transfer of Certificate)
No. 289-S, amendment of Certificate)
No. 066-W for additional territory,)
and cancellation of Certificate No.)
335-W.)

PROPOSED STIPULATION

COMES NOW, ORANGE-OSCEOLA UTILITIES, INC. (hereinafter "OOU") and SOUTHERN STATES UTILITIES, INC. (hereinafter "SSU"), by and through their undersigned attorneys, and pursuant to the provisions of Section 367.071, Florida Statutes (1995) and Rule 25-30.037, Florida Administrative Code ("F.A.C."), and files this Proposed Stipulation, and in support thereof states as follows:

1. By Order No. PSC-95-1325-FOF-WS, dated October 31, 1995, the Florida Public Service Commission approved the transfer of OOU's water and wastewater utility facilities in Osceola County to SSU by final action. Also included within that order was the establishment of the net book value of the facilities as of December 31, 1994, issued as Proposed Agency Action.

2. By Petition dated November 21, 1995, OOU protested Order No. PSC-95-1325-FOF-WS, and requested a hearing pursuant to the provisions of Section 120.57(1), Florida Statutes, on the issue of the net book value proposed under that order.

3. SSU was granted intervention by the protest of Order No. PSC-95-1325-FOF-WS by Commission Order PSC-96-0088-PCO-WS issued on January 17, 1996.

4. OOU and SSU as protestants/parties to the proposed establishment of net book value in the transfer proceeding, are concerned primarily with the issue of the AFUDC/capitalized interest, one other issue related to proper retirement of assets, and a mathematical error arising from the proposed removal of AFUDC/capitalized interest. OOU and SSU have agreed to have the hearing held on the AFUDC/capitalized interest matter separate and apart from any other proceedings before the Public Service Commission.

5. OOU and SSU hereby propose to stipulate to the establishment and components of net book value for the OOU facilities as of December 31, 1994, but for the AFUDC/capitalized interest issue, the two other retirement issues, and the mathematical error as outlined in Exhibit A hereto. OOU and SSU further propose that the Commission receive evidence and decide the AFUDC/capitalized interest issue as the sole issue in this transfer Docket No. 941151-WS. OOU and SSU further propose that because the one issue related to proper retirement of assets and the mathematical error, as outlined in Exhibit A hereto, are relatively simple to verify and review, those be taken up with consideration of this Stipulation, or if that is not possible, that they be taken up for

consideration and decided in the rate proceeding currently pending for SSU in Docket No. 950495-WS.

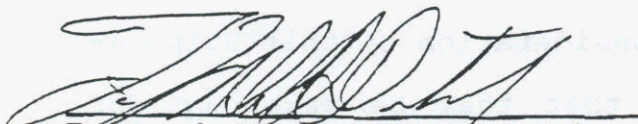
6. SSU proposes to stipulate that it will not raise the AFUDC/capitalized interest issue as an issue in Docket No. 950495-WS.

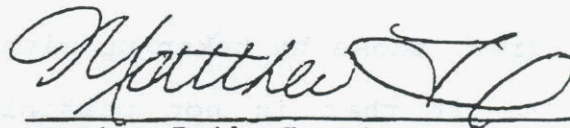
WHEREFORE, OOU and SSU propose to stipulate with the Florida Public Service Commission to all issues related to the net book value of the former OOU water and wastewater facilities up through the end of the period ended December 31, 1994, as established in Order No. PSC-95-1325-FOP-WS with the exception of the AFUDC/capitalized interest and other adjustments outlined in Exhibit A hereto provided the Florida Public Service Commission will hear the AFUDC/capitalized interest issue in this transfer proceeding separate and apart from the SSU rate case proceeding and will consider the other adjustments outlined in Exhibit A hereto, either at the time of entering into this Stipulation or within the rate case proceeding in Docket No. 950495-WS.

Respectfully submitted this 25th day of February, 1996; by:

ROSE, SUNDSTROM & BENTLEY
2548 Blairstone Pines Drive
Tallahassee, Florida 32301
(904) 877-6555

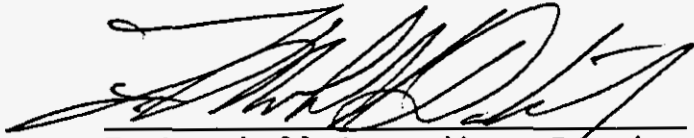
SOUTHERN STATES UTILITIES, INC.
1000 Color Place
Apopka, Florida 32703
(407) 880-0058


F. Marshall Deterding, Esquire
Attorney for Orange-Osceola
Utilities, Inc.


Matthew Feil, Esquire
Attorney for Southern States
Utilities, Inc.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing was furnished by Hand Delivery to Tim Vaccaro, Esquire, Florida Public Service Commission, Division of Legal Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399, this 28th day of February, 1996.



F. Marshall Deterding, Esquire

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ATTACHMENT A
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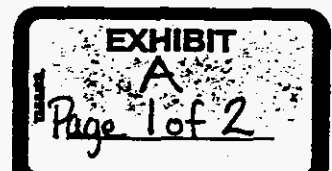
ORANGE-OSCEOLA UTILITIES, INC.
SCHEDULE OF WASTEWATER RATE BASE

As of December 31, 1994

<u>DESCRIPTION</u>	<u>BALANCE PER PAA ORDER</u>	<u>SSU PROPOSED ADJUSTMENTS</u>	<u>BALANCE PER SSU/OCU</u>
Utility Plant in Service	\$ 15,807,018		\$ 15,807,018
CWIP	315,687		315,687
Land	972,811		972,811
Accumulated Depreciation	(4,718,583)	233,895 (1)	(4,484,688)
Contributions-in-aid-of Construction	(8,674,401)		(8,674,401)
CIAC Amortization	1,415,973		1,415,973
TOTAL	<u>\$ 7,118,305</u>	<u>\$ 233,895</u>	<u>\$ 7,352,200</u>

EXPLANATION

- A. To remove the difference between that portion of accumulated depreciation associated with the AFUDC /capitalized interest removed from utility plant in service based on the rates required by FPSC and the rates actually used by OCU on their books 25,317
 - B. To remove depreciation for ordinary reworkments recorded in plant in service but not accumulated depreciation 198,578
- TOTAL (1) 233,895



ORANGE-OSCEOLA UTILITIES, INC.

SCHEDULE OF WATER RATE BASE

As of December 31, 1994

DESCRIPTION	<u>BALANCE PER</u> <u>PAA ORDER</u>	<u>SSU PROPOSED</u> <u>ADJUSTMENTS</u>	<u>BALANCE PER</u> <u>SSU/COU</u>
Utility Plant in Service	\$ 6,477,383		\$ 6,477,383
Land	16,838		16,838
Accumulated Depreciation	(1,690,665)	6,381 (1)	(1,684,284)
Contributions-in-aid-of Construction	(3,437,298)		(3,437,298)
CIAC Amortization	773,779		773,779
TOTAL	<u>\$ 2,140,037</u>	<u>\$ 6,381</u>	<u>\$ 2,146,418</u>

EXPLANATION

- A. To remove the difference between that portion of accumulated depreciation associated with the AFUDC /capitalized interest removed from utility plant in service based on the rates required by FPSC and the rates actually used by QOU on their books (513)
 - B. To remove depreciation for ordinary retirements recorded in plant in service but not accumulated depreci 6,894
- TOTAL (1) 6,381



ORANGE-OSCEOLA UTILITIES, INC.

SCHEDULE OF WATER RATE BASE

As of December 31, 1994

<u>DESCRIPTION</u>	<u>BALANCE PER ORDER NO. PSC- 95-1325-FOF-WS</u>	<u>STAFF ADJUSTMENTS</u>	<u>BALANCE PER STAFF</u>
Utility Plant in Service	\$6,477,383	N/A	\$6,477,383
Land	\$ 16,838	N/A	\$ 16,838
Accumulated Depreciation	(\$1,690,665)	\$6,381 (1)	(\$1,684,284)
Contributions-in-aid-of-Construction	(\$3,437,298)	N/A	(\$3,437,298)
CIAC Amortization	<u>\$ 773,779</u>	<u>N/A</u>	<u>\$ 773,779</u>
TOTAL	<u>\$2,140,037</u>	<u>\$6,381</u>	<u>\$2,146,418</u>

ORANGE-OSCEOLA UTILITIES, INC.

SCHEDULE OF WATER RATE BASE ADJUSTMENTS

<u>EXPLANATION</u>	<u>ADJUSTMENT</u>
Accumulated Depreciation	
A. To remove accumulated depreciation associated with plant retirements	\$ 6,894
B. To adjust the accumulated depreciation associated with the AFUDC removed from utility plant in service to reflect the correct depreciation rates	<u>(\$ 513)</u>
TOTAL (1)	<u>\$ 6,381</u>

ORANGE-OSCEOLA UTILITIES, INC.
SCHEDULE OF WASTEWATER RATE BASE
As of December 31, 1994

<u>DESCRIPTION</u>	<u>BALANCE PER</u> <u>ORDER NO. PSC-</u> <u>95-1325-FOF-WS</u>	<u>STAFF</u> <u>ADJUSTMENTS</u>	<u>BALANCE PER</u> <u>STAFF</u>
Utility Plant in Service	\$15,807,018	N/A	\$15,807,018
Construction Work In Progress	\$ 315,687	N/A	\$ 315,687
Land	\$ 972,611	N/A	\$ 972,611
Accumulated Depreciation	(\$ 4,718,583)	\$233,895 (1)	(\$ 4,484,688)
Contributions-in-aid-of-Construction	(\$ 6,674,401)	N/A	(\$ 6,674,401)
CIAC Amortization	<u>\$ 1,415,973</u>	<u>N/A</u>	<u>\$ 1,415,973</u>
TOTAL	<u>\$ 7,118,305</u>	<u>\$233,895</u>	<u>\$ 7,352,200</u>

ORANGE-OSCEOLA UTILITIES, INC.

SCHEDULE OF WASTEWATER RATE BASE ADJUSTMENTS

<u>EXPLANATION</u>	<u>ADJUSTMENT</u>
Accumulated Depreciation	
A. To remove accumulated depreciation associated with plant retirements	\$ 198,578
B. To adjust the accumulated depreciation associated with the AFUDC removed from utility plant in service to reflect the correct depreciation rates	<u>\$ 35,317</u>
TOTAL (2)	<u>\$ 233,895</u>