

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

ORIGINAL  
FILE COPY

In Re: Application for a rate ) DOCKET NO. 950387-SU  
increase in Lee County by )  
Florida Cities Water Company ) FILED: MARCH 25, 1996  
(North Ft. Myers Division). )  
\_\_\_\_\_ )

COMMISSION STAFF'S PREHEARING STATEMENT

Pursuant to Order No. PSC-96-0035-PCO-WS, issued January 9, 1996, the Commission Staff (Staff) files its prehearing statement as follows:

A. Witnesses

Staff intends to call the following witnesses:

Bernie T. Shoemaker of the Florida Department of Environmental Protection (FDEP). He will testify on compliance of North Ft. Myers wastewater system with current FDEP rules.

Andrew Barienbrock of FDEP. He will testify on compliance of the North Ft. Myers wastewater system with current FDEP rules.

James A. McPherson of the Division of Auditing and Financial Analysis. He will testify on the preparation of the audit report.

B. Exhibits

Staff intends to sponsor the following exhibits:

JAM-1: Composite Exhibit of the Audit Report

Staff reserves the right to use other exhibits for the purpose of cross-examination.

C. Basic Position

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

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03514 MAR 25 96  
FPSC-RECORDS/REPORTING  
00537

D. Issues of Fact, Law and Policy

The following are issues identified by Staff and its positions on these issues. Staff's positions are preliminary, are based upon materials filed by the utility or obtained through discovery and are intended to inform the parties of Staff's preliminary positions. Staff's final positions will be based upon an analysis of the evidence presented at the hearing.

QUALITY OF SERVICE

ISSUE 1: Is the quality of service satisfactory?

STAFF: Yes. The quality of service is satisfactory.

RATE BASE

ISSUE 2: What is the appropriate amount of used and useful plant?

STAFF: The plant is 100% used and useful. For the continued provision of wastewater service in this service area, the utility should file a copy of its master plan with the Commission within 120 days of the date of the final order in this case.

ISSUE 3: Should a margin reserve be allowed?

STAFF: Yes. An amount equal to 292 ERCs should be allowed in margin reserve.

ISSUE 4: Should adjustments be made to plant in service to remove capitalized legal fees and incorrect allocations of engineering fees?

STAFF: Yes, plant in service should be reduced by \$223,175.

ISSUE 5: What adjustments should be made to correct accounting errors?

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**STAFF:** The following adjustments should be made:

	<u>Plant</u>	<u>Accum Depr.</u>	<u>Depr. Exp.</u>
Retirement	\$(9,057)	\$(9,057)	\$(482)
Reclassification			
Incorrect Depr. Rate		9,127	3,028
Double Posting Error			118
Capitalized Equipment	1,352		72
Projected Retirements	<u>(26,130)</u>	<u>(26,130)</u>	<u>(1,390)</u>
Totals	<u>\$(33,835)</u>	<u>\$(25,942)</u>	<u>\$1,228</u>

**ISSUE 6:** Should the Commission approve a year-end rate base value in this proceeding?

**STAFF:** Yes, the Commission should approve a year-end rate base value in this proceeding. The utility's investment in rate base is substantially enlarged under year-end considerations. Further, the improvements are in the public interest.

**ISSUE 7:** Should CIAC be imputed for the wastewater division?

**STAFF:** Yes. Consistent with Commission practice, CIAC should be imputed as a matching provision for the rate base component created by the margin reserve factor. Pursuant to this imputation adjustment, CIAC is increased by \$429,420, accumulated amortization is increased by \$22,845, and depreciation expense is reduced by \$22,845.

**ISSUE 8:** Should the provision for CIAC be reduced for the wastewater division?

**STAFF:** Yes. CIAC should be reduced by \$85,792 to reflect reduced connection charges. This correction yields a corresponding \$927 reduction to Accumulated Amortization of CIAC and a \$4,564 net increase to depreciation expense.

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**ISSUE 9:** Should unfunded post-retirement benefits be included in the rate base calculation?

**STAFF:** Yes. Since post-retirement benefits are currently unfunded, a \$81,855 reduction to rate base is recommended to reflect the average balance associated with the unfunded balance.

**ISSUE 10:** Should working capital be adjusted?

**STAFF:** Yes. A \$9,497 reduction to working capital is recommended to include unfunded pension costs in the utility's deferred credit balance.

**ISSUE 11:** What rate base amounts should be approved?

**STAFF:** The final amount is subject to the resolution of other issues.

**COST OF CAPITAL**

**ISSUE 12:** What is the appropriate rate of return on equity?

**STAFF:** Using the current leverage formula, the rate of return on equity should be 11.88%, with a range of 10.88% to 12.88%.

**ISSUE 13:** What is the appropriate cost for deferred investment tax credits?

**STAFF:** The appropriate cost for deferred investment tax credits is 10.19%.

**ISSUE 14:** What is the appropriate overall cost of capital?

**STAFF:** The final amount is subject to the resolution of other issues.

**NET OPERATING INCOME**

**ISSUE 15:** What is the appropriate provision for rate case expense?

COMMISSION STAFF'S PREHEARING STATEMENT  
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**STAFF:** Only prudently incurred rate case expense should be allowed. Staff takes no position on the final amount pending further development of the record.

**ISSUE 16:** What is the test year operating income before any revenue increase?

**STAFF:** The final amount is subject to the resolution of other issues.

**REVENUE REQUIREMENT**

**ISSUE 17:** What is the appropriate revenue requirement?

**STAFF:** The final amount is subject to the resolution of other issues.

**ISSUE 18:** How should the revenue increase be allocated among the water, wastewater, and reuse customers?

**STAFF:** The reuse rate should be \$.21 per 1000 gallons. With regard to the allocation of the revenue increase, staff has no position pending further development of the record.

**ISSUE 19:** What are the appropriate rates for Florida Cities Water Company - North Ft. Myers Wastewater Division?

**STAFF:** The final rates are subject to the resolution of other issues.

**ISSUE 20:** 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?

**STAFF:** The final amount is subject to the resolution of other issues.

**ISSUE 21:** Should the utility be required to refund a portion of the revenues implemented pursuant to Order No. PSC 95-1360-FOF-SU, issued November 2, 1995?

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**STAFF:** Staff has no position pending further development of the record. The final amount, if any, is subject to the resolution of other issues.

E. Stipulated Issues

There are no issues that have been stipulated at this time.

F. Pending Matters

None known at this time.

G. Requirements That Cannot Be Complied With

There are no requirements of Order No. PSC-96-0035-PCO-WS that cannot be complied with at this time.

  
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Ralph R. Jaeger, Senior Attorney

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for a rate ) DOCKET NO. 950387-SU  
increase in Brevard County by )  
Florida Cities Water Company ) FILED: MARCH 25, 1996  
(Barefoot Bay Division). )  
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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the Commission Staff's Prehearing Statement has been furnished by U.S. Mail, this 25th day of March, 1996, to the following:

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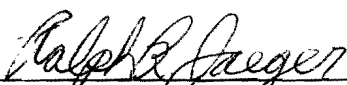
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