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March 25, 1996

**ORIGINAL  
FILE COPY**

Blanca S. Bayo, Director  
Division of Records & Reporting  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399-0850

**HAND DELIVERY**

Re: Docket No. 950387-SU  
Application for a rate increase for North Ft. Myers Division  
in Lee county by FLORIDA CITIES WATER COMPANY - Lee County  
Division.

Dear Ms. Bayo:

Enclosed for filing in the above docket are an original and 15  
copies of Florida Cities Water Company's Prehearing Statement.

Also enclosed is a 3 1/2" high density diskette containing the  
Prehearing Statement. The software used to prepare this document  
is WordPerfect 5.1.

Please acknowledge receipt of the foregoing by stamping the  
enclosed extra copy of this letter and returning same to my  
attention. Thank you for your assistance.

ACK  \_\_\_\_\_  
AFA  \_\_\_\_\_  
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SEC  \_\_\_\_\_  
WAS  \_\_\_\_\_  
OTH \_\_\_\_\_

Sincerely,

*Wayne L. Schiefelbein*

Wayne L. Schiefelbein

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EPSC-BUREAU OF RECORDS

DOCUMENT NUMBER-DATE

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EPSC-RECORDS/REPORTING

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for a rate increase ) Docket No. 950387-SU  
for North Ft. Myers Division in Lee )  
County by Florida Cities Water Company )  
- Lee County Division )

PREHEARING STATEMENT

Florida Cities Water Company (FCWC), North Ft. Myers Division, by its undersigned counsel, submits the following as its prehearing statement:

a) WITNESSES

1. Direct

<u>Name</u>		<u>Subject Matters</u>
Larry Coel, Manager Rate and Revenues for FCWC	*	Rate base, cost of capital, revenue requirement, wastewater rates
Joseph Schifano, Comptroller for FCWC	*	Financial records
	*	FASB 106 adjustment
Douglas R. Young, Manager of Engineering and Construction for FCWC	*	Facility additions
	*	Used and Useful
Julie L. Karleskint, Operations Manager for FCWC	*	Justification for facility additions
	*	Additional treatment expenses related to the wastewater facility additions
Michael Acosta, Vice President, Engineering & Operations for FCWC	*	Full recognition of margin reserve without offset
Robert M. Dick, Assistant Regional Manager for the South Region of FCWC and Division Manager for the Lee County Division	*	Quality of service
	*	Operations
	*	Envelope billing

2. Rebuttal

FCWC intends to prefile rebuttal testimony. The witnesses and the precise nature and content of their testimony and exhibits have not been determined.

b) EXHIBITS

1. Direct

Exhibit LC-1 will be co-sponsored by Messrs. Schifano, Acosta, Young & Dick & Ms. Karleskint.

Exhibit LC-2 will be sponsored by Mr. Coel.

\_\_\_\_\_ (LC-1) MFRs  
\_\_\_\_\_ (LC-2) Estimated rate case expense  
exhibit

Exhibits JS-1 through 3 will be sponsored by Mr. Schifano.

\_\_\_\_\_ (JS-1) Summary of FASB 106  
\_\_\_\_\_ (JS-2) Actuarial study report issued  
by The Wyatt Company dated April 4, 1994  
\_\_\_\_\_ (JS-3) Estimated 1995 FASB 106  
Expense

Exhibit DRY-1 will be sponsored by Mr. Young.

\_\_\_\_\_ (DRY-1) Summary of Professional Work  
Experience

Exhibits JLK-1 through 3 will be sponsored by Ms. Karleskint.

\_\_\_\_\_ (JLK-1) Summary of Professional Work  
Experience  
\_\_\_\_\_ (JLK-2) Letter from Marshall Willis  
dated August 21, 1995 and FCWC's response dated August  
31, 1995  
\_\_\_\_\_ (JLK-3) Abbreviated Master Plan for  
wastewater in the Waterway Estates Service Area

Exhibit MA-1 will be sponsored by Mr. Acosta.

\_\_\_\_\_ (MA-1) Capacity analysis requirements

Exhibits RMD-1 through 3 will be sponsored by Mr. Dick.

\_\_\_\_\_ (RMD-1) FDEP Compliance Evaluation  
Inspection dated 11/28/95

\_\_\_\_\_ (RMD-2) Laser-printed stuffed bill  
sent to customers

\_\_\_\_\_ (RMD-3) Excerpt from Water Pollution  
Control Federation Manual of Practice No. 9

c) BASIC POSITION

Annual operating revenues should be increased by \$480,078 for wastewater. This would result in a rate of return of 9.08% on a rate base of \$8,404,278 for wastewater.

d)e)f) ISSUES AND POSITIONS

QUALITY OF SERVICE

ISSUE 1: Is the quality of service satisfactory:

POSITION: Yes. (Dick)

RATE BASE

ISSUE 2: Should requested margin reserve be recognized without offset?

POSITION: Yes. (Acosta)

ISSUE 3: What is the capacity of the wastewater treatment plant?

POSITION: 1.25 MGR (Young)

ISSUE 4: Are used and useful adjustments appropriate?

POSITION: No. (Young)

ISSUE 5: Should a rate base adjustment be made to recognize inflow and infiltration?

POSITION: No. (Dick)

ISSUE 6: Is an adjustment to the test year (year-end) working capital allowances appropriate?

POSITION: Yes, working capital should be reduced by Other Deferred Credits of \$10,217. (Coel)

ISSUE 7: Should rate base be adjusted for certain legal expenses

associated with pending litigation with the Department of Justice?

POSITION: Yes, as per Staff audit. (Coel)

ISSUE 8: What is the test year (year-end) rate base?

POSITION: \$8,404,278, as per MFRs. However, the final amount is subject to the resolution of other issues.

#### COST OF CAPITAL

ISSUE 9: What is the appropriate cost of equity?

POSITION: 11.88%, under the current leverage graph. (Coel)

ISSUE 10: Should any adjustments be made to the equity component of the Company's capital structure?

POSITION: Yes, equity should be increased by a \$2,000,000 parent company equity investment made in December 1995. (Coel)

ISSUE 11: Should the requested cost rate for ITCs be adjusted?

POSITION: Yes, the customer deposit component should be removed from the calculation. (Coel)

ISSUE 12: What is the appropriate overall rate of return including the proper components, amounts and cost rates associated with the capital structure rate of return?

POSITION: As per MFRs. However, the final amount is subject to the resolution of other issues.

#### NET OPERATING INCOME

ISSUE 13: Should chemical and purchased power expense adjustments be made to recognize inflow and infiltration?

POSITION: No. (Dick)

ISSUE 14: Are the proposed adjustments to water and wastewater expenses to reflect customer growth and the PSC index appropriate?

POSITION: Yes. (Coel)

ISSUE 15: Is the Company's adjustment to increase expense for postage and envelope billing costs appropriate?

POSITION: Yes. (Coel)

ISSUE 16: Should test year expenses be adjusted for charges from affiliated companies?

POSITION No, the charges are reasonable. (Coel)

ISSUE 17: Is the Company's allocation of costs to the unregulated operations of its parent and its divisions appropriate?

POSITION: Yes. (Coel and/or Schifano)

ISSUE 18: Is there any duplication between current rate case expense and test year expenses?

POSITION: No. (Coel)

ISSUE 19: What rate case expense should be allowed?

POSITION: As reflected in Exhibit LC-2 and updated closer to hearing. (Coel).

ISSUE 20: What personal property tax expense is appropriate?

POSITION: As per MFRs. However, the final amount is subject to the resolution of other issues. (Coel)

ISSUE 21: What regulatory assessment fee expense is appropriate?

POSITION: As per MFRs. However, the final amount is subject to the resolution of other issues. (Coel)

ISSUE 22: What income tax expense is appropriate?

POSITION: As per MFRs. However, the final amount is subject to the resolution of other issues. (Coel)

#### REVENUE REQUIREMENT

ISSUE 23: What is the appropriate total wastewater revenue requirement?

POSITION: \$2,591,990, as per MFRs. However, the final amount is subject to the resolution of other issues. (Coel)

#### RATES AND CHARGES

ISSUE 24: What reuse rate should be approved?

POSITION: The market price in Lee County. (Coel)

ISSUE 25: What are the appropriate wastewater rates?

POSITION: As stated in the MFRs. However, the final amount is subject to the resolution of other issues. (Coel)

g) STIPULATED ISSUES

None at this time.

h) PENDING MOTIONS AND OTHER MATTERS

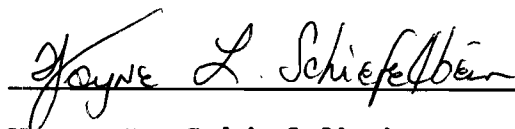
FCWC has filed a motion seeking an extension of time for filing rebuttal testimony and exhibits.

i) COMPLIANCE WITH ORDER ESTABLISHING PROCEDURE

The foregoing complies with the Order Establishing Procedure.

DATED this 25th day of March, 1996.

Respectfully submitted,



Wayne L. Schiefelbein  
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1709-D Mahan Drive  
Tallahassee, Florida 32308  
(904) 877-7191

Attorneys for  
FLORIDA CITIES WATER COMPANY

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 25th day of March, 1996, a true and correct copy of Florida Cities Water Company's Prehearing Statement has been furnished by hand delivery to Ralph R. Jaeger, Esquire, Division of Legal Services, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850 and to Mr. Harold McLean, Esquire, Office of Public Counsel, 111 West Madison Street, Room 812, Tallahassee, Florida 32399-1400, and by regular U.S. Mail to:

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