



JACK SHREVE
PUBLIC COUNSEL

STATE OF FLORIDA
OFFICE OF THE PUBLIC COUNSEL

c/o The Florida Legislature
111 West Madison Street
Room 812
Tallahassee, Florida 32399-1400
904-488-9330

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March 26, 1996

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

Re: Case No. 950495-WS

Dear Ms. Bayo:

Enclosed for filing in the above-referenced docket are the original and 15 copies of Citizens' Prehearing Statement. A diskette in the IBM-compatible WordPerfect 5.1 is also submitted.

Please indicate the time and date of receipt on the enclosed duplicate of this letter and return it to our office.

Sincerely,

Charles J. Beck
Deputy Public Counsel

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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In re: Application for a rate)
increase for Orange-Osceola)
Utilities, Inc. in Osceola County,)
and in Bradford, Brevard, Charlotte,)
Citrus, Clay, Collier, Duval,)
Highlands, Lake, Lee, Marion,)
Martin, Nassau, Orange, Osceola,)
Pasco, Putnam, Seminole, St. Johns,)
St. Lucie, Volusia, and Washington)
Counties by Southern States)
Utilities, Inc.)

Docket No. 950495-WS

Filed: March 26, 1996

CITIZENS' PREHEARING STATEMENT

The Citizens of Florida ("Citizens"), by and through Jack Shreve, Public Counsel, file this prehearing statement.

Witnesses

The Citizens will sponsor testimony by the following witnesses who prefiled testimony and exhibits:

- Mr. Ted Biddy, P.E.: engineering issues.
- Dr. David E. Dismukes: price elasticity.
- Ms. Kimberly H. Dismukes: financial and other issues.
- Mr. Paul A. Katz: salary expense.
- Mr. Hugh Larkin, Jr., and Ms. Donna DeRonne: accounting and other issues.
- Mr. James A. Rothschild: return on equity.

In addition to those witnesses prefiling testimony, the Citizens intend to subpoena a number of persons. At this time it appears those persons may include the following:

- Mr. Jeff Sharkey, SSU lobbyist.
- Mr. Tracy Smith, SSU employee/lobbyist.
- Dr. John Cirella, president of SSU.
- Ms. Karla Olson Teasley, vice-president of SSU.
- Mr. Brian Armstrong, SSU general counsel
- Ms. Ida Roberts, SSU employee.
- Ms. Stephanie Smith, an employee of the Department of Commerce.
- Mr. Charles Sweat, vice-president of SSU.

The testimony of the listed persons other than Mr. Sweat will address the issue concerning a mismanagement penalty. The testimony of Mr. Sweat will address SSU's acquisition policy and strategic plan.

Other persons may also be subpoenaed.

Statement of Basic Position

Past Commission decisions are largely responsible for the present rate case. Some prominent examples of those decisions are (1) requiring customers to pay a return to Southern States on investment amounts exceeding the investment actually made by the company, (2) refusing to provide customers any benefit from gains on sale, and (3) requiring customers to pay for future growth through a margin of reserve. The Commission should review these issues and others raised in this case.

The company's rates are too high. Revenues should be reduced by \$10,360,891 per year.

Issues and positions

Citizens' Issue 1: What is the value and quality of SSU's service?

Citizens' Position: The value and quality of SSU's service is unsatisfactory. (Testimony at customer service hearings)

Citizens' Issue 2: Should the Commission reduce SSU's return on equity on account of the value and quality of its service? If so, by how much?

Citizens' Position: Yes. Return on equity should be reduced by at least 100 basis points.

Citizens' Issue 3: Should the Commission assess a mismanagement penalty on SSU? If so, what should be the penalty?

Citizens' Position: A mismanagement penalty should be assessed for misconduct that includes (1) ex parte communications intended to influence the Commission, (2) interference with the notice to customers, and (3) interference with the Citizens' right to counsel. Return on equity should be reduced by at least 100 basis points.

Citizens' Issue 4: Should an adjustment be made for plant held for future use?

Citizens' Position: No position at this time

Citizens' Issue 5: Should an adjustment be made on account of project slippage?

Citizens' Position: Yes. Adjustments should be made to accumulated depreciation and depreciation expense. (Larkin/DeRonne schedules 6-9)

Citizens' Issue 6: Should an adjustment be made on account of

non-used and useful offsets to plant capacity fees and line/main extension fees?

Citizens' Position: Plant capacity fees and line/main extensions should not be offset by a non-used and useful factor. Rate base should be reduced by \$2,315,994. (Larkin/DeRonne schedule 10)

Citizens' Issue 7: Should an adjustment be made for the Marco Island - Collier purchase?

Citizens' Position: Yes. Adjustments should be made to reflect the actual cost and to remove overhead allocations. In addition, a portion of the purchase price should be allocated to non-utility property. Rate base should be reduced by \$5,833,617. (Larkin/DeRonne schedule 11)

Citizens' Issue 8: Should an adjustment be made to the Marco Island water source of supply costs to remove deferred debits and overhead charges?

Citizens' Position: The use of deferred debits to defer these costs from 1992 and 1993 to the present case should not be allowed. Rate base should be reduced by \$1,319,227 and amortization expense should be reduced by \$293,162. (Larkin/DeRonne schedule 12)

Citizens' Issue 9: Should an adjustment be made to disallow the company's proposed transfer of a Deltona site and Marco Island site from property held for future use?

Citizens' Position: A Deltona site and Marco Island site should remain classified as property held for future use. Rate base should be reduced by \$235,885. (Larkin/DeRonne schedule 13)

Citizens' Issue 10: Should SSU's adjustment to accumulated depreciation for non-used and useful mains be allowed?

Citizens' Position: Southern States' proposal to adjust accumulated depreciation for non-used and useful mains is retroactive, going back to pre-1991 in some cases. It is inappropriate for determining going-level rate base. Southern States' proposal should be disallowed by reducing rate base by \$592,634. (Larkin/DeRonne schedule 14)

Citizens' Issue 11: Should an adjustment be made to SSU's proposed decrease in accumulated depreciation?

Citizens' Position: Southern States should not be permitted to defer required changes in depreciation rates to this case. Rate base should be reduced by \$527,690. (Larkin/DeRonne schedule 15)

Citizens' Issue 12: Should an adjustment be made to accumulated amortization of CIAC on account of a sale of property from Deltona Lakes to Volusia County?

Citizens' Position: Rate base should be reduced by \$10,451 to correct an error regarding accumulated amortization of CIAC. (Larkin/DeRonne testimony)

Citizens' Issue 13: What amount should the Commission allow in rate base for systems purchased at less than book value?

Citizens' Position: The Commission should recognize negative acquisition adjustments so that the company receives a return only on its actual investment. Rate base should be reduced by \$13,060,124 along with corresponding adjustments to accumulated amortization and amortization expense. (Larkin/DeRonne schedules 17 & 18)

(a) What adjustment should be made for the Deltona system?

Citizens' Position: There should be a negative acquisition adjustment of \$7,571,712. (Larkin/DeRonne schedules 17 & 18)

(b) What adjustment should be made for the Lehigh system?

Citizens' Position: There should be a negative acquisition

adjustment of \$3,873,763. (Larkin/DeRonne schedules 17 & 18)

Citizens' Issue 14: To what extent, if any, should the Commission accept the projected wage increases of SSU?

Citizens' Position: SSU failed to justify its projected wage increase. Salary expenses should be reduced by \$1,027,052; payroll tax expense should be reduced by \$82,164. (Katz; Larkin/DeRonne schedules 19-21)

Citizens' Issue 15: Should an adjustment be made to corporate insurance expense?

Citizens' Position: Corporate insurance expense should be reduced by \$96,458. (Larkin/DeRonne schedule 22)

Citizens' Issue 16: Should an adjustment be made for non-used and useful property tax expense?

Citizens' Position: An adjustment should be made to property tax expense to reflect appropriate non-used and useful percentages. Property tax expense should be reduced by \$731,678. (Larkin/DeRonne schedules 23 & 24)

Citizens' Issue 17: Should an adjustment be made for discounts on property taxes?

Citizens' Position: Yes, an adjustment should be made to reflect discounts received on property taxes. Property tax expense should be reduced by \$108,331. (Larkin/DeRonne schedule 25)

Citizens' Issue 18: Should an adjustment be made for the calculation of the income tax expense / parent debt adjustment?

Citizens' Position: Yes, the adjustment should be increased by \$18,027. (Larkin/DeRonne schedule 26)

Citizens' Issue 19: If the Commission does not make an adjustment amortizing the gain on sale of water and wastewater systems, should an adjustment be made to the equity component of capital structure to account for gains on sale?

Citizens' Position: Yes. (Larkin/DeRonne schedule 27)

Citizens' Issue 20: Should an adjustment be made to normalize test year revenue for weather/rainfall?

Citizens' Position: Yes. The Commission should increase test year revenue by \$1,937,931 to reflect the abnormally high level of rainfall experienced during the test year and the period used by SSU to project test year revenue. (K. Dismukes, Schedule 16) Likewise the Commission should increase test year expenses by \$539,611 to reflect the increased variable expenses associated with

increased consumption. (K. Dismukes, Schedule 19)

Citizens' Issue 21: Should an adjustment be made for reuse revenue on Marco Island?

Citizens' Position: Yes. Test year water revenue should be increased by \$183,668 and test year wastewater should be reduced by \$13,688. (K. Dismukes, Schedule 20)

Citizens' Issue 22: Should the miscellaneous adjustments proposed by Witness Dismukes be made?

Citizens' Position: Yes. Test year revenue should be increased by \$57,595 and test year income should be increased by \$8,474. (K. Dismukes, Schedule 35)

Citizens' Issue 23: Should the Commission allow the Company's proposed conservation expenses?

Citizens' Position: No. The Commission should reduce the Company's conservation expenses by \$268,534. (K. Dismukes, Schedule 7) If the Commission adopts the Citizens' adjustment, it should for consistency increase test year revenue by \$70,710 and reduce variable expenses by \$33,372. (K. Dismukes, Schedule 3)

Citizens' Issue 24: Should utility gains on sales be included

above the line for ratemaking purposes?

Citizens' Position: Yes. The Commission should increase test year income by \$3,363,412. (K. Dismukes, Schedule 8).

Citizens' Issue 25: Should an adjustment be made to administrative and general and customer expenses for SSU's inefficiency?

Citizens' Position: Yes. Test year expenses should be reduced by \$243,773. (K. Dismukes, Schedule 23)

Citizens' Issue 26: Should expenses be reduced to reflect salaries and expenses related to SSU's acquisition efforts?

Citizens' Position: Yes. Test year expenses should be reduced by \$175,928 for salaries and \$10,742 for related expenses. (K. Dismukes, Schedules 24 and 25, respectively.)

Citizens' Issue 27: Should an adjustment be made to remove public relations and governmental relations expenses?

Citizens' Position: Yes. Test year expenses should be reduced by \$65,661 for salaries and \$15,626 for related expenses. (K. Dismukes, Schedules 26 and 27, respectively.)

Citizens' Issue 28: Should a true-up budget adjustment be made to test year expenses?

Citizens' Position: Yes. Test year expenses should be reduced by \$496,035. (K. Dismukes, Schedule 28)

Citizens' Issue 29: Should an adjustment be made to reduce shareholder expenses?

Citizens' Position: Yes. Test year expenses should be reduced by \$79,272. (K. Dismukes, Schedule 29)

Citizens' Issue 30: Should the Commission accept the Company's proposed rate case expense?

Citizens' Position: No. Test year expenses should be reduced by \$96,673. (K. Dismukes, Schedule 30)

Citizens' Issue 31: Should an adjustment be made to chemical, purchased water, purchased wastewater, and purchased power expenses for excessive unaccounted for water?

Citizens' Position: Yes. Test year expenses should be reduced by \$67,121. (K. Dismukes, Schedule 32)

Citizens' Issue 32: Should an adjustment be made to reflect

OAP Projects that will be amortized by the end of the test year?

Citizens' Position: Yes. Test year expenses should be reduced by \$93,452. (K. Dismukes, Schedule 33)

Citizens' Issue 33: Should an adjustment be made to reflect the lower cost of the Keystone Height's study?

Citizens' Position: Yes. Test year expenses should be reduced by \$3,214. (K. Dismukes, Schedule 34)

Citizens' Issue 34: Should the miscellaneous adjustments proposed by Witness Dismukes be make?

Citizens' Position: Yes. Test year expenses should be reduced by \$163,245. (K. Dismukes, Schedule 35)

Citizens' Issue 35: Should an adjustment be made to reduce Lehigh's rate base for land held for future use and for the cost of the land?

Citizens' Position: Yes. The water rate base should be reduced by \$122,035 and the wastewater rate base should be reduced by \$272,123. (K. Dismukes, Schedule 37)

Citizens' Issue 36: Should an adjustment be made to reflect

non-used and useful lines constructed by Lehigh Acquisition Corporation?

Citizens' Position: Yes. Rate base should be reduced as reflected on K. Dismukes Schedule 38. A corresponding adjustment to depreciation expense should be made as reflected on Schedule 38. (K. Dismukes, Schedule 38)

Citizens' Issue 37: Should adjustments be made to the rate base of Buenaventura Lakes to reflect Commission Ordered adjustments?

Citizens' Position: Yes. The adjustments reflected on K. Dismukes Schedule 39 should be made. A corresponding adjustment to depreciation expense should be made as reflected on Schedule 39. (K. Dismukes, Schedule 39)

Citizens' Issue 38: Should an adjustment be made to Buenaventura Lakes rate base to remove non-used and useful wetlands?

Citizens' Position: Yes. The adjustments reflected on K. Dismukes Schedule 40 should be made. A corresponding adjustment to depreciation expense should be made as reflected on Schedule 40. (K. Dismukes, Schedule 40)

Citizens' Issue 39: Should the Commission impute CIAC associated with assets constructed by Lehigh Corporation?

Citizens' Position: Yes. The Commission should impute CIAC in the amount of \$769,000. (K. Dismukes, Supplemental Testimony)

Citizens' Issue 40: Should the miscellaneous adjustments proposed by Witness Dismukes be make?

Citizens' Position: Yes. The Commission should reduce rate base by \$225,100. (K. Dismukes, Schedule 35)

Citizens' Issue 41: Should any adjustments be made to the equity component of the Company's capital structure?

Citizens' Position: Yes. The Commission should reduce the equity component of the Company's capital structure by \$4,800,000. (K. Dismukes, Schedule 9)

Citizens' Issue 42: Should the Commission adopt the Company's proposed weather normalization clause?

Citizens' Position: No. (K. Dismukes, Testimony)

Citizens' Issue 43: Should the Commission adopt the Company's proposed repression adjustments?

Citizens' Position: No. The Commission should reject the Company's proposed repression adjustments. (D. Dismukes, Testimony)
For consistency, the Commission should increase test year variable expenses by \$287,585. (K. Dismukes, Schedule 36)

Citizens' Issue 44: Should the Commission adopt the rate structure, i.e., 60% of revenue collected from the BFC and 40% if revenue collection from the gallonage charge, as proposed by SSU?

Citizens' Position: No. The Commission should reject the Company's proposal and adopt the recommendation of the Citizens' witness K. Dismukes. (K. Dismukes, Testimony)

Citizens' Issue 45: What return on equity should be used for Southern States Utilities, Inc.?

Citizens' Position: A return on equity of 10.1% should be used. (Rothschild testimony)

Citizens' Issue 46: Should 3 years and 5 years of margin reserve be allowed in the used and useful calculations for water and wastewater treatment facilities, respectively?

Citizens' Position: No.

Citizens' Issue 47: Should the fire flow requirement be

included in used and useful calculations?

Citizens' Position: Fire flow should be included in the used and useful calculation only if fire flow provision was proven by sufficient fire flow test records.

Citizens' Issue 48: Should the Commission allow 12.5% company-wide level of unaccounted for water requested by SSU?

Citizens' Position: No. To achieve appropriate levels of unaccounted for water, PSC should allow no more than 10% of unaccounted for water for each water system.

Citizens' Issue 49: Should a single maximum day flow be used in calculating the used and useful percentages for water facilities instead of the average of 5 maximum day flows?

Citizens' Position: No, the single maximum day flow should not be used in the used and useful calculations in this filing.

Citizens' Issue 50: Should the Commission use operation permit capacities instead of construction permit capacities for used and useful calculations?

Citizens' Position: No, the construction permit capacities should be used because they represent the actual capacities

constructed.

Citizens' Issue 51: Should the "firm reliable capacities" be used in used and useful calculations for supply wells, high service pumps and water treatment facilities?

Citizens' Position: No, it is not justified to use firm reliable capacity on more than one component.

Citizens' Issue 52: Should an emergency storage of 8 hours of average daily flow be allowed in used and useful calculations?

Citizens' Position: No emergency storage requested by SSU should be allowed because the utility was unable to confirm the emergency storage in the original plant designs.

Citizens' Issue 53: What peaking factor should be allowed for peak domestic hour demands in finished water storage used and useful calculations?

Citizens' Position: AWWA M32, Distribution Network Analysis for Water Utilities, suggests a peak factor range of 1.3 to 2.0 for peak-hour demand to maximum-day demand. The minimum requirement 1.3 should be used.

Citizens' Issue 54: Should 10% of the finished water storage

be treated as dead storage?

Citizens' Position: No, it is not justified to assume 10% of the storage capacity is dead storage for every single storage tank. Dead storage should be allowed only if it is confirmed in as-built drawings.

Citizens' Issue 55: For high service pumps used and useful calculations, should the maximum daily flows or peak hourly flows be used for peak demands?

Citizens' Position: When fire flow requirement is provided by high service pumps, only maximum daily flows should be added to the capacity requirement. If the system is not designed to provide fire flow, then the high service pumps should be designed to meet peak hourly flows.

Citizens' Issue 56: Should facility lands, hydro tanks, and auxiliary power be considered 100% used and useful without analysis?

Citizens' Position: No. Calculations should be performed to justify the 100% used and useful allocation for facility lands, hydro tanks, and auxiliary power. Without the information necessary to make those calculations, the Commission should assign to facility lands, hydro tanks, and auxiliary power the same

percentages of used and useful given to related utility facilities.

Citizens' Issue 57: Should hydraulic analysis be used in the used and useful calculations for water transmission and distribution systems?

Citizens' Position: No. Hydraulic analysis modeling should not be used for water transmission and distribution used and useful calculations. Hydraulic analysis modeling unfairly shifts the majority of the cost burden to existing customers, especially in new or sparsely developed areas. The build out flows generated from the hydraulic analysis modeling do not represent the ultimate capacity of water mains. Hydraulic analysis modeling is too complicated, time consuming, and can be manipulated to produce almost any desired results.

Citizens' Issue 58: Should rate base include water mains laid in the ground but not connected to the existing distribution system?

Citizens' Position: No, any water mains constructed in place but which do not connect to the existing system should be considered non-used and useful and excluded from rate base.

Citizens' Issue 59: Do any wastewater facilities have excessive inflow and/or infiltration and, if so, what adjustments

are necessary?

Citizens' Position: Yes, for six plants excessive inflow and infiltration should be removed from wastewater influent prior to determining the used and useful percentages for the wastewater plants.

Citizens' Issue 60: Should the new raw water supply site of Marco Island be included in rate base?

Citizens' Position: No. Currently, it does not seem feasible that this facility will be put into service for the projected test year 1996 because no facilities have been constructed on the site. Therefore, the cost of the 160 acre new water supply site should be eliminated from the rate base in this filing.

Citizens' Issue 61: Pursuant to section 367.0817 and 403.064, Florida Statutes, and Rule 62-610, Florida Administrative Code, should reuse facilities be considered 100% used and useful? (LEGAL ISSUE)

Citizens' Position: For reuse facilities to be considered 100% used and useful, the construction of the facilities must be prudent and the facilities must be specifically designed and used for effluent reuse purposes.

Citizens' Issue 62: Should adjustments be made to the deep injection well on marco Island?

Citizens' Position: Yes.

Citizens' Issue 63: Should an adjustment be made to the Burnt Store water plant capacity?

Citizens' Position: Yes. The capacity of the Burnt Store reverse osmosis water plant should be 380 gallons per minute (gpm) instead of 333 gpm.

Citizens' Issue 64: Should the cost of relocating water and wastewater lines for road improvement projects be included in rate base?

Citizens' Position: No. The cost for relocating water and wastewater utilities for road improvement works should be paid by whomever initiated the projects. Normally the state, county, city governments or developers are responsible for the road projects.

Citizens' Issue 65: What are the appropriate used and useful percentages for the water and wastewater facilities?

Citizens' Position: The appropriate used and useful percentages for the water and wastewater facilities are presented

in Exhibit TLB-3 and Exhibit TLB-4, respectively.

Other matters

1. Our request to schedule an evidentiary hearing, filed on March 12, 1996, is pending. We need to know the date of the evidentiary hearing on the motion to dismiss filed March 12, 1996, so that we may subpoena witnesses ahead of time.

2. A ruling on Southern States' objections to discovery filed March 12, 1996, is pending. The Citizens filed a response on March 18, 1996.


3. A motion filed March 25, 1996, to allow the second supplemental testimony of Kimberly Dismukes, is pending.

4. Portions of the prefiled direct testimony of Kimberly Dismukes, as well as one of the schedules accompanying her prefiled direct testimony, were claimed to be confidential by Southern States. In addition, her second supplemental testimony and accompanying exhibit were claimed to be confidential by Southern States. The Citizens oppose Southern States' claim. We await a ruling.

5. We request that Hugh Larkin, Jr., and Donna DeRonne take the stand as a panel to present their prefiled testimony.

Respectfully submitted,

JACK SHREVE
PUBLIC COUNSEL



Charles J. Beck
Deputy Public Counsel

Office of Public Counsel
c/o The Florida Legislature
111 West Madison Street
Room 812
Tallahassee, FL 32399-1400

Attorneys for the Citizens
of the State of Florida

**CERTIFICATE OF SERVICE
DOCKET NO. 950495-WS**

I HEREBY CERTIFY that a correct copy of the foregoing has been furnished by U.S. Mail or *hand-delivery to the following party representatives on this 26th day of March, 1996.

Ken Hoffman, Esq.
William B. Willingham, Esq.
Rutledge, Ecenia, Underwood
Purnell & Hoffman, P.A.
P.O. Box 551
Tallahassee, FL 32302-0551

*Lila Jaber, Esq.
Division of Legal Services
Fla. Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399

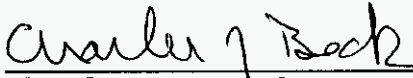
Brian Armstrong, Esq.
Matthew Feil, Esq.
Southern States Utilities
General Offices
1000 Color Place
Apopka, FL 32703

Michael B. Twomey, Esq.
P. O. Box 5256
Tallahassee, Florida
32314-5256

Kjell W. Petersen
Director
Marco Island Civic Assoc.
P.O. Box 712
Marco Island, FL 33969

Arthur Jacobs, Esq.
Jacobs & Peters, P.A.
Post Office Box 1110
Fernandina Beach, FL
32035-1110

Larry M. Haag, Esq.
County Attorney
111 West Main Street
Suite B
Inverness, Florida 34450



Charles J. Beck
Deputy Public Counsel