

BEFORE THE FLORIDA PUBLIC SERVICE

In re: Application by PALM COAST) Docket No. 951056-WS
UTILITY CORPORATION for rate)
increase in Flagler County, Florida) Filed: June 3, 1996

PREHEARING STATEMENT

Palm Coast Utility Corporation (PCUC), by and through its undersigned counsel, submits the following as its prehearing statement:

a) WITNESSES

1. Direct

<u>Name</u>	*	<u>Subject Matters</u>
Frank Seidman	*	Test period, rate base, operating revenue, operating revenue deductions, capital structure, revenue requirement, rates and rate structure, service availability charges
John F. Guastella	*	Used and useful analysis, margin reserve, imputation of CIAC, cost allocation and effluent reuse rate study, and amount of revenues

2. Rebuttal

Frank Seidman	*	Not yet determined
John F. Guastella	*	Used and Useful, Reuse
Charles D. Spano, Jr.	*	Appraisals of sprayfield and Rapid Infiltration Basin (RIB)

Prefiled rebuttal testimony by additional witnesses is also under consideration.

b) EXHIBITS

1. Direct

_____ (FS-1) MFRs, Volume I, Financial, Rate & Engineering Schedules, Including Interim Rate Schedules

DOCUMENT NUMBER-DATE

06079 JUN-3 1996 310

FPCD-RECORDS/REPORTING

- _____ (FS-2) MFRs, Volume II, Billing Analysis Schedule E-14
- _____ (FS-3) MFRs, Volume III, Additional Information Required by Rules
- _____ (FS-4) Analysis of Operating Departments for Used and Useful
- _____ (FS-5) Application for Approval of Revised Service Availability Charges
- _____ (JFG-1) Used and Useful Analysis, Utility Plant in Service
- _____ (JFG-2) Effluent Rate Study, Cost Allocation
- _____ (FS-6) 2/12/96 Response to deficiency letter from Charles Hill dated 1/16/96

2. Rebuttal

- _____ (CS-1) 1985 Appraisal of Sprayfield
- _____ (CS-2) 1990 Appraisal of RIB site

Additional rebuttal exhibits are expected but have not yet been identified.

c) BASIC POSITION

Annual operating revenues should be increased by \$1,479,626 for water and \$1,575,817 for wastewater. This would result in a rate of return of 8.84% on a rate base of \$21,328,433 for water operations and a rate base of \$16,031,209 for wastewater operations.

d), e) and f) ISSUES AND POSITIONS

1. Was the appraisal for the 1986 purchase of the sprayfield site prepared by an independent, qualified appraiser?

PCUC: Yes. (Spano)

2. Was the appraisal for the 1991 purchase of the rapid infiltration basin (RIB) site prepared by an independent, qualified appraiser?

PCUC: Yes. (Spano)

3. When was the sprayfield site first dedicated to utility service, and by whom?

PCUC: 1979, by PCUC. (Seidman; Spano)

4. When was the RIB site first dedicated to utility service, and by whom?

PCUC: 1991, by PCUC. (Seidman; Spano)

5. Is the Staff Auditor's use of a Consumer Price Index and trended historical costs appropriate to value the sprayfield and RIB sites?

PCUC: No. (Spano)

6. Should a year-end rate base calculation be approved?

PCUC: Yes. (Seidman)

PCUC hereby responds to Staff's Preliminary List of Issues.

RATE BASE

ISSUE 1: Are any adjustments necessary to reduce land purchased from a related party? (Audit Exception No. 1 & Audit Disclosure No. 1)

PCUC: No. See PCUC Response to Audit Exception No. 1 and Audit Disclosure No. 1. (Spano; Seidman)

ISSUE 2: Should plant in service be reduced for the misclassification of major rehabilitation projects? (Audit Exception No. 3)

PCUC: No. See PCUC Response to Audit Exception No. 3. (Seidman)

ISSUE 3: Has the utility properly capitalized labor in rate base?

PCUC: Yes. (Seidman)

ISSUE 4: What are the appropriate used and useful percentages?

PCUC: As per MFRs and Used and Useful Analysis. (Guastella)

ISSUE 5: Should a margin reserve be included in the calculations of used and useful?

PCUC: Yes, as per PSC policy. (Guastella; Seidman)

ISSUE 6: If margin reserve is included in the calculation of used and useful, what is the appropriate margin reserve period?

PCUC: As per Used and Useful Analysis. (Guastella)

ISSUE 7: If a margin reserve is approved, should CIAC be imputed on the ERCs included in the margin reserve?

PCUC: No. (Guastella; Seidman)

ISSUE 8: What is an acceptable level of unaccounted for water?

PCUC: Without further explanation, 12.5% is an acceptable level of unaccounted for water. (Seidman)

ISSUE 9: Does PCUC have excessive unaccounted for water and, if so, what adjustments are appropriate?

PCUC: No. No adjustments are appropriate. (Seidman)

ISSUE 10: Do any wastewater facilities have excessive infiltration and/or inflow and, if so, what adjustments are necessary?

PCUC: No. No adjustments are appropriate. (Seidman)
(PCUC suggests that the issue be reworded to read "Does PCUC have excessive etc.")

ISSUE 11: Is it appropriate to include a factor for economies of scale in the used and useful calculations?

PCUC: Yes, as per Used and Useful Analysis. (Guastella)

ISSUE 12: Is it appropriate to include a fire flow allowance in the

calculation of the used and useful percentage for the water transmission and distribution system?

PCUC: Yes, as per Used and Useful Analysis. (Guastella)

ISSUE 13: What are the appropriate used and useful percentages for the water source of supply, treatment plants, high service pumps, and storage tanks?

PCUC: As per Used and Useful Analysis. (Guastella)

ISSUE 14: What are the appropriate used and useful percentages for the wastewater treatment plant and the effluent disposal system?

PCUC: As per Used and Useful Analysis. (Guastella)

ISSUE 15: What is the appropriate used and useful percentage for the water transmission and distribution system?

PCUC: As per Used and Useful Analysis. (Guastella)

ISSUE 16: What is the appropriate used and useful percentage for the wastewater collection system?

PCUC: As per Used and Useful Analysis. (Guastella)

ISSUE 17: What are the appropriate adjustments to debit accumulated deferred income taxes, if any, and what is the resulting balance?

PCUC: No adjustments are appropriate. The balance is as per MFRs. (Seidman)

ISSUE 18: What provision for working capital should be included in rate base?

PCUC: A zero working capital allowance should be approved. (Seidman)

ISSUE 19: What are the appropriate rate base amounts?

PCUC: Fall-out issue.

COST OF CAPITAL

ISSUE 20: What is the appropriate capital structure for ratemaking purposes?

PCUC: Palm Coast Utility Corporation's stand-alone capital structure is appropriate. (Seidman)

ISSUE 21: What is the appropriate cost of debt?

PCUC: As per MFRs. (Seidman)

ISSUE 22: What are the appropriate adjustments to investment tax credits (ITCs) and their cost rate, if any, and what is the resulting balance?

PCUC: Will stipulate to OPC's adjustment of \$125,569 with a resulting year-end balance of \$2,391,641 before reconciliation to rate base. (Seidman)

ISSUE 23: What is the appropriate overall cost of capital?

PCUC: Fall-out issue.

NET OPERATING INCOME

ISSUE 24: What are the appropriate projected number of water and wastewater bills and consumption to be used to calculate revenue for the projected test year and to calculate rates for water and wastewater service?

PCUC: As per MFRs. (Seidman)

ISSUE 25: Should O&M expenses be reduced? (Audit Exception No. 4)?

PCUC: Will stipulate to the four adjustments in Audit Exception No. 4. (Seidman)

ISSUE 26: Are any adjustments necessary to the used and useful percentages for the operating departments?

PCUC: No. (Seidman)

ISSUE 27: Is the utility's provision for salaries and wages

reasonable, and if not, what adjustments are necessary?

PCUC: Yes. No adjustments are appropriate. (Seidman)

ISSUE 28: Should the utility's provision for insurance expense be adjusted?

PCUC: No. (Seidman)

ISSUE 29: Should the third party cost included in O&M expenses be allowed?

PCUC: Third party costs are not included in the requested O&M expenses. See MFR, p. 48. (Seidman)

ISSUE 30: What is the appropriate amount of rate case expense?

PCUC: As per MFRs and as updated closer to hearing. (Seidman)

ISSUE 31: Are adjustments necessary to property taxes for non-used and useful plant adjustments?

PCUC: No, all appropriate adjustments for used and useful are included in the MFRs. (Seidman)

ISSUE 32: Is a parent debt adjustment appropriate, and if so, what is the proper amount and the method of allocation to the individual plants?

PCUC: Yes, as required by 25-14.004, F.A.C. The proper amount is as per MFRs. (Seidman)

ISSUE 33: What are the appropriate adjustments to the provision for income taxes, including the appropriate federal tax rate, the parent debt adjustment, the interest reconciliation adjustment, the ITC interest synchronization adjustment and adjustments for other NOI adjustments?

PCUC: As per MFRs. (Seidman)

ISSUE 34: What are the test year operating income amounts before any revenue increase?

PCUC: Fall-out issue.

REVENUE REQUIREMENT

ISSUE 35: What are the revenue requirements?

PCUC: Fall-out issue.

RATES AND RATE STRUCTURE

ISSUE 36: What is the appropriate bulk water rate for PCUC?

PCUC: The appropriate bulk water rate for DCDD is as per MFRs.
(Seidman)

ISSUE 37: In light of Section 367.0817, Florida Statutes, should any revenue requirements associated with reuse be allocated to the water customers of PCUC?

PCUC: No. (Guastella)

ISSUE 38: What are the appropriate rates for reuse customers of PCUC?

PCUC: As per MFRs. (Guastella)

ISSUE 39: What are the appropriate water and wastewater service rates for PCUC?

PCUC: As per MFRs. (Seidman)

ISSUE 40: What are the appropriate amounts 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?

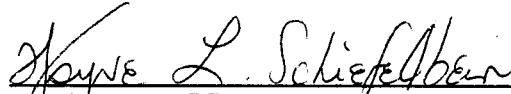
PCUC: Fall-out issue.

ISSUE 41: 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?

PCUC: Fall-out issue.

DATED this 3rd day of June, 1996.

Respectfully submitted,



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Attorneys for Palm Coast Utility
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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by hand delivery to Mr. Richard D. Melson, Esquire, Hopping, Green, Sams & Smith, 123 South Calhoun Street, Tallahassee, Florida 32314, to Mr. Scott Edmonds, Esquire, Division of Legal Services, Florida Public Service Commission, Gunter Building, Room 370B, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, and to Mr. Stephen C. Reilly, Associate Public Counsel, Office of Public Counsel, Claude Pepper Building, Room 812, 111 West Madison Street, Tallahassee, Florida 32399-1400, on this 3rd day of June, 1996.


Wayne L. Schiefelbein