

ORIGINAL
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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for rate) DOCKET NO. ~~951056-WS~~
increase in Flagler County by)
Palm Coast Utility Corporation.) DATE: JUNE 3, 1996

COMMISSION STAFF'S PREHEARING STATEMENT

Pursuant to Order No. PSC-96-0577-PCO-WS, the Commission Staff (Staff) files its prehearing statement as follows:

A. All Known Witnesses

Staff intends to call the following witnesses:

| <u>Witness</u> | <u>Subject of Testimony</u> |
|--------------------------|--|
| Karen Amaya | Infiltration and inflow, margin reserve, and used and useful calculations. |
| Harold A. Wilkening, III | St. Johns River Water Management District consumptive use permitting, water conservation and reuse requirements, and water reserve concerns in the vicinity of Palm Coast Utility. |
| Robert F. Dodrill | Staff audit. |
| Guy W. Sapp | Staff audit. |
| Blanca R. Rodriguez | Quality of service. |
| Jeff Martin | Quality of service. |

- ACK _____
- AFA _____
- APP _____
- CAF _____
- CMU _____
- CTR _____
- EAG _____
- LEG _____
- LN 5
- OPC _____
- RCH _____
- SEC 1
- TRD _____
- ...

B. All Known Exhibits

Staff has identified a list of exhibits which it intends to utilize at the hearing which is appended hereto as Appendix A. Staff reserves the right to identify additional exhibits at the Prehearing Conference and at hearing for purposes of cross-examination.

DOCUMENT NUMBER-DATE
06081 JUN-3 1996
FPSC-RECORDS/REPORTING

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.

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: No position pending receipt of customer testimony.

APPROPRIATE TEST YEAR

ISSUE 2: Should a year-end or 13-month average rate base and capital structure be recognized for ratemaking purposes?

STAFF: A 13-month average should be used for both rate base and cost of capital.

RATE BASE

ISSUE 3: Are any adjustments necessary to reduce land purchased from a related party? (Audit Exception No. 1 & Audit Disclosure No. 1)

STAFF: Yes, the wastewater land should be reduced by \$673,360. (Audit Exception No.1 & Audit Disclosure No. 1) (Dodrill, Sapp)

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ISSUE 4: Should plant in service be reduced for the misclassification of major rehabilitation projects? (Audit Exception No. 3)

STAFF: Yes, plant in service should be reduced by \$599,457 and \$504,537 for water and wastewater, respectively. (Audit Exception No. 3) (Dodrill)

ISSUE 5: Has the utility properly capitalized labor in rate base?

STAFF: No position pending receipt of outstanding discovery.

ISSUE 6: What are the appropriate used and useful percentages?

STAFF: No position pending further development of the record. (Amaya)

ISSUE 7: Should a margin reserve be included in the calculations of used and useful?

STAFF: Yes. Consistent with Commission policy a margin reserve should be included in the used and useful calculation. (Amaya)

ISSUE 8: If margin reserve is included in the calculation of used and useful, what is the appropriate margin reserve period?

STAFF: No position pending further development of the record.

ISSUE 9: If a margin reserve is approved, should CIAC be imputed on the ERCs included in the margin reserve?

STAFF: Yes. Current Commission practice requires imputation of CIAC on the margin reserve. The amounts are subject to the resolution of other issues.

ISSUE 10: What is an acceptable level of unaccounted for water?

STAFF: A reasonable level of unaccounted for water is 12.5%.

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ISSUE 11: Does PCUC have excessive unaccounted for water and, if so, what adjustments are appropriate?

STAFF: No position pending further development of the record.

ISSUE 12: Do any wastewater facilities have excessive infiltration and/or inflow and, if so, what adjustments are necessary?

STAFF: No position pending further development of the record.
(Amaya)

ISSUE 13: Is it appropriate to include a factor for economies of scale in the used and useful calculations?

STAFF: Inclusion of a factor for economies of scale in the used and useful calculation is inappropriate.

ISSUE 14: 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?

STAFF: Inclusion of a fire flow allowance in the water transmission and distribution used and useful calculation is inappropriate. (Amaya)

ISSUE 15: What are the appropriate used and useful percentages for the water source of supply, treatment plants, high service pumps, and storage tanks?

STAFF: No position pending receipt of outstanding discovery.
(Amaya)

ISSUE 16: What are the appropriate used and useful percentages for the wastewater treatment plant and the effluent disposal system?

STAFF: No position pending receipt of outstanding discovery.
(Amaya)

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ISSUE 17: What is the appropriate used and useful percentage for the water transmission and distribution system?

STAFF: No position pending receipt of outstanding discovery.
(Amaya)

ISSUE 18: What is the appropriate used and useful percentage for the wastewater collection system?

STAFF: No position pending receipt of outstanding discovery.
(Amaya)

ISSUE 19: What are the appropriate adjustments to debit accumulated deferred income taxes, if any, and what is the resulting balance?

STAFF: No position pending further development of the record.

ISSUE 20: What provision for working capital should be included in rate base?

STAFF: The working capital provision should be zero.

ISSUE 21: What are the appropriate rate base amounts?

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

COST OF CAPITAL

ISSUE 22: What is the appropriate capital structure for ratemaking purposes?

STAFF: No position pending further development of the record.

ISSUE 23: What is the appropriate cost of debt?

STAFF: No position pending further development of the record.

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ISSUE 24: What are the appropriate adjustments to investment tax credits (ITCs) and their cost rate, if any, and what is the resulting balance?

STAFF: No position pending further development of the record. The amount is subject to the resolution of other issues and the cost rate is zero.

ISSUE 25: What is the appropriate cost of common equity capital for Palm Coast?

STAFF: The cost of common equity capital should be established using the leverage formula in effect at the time of the Commission decision in this case.

ISSUE 26: What is the appropriate weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure for the test year?

STAFF: The determination of the weighted average cost of capital is dependent upon the resolution of other cost of capital issues.

NET OPERATING INCOME

ISSUE 27: 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?

STAFF: No position pending further development of the record.

ISSUE 28: Should O&M expenses be reduced? (Audit Exception No.4)?

STAFF: Yes, O & M expenses should be decreased by \$6,276 for water and increased by \$896 for wastewater. (Dodrill)

ISSUE 29: Are any adjustments necessary to O&M expenses related to the used and useful percentages for the operating departments?

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STAFF: No position pending the receipt of outstanding discovery.

ISSUE 30: Is the utility's provision for salaries and wages reasonable, and if not, what adjustments are necessary?

STAFF: No position pending the receipt of outstanding discovery.

ISSUE 31: Should the utility's provision for insurance expense be adjusted?

STAFF: No position pending further development of the record.

ISSUE 32: Should the third party cost included in O&M expenses be allowed?

STAFF: No position pending the receipt of outstanding discovery.

ISSUE 33: Are adjustments necessary to the costs allocated from the parent and the affiliates?

STAFF: No position pending receipt of outstanding discovery.

ISSUE 34: What is the appropriate amount of rate case expense?

STAFF: No position pending further development of the record. However, only prudently incurred rate case expense should be allowed.

ISSUE 35: Are adjustments necessary to property taxes for non-used and useful plant adjustments?

STAFF: Amounts are subject to final resolution of used and useful percentages of plant adjustments.

ISSUE 36: Is a parent debt adjustment appropriate, and if so, what are the proper amounts?

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STAFF: Yes, a parent debt adjustment is appropriate. The amounts are dependent upon further development of the record and the resolution of other issues.

ISSUE 37: 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?

STAFF: The amounts are dependent upon further development of the record and the resolution of other issues.

ISSUE 38: What are the test year operating income amounts before any revenue increase?

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

REVENUE REQUIREMENT

ISSUE 39: What are the revenue requirements?

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

RATES AND RATE STRUCTURE

ISSUE 40: What is the appropriate bulk water rate for PCUC?

STAFF: No position pending further development of the record.

ISSUE 41: In light of Section 367.0817, Florida Statutes, should any revenue requirement associated with reuse be allocated to the water customers of PCUC?

STAFF: No position pending further development of the record.

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ISSUE 42: What are the appropriate rates for reuse customers of PCUC?

STAFF: No position pending further development of the record.

ISSUE 43: What are the appropriate water and wastewater service rates for PCUC?

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

ISSUE 44: 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?

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

ISSUE 45: 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?

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

OTHER OR MISCELLANEOUS ISSUES

ISSUE 46: What are the appropriate annual and monthly discounted rates, and the effective date for AFUDC?

STAFF: The appropriate AFUDC annual and monthly rates are subject to the resolution of other issues regarding the overall cost of capital.

E. Stipulated Issues

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

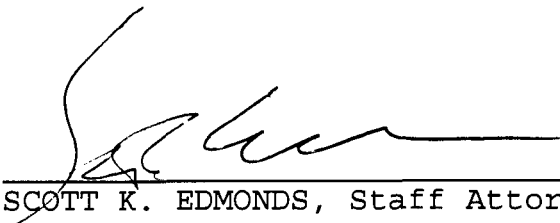
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F. Pending Matters

There are no matters pending at this time.

G. Requirements That Cannot Be Complied With

There are no requirements of Order No. PSC-96-0577-PCO-WS that cannot be complied with at this time.



SCOTT K. EDMONDS, Staff Attorney

FLORIDA PUBLIC SERVICE COMMISSION
Gerald L. Gunter Building
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850
(904) 413-6199

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APPENDIX A

| <u>Witness</u> | <u>Description</u> |
|---------------------|--|
| Karen Amaya | KAA-1: EPA Handbook Excerpts |
| | KAA-2: Used & Useful Calculations |
| | KAA-3: Used & Useful Calculations |
| Robert F. Dodrill | RFD-1: Staff Audit Report |
| | RFD-2: Staff Audit Workpapers Relating to Land |
| | RFD-3: Staff Audit Workpapers Relating to Utility Plant in Service |
| Blanca R. Rodriguez | BRR-1: Sanitary Survey - June 17, 1994 |

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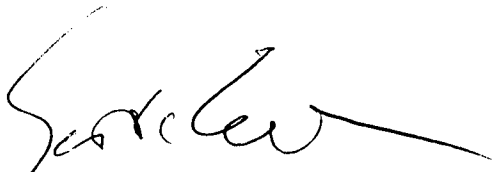
CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the
Commission Staff's Prehearing Statement has been furnished by U.S.
Mail, this 3rd day of June, 1996, to the following:

Wayne Schiefelbein, Esquire
Gatlin, Woods & Carlson
1709-D Mahan Drive
Tallahassee, Florida 32308

Richard D. Melson, Esquire
Hopping Green Sams & Smith
P. O. Box 6526
Tallahassee, FL 32314

Steve Reilly, Esquire
Office of Public Counsel
c/o The Florida Legislature
111 W. Madison St., Room 812
Tallahassee, FL 32399-1400



SCOTT K. EDMONDS, Staff Attorney

FLORIDA PUBLIC SERVICE COMMISSION
Gerald L. Gunter Building
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850
(904) 413-6199