

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for rate increase in Duval, Nassau and St. Johns Counties by United Water Florida Inc.) DOCKET NO. 960451-WS) DATE: December 20, 1996)

ORIGINAL FILE COPY

COMMISSION STAFF'S PREHEARING STATEMENT

Pursuant to Orders Nos. PSC-96-1230-PCO-WS, issued October 1, 1996, and PSC-96-1286-PCO-WS, issued October 16, 1996, the Commission staff (staff) files its prehearing statement as follows:

A. All Known Witnesses

Staff intends to call the following witnesses:

David J. Bolam of the Florida Department of Environmental Protection (DEP). He will testify on the permitting, compliance and enforcement activities of United Water Florida Inc.'s (UWF or utility) wastewater facilities.

Thomas R. Hamilton of the Florida Department of Health and Rehabilitative Services (HRS) Duval County Public Health Unit. He will testify on the permitting, compliance and enforcement activities of UWF's water treatment plants in Duval County.

Blanca Rodriguez of DEP. She will testify on the permitting, compliance and enforcement activities of UWF's water treatment plants in Nassau and St. Johns Counties.

Michael E. Buckley of the Florida Public Service Commission (FPSC) Division of Auditing and Financial Analysis. He will testify on the preparation of the staff rate audit report.

John M. Grayson, Inspector General of the FPSC. He will testify in his previous capacity as a staff member in the Division of Auditing and Financial Analysis, on the preparation of the staff rate base audit report.

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B. All Known Exhibits

Staff intends to sponsor the following exhibits:

DOCUMENT NUMBER-DATE
13596 DEC 20 88
FPSC-RECORDS/REPORTING

- TRH-1: Memorandum dated December 12, 1996, from T. James Tofflemire to Thomas R. Hamilton
discussing Consent Orders issued for San Pablo permitting violations.
- MEB-1: Rate audit report.
- MEB-2: Rate audit AFUDC calculation.
- MEB-3: Miscellaneous expense removals from O&M.
- JMG-1: Composite Exhibit of the rate base audit report.

Staff reserves the right to identify additional exhibits at the Prehearing Conference and at hearing for purposes of cross-examination.

C. Staff's Statement of 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. Staff's Issues and Positions

The following are issues identified by staff and its positions on these issues. Non-testifying staff's positions are preliminary and are based on materials filed by the parties or obtained through discovery. 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 provided by UWF satisfactory?

POSITION: No position pending receipt of customer testimony.
(Bolam, Hamilton, Rodriguez)

TEST YEAR

ISSUE 2: Is an average or year-end test year appropriate?

POSITION: No position pending further development of the record.
(Buckley)

RATE BASE

ISSUE 3: Have the proper plant retirements been made?

POSITION: No position pending further development of the record.

ISSUE 4: What is the appropriate adjustment to account for the missing plant records?

POSITION: No position pending further development of the record.
(Grayson)

ISSUE 5 : What are the appropriate AFUDC rates for 1995, 1996, and 1997?

POSITION: The appropriate AFUDC rate for 1995 and 1996 is 11.12%.
No position as to the appropriate AFUDC rate for the test year pending further development of the record. (Buckley)

ISSUE 6: What adjustments to plant-in-service are appropriate due to the AFUDC rates?

POSITION: No position pending further development of the record.
(Buckley)

ISSUE 7: Is it appropriate to include property held for future use in rate base?

POSITION: No position pending further development of the record.
(Buckley)

ISSUE 8: Is there excessive unaccounted for water, and if so, what adjustments are necessary?

POSITION: No position pending further analysis.

ISSUE 9: Is there excessive inflow and infiltration, and if so, what adjustments are necessary?

POSITION: No position pending further analysis.

ISSUE 10: Should a margin reserve be allowed for the water system, and if so, in what amount?

POSITION: No position pending further development of the record.

ISSUE 11: Should a margin reserve be allowed for the wastewater system, and if so, in what amount?

POSITION: No position pending further development of the record.

ISSUE 12: What are the appropriate used and useful percentages for the water treatment plant, and are adjustments necessary?

POSITION: No position pending further development of the record.

ISSUE 13: What are the appropriate used and useful percentages for the wastewater treatment plant, and are adjustments necessary?

POSITION: No position pending further development of the record.

ISSUE 14: What are the appropriate used and useful percentages for the water distribution system, and are adjustments necessary?

POSITION: No position pending further development of the record.

ISSUE 15: What are the appropriate used and useful percentages for the wastewater collection system, and are adjustments necessary?

POSITION: No position pending further development of the record.

ISSUE 16: Should CIAC be imputed on margin reserve, and if so, in what amount?

POSITION: No position pending further development of the record.

ISSUE 17: Are the depreciation rates used by the utility appropriate?

POSITION: No position pending further development of the record.
(Buckley)

ISSUE 18: What adjustments are appropriate to accumulated depreciation?

POSITION: No position pending further development of the record.
(Buckley)

ISSUE 19: What is the appropriate amount of acquisition adjustments to be included in rate base?

POSITION: No position pending further development of the record.
(Grayson)

ISSUE 20: What is the appropriate amortization rate and amount for acquisition adjustments?

POSITION: No position pending further development of the record.

ISSUE 21: What is the appropriate amount of unamortized tank painting expense included in rate base?

POSITION: No position pending further development of the record.

ISSUE 22: What is the appropriate allowance for working capital?

POSITION: No position pending further development of the record.

ISSUE 23: Should unfunded post retirement benefits be included in the rate base calculation?

POSITION: Yes. Rate base should be reduced by the amount of the unfunded liability.

ISSUE 24: What is the amount of debit balance deferred income taxes that should be included in rate base, if any?

POSITION: No position pending further development of the record.

ISSUE 25: What is the appropriate rate base?

POSITION: The appropriate rate base amount is dependent upon the resolution of other issues.

COST OF CAPITAL

ISSUE 26: What is the appropriate capital structure for ratemaking purposes for the projected test year ending 12/31/97?

POSITION: The appropriate capital structure for ratemaking purposes should be based on a combination of the utility's parent company's capital structure and the utility's actual capital structure. The balances of investor sources of capital should be allocated based upon the relative percentages of investor capital maintained at the parent level and the balances of investment tax credits, deferred income taxes, and customer deposits should be specifically identified at the utility level.

ISSUE 27: What is the appropriate cost rate for common equity?

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

ISSUE 28: What is the amount of credit balance deferred income taxes that should be included in the capital structure, if any?

POSITION: No position pending further development of the record.
(Buckley)

ISSUE 29: What is the appropriate amount of and cost rate for unamortized investment tax credits that should be included in the capital structure?

POSITION: The appropriate cost rate is zero. The utility has not provided a copy of its election which would entitle it to the weighted average cost of capital.

ISSUE 30: What is the appropriate weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure for the projected test year ending 12/31/97?

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

NET OPERATING INCOME

ISSUE 31: What are the appropriate number of water and wastewater ERCs and consumption for the historical test year ending 12/31/95?

POSITION: Based on the rate structure that was approved in the utility's last rate case, by Order No. 10531, UWF's appropriate number of water and wastewater ERCs and consumption for the historical test year ending 12/31/95 is as follows:

	<u>ERCs</u>	<u>Consumption</u>
Water:	302,288	4,288,322
Wastewater:	247,027	3,437,789

ISSUE 32: What is the appropriate method of forecasting ERCs and consumption for the projected test year ending December 31, 1997, and what are the resulting projected number of water and wastewater ERCs and consumption to be used to calculate revenue for the 1997 projected test year and to calculate rates for service?

POSITION: No position pending further development of the record.

ISSUE 33: What adjustments, if any, are necessary to the 1997 projected test year revenues to reflect the appropriate number of water and wastewater ERCs and consumption?

POSITION: The appropriate adjustments, if any, are dependent upon the resolution of other issues.

ISSUE 34: Are any adjustments necessary to the projected test year salary and wage expenses?

POSITION: Yes. Test year O&M expenses should be reduced to reflect the removal of the four eliminated positions. Additional adjustments may be necessary pending further development of the record.

ISSUE 35: Are any adjustments necessary to the utility's 1997 operation and maintenance expense projection methodology?

POSITION: If any changes are made to the calculation of ERCs or consumption, then the expenses which are projected using the number of ERCs or consumption should likewise be adjusted.

ISSUE 36: Are any adjustments necessary to the projected test year insurance expenses?

POSITION: Yes. Test year O&M expenses should be reduced to reflect the removal of the four eliminated positions. Additional adjustments may be necessary pending further development of the record.

ISSUE 37: Are any adjustments necessary to the projected test year expenses for Other Post retirement Benefits (OPEBs)?

POSITION: Yes. Test year O&M expenses should be reduced to reflect the removal of the four eliminated positions. Additional adjustments may be necessary pending further development of the record.

ISSUE 38: Are any adjustments necessary to the test year expenses related to the employee savings program (401k)?

POSITION: Yes. Test year O&M expenses should be reduced to reflect the removal of the four eliminated positions. Additional adjustments may be necessary pending further development of the record.

ISSUE 39: Should the cost savings related to the Information Technology (I.T.) project be reflected in the test year level of expenses?

POSITION: Yes. Water and wastewater O&M expenses should be reduced by \$12,794 and \$22,794, respectively, to reflect the savings expected to result in 1997.

ISSUE 40: What adjustments are necessary to reallocate test year operation and maintenance expenses? (Audit Disclosure No. 1)

POSITION: Wastewater O&M expenses should be increased by \$53,876 and water O&M expenses should be decreased by the same to reallocate rent expense appropriately between water and wastewater. This adjustment has been updated to reflect the company's inflation factors used to project 1996 and 1997 expense levels. (Buckley)

ISSUE 41: Are any adjustments necessary to the projected test year operation and maintenance expenses for management fees allocated to the utility?

POSITION: No position pending further development of the record.

ISSUE 42: What is the appropriate amortization period for the utility's non-recurring expenses, and what adjustments are necessary, if any, to test year amortization expenses?

POSITION: No position pending further development of the record.

ISSUE 43: Should expenses related to charity contributions and membership dues be included in test year expenses? (Audit Disclosure No. 1)

POSITION: No. Adjustments should be made to reduce water and wastewater O&M expenses by \$9,444 and \$19,304, respectively. This adjustment has been updated to reflect the company's inflation factors used to project 1996 and 1997 expense levels. (Buckley)

ISSUE 44: Should expenses associated with investor relations be reallocated between water and wastewater expenses? (Audit Disclosure No. 2)

POSITION: Yes. Wastewater O&M expenses should be increased by \$57,390 and water O&M expenses should be decreased by the same to appropriately reallocate expenses related to investor relations between water and wastewater. This adjustment has been updated to reflect the company's inflation factors used to project 1996 and 1997 expense levels. (Buckley)

ISSUE 45: Should expenses related to lobbying efforts be included in test year expenses?

POSITION: No. Test year O&M expenses should be reduced by \$503 and \$895 for water and wastewater, respectively. (Buckley)

ISSUE 46: What is the appropriate provision for rate case expense?

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

ISSUE 47: What adjustments are appropriate to test year depreciation expense?

POSITION: No position pending further development of the record.

ISSUE 48: What adjustments are appropriate to test year amortization of the acquisition adjustments?

POSITION: No position pending further development of the record.

ISSUE 49: What is the amount, if any, of above the line investment tax credit amortization?

POSITION: There should be no above the line amortization of investment tax credits since the utility has not shown it is entitled to the weighted average cost rate for investments tax credits.

ISSUE 50: What is the amount, if any, of the parent debt adjustment?

POSITION: No position pending the resolution of other issues.

ISSUE 51: What adjustments, if any, are required to income tax expense as filed?

POSITION: No position pending the resolution of other issues.

ISSUE 52: What is the test year operating income before any revenue increase?

POSITION: No position pending the resolution of other issues.

REVENUE REQUIREMENT

ISSUE 53: Should uncollectible expenses related to the revenue expansion factor be approved?

POSITION: No. The revenue requirement should only be grossed up for income taxes and regulatory assessment fees.

ISSUE 54: What is the appropriate revenue requirement?

POSITION: No position pending the resolution of other issues.

RATES AND RATE STRUCTURE

ISSUE 55: Are UWF's facilities and land functionally related and, if so, does the combination of functionally related facilities and land, wherever located, constitute a

single system as defined under Section 367.021(11), Florida Statutes?

POSITION: No position pending further development of the record.

ISSUE 56: Should UWF be required to bill its residential customers on a monthly basis?

POSITION: No position pending further development of the record.

ISSUE 57: What is the appropriate revenue allocation between the base facility charge and the gallonage charge for both water and wastewater?

POSITION: The current revenue allocation between the base facility charge and the gallonage charge, where 37% of the total water revenue is collected from the base facility charge and 27% of the total wastewater revenue is collected from the base facility charge, should remain unchanged for both water and wastewater.

ISSUE 58: What is the appropriate wastewater gallonage cap?

POSITION: No position pending further development of the record.

ISSUE 59: Should the wastewater gallonage charge be differentiated between residential and general service?

POSITION: Yes. The wastewater gallonage charge should be differentiated between residential and general service. The appropriate method to determine the differential rate is as follows:

$$\text{Factored Percentage} = \frac{\text{Total Gallons}}{\text{(Res. Gals. + (Com. Gals. X 1.2))}}$$

$$\text{Basic Gallonage Rate} = \frac{\text{Revenue Requirement from Gallonage Charge}}{\text{Total Wastewater Gallons}}$$

Res. Gallonage Rate = Basic Rate X Factored Percentage
Com. Gallonage Rate = Res. Gallonage Rate X 1.2

ISSUE 60: What are the appropriate wastewater rates for Jacksonville University?

POSITION: Given that the wastewater gallonage rate is differentiated as discussed in Issue 59, the appropriate wastewater rates for Jacksonville University are the corresponding general service rate.

ISSUE 61: Is a reuse rate appropriate, and, if so, what is the appropriate reuse rate?

POSITION: It is premature to set a reuse rate at this time because UWF does not currently provide reuse service to any customers, nor does it plan to provide reuse service in the immediate future. However, UWF should be required to file an application with the Commission for a reuse rate prior to providing reuse service to any customer in the future, even if the proposed rate is zero.

ISSUE 62: Should the utility's requested phase-in rate proposal be approved as filed?

POSITION: No position pending further development of the record.

ISSUE 63: Should private fire protection rates be calculated in accordance with Rule 25-30.465, Florida Administrative Code?

POSITION: Yes. The private fire protection rates should be calculated in accordance with Rule 25-30.465, Florida Administrative Code.

ISSUE 64: What are the appropriate water and wastewater rates?

POSITION: The appropriate water and wastewater rates are dependent upon the resolution of other issues.

ISSUE 65: 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?

POSITION: The appropriate amount is dependent upon the resolution of other issues.

ISSUE 66: 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, if any?

POSITION: The appropriate amount is dependent upon the resolution of other issues.

ISSUE 67: Should UWF's request for a \$3.00 late charge be approved?

POSITION: Yes. UWF's request to implement a late payment charge of \$3.00 on a permanent basis should be approved and \$150,000 should be added in the test year as miscellaneous service revenue. In addition, as proposed by the utility, if a second rate phase-in is approved, the \$3.00 late payment fee should be implemented at that time. If phase-in rates are not approved, the \$3.00 late payment fee should be implemented with final rates.

SERVICE AVAILABILITY

ISSUE 68: Should UWF's service availability charges be uniform for its service areas?

POSITION: Staff is unable to determine at this time whether UWF's service availability charges should be uniform. The utility should be required to file a service availability case within two years after the current rate case order is issued. This will allow UWF to complete its current service availability study.

ISSUE 69: If any non-used and useful adjustments are made, should allowance for funds prudently invested (AFPI) charges be authorized?

POSITION: No position pending further development of the record.

OTHER OR MISCELLANEOUS ISSUES

ISSUE 70: Has the utility complied with the NARUC Uniform System of Accounts?

POSITION: The utility uses its own chart of accounts for its record keeping and cross-references these accounts to the NARUC Uniform System of Accounts (USOA). However, because many of these cross-references are incorrect, the utility should be considered to be out of compliance with the NARUC USOA. (Buckley)

ISSUE 71: If the utility has not complied with the NARUC Uniform System of Accounts, what Commission action is appropriate?

POSITION: No position pending further development of the record.

ISSUE 72: Should an Allowance for Funds Used During Construction (AFUDC) rate be approved, and if so, what is the appropriate monthly discounted rate and effective date?

POSITION: No position pending further development of the record.

LEGAL ISSUE

ISSUE 73: Should the utility be fined for prematurely destroying or losing the accounts payable files for the years 1990 and 1991, in violation of Rule 25-30.110(1)(a), Florida Administrative Code?

POSITION: Rule 25-30.110(1)(a), Florida Administrative Code, clearly requires the utility to preserve its records in accordance with NARUC regulations, and utilities are charged with the knowledge of the Commission's rules. The utility's failure to maintain its 1990 and 1991 accounts payable files is an apparent violation of Rule 25-30.110(1)(a), Florida Administrative Code. However, a determination cannot be made as to whether this

apparent violation rises to the level of warranting a fine until a thorough review of the evidence is made.

E. Stipulated Issues

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

F. Pending Matters

The following matters are pending before the Commission:

UWF's Objection to Interrogatory No. 73 from the Commission Staff's Second Set of Interrogatories, filed November 5, 1996.

UWF's Motion for Protective Order, Including Request for Confidential Classification (of Commission Document No. 12596-96), filed November 25, 1996.

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G. Requirements That Cannot Be Complied With

There are no requirements of Orders Nos. PSC-96-1230-PCO-WS, PSC-96-1286-PCO-WS, or PSC-96-1518-PCO-WS that cannot be complied with at this time.



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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

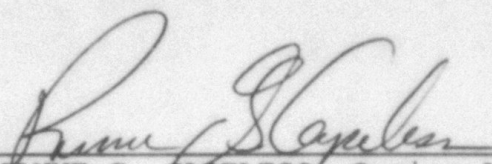
In Re: Application for rate) DOCKET NO. 960451-WS
increase in Duval, Nassau, and)
St. Johns Counties by United) FILED: December 20, 1996
Water Florida Inc.)
_____)

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of **COMMISSION STAFF'S PREHEARING STATEMENT** has been furnished by U.S. Mail this 20th day of December, 1996, to the following:

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