

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  
) ORDER NO. PSC-97-0073-PHO-WS  
) ISSUED: January 23, 1997  
)  
)

Pursuant to Notice, a Prehearing Conference was held on January 17, 1997, in Tallahassee, Florida, before Commissioner Diane K. Kiesling, as Prehearing Officer.

APPEARANCES:

James L. Ade, Esquire, Scott G. Schildberg, Esquire, Martin, Ade, Birchfield & Mickler, P.A., Post Office Box 59, Jacksonville, Florida 32201  
On behalf of United Water Florida Inc.

Harold McLean, Esquire, Office of Public Counsel, c/o The Florida Legislature, 111 West Madison Street, Suite 812, Tallahassee, Florida 32399-1400  
On behalf of the Citizens of Florida.

Rosanne G. Capeless, Esquire, Bobbie L. Reyes, Esquire, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0863  
On behalf of the Commission Staff.

PREHEARING ORDER

I. CASE BACKGROUND

United Water Florida Inc. (UWF or utility) is a Class A utility which provides water and wastewater service to approximately 25,000 customers in Duval, Nassau and St. Johns Counties. On July 30, 1996, the utility filed an application for approval of interim and permanent rate increases pursuant to Sections 367.081 and 367.082, Florida Statutes. The utility satisfied the minimum filing requirements for a rate increase on September 3, 1996.

On October 29, 1996, the Office of Public Counsel (OPC) filed a Notice of Intervention in this proceeding. The Commission acknowledged the intervention of OPC by Order No. PSC-96-1341-PCO-WS, issued November 8, 1996, in this docket.

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

UWF's request for interim rate relief was designed to increase annual water revenues by \$1,148,966 (16.77%), and annual wastewater revenues by \$1,073,950 (7.87%). By Order No. PSC-96-1388-FOF-WS, issued November 19, 1996, in this docket, the Commission, among other things, suspended the proposed permanent rates and approved interim increases in annual revenues of \$725,015 (10.47%) for water, and \$238,030 (1.69%) for wastewater, subject to refund with interest.

The utility's last rate proceeding was based on a test year ending December 31, 1980, and was decided by Proposed Agency Action Order No. 10531, issued January 20, 1982, in Docket No. 810071-WS. The utility has implemented price index and pass-through rate increases every year since 1981.

UWF's request for permanent water and wastewater rates is based on a projected test year ended December 31, 1997, utilizing an intermediate test year ended December 31, 1996, and a base year ended December 31, 1995. The utility requests to increase its annual water revenues by \$3.3 million and its annual wastewater revenues by \$5.1 million. The request is projected to increase the utility's annual water and wastewater revenues by approximately 46% and 33%, respectively. The utility indicates in its filing that the requested rate increases are primarily due to capital investments that are being required to meet more stringent environmental regulations, rehabilitation of its distribution and collection systems, major enhancements to its water and wastewater treatment processes, and information technology initiatives.

The utility has requested that this proceeding be scheduled for a formal hearing and not processed under our proposed agency action procedure as prescribed by Section 367.081(8), Florida Statutes. Therefore, this case is scheduled for a formal hearing on January 27 - 31, 1997, in Duval County.

## II. PROCEDURE FOR HANDLING CONFIDENTIAL INFORMATION

Any information provided pursuant to a discovery request for which proprietary confidential business information status is requested shall be treated by the Commission and the parties as confidential. The information shall be exempt from Section 119.07(1), Florida Statutes, pending a formal ruling on such request by the Commission, or upon the return of the information to the person providing the information. If no determination of confidentiality has been made and the information has not been used in the proceeding, it shall be returned expeditiously to the person providing the information. If a determination of confidentiality has been made and the information was not entered into the record of the proceeding, it shall be returned to the person providing the

information within the time periods set forth in Section 367.156, Florida Statutes.

It is the policy of the Florida Public Service Commission that all Commission hearings be open to the public at all times. The Commission also recognizes its obligation pursuant to Section 367.156, Florida Statutes, to protect proprietary confidential business information from disclosure outside the proceeding.

In the event it becomes necessary to use confidential information during the hearing, the following procedures will be observed:

- 1) Any party wishing to use any proprietary confidential business information, as that term is defined in Section 367.156, Florida Statutes, shall notify the Prehearing Officer and all parties of record by the time of the Prehearing Conference, or if not known at that time, no later than seven (7) days prior to the beginning of the hearing. The notice shall include a procedure to assure that the confidential nature of the information is preserved as required by statute.
- 2) Failure of any party to comply with 1) above shall be grounds to deny the party the opportunity to present evidence which is proprietary confidential business information.
- 3) When confidential information is used in the hearing, parties must have copies for the Commissioners, necessary staff, and the Court Reporter, in envelopes clearly marked with the nature of the contents. Any party wishing to examine the confidential material that is not subject to an order granting confidentiality shall be provided a copy in the same fashion as provided to the Commissioners, subject to execution of any appropriate protective agreement with the owner of the material.
- 4) Counsel and witnesses are cautioned to avoid verbalizing confidential information in such a way that would compromise the confidential information. Therefore, confidential information should be presented by written exhibit when reasonably possible to do so.

- 5) At the conclusion of that portion of the hearing that involves confidential information, all copies of confidential exhibits shall be returned to the proffering party. If a confidential exhibit has been admitted into evidence, the copy provided to the Court Reporter shall be retained in the Division of Records and Reporting's confidential files.

### III. POST-HEARING PROCEDURES

Rule 25-22.056(3), Florida Administrative Code, requires each party to file a post-hearing statement of issues and positions. A summary of each position of no more than fifty words, set off with asterisks, shall be included in that statement. If a party's position has not changed since the issuance of the prehearing order, the post-hearing statement may simply restate the prehearing position; however, if the prehearing position is longer than fifty words, it must be reduced to no more than fifty words. The rule also provides that if a party fails to file a post-hearing statement in conformance with the rule, that party shall have waived all issues and may be dismissed from the proceeding.

A party's proposed findings of fact and conclusions of law, if any, statement of issues and positions, and brief, shall together total no more than sixty pages, and shall be filed at the same time. The prehearing officer may modify the page limit for good cause shown. Please see Rule 25-22.056, Florida Administrative Code, for other requirements pertaining to post-hearing filings.

### IV. PREFILED TESTIMONY AND EXHIBITS; WITNESSES

All testimony which has been prefiled in this case will be inserted into the record as though read after the witness has taken the stand and affirmed the correctness of the testimony and associated exhibits. All testimony remains subject to appropriate objections. Each witness will have the opportunity to orally summarize his or her testimony at the time he or she takes the stand. Upon insertion of a witness' testimony, exhibits appended thereto may be marked for identification. After all parties and Staff have had the opportunity to object and cross-examine, the exhibit may be moved into the record. All other exhibits may be similarly identified and entered into the record at the appropriate time during the hearing.

Witnesses are reminded that, on cross-examination, responses to questions calling for a simple yes or no answer shall be so answered first, after which the witness may explain his or her answer.

The Commission frequently administers the testimonial oath to more than one witness at a time. Therefore, when a witness takes the stand to testify, the attorney calling the witness is directed to ask the witness to affirm whether he or she has been sworn.

V. ORDER OF WITNESSES

Please note that for those witnesses who have prefiled rebuttal testimony, their direct and rebuttal examinations will be conducted at the same time.

<u>Witness</u>	<u>Proffered By</u>	<u>Issues #</u>
<u>Direct &amp; Rebuttal</u>		
Robert J. Iacullo	UWF	D: 71 R: 2, 71
Philip Heil*	UWF	D: 1, 34, 82 SD: 82
Munipalli Sambamurthi**	UWF	D: 1, 9-10, 41, 65, 68-70, 75- 76 R: 1, 9, 17, 41, 43, 65, 75
Thomas F. Cleveland**	UWF	D: 1, 3, 41, 70 R: 1, 3, 5
John F. Guastella**	UWF	D: 11-17, 76
Matthias Jost	UWF	D: 25, 35-40, 42- 43, 45-47, 49- 51, 53, 58, 60-63, 73-74 R: 35, 37-42, 48- 51
Mary Egan-Long	UWF	D: 36
David deNagy	UWF	D: 4, 77-78 R: 4, 77-78
Frank Gradilone, III	UWF	D: 32-34, 61, 63, 66-69, 72 R: 32-34, 68-69, 74

<u>Witness</u>	<u>Proffered By</u>	<u>Issues #</u>
Frank J. McGuire	UWF	D: 2-3, 6-8, 18-24, 26-31, 45, 53-61 R: 2, 5-8, 18-31, 54-56, 58-59, 71
Donna DeRonne	OPC	D: 5, 18-19, 35, 37-40, 56
Hugh Larkin Jr.	OPC	D: 2, 9, 11-17, 20, 22, 25, 27-29, 31, 34, 41, 43, 46-49, 51-52, 54-55, 60, 71
John M. Grayson***	Staff	D: 4, 77
Michael E. Buckley***	Staff	D: 2, 6-8, 18, 20, 29-30, 49-51, 77
David J. Bolam****	Staff	D: 1
Thomas R. Hamilton****	Staff	D: 1
Blanca Rodriguez****	Staff	D: 1

\* The supplemental direct testimony of Philip Heil is to be filed if UWF's Motion to File Supplemental Direct Testimony is granted.

\*\* Witness Sambamurthi is available to testify Tuesday morning, January 28, 1997, to be followed by witnesses Cleveland and Guastella.

\*\*\* Witnesses Grayson and Buckley are available to testify on Wednesday morning, January 29, 1997.

\*\*\*\* Witnesses Bolam, Hamilton, and Rodriguez are available to testify on Wednesday, January 29, 1997.

#### VI. BASIC POSITIONS

UWF: UWF has filed extensive information supporting its application for increased rates, and believes that no adjustments thereto are necessary or appropriate except

those which may arise from corrections or updates to the filed information. The requested rate increases are being driven primarily by capital investments. The utility, in order to derive the most benefit from the cost of this rate case, has proposed a phased increase to capture these capital investments within the context of this rate case to avoid the need for separate rate filings in a relatively short period of time.

OPC: The rate application filed by UWF does not justify the increased revenues requested therein.

STAFF: Staff's positions are preliminary and based on materials filed by the parties and on discovery. The preliminary positions are offered to assist the parties in preparing for the hearing. Staff's final positions will be based upon all of the evidence in the record and may differ from the preliminary positions. The information gathered through discovery and prefiled testimony indicates, at this point, that UWF is entitled to some level of increase. The specific level cannot be determined until the evidence presented at hearing is analyzed.

VII. ISSUES AND POSITIONS

QUALITY OF SERVICE

ISSUE 1: Is the quality of service provided by UWF satisfactory?

POSITIONS

UWF: Yes. The evidence confirms that the Company is providing safe and adequate service to its customers and is meeting all applicable rules and standards. (Heil, Sambamurthi, Cleveland)

OPC: No position pending receipt of customer testimony.

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

TEST YEAR

ISSUE 2: Is an average or year end 1997 test year appropriate?  
(Rate Case Audit Exception No. 5)

POSITIONS

UWF: A year end test year, appropriately matched with revenue and expense, is appropriate to avoid the regulatory lag associated with an average test year. There should be no earnings loss associated with Company investments necessary to continue to provide good service to customers. (McGuire, Iacullo)

OPC: The thirteen month average balances should be utilized in determining test year rate base. UWF's use of the future test year end amounts for determining plant in service, accumulated depreciation, contributions in aid of construction (CIAC) and accumulated amortization of CIAC violates the matching principle. UWF's proposed water and wastewater rate base should be reduced by \$2,658,661 and \$5,337,543, respectively, in order to reflect the thirteen month average balances. (Larkin)

STAFF: A thirteen month average balance should be utilized in determining test year rate base. In the case of Citizens of Fla. v. Hawkins, 356 So. 2d 254, 256-257 (Fla. 1978), the Florida Supreme Court found that in the absence of the most extraordinary of conditions, the Commission should apply average investment during the test year in determining rate base. In its filing, the utility has not provided such extraordinary circumstances which would form a basis for approval of a year-end rate base. (Buckley)

RATE BASE

ISSUE 3: Withdrawn.

ISSUE 4: Withdrawn.

ISSUE 5: Is the projected level of additions to plant-in-service appropriate for inclusion in rate base?

POSITIONS

UWF: The projected year-end plant in service for 1996 and 1997, as updated throughout these proceedings, is



appropriate for inclusion in rate base. (Cleveland, McGuire)

OPC: No. The company has made significant revisions to the projected capital additions included in its original filing. In response to OPC Interrogatory No. 78, UWF made the first revisions to the projected capital additions. Additionally, based on the same response, actual additions through September 1996 were considerably less than budgeted. These revisions should be reflected in plant-in-service. The thirteen month average plant-in-service, based on the response to OPC Interrogatory No. 78, should be reduced by \$3,176,951 and \$2,610,939 for UWF's water and wastewater operations, respectively, in order to reflect UWF's revised projected additions to plant-in-service.

The second significant revisions to the projected capital additions arrived with the rebuttal testimony of Thomas Cleveland. The projected 1997 additions have increased from the \$17,883,000 provided by UWF response to OPC Interrogatory No. 78 (dated December 5, 1996) to \$21,137,100 indicated in Exhibit TFC-5 provided with UWF's rebuttal testimonies. UWF's projected 1997 plant additions increased by \$3.25 million between December 5, 1996 and the rebuttal filing. The newly projected 1997 additions included with UWF's rebuttal include several projects that were not included in the original filing and, thus, have not been reviewed by the parties. Moreover, the validity of UWF's increase in projected 1997 plant additions (i.e., over \$3 million increase), are highly questionable, considering that actual 1996 additions were considerably below the budgeted amounts included in the Company's filing. According to the rebuttal testimony of Thomas Cleveland, the actual 1996 plant additions were \$2,871 million less than budgeted. If the 1996 Yulee WWTP land addition of \$1,175,700, which was included in the actual but not the budgeted additions, is removed, the actual 1996 plant additions would be \$4 million less than what was budgeted in the filing. This fact should be given significant consideration by the Commission when evaluating the reasonableness of the budgeted 1997 plant additions. (DeRonne)

STAFF: No, plant-in-service should be adjusted to reflect slippage in the utility's projected capital additions included in its filing.

**ISSUE 6:** What is the appropriate AFUDC rate for 1997, and what is the appropriate monthly discounted rate and effective date? (Rate Case Audit Exception No. 3)

POSITIONS

UWF: The Company has no position at this time regarding the appropriate AFUDC rate for 1997, the appropriate monthly discounted rate, or the effective date. (McGuire)

OPC: No position.

STAFF: No position pending the resolution of other issues. (Buckley)

**ISSUE 7:** What adjustments to plant-in-service are appropriate due to the AFUDC rates? (Rate Case Audit Exception No. 4)

POSITIONS

UWF: The Company recognizes a reduction of \$84,764 to its plant-in-service due to the AFUDC rates. (McGuire)

OPC: No position.

STAFF: Plant-in-service should be adjusted to remove \$94,515 in AFUDC recorded in excess of the authorized rate as recommended in the staff audit. Staff has no position on the \$9,751 offset proposed by the company pending further development of the record. (Buckley)

**ISSUE 8:** Is it appropriate to include property held for future use in rate base? (Rate Case Audit Exception No. 6)

POSITIONS

UWF: It is appropriate for prudently incurred costs associated with property held for future use to be recovered either in rate base or through AFPI charges. (McGuire)

OPC: No. According to UWF's response to OPC Interrogatory No. 78 and UWF Exhibit No. TCF-3, \$1,175,700 was added to plant-in-service during 1996 for the purchase of Yulee WWTP Land. According to the rebuttal testimony of UWF Witness Thomas F. Cleveland, the Company purchased 365 acres of wetlands and 65 acres of uplands, costing \$1,175,700, for construction of a wastewater treatment plant. Since the purchase of the land, the Company has entered into an agreement to purchase water and

wastewater facilities that are currently operated by Sunray Utilities. When the acquisition is completed, excess wastewater treatment capacity will be available to serve the Yulee subarea. As a result, the Company will be able to postpone construction of the new treatment plant on the Yulee land for several years. Consequently, the land that was purchased is not used and useful, and will not be used and useful for at least several years into the future. The Yulee WWTP land, totaling \$1,175,700, should be excluded from plant-in-service when determining rate base in this filing as it is land held for future use and not currently used and useful. (Larkin)

**STAFF:** No. Of the \$23,776 recorded in property held for future use, \$15,000 should be excluded from rate base. The remaining \$8,776, an easement in the Ponte Vedra service area, should be reclassified as plant-in-service. (Buckley)

**ISSUE 9:** Is there excessive unaccounted for water, and if so, what adjustments are necessary?

**POSITIONS**

**UWF:** There is no excessive unaccounted for water. The unaccounted for water percentage for 1995 is 9.9%, which is well within accepted Commission and industry standards. (Sambamurthi)

**OPC:** Yes, there is excessive unaccounted for water in several of UWF's service areas. For example, according to Company Schedule F-1, UWF's Milmar Manor service area has a 41.6% unaccounted for water rate, the Ponce De Leon area has a 20.8% unaccounted for water rate, the Ridgeland area has a 22.3% unaccounted for water rate, the Riverview area has a 25% unaccounted for water rate and the Town and Country area has a 45.9% unaccounted for water rate. Reductions to test year purchased power and chemical costs should be made accordingly. (Larkin)

**STAFF:** No position pending further development of the record.

**ISSUE 10:** Stipulation.

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

POSITIONS

UWF: The water system is 100% used and useful, without an allowance for margin reserve in the used and useful calculations. If, however, different theories or calculations are made, a margin reserve should be allowed where necessary. With respect to water mains, a margin reserve of 18 months should be used, and with respect to source of supply and treatment, a margin reserve of three years should be utilized. (Guastella)

OPC: No. (Larkin)

STAFF: Agrees with UWF.

**ISSUE 12:** Should a margin reserve be allowed for the wastewater system, and if so, in what amount?

POSITIONS

UWF: The wastewater system is 100% used and useful. With respect to the Ponce de Leon wastewater treatment facility, the ratio of demands to capacity include allowances for margin reserve, and despite a calculated used and useful percentage of 44%, the facility is considered entirely used and useful for the reasons described in the Company's testimony. If, however, different theories or calculations are made, a margin reserve should be allowed where necessary. With respect to wastewater mains, a margin reserve of 18 months should be used, and with respect to the wastewater treatment facilities, a margin reserve of five years should be used. (Guastella)

OPC: No. (Larkin)

STAFF: Yes, a margin reserve of eighteen months on wastewater mains and a margin reserve of three years on the wastewater treatment plants is appropriate.

**ISSUE 13: What are the appropriate used and useful percentages for the water treatment plant?**

**POSITIONS**

**UWF:** The appropriate used and useful percentage for the water treatment plant is 100%, and no adjustments are necessary. (Guastella)

**OPC:** The Company has included all of its plant items as being 100% used and useful, despite the fact that UWF has projected some additions to plant in service which will increase capacity. A used and useful analysis should be conducted and appropriate adjustments should be made accordingly. (Larkin)

**STAFF:** The appropriate used and useful percentage for the water treatment plant is 100%.

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

**POSITIONS**

**UWF:** The appropriate used and useful percentage for the wastewater treatment plant is 100%, and no adjustments are necessary. (Guastella)

**OPC:** The Company has included all of its plant items as being 100% used and useful, despite the fact that UWF has projected some additions to plant in service which will increase capacity. A used and useful analysis should be conducted and appropriate adjustments should be made accordingly. (Larkin)

**STAFF:** The appropriate used and useful percentage for the wastewater treatment plant is 100% excluding Ponce de Leon, which is 44% used and useful.

**ISSUE 15: What are the appropriate used and useful percentages for the water distribution system?**

**POSITIONS**

**UWF:** The appropriate used and useful percentage for the water distribution system is 100%, and no adjustments are necessary. (Guastella)

OPC: The Company has included all of its plant items as being 100% used and useful, despite the fact that UWF has projected some additions to plant in service which will increase capacity. A used and useful analysis should be conducted and appropriate adjustments should be made accordingly. (Larkin)

STAFF: The appropriate used and useful percentage for the water distribution system is 100%.

**ISSUE 16: What are the appropriate used and useful percentages for the wastewater collection system?**

POSITIONS

UWF: The appropriate used and useful percentage for the wastewater collection system is 100%, and no adjustments are necessary. (Guastella)

OPC: The Company has included all of its plant items as being 100% used and useful, despite the fact that UWF has projected some additions to plant in service which will increase capacity. A used and useful analysis should be conducted and appropriate adjustments should be made accordingly. (Larkin)

STAFF: The appropriate used and useful percentage for the wastewater collection system is 100%.

**ISSUE 17: Should CIAC be imputed on margin reserve, and if so, in what amount?**

POSITIONS

UWF: No. It is improper to impute CIAC with respect to margin reserve because it creates a mismatch between revenues and costs. Expenditures for facilities represented by margin reserve are current, whereas service availability charge revenues from future ERCs which will be connected to existing facilities are never received on a current basis. When new customers connect to the system utilizing what is currently considered margin reserve investment, there will be a need for additional current investment for margin reserve in order to be prepared to serve other new customers. (Guastella, Sambamurthi)

OPC: Yes. Any used and useful study adopted by the Commission in this case which includes an allowance for margin reserve should include an offset to such margin reserve

for the CIAC on such reserve that will ultimately be collected by the customers represented by the margin reserve. (Larkin)

STAFF: If a margin reserve is granted, CIAC should be imputed as a matching provision to the margin reserve calculation. However, only 50% of the amount of CIAC collected over the margin reserve period should be imputed to recognize that the imputed amount will be collected over the life of the period, not all at the beginning. In addition, the imputation should be limited to the amount of net plant included in the margin reserve.

ISSUE 18: Was the utility's decision to implement a depreciation rate change in 1986 appropriate, and if not, what adjustments are necessary? (Rate Case Audit Exception No. 7)

POSITIONS

UWF: Yes. The Company has used depreciation rates that are appropriate. (McGuire)

OPC: In Staff's Audit Report for the Fourteen Years Ended December 31, 1994 (Audit Control # 93-216-1-1), Staff recommended an adjustment to UWF's accumulated depreciation balance. In 1986, UWF changed its depreciation rates. The change was not in compliance with the Commission's specific guidelines for the determination of depreciation for water and wastewater companies. The Company should have waited until its next rate filing, i.e., the instant case, to change its depreciation rates. Staff recalculated accumulated depreciation for the years 1986 through 1994 based on the rates approved by the Commission in UWF's last rate case. Staff's calculations resulted in adjustments which increased water accumulated depreciation by \$1,262,048 and decreased wastewater accumulated depreciation by \$173,981. These adjustments should be reflected. (DeRonne)

STAFF: The utility's decision to change its depreciation rates without Commission approval was inappropriate. However, whether any adjustments are necessary is dependent upon further development of the record. (Buckley)

**ISSUE 19: What impact does the inclusion of UWF's revised projected additions to plant-in-service have on accumulated depreciation?**

**POSITIONS**

**UWF:** The impact that the inclusion of UWF's revised projected additions to plant in service will have on accumulated depreciation is dependent upon the resolution of other issues. (McGuire)

**OPC:** Based on the Company's revisions provided in response to OPC Interrogatory No. 78, the thirteen-month average accumulated depreciation balances should be decreased by \$590,243 and \$536,519 for the water and wastewater operations, respectively, in order to reflect the impact of UWF's revisions to its projected additions to plant in service. (DeRonne)

**STAFF:** The projected average balance of accumulated depreciation should be adjusted to reflect adjustments to the related plant components.

**ISSUE 20: Are any additional adjustments to accumulated depreciation necessary? (Rate Case Audit Exception No. 7)**

**POSITIONS**

**UWF:** There are no additional adjustments necessary to accumulated depreciation. (McGuire)

**OPC:** As discussed under Issue 2, UWF's proposed water and wastewater accumulated depreciation should be reduced by \$760,678 and \$1,820,853 in order to reflect the future test year thirteen month average balances. (Larkin)

**STAFF:** If adjustments are made to change rate base from year-end to thirteen-month average, accumulated depreciation should also be adjusted. Any other adjustments to accumulated depreciation are dependent upon further development of the record and upon the resolution of other issues. (Buckley)

**ISSUE 21: Withdrawn.**



**ISSUE 22: What is the appropriate amortization rate and amount of accumulated amortization for acquisition adjustments?**

**POSITIONS**

**UWF:** The appropriate amortization rate for acquisition adjustments is 5%. The amount for amortization of acquisition adjustments for the test year is \$52,409. (McGuire)

**OPC:** The Company has not begun amortizing its acquisition adjustments on its books; consequently, the filing only included the amortization that it expects to accrue during 1997. Similar to the treatment of depreciation expense on plant assets, the Company should have begun amortization of the acquisition adjustments when the adjustments were recorded on the Company's books. Assuming that the Company's proposed 20 year amortization period is allowed, water and wastewater rate base should be reduced by an additional \$145,660 and \$284,547, respectively, in order to reflect an appropriate level of accumulated amortization on the acquisition adjustments, with amortization beginning when the acquisition adjustments were booked. (Larkin)

**STAFF:** The company should reflect amortization of the acquisition adjustments accumulated from the date the acquisition adjustments were authorized at the utility's 5% rate.

**ISSUE 23: What is the appropriate amount of unamortized tank painting expense included in rate base?**

**POSITIONS**

**UWF:** The appropriate amount of unamortized tank painting expense to be included in rate base is as follows:

1995	-	\$756,723
1997	-	\$862,626

(McGuire)

**OPC:** Agrees with staff.

**STAFF:** The appropriate amount of unamortized tank painting expense to be included in rate base is as shown in the utility's filing: \$685,477 for 1995, and \$724,816 for 1997.

**ISSUE 24: What is the appropriate allowance for working capital?**

**POSITIONS**

**UWF:** The appropriate allowance for working capital is \$335,842 for the water system and \$651,929 for the wastewater system for the test year 1997. (McGuire)

**OPC:** Agrees with staff.

**STAFF:** The appropriate working capital is dependent upon the resolution of other issues.

**ISSUE 25: Should any unfunded liability for Other Postretirement Employee Benefits be reduced from rate base?**

**POSITIONS**

**UWF:** Because the Company began funding the Other Postretirement Benefits in December 1995, the Company's rate base should be reduced by the amount of the unfunded liability and increased by the amount of the prepayment of the liability. (Jost, McGuire)

**OPC:** Agrees with staff. (Larkin)

**STAFF:** Yes. Rate base should be reduced by \$426,764 to reflect the amount of the unfunded liability for 1997.

**ISSUE 26: What is the appropriate rate base?**

**POSITIONS**

**UWF:** The appropriate rate base for 1997 is \$30,043,254 for the water system and \$60,077,777 for the wastewater system, as adjusted for corrections and updates. (McGuire)

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

**STAFF:** The appropriate rate base amount is dependent upon the resolution of Issues 2 through 25.

COST OF CAPITAL

ISSUE 27: What is the appropriate capital structure for ratemaking purposes for the projected test year ending 12/31/97? (Rate Case Audit Exception No. 4)

POSITIONS

UWF: The appropriate capital structure for ratemaking purposes for the projected test year ending 12/31/97 is the capital structure for United Water Florida established at 12/31/95 which is as follows:

United Water Florida	Ratio
**Long Term Debt	52.84%
**Short Term Debt	
**Preferred Stock	0.19%
**Common Equity	43.74%
Total Common Equity	
Customer Deposits	0.01%
Investment Tax Cr.	1.85%
Rev. Accumulated Def.	
Income Taxes	1.36%
	100%

\*\*Based on United Waterworks capital structure at 12/31/95.  
(McGuire)

OPC: The appropriate capital structure for ratemaking purposes for the projected test year ending 12/31/97 for UWF is as follows:

Description	Capital Structure
Long Term Debt	\$46,643,824
Short Term Debt	386,801
Preferred Stock	120,593
Common Equity	26,634,106
Customer Deposits	9,133
Tax Credit-wtd cost	2,117,884
Accum. Deferred Income Taxes	1,120,151
Total	\$77,033,492
	(Larkin)

STAFF: 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. (Buckley)

**ISSUE 28: What is the appropriate weighted average cost of debt?**

**POSITIONS**

**UWF:** The appropriate cost of debt is 8.72%. The appropriate weighted average cost of debt is 4.61%. (McGuire)

**OPC:** The weighted cost of debt should be reduced from 8.72% to 8.57% in order to reflect the issuance of the full \$20 million of tax free bonds issued for United Water Florida. (Larkin)

**STAFF:** No position pending further development of the record.

**ISSUE 29: What is the net amount of deferred income taxes that should be included in the capital structure, if any?**

**POSITIONS**

**UWF:** The total amount of the credit balance deferred income taxes that should be included in United Water Florida's capital structure is \$917,179, which includes the net amount of both debit and credit amounts of deferred income taxes. (McGuire)

**OPC:** The total amount of the credit balance deferred income taxes that should be included in UWF's capital structure is \$1,120,151. This is \$201,972 more than the balance proposed by the Company. Company did not reflect the impact of the projected plant additions for 1996 and 1997 on the deferred income tax balances of \$139,398. Additionally, the Company incorrectly calculated the thirteen month average deferred income taxes included in the capital structure. The thirteen month average balance of deferred income taxes was understated by \$52,777. (Larkin)

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

**ISSUE 30:** What is the appropriate amount and cost rate for unamortized investment tax credits that should be included in the capital structure? (Rate Case Audit Exception No. 4)

**POSITIONS**

**UWF:** The appropriate amount of the investment tax credit which should be included in the capital structure is \$1,246,518 and its cost rate should be that of United Waterworks Inc. as determined at year-end 1995, which is 9.99%. The Company made an Option 2 election in 1972 and the Internal Revenue Service has accepted the election in all subsequent audits of the Company. (McGuire)

**OPC:** No position.

**STAFF:** 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. (Buckley)

**ISSUE 31:** 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?

**POSITIONS**

**UWF:** 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 December 31, 1997 are as follows:

United Water Florida	Ratio	Cost	Weighted
**Long Term Debt	52.84%	0.0872	4.61%
**Short Term Debt			
**Preferred Stock	0.19%	0.05	0.01%
**Common Equity	43.74%	0.1155	5.05%
Total Common Equity			
Customer Deposits	0.01%	0.07	0.00%
Investment Tax Cr.	1.85%	0.0999	0.18%
Rev. Accumulated Def.			
Income Taxes	1.36%	0.0	0.00%
	100%		9.86%

\*\*Based on United Waterworks capital structure at 12/31/95.  
(McGuire)

OPC: 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 for UWF is as follows:

Description	Ratio	Cost	Weighted
Long Term Debt	60.55%	8.57%	5.19%
Short Term Debt	.50%	6.55%	0.03%
Preferred Stock	.16%	5.00%	0.01%
Common Equity	34.58%	11.88%	4.11%
Customer Deposits	.01%	6.00%	0.00%
Tax Credit-wtd cost	2.75%	10.04%	0.28%
ADIT	1.45%	0.00%	0.00%
Rate of Return	100.00%		9.62%

See Issue 27 for the capital structure. (Larkin)

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 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?

#### POSITIONS

UWF: The Company's projections for water and wastewater use for the test year are based on projections of the number of customers served and the amount of water and wastewater used by these customers, disaggregated by customer class. The projected number of water service customers for the test year ending December 31, 1997, is 27,207. These customers are projected to consume 4,454,680,000 gallons of water. The projected number of wastewater customers for the test year ending December 31, 1997, is 21,731. These customers are projected to produce 3,674,782,000 gallons of effluent. (Gradilone)

OPC: No position.

STAFF: 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?

**POSITIONS**

**UWF:** Revenue should be increased by \$2,468,010, for the 1997 projected test year to reflect the appropriate number of water and wastewater ERCs and consumption, subject to updates, corrections and other adjustments. (Gradilone)

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

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

**ISSUE 34:** Should UWF's request for a \$3 late charge be approved, and if so, should test year revenues be increased to reflect the impact of UWF's proposed \$3 late payment fee?

**POSITIONS**

**UWF:** Yes, the \$3 late charge should be approved. The late payment charge should be approved to provide customers an incentive to pay bills on time. However, the charge should be implemented when the Company billing system is capable of billing the customers for this fee. The test year revenues should only be increased if the charge is implemented during the test year. (Heil, Gradilone)

**OPC:** If UWF is permitted to impose its proposed \$3 late payment charge, then test year revenues should be increased by \$162,000 (\$90,331 water and \$71,669 wastewater) in order to reflect the associated revenue that will be collected. (See Citizen's Interrogatory No. 45 for determination of the amount.) (Larkin)

**STAFF:** Yes. UWF's request to implement a late payment charge of \$3.00 on a permanent basis should be approved. 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. No position at this time on what amount, if any, test year revenues should be increased.

**ISSUE 35: Are any adjustments necessary to the projected test year salary and wage expenses?**

**POSITIONS**

**UWF:** Test year salaries and wages as updated are reasonable. The Company intends to provide a final update to its salary and wage expenses and the associated benefits, in its rebuttal testimony. (Jost)

**OPC:** Yes. First, UWF has acknowledged an error in the base year salary and wage expense included in its adjustment calculations. (Staff Interrogatory No. 62) Base year salaries and wages were overstated by \$53,925. Base year O&M expenses were understated by the same amount. Additionally, the Company's filing included vacant positions and four new positions, resulting in a projected employee count of 106 employees. The Company has since removed the four projected new positions. Future test year salary and wage expense should be adjusted to remove the four deleted positions and the positions that are currently vacant, resulting in an adjusted employee count of 98 employees. UWF's proposed adjustment to salary and wage expense should be reduced by \$88,878 and \$103,953 for water and wastewater operations, respectively. The adjustment reflects the correction to the base year salary and wage expense, UWF's revised 1997 salary and wage costs and the removal of the six positions that were included in UWF's revised projection (Citizens Interrogatory No. 56) that are currently vacant. Additionally, test year non-payroll O&M expense should be increased by \$47 and \$56,648 for water and wastewater operations, respectively. These are the amounts which the Company incorrectly included in base year salary and wage expense instead of non-payroll O&M expense, increased for the 1996 and 1997 price indexes of 2.4% and 2.5%, respectively.

Furthermore, payroll tax expense should be reduced by \$6,769 and \$12,035 for the water and wastewater operations, respectively. This reflects the impact on payroll tax expense resulting from Citizens recommended adjustments to salary and wage expense. (DeRonne)

**STAFF:** Yes. Test year O&M expenses should be reduced to reflect the removal of the four eliminated positions. Corresponding adjustments should also be made to remove the associated payroll taxes. Additional adjustments



may be necessary pending further development of the record.

**ISSUE 36:** Are any adjustments necessary to the utility's 1997 operation and maintenance (O&M) expense projection methodology?

POSITIONS

UWF: No. (Jost, Egan-Long)

OPC: Agrees with staff.

STAFF: 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 37:** Is UWF's projected 9% increase in medical and dental costs occurring between 1996 and 1997 appropriate?

POSITIONS

UWF: Yes, the projected increase is based on the actuarial valuation made for the Company by Alexander & Alexander. (Jost)

OPC: No. The Company has provided no evidence substantiating the projected 9% cost increase, nor did it provide any quotes or estimates from its insurers substantiating the increase. The 1997 gross domestic price deflator of 2.5% should be utilized in projecting test year medical and dental costs. (DeRonne)

STAFF: No position pending further development of the record.

**ISSUE 38:** Is UWF's projected test year medical, dental and life insurance expenses reasonable?

POSITIONS

UWF: Yes, however, they should be adjusted for the eliminated positions. (Jost)

OPC: No. UWF's proposed medical, dental and life insurance expense should be reduced by \$25,393 for water operations and \$45,142 for wastewater operations. The adjustment allows for the latest known medical and dental premiums and employee contributions, per UWF, at UWF's current

employee count of 98 employees, increased by 2.5%. The Company's filing included the latest known medical and dental premiums and employee contributions applied to its projected employee count of 106 employees, increased by 9%. The Company has provided no evidence substantiating its projected 9% medical and dental insurance cost increase, nor did it provide any quotes or estimates from its insurers substantiating the increase. The 1997 gross domestic price deflator of 2.5% should be utilized in projecting test year medical and dental costs. The recommended adjustment excludes the "Retiree" medical costs included by UWF, as such retiree medical costs should already be included in UWF's OPEB adjustment. The adjustment also recalculates the life insurance cost based on Citizens' adjusted salary and wage costs. (DeRonne)

STAFF: No. 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: Are any adjustments necessary to the projected test year expenses for Other Postretirement Employee Benefits (OPEBs)?

POSITIONS

UWF: The accounting treatment required under FAS 106 is appropriate. The expense levels for Other Postretirement Benefits for the test year are \$194,279 for the water system and \$345,384 for the wastewater system. (Jost)

OPC: Yes. UWF's proposed test year OPEB expense should be reduced by \$17,875 in order to reduce the service cost component to reflect Citizens' proposed employee count of 98 employees, as opposed to UWF's inclusion of its initially projected employee count of 106 employees. Citizens' proposed employee count excludes the four positions deleted by UWF and excludes the currently vacant positions. (DeRonne)

STAFF: 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 40: Are any adjustments necessary to the test year expenses related to the employee savings program (401k)?**

**POSITIONS**

**UWF:** The employee savings (401k) program costs should be appropriately reflected in rates, since this is a common benefit in corporate compensation programs and is considered as such for employees of UWF. The Company intends to provide a final update to its 401k program cost in its rebuttal testimony. (Jost)

**OPC:** Yes. UWF's proposed test year savings plan expense should be reduced by \$4,665 for water operations and \$8,292 for wastewater operations. This allows for the historic test year level, increased by Citizens' recommended percentage increases in salary and wage expense. UWF inappropriately reflected a 100% participation rate at its initially projected employee count of 106 employees. (DeRonne)

**STAFF:** 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 41: Should legal costs associated with UWF's defense of EPA or DEP violations be included in test year expense?**

**POSITIONS**

**UWF:** Yes. The Company has a good record of compliance with the rules and regulations of the EPA and the DEP. (Sambamurthi, Cleveland, Jost)

**OPC:** No. Test year expenses should be reduced by \$163 for water operations and \$290 for wastewater operations to remove legal expenses associated with UWF's violations of EPA and DEP regulations, which were recorded above the line by the Company. (Larkin)

**STAFF:** No position pending further development of the record.

**ISSUE 42:** Should the cost savings related to the Information Technology (I.T.) project be reflected in the test year level of expenses?

POSITIONS

UWF: The Company has already reflected the cost savings related to the information technology project in its expense calculations for the test year 1997. (Jost)

OPC: Agrees with staff.

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

**ISSUE 43:** Is the utility's requested expense for vehicle leasing reasonable and what adjustments, if any, are necessary?

POSITIONS

UWF: The requested expense for vehicle leasing is necessarily incurred in providing service to customers, is reasonable and is appropriately reflected in rates. No adjustments are necessary. (Jost, Sambamurthi)

OPC: The Company has included leasing costs in the future test year for the leasing of 54 vehicles. This level appears excessive considering the Company's revised projected employee count of 102 employees and the current employee count of 98 employees. (Larkin)

STAFF: No position pending further development of the record.

**ISSUE 44:** Stipulation.

**ISSUE 45:** Withdrawn.

**ISSUE 46:** Should the Company's proposed five year amortization of the "Miscellaneous Other Deferred Debits" be included in test year amortization expense?

POSITIONS

UWF: Yes. (Jost)

OPC: No, it should not. Test year amortization expense should be reduced by \$7,726 for water operations in order to remove the "Miscellaneous Other Deferred Debits." The

amounts are for legal costs associated with the Sunray acquisitions. If such costs are allowed, they should be amortized over the amortization period of the Sunray acquisition and appraisal fees, if such costs are permitted for amortization. (Larkin)

STAFF: No. These costs relate to the pending purchase of the Sunray facility and should not be recovered as an operating cost to the current customers.

ISSUE 47: Should the test year amortization expense associated with UWF's proposed five year amortization of the "Vision 2000" costs be allowed?

POSITIONS

UWF: Yes. The Vision 2000 costs are not associated with the merger. Such costs do result in benefits to the customers. (Jost)

OPC: No. Test year water and wastewater amortization expense should be reduced by \$9,347 and \$16,618, respectively, to remove the proposed Vision 2000 amortization expense. The Company has not flowed through all of the cost savings associated with the Vision 2000 program. Additionally, the Vision 2000 costs appear to be part of the merger costs. Consequently, if the amortization of the deferred Vision 2000 costs is allowed, then it should be amortized over a period similar to those used for Miscellaneous Intangible Plant or Organization Costs, which appear not to be amortized or depreciated by UWF. Additionally, the associated cost savings should be reflected in the filing, in their entirety. (Larkin)

STAFF: No position pending further development of the record.

ISSUE 48: Should the amortization expense associated with UWF's proposed five year amortization of Moving Expenses that were deferred by UWF be included in test year expense?

POSITIONS

UWF: Yes. The moving expenses were not related to moving employees as a result of the merger. The expenses were incurred in the normal conduct of the Company's utility business. (Jost)

OPC: No. Test year expenses should be reduced by \$4,489 for water operations and \$7,981 for wastewater operations to

remove the amortization of the deferred moving expenses. The moving expenses appear to be related to moving employees after the merger. There were no employee relocation expenses in 1990 through 1993 and none are projected for 1997. (Larkin)

STAFF: No. These costs should have been expensed when incurred.

ISSUE 49: Should expenses related to charitable contributions and membership dues be included in test year expenses? (Rate Case Audit Disclosure No. 1)

POSITIONS

UWF: Yes. They are prudently incurred and appropriately reflected in rates. (Jost)

OPC: Test year expenses should be reduced by \$722 and \$1,283 for water and wastewater operations, respectively, in order to remove donations and contributions expense. While contributing to such organizations produces a societal benefit, ratepayers should independently and directly choose the organizations to which they contribute, rather than being forced to support the organizations UWF favors through indirect contributions collected in utility rates. Additionally, test year expenses should be reduced by \$486 and \$863 for water and wastewater operations, respectively, in order to remove chamber of commerce dues. (Larkin)

STAFF: No. Adjustments should be made to reduce water and wastewater O&M expenses by \$3,844 and \$6,236, respectively. This adjustment has been updated to reflect the company's inflation factors used to project 1996 and 1997 expense levels. (Buckley)

ISSUE 50: Stipulation.

ISSUE 51: Stipulation.

ISSUE 52: Should public relations expenditures be included in test year expenses?

POSITIONS

UWF: Yes. The expenses result in benefits to the customers.

OPC: No. Test year expenses should be reduced by \$1,525 for water and \$2,711 for wastewater operations to remove

public relations advertising expense. Additionally, future test year expenses should be reduced by \$15,326 and \$27,246 for water and wastewater operations, respectively, in order to remove the position of Manager - External Affairs Business Development, whose job function pertains to public relations. Public relations expenditures enable the Company to promote its corporate name and to publicize itself as a good corporate citizen. UWF's shareholders, not ratepayers, should support these types of expenditures. Unless the Company can demonstrate that a portion of the Manager - External Affairs Business Development's job duties relate to safety or conservation activities, the expense associated with the position should be excluded. (Larkin)

STAFF: Agrees with OPC.

**ISSUE 53: What is the appropriate provision for rate case expense?**

POSITIONS

UWF: The Company intends to provide on January 14, 1997 an update to its rate case expense. The appropriate provision for rate case expense is dependent upon the expenses to be incurred through the end of this proceeding. (Jost, McGuire)

OPC: Agrees with staff.

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

**ISSUE 54: Should depreciation expense be calculated based upon the thirteen-month average plant in service balance or the test year end balance?**

POSITIONS

UWF: Depreciation expense should be calculated based upon the test year end plant in service balance. (McGuire)

OPC: Depreciation expense should be calculated based on the test year thirteen month average plant in service balance, consistent with the appropriate treatment of plant in service in rate base. Depreciation expense should be reduced by \$211,220 for water operations and \$296,646 for wastewater operations in order to reflect

depreciation expense calculated on the appropriate methodology. (Larkin)

**STAFF:** Depreciation expense should be calculated based upon appropriate depreciation rates applied to adjusted plant in service.

**ISSUE 55:** Were there any errors included in UWF's depreciation expense calculations?

**POSITIONS**

**UWF:** No position at this time. The Company is continuing to investigate whether an error was included in its depreciation expense calculations. (McGuire)

**OPC:** Yes. UWF made a transposition error in its filing. Based on Company Schedules B-13, A-3 and A-14, the combined depreciation expense and amortization of CIAC for water operations should have been \$1,232,173; however, Company Schedule B-3 and G-41 reflected \$1,323,173 as the combined amount. The correction of the transposition error is reflected in Citizens adjustment to reflect depreciation expense based on the thirteen month average plant in service balance. (Larkin)

**STAFF:** Agrees with OPC.

**ISSUE 56:** What adjustment to depreciation expense is necessary to reflect the impact of UWF's revisions to plant additions?

**POSITIONS**

**UWF:** The adjustment, if any, to depreciation expense is dependent on the determination of other issues. (McGuire)

**OPC:** Depreciation expense should be reduced by an additional \$94,673 for water operations and \$92,166 for wastewater operations to reflect the impact of UWF's revisions to its projected plant additions on depreciation expense which was provided in response to OPC Interrogatory No. 78. This adjustment should be made in addition to the adjustment to depreciation expense to reflect the balance based on the thirteen month average plant in service amounts. (DeRonne)



STAFF: Depreciation expense should be calculated based upon appropriate depreciation rates applied to adjusted plant in service.

ISSUE 57: Withdrawn.

ISSUE 58: What is the amount, if any, of above the line investment tax credit amortization?

POSITIONS

UWF: The above the line investment tax credit amortization amount is \$35,040 for the test year. (Jost, McGuire)

OPC: No position.

STAFF: 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 59: What is the amount, if any, of the parent debt adjustment?

POSITIONS

UWF: The Company's capital structure as set forth in Issue 31, and the associated parent company debt interest deductions for income tax purposes, are based on the capital structure of the Company's parent company, United Waterworks Inc. All financing for the Company is done by United Waterworks Inc. There should be no United Water Resources Inc. parent debt adjustment because there is no debt of United Water Resources Inc. incurred for the benefit of United Waterworks Inc. or its subsidiaries. Therefore, no further adjustment is necessary or appropriate. (McGuire)

OPC: Agrees with staff.

STAFF: The dollar amount is dependent upon the resolution of other issues. The parent debt adjustment should be calculated in accordance with Rule 25-14.004, Florida Administrative Code. The capital structure of the utility's grandparent should be used to calculate the parent debt adjustment.

**ISSUE 60:** What adjustments, if any, are required to income tax expense as filed?

**POSITIONS**

**UWF:** No adjustments are required to income tax expenses other than those relating to updates, corrections or other adjustments. (Jost, McGuire)

**OPC:** The interest deduction for tax purposes should be revised to reflect Citizens' adjusted rate base and the weighted cost of debt recommended by Citizens. The interest deduction should be calculated by multiplying adjusted rate base by the weighted cost of debt, as adjusted. Additionally, income tax expense should be adjusted to reflect the impact resulting from any operating income and expense adjustments adopted. (Larkin)

**STAFF:** No position pending the resolution of other issues.

**ISSUE 61:** What is the test year operating income before any revenue increase?

**POSITIONS**

**UWF:** The test year operating income before any revenue increase is projected at \$3,908,893, subject to updates, corrections and other adjustments. (Jost, Gradilone, McGuire)

**OPC:** The determination of the appropriate test year operating income is dependent upon the resolution of other issues.

**STAFF:** The determination of the appropriate test year operating income is dependent upon the resolution of other issues.

**REVENUE REQUIREMENT**

**ISSUE 62:** Withdrawn.

**ISSUE 63:** What is the appropriate revenue requirement?

**POSITIONS**

**UWF:** The appropriate revenue requirements are \$10,631,396 for the water system and \$20,786,382 for the wastewater system, as set forth in the Company's filing, except as it may be adjusted as the case develops. (Jost, Gradilone)

OPC: The determination of the appropriate revenue requirement is dependent upon the resolution of other issues.

STAFF: The determination of the appropriate revenue requirement is dependent upon the resolution of other issues.

ISSUE 64: Withdrawn.

RATES AND RATE STRUCTURE

ISSUE 65: Should UWF be required to bill its residential customers on a monthly basis?

POSITIONS

UWF: At this time, United Water Florida has no position on this issue, except to state that should such a change be made to its billing cycle, the revenue requirement granted in this case should be increased to allow United Water Florida to recover the additional costs of such monthly billing. (Sambamurthi)

OPC: No position.

STAFF: No position pending further development of the record.

ISSUE 66: Stipulation.

ISSUE 67: What is the appropriate wastewater gallonage cap?

POSITIONS

UWF: The existing wastewater usage cap of 30,000 gallons per quarter for single family residential customers is reasonable and should be maintained. (Gradilone)

OPC: No position.

STAFF: No position pending further development of the record.

ISSUE 68: Should the wastewater gallonage charge be differentiated between residential and general service?

POSITIONS

UWF: No. The cost to treat the wastewater effluent does not vary based on the source--residential or general service. Therefore, charging the same amount per gallon is fair and appropriate. (Sambamurthi, Gradilone)

OPC: No position.

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

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

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

$$\text{Res. Gallonage Rate} = \text{Basic Rate X Factored Percentage}$$

$$\text{Com. Gallonage Rate} = \text{Res. Gallonage Rate X 1.2}$$

This differential will recognize the variance in usage patterns between the classes of customers.

ISSUE 69: What are the appropriate wastewater rates for Jacksonville University?

POSITIONS

UWF: The appropriate wastewater rates for Jacksonville University are set forth on MFR Schedule E-1, subject to corrections and updates. The current differential in rates between general service wastewater customers and Jacksonville University should be maintained. United Water Florida meters the wastewater flow directly for Jacksonville University and its rates are based upon the wastewater flows. For all other general service wastewater customers, the wastewater flow is imputed from metered water use, under the assumption that 80% of the potable water used by these customers ends up in the wastewater stream, and the rates are based on the metered water use. Therefore, the 25% differential between the general service wastewater rates and the rates for Jacksonville University is necessary to insure equitable treatment of all wastewater customers in the system. (Sambamurthi, Gradilone)

OPC: No position.

STAFF: Given that the wastewater gallonage rate should be differentiated as discussed in Issue 68, the appropriate

wastewater rate for Jacksonville University is the corresponding general service rate.

**ISSUE 70:** Withdrawn.

**ISSUE 71:** Should the utility's requested phase-in rate proposal be approved as filed?

**POSITIONS**

**UWF:** Yes. The Company's phase in program should be approved, because it benefits the Company and its customers. The plan as proposed requests phased in rate relief based on 1996 and 1997 year end results. This plan will avoid the substantial time and expense required from both the Company and the Commission associated with the filing of another general rate increase, while still allowing the Commission to verify and the Company to recover the capital costs associated with its 1996 and 1997 plant additions, which are the primary drivers of the need for rate relief. If the Company's phase in is not approved, then rates in this case should be based on 1997 average rate base. (Iacullo, McGuire)

**OPC:** A phase-in of the rate increase is reasonable in this case. The second phase should occur after the completion of calendar year 1997 in order to verify the actual amount of plant additions and retirements. In determining the second phase amount, the actual 1997 thirteen month average plant in service amount should be reflected, along with the impact of the actual plant in service amounts on accumulated depreciation and depreciation expense. These amounts should be offset by the used and useful factors ultimately adopted by the Commission, as appropriate. However, the actual 1997 plant additions should be subject to review by the parties prior to the phase-in for appropriateness, prudence and a determination as to whether the additions are actually used and useful, particularly for projects which were not included in the Company's original filing. (Larkin)

**STAFF:** No position pending further development of the record.

**ISSUE 72: What are the appropriate water and wastewater rates?**

**POSITIONS**

**UWF:** The Company's currently proposed rates are set forth in MFR Schedule E-1, subject to corrections and updates. (Gradilone)

**OPC:** The determination of the appropriate water and wastewater rates is dependent upon the resolution of other issues.

**STAFF:** The determination of the appropriate water and wastewater rates is dependent upon the resolution of other issues.

**ISSUE 73: 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?**

**POSITIONS**

**UWF:** 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 will be twenty-five percent (25%) of the amount determined in Issue 53 above. (Jost)

**OPC:** No position at this time.

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

**ISSUE 74: 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?**

**POSITIONS**

**UWF:** If there is to be a refund, it should be accomplished through a percentage credit on customer's bills over a 12 month period. (Jost, Gradilone)

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

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

**SERVICE AVAILABILITY**

**ISSUE 75:** Stipulation.

**ISSUE 76:** If any non-used and useful adjustments are made, should allowance for funds prudently invested (AFPI) charges be authorized, and if so, in what amount?

**POSITIONS**

**UWF:** Yes. AFPI charges should be authorized based on non-used and useful adjustments, calculated in accordance with Rule 25-30.434, Florida Administrative Code. The true amount of the charges is dependent on the resolution of other issues. (Sambamurthi, Guastella)

**OPC:** No position pending further development of the record.

**STAFF:** Yes, AFPI charges should be authorized based on non-used and useful adjustments, calculated in accordance with Rule 25-30.434, Florida Administrative Code. The charges would be dependent upon the resolution of other issues.

**MISCELLANEOUS ISSUES**

**ISSUE 77:** Has the utility complied with the NARUC Uniform System of Accounts? (Rate Case Audit Exceptions Nos. 1 and 2; Rate Base Audit Exceptions Nos. 1, 3, 4, 6, and 7)

**POSITIONS**

**UWF:** Yes. United Water Florida's books and records are kept in substantial compliance with the NARUC Uniform System of Accounts. (deNagy)

**OPC:** No position.

**STAFF:** No. 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. (Grayson, Buckley)

**ISSUE 78:** If the utility has not complied with the NARUC Uniform System of Accounts, what Commission action is appropriate?

**POSITIONS**

**UWF:** None. Although the Company currently is in substantial compliance with the NARUC Uniform System of Accounts, it already is taking sufficient action to remedy the deficiencies perceived by the staff. (deNagy)

**OPC:** No position.

**STAFF:** No position pending further development of the record.

**LEGAL ISSUES**

**ISSUE 79:** 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?

**POSITIONS**

**UWF:** No. The evidence shows that the Company's destruction or loss of records was due to inadvertence and was not intentional and the Company has taken steps to remedy the problem.

**OPC:** Agrees with staff.

**STAFF:** 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.



**ISSUE 80:** Do the First District Court of Appeal's opinions in Sugarmill Woods Civic Ass'n v. Southern States Utils., Inc., 21 Fla. L. Weekly D2627 (Fla. 1st DCA Dec. 12, 1996), and Hernando County v. FPSC, 21 Fla. L. Weekly D2625 (Fla. 1st DCA Dec. 12, 1996), have any effect on this proceeding?

**UWF:** These decisions may have an effect on this proceeding depending on whether the decisions are final decisions when the Commission enters its final order.

**OPC:** No position.

**Staff:** These opinions may affect this proceeding depending on their final outcome on appeal. If the Court articulates a new standard on rehearing, the Commission may be bound by the new standard.

#### **JURISDICTION**

**ISSUE 81a:** Does the Commission continue to have jurisdiction over UWF in St. Johns County, pursuant to Section 367.171(7), Florida Statutes?

**UWF:** Yes. The Commission continues to have jurisdiction over UWF's facilities and land in St. Johns County because such facilities and land are a part of UWF's single system whose service transverses county boundaries.

**OPC:** No position.

**STAFF:** By Order No. 24335, issued April 8, 1991, in Docket No. 910078-WS, the Commission found that UWF's land and facilities constituted a single system whose service transverses county boundaries. The Commission's decision was upheld in Board of County Commissioners of St. Johns County v. Beard, 601 So. 2d 590, (Fla. 1st DCA 1992). However, the outcome of the First District Court of Appeal's opinions in Sugarmill Woods Civic Ass'n v. Southern States Utils., Inc., 21 Fla. L. Weekly D2627 (Fla. 1st DCA Dec. 12, 1996), and Hernando County v. FPSC, 21 Fla. L. Weekly D2625 (Fla. 1st DCA Dec. 12, 1996), may affect the Commission's continuing jurisdiction over UWF's facilities in St. Johns County depending on the final outcome of those opinions on appeal.

**ISSUE 81b: Do UWF's facilities and land in Duval, Nassau, and St. Johns Counties constitute a single system as defined in Section 367.021(11), Florida Statutes?**

**UWF:** Yes. UWF owns, manages, and operates its utility facilities and land as a single system. Such facilities and land are functionally related and constitute a single "system" as defined by Section 367.021(11), Florida Statutes. The Commission found that UWF's land and facilities constituted a single system whose service transverses county boundaries in Order No. 24335, and the Commission's decision was upheld in Board of County Commissioners of St. Johns County v. Beard, 601 So. 2d 590, (Fla. 1st DCA 1992). There have been no substantial changes in UWF's ownership management and operation of its utility facilities and land which would reduce the functional relationship of such land and facilities. (Heil)

**OPC:** No position.

**STAFF:** Based upon the standards contained in the Beard decision, and the direct and supplemental direct testimony filed by Witness Heil, it appears that the facilities and land are functionally related and constitute a single "system" as defined by Section 367.021(11), Florida Statutes.

VIII. EXHIBIT LIST

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
<u>Direct</u>			
Robert J. Iacullo	UWF	_____	Minimum Filing Requirements
Philip Heil	UWF	_____ (PH-1)	List of Awards
Philip Heil	UWF	_____ (PH-2)	Tariff Sheets - Miscellaneous Service Charges
Philip Heil	UWF	_____ (PH-3)	Rule making Excerpts
Philip Heil	UWF	_____ (PH-4)	Kane Staff Recommendation

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
Frank Gradilone III	UWF	_____ (FG-1)	Report on Forecast of Water & Wastewater Service Revenues for UWF for the Rate Years Ending December 31, 1996, and December 31, 1997
Frank Gradilone III	UWF	_____ (FG-2)	Certain Existing and Proposed Tariff Sheets for UWF

Rebuttal

Frank Gradilone III	UWF	_____ (FG-3)	Composite Exhibit of Mr. Gradilone's Rebuttal Schs. FG:R1 to FG:R16, as set forth below:
		(FG:R1)	1995 - Bills Rendered, ERCs, Gallons Sold
		(FG:R2)	Historical and Pro Forma Rate Year (1996) Revenues
		(FG:R3)	1996 Projected Water Service Revenues -- Residential
		(FG:R4)	1996 Projected Water Service Revenues -- Commercial
		(FG:R5)	1996 Projected Water Service Revenues -- Public

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>		
Frank Gradilone III		(FG:R6)	1997 Projected Water Service Revenues -- Residential		
		(FG:R7)	1997 Projected Water Service Revenues -- Commercial		
		(FG:R8)	1997 Projected Water Service Revenues -- Public		
		(FG:R9)	Private Fire Protection		
		(FG:R10)	Wastewater Revenues (1995)		
		(FG:R11)	Wastewater Revenues (1996)		
		(FG:R12)	Wastewater Revenues (Annualized 1996)		
		(FG:R13)	Wastewater Revenues (1997)		
		(FG:R14)	Wastewater Revenues (Annualized 1997)		
		(FG:R15)	Projected Water ERCs -- 1996 and 1997		
		Frank Gradilone III	UWF	<hr style="width: 100px; margin-left: 0;"/> (FG-4)	Late Filed Deposition Exh. No. 5 -- <u>An Approach to Rate Design</u>

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
<u>Direct</u>			
Thomas F. Cleveland	UWF	_____ (TFC-1)	Gross Plant Additions and Associated Advances/Contributions to Be Placed in Service 1996 and 1997
Thomas F. Cleveland	UWF	_____ (TFC-2)	Capital Improvements in 1996 and 1997 to Increase Plant Capacities
<u>Rebuttal</u>			
Thomas F. Cleveland	UWF	_____ (TFC-3)	1996 Gross Plant Additions -- Budget vs. Actual
Thomas F. Cleveland	UWF	_____ (TFC-4)	Explanation of Major Variances in 1996 Plant Additions
Thomas F. Cleveland	UWF	_____ (TFC-5)	Projected Plant Additions, CIAC, and Retirements -- 1997
<u>Direct</u>			
John F. Guastella	UWF	_____ (JFG-1)	Used and Useful Water and Sewer Test Year Ended December 31, 1995
John F. Guastella	UWF	_____ (JFG-2)	Used and Useful Water and Sewer Test Year Ended December 31, 1997

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
John F. Guastella	UWF	<u>                    </u> (JFG-3)	Used and Useful Water and Sewer ERC Growth and Margin Reserve Data
<u>Rebuttal</u>			
Matthias Jost	UWF	<u>                    </u> (MJ-1)	1997 Salaries and Wages
Matthias Jost	UWF	<u>                    </u> (MJ-2)	Medical Ins. -- Actuarial Excerpts
Matthias Jost	UWF	<u>                    </u> (MJ-3)	1997 Employee Savings Expense
Matthias Jost	UWF	<u>                    </u> (MJ-4)	Rate Case Expense
Frank J. McGuire	UWF	<u>                    </u> (FJM-1)	Example of Schedule of Investments and Other Compon- ents of Rate Base
Frank J. McGuire	UWF	<u>                    </u> (FJM-2)	Excerpt of Response to Audit Report
Frank J. McGuire	UWF	<u>                    </u> (FJM-3)	Capital Struc- ture -- Year End 1995
Frank J. McGuire	UWF	<u>                    </u> (FJM-4)	Answer to Staff's Inter- rogatory No. 92
Munipalli Sambamurthi	UWF	<u>                    </u> (MS-1)	Answer to Staff's Inter- rogatory No. 6
<u>Direct</u>			
Hugh Larkin, Jr.	OPC	<u>                    </u> (HL-1)	Composite Exhibit of Schedules 1A-25
Donna DeRonne	OPC	<u>                    </u> (Appendix I)	Qualifications of Witness

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
Thomas R. Hamilton	Staff	_____ (TRH-1)	Memorandum Dated December 12, 1996, from T. James Tofflemire to Thomas R. Hamilton
John M. Grayson	Staff	_____ (JMG-1)	Rate Base Audit Report
Michael E. Buckley	Staff	_____ (MEB-1)	Rate Case Audit Report
Michael E. Buckley	Staff	_____ (MEB-2)	Rate Case Audit AFUDC Calcula- tion
Michael E. Buckley	Staff	_____ (MEB-3)	Rate Case Audit Miscellaneous Expense Re- movals from O&M

Parties and Staff reserve the right to identify additional exhibits for the purpose of cross-examination.

#### IX. PROPOSED STIPULATIONS

The parties and staff have agreed that the following stipulations are reasonable and should be accepted by the Commission.

1. The costs incurred related to the merger and resulting name change shall not be allocated to the customers in the current rate proceeding. If the utility discovers that any such costs have been allocated to the customers, it shall so disclose at the hearing so that the appropriate adjustment(s) can be made. (OPC took no position on this issue.)

2. The appropriate AFUDC rate for 1995 and 1996 is 11.12%. (OPC took no position on this issue.)

3. There is no excessive inflow and infiltration in the utility's wastewater system. (OPC took no position on this issue.)

4. The cost of common equity capital shall be determined using the leverage formula in effect at the time of the Commission decision in this case. (OPC took no position on this issue.)

5. Wastewater O&M expenses shall be increased by \$53,876 and water O&M expenses shall 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. (OPC took no position on this issue.)

6. Wastewater O&M expenses shall be increased by \$57,390 and water O&M expenses shall 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.

7. Test year O&M expenses shall be reduced by \$503 and \$895 for lobbying expenses for water and wastewater, respectively.

8. The utility's private fire protection rates shall be calculated in accordance with Rule 25-30.465, Florida Administrative Code.

9. 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 are as follows:

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

10. 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, shall remain unchanged for both water and wastewater. (OPC took no position on this issue.)

11. UWF's methodology of calculating its residential and general service base facility charges shall be continued, as defined in An Approach to Rate Design, authored by witnesses Sambamurthi and Heil. (OPC took no position on this issue.)

12. UWF's service availability charges shall not be made uniform at this time. However, the utility shall file a service availability application within three years after the final rate case order is issued in this docket. (OPC took no position on this issue.)



NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by this order, which is preliminary, procedural or intermediate in nature, may request: (1) reconsideration within 10 days pursuant to Rule 25-22.0376, Florida Administrative Code, if issued by a Prehearing Officer; (2) reconsideration within 15 days pursuant to Rule 25-22.060, Florida Administrative Code, if issued by the Commission; or (3) judicial review by the Florida Supreme Court, in the case of an electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or wastewater utility. A motion for reconsideration shall be filed with the Director, Division of Records and Reporting, in the form prescribed by Rule 25-22.060, Florida Administrative Code. Judicial review of a preliminary, procedural or intermediate ruling or order is available if review of the final action will not provide an adequate remedy. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.

13. The utility may enter into evidence its responses to the staff audit reports without objection by the parties.

X. PENDING MOTIONS

1. UWF's Motion to File Supplemental Direct Testimony of Philip Heil, filed January 10, 1997.
2. UWF's Motion for Reconsideration of Order No. PSC-97-0022-FOF-WS, filed January 16, 1997.
3. OPC's Motion to Strike Testimony, filed January 22, 1996.

XI. RULINGS

1. Staff's request to strike the rebuttal testimony of Mary-Egan Long and Exhibit No. (MEL-1) attached thereto was granted.
2. UWF's oral motion to extend the length of post-hearing briefs by twenty-five pages for Issues Nos. 80, 81a, and 81b only was granted.

It is therefore,

ORDERED by Commissioner Diane K. Kiesling, as Prehearing Officer, that this Prehearing Order shall govern the conduct of these proceedings as set forth above unless modified by the Commission.

By ORDER of Commissioner Diane K. Kiesling, as Prehearing Officer, this 23rd day of January, 1997.

  
DIANE K. KIESLING, Commissioner and  
Prehearing Officer

( S E A L )

RGC