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STATE OF FLORIDA

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February 26, 997

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

Re: Docket No. 960451-WS

Dear Ms. Bayo:

Enclosed for filing in the above-referenced docket are the original and 15 copies of the Citizens' Posthearing Statement. A diskette in WordPerfect 6.1 is also submitted.

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

Sincerely,

Harold McLean
Associate Public Counsel

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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 Filed: February 26, 1997

CITIZENS' POSTHEARING STATEMENT

The Citizens of the State of Florida, by and through JACK SHREVE, Public Counsel, file this their post hearing statement in the above-captioned docket. Additions to the Citizens' prehearing position are marked with an asterisk (*), discussion follows under the heading "Discussion." Issues in which the Citizens take no position, or to which the Citizens make no addition since the prehearing order are omitted.

ISSUES AND POSITIONS

QUALITY OF SERVICE

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

OPC: No position pending receipt of customer testimony.

DISCUSSION:

* **[Note:** In the discussion of this issue, the citation to the record is as follows: (xx:yy) where `x' is the page reference and `y' is the line reference.]

The customer concerns generally fell into twenty-one categories. Some of the people represented homeowner associations and expressed their common problems. Objections to the requested increase were plentiful. Customer Paul Hudgins says that, "The amount of the increase is excessive." (11:19-20) The water and wastewater increased in excess of 100% for Mr. Ed Holland over the last 10 to 13 years. (14:19-21) He notes that, "people cannot afford being raised every year; and I've had a rate increase every year I've been at my home." (15:17-19) "We are not in favor of the rate increase as proposed," said John Chyle, who thinks that a 2.6% cost of living increase would be more appropriate. (18:9-12) James

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Wood states that,"Not making as much as they would like seems to be poor justification for exorbitant rate increases." (25:23-25) One hundred people in Frank De Hot's neighborhood signed a petition which voiced an objection to the amount of the increase. (33:18-21) Martin Mittelacher of Ponte Vedra would like the PSC to deny the rate increase. (35:13-15) It was explained by Robert H. LaBelle that, "My concern was based not only on the magnitude of the request, but also on my dissatisfaction with the quality of UWF's product, water, and service as personally experienced by me and shared by my neighbors and others." (41:1-5) He further observes that, "It is befuddling as to how a monopoly, UWF, should be guaranteed a return on equity higher than the average Fortune 500 company which has to operate in highly competitive markets. UWF has no competition." (45:18-22) Outrage comes to mind for Richard Engel when he contemplates the increase. (57:10) Paul J. Kekevian remarked that, "They are looking for a 36 to a 40% increase, which I consider ludicrous. That's about nine times the inflation rate." (64:1-2; 64:4-5) Another customer feeling outrage was Elizabeth Palmer. (77:23-24) "This 40% increase is ludicrous," stressed Ann Lord. When reading about the proposed increase, Hazel Thomas "got really angry at first" and thought, "what are poor people to do with a rate increase like that. This is utterly ridiculous." (441:21-23) Yvon Bizier believes that "they're asking for 40 so they can get that 10 or 15" increase. (444:24) Mr. Asa Williams was adamantly opposed; "what I really want to say is the cost and the rate increase that they're asking for is also -- is just ridiculous." (455:12-14) John Pitts just can't imagine a 40% raise. (463:4) Prior action was taken by Walter F. Davis when he "wrote the commission on October 24th objecting to the increases on several grounds." (972:18-19) Pleas of heartfelt dismay and indignation resounded from Asa Williams and Teri Emans respectively; "And I have my bill. In my household there's just my wife and myself, and we don't utilize too much water. In fact, we try to save and conserve as much as possible. We don't flush after uses at times just to save water, but each and every month, each and every time we get our bill, it's at least 100+ dollars" and "I brought some of my bills. I pay about $1,000 a year. My bills are about 200 to 280 every three months. I think that's enough for water." Williams (457:4-10) Emans (459:24-25; 460:1-2)

Another area of concern was that a lack of prudent management decisions created the cost and rate increase. An example was alleged by Ed Holland; "Someone somewhere along the line is not doing proper planning with this company to cover their future expenses." (14:22-24) Similar concerns were expressed in Robert H. LaBelle's statement that UWF has paid large fines to other agencies, money which could have gone for capital improvements or could have reduced operating costs. (42:11-21) He noted that "the City of Jacksonville scuttled a rate increase slated for this April because of a combination of cost-cutting moves and revenue growth." (45:5-7) He goes on "it is noteworthy that the City of Jacksonville's Public Utility Department is funded by customer revenues rather than city taxes. The lesson here is that if an agency of local government usually tagged for bureaucratic inefficiency can cut costs and hold the line on rates, why can't a private utility do it too, and do it better?" (45:8-15) Along these same lines Mr. Keith Moffett offered "they should cut costs first before passing on rate increases to their customers..." (86:22-24) Mr. LaBelle sums it up as "the point of all of this is that I strongly feel that this utility and other utilities do not carefully watch their costs. In fact, it is in their favor for costs to increase because they validate their requests for rate increases." (986:10-14)

The issue of chlorine levels again appeared. Ed Holland stated, "At times the chlorine would be so strong you couldn't hardly drink it." (16:13-14) Mr. Don Bruno's "water coming out of the faucets has more of a chlorine odor than the pool does." (67:11-13) At Ann Lord's house "the smell of chlorine is so strong you can't even stand to take a shower." (433:16-18) Melissa Goller notes "there are still surges of chlorine throughout the system." (450:4-5) Terry Goller opines "if it's not superchlorinated, you got a bad sulfur smell coming out of it." (451:14-15) Some customers, such as E.C. Garrett, use bottled water for drinking in their homes because of the amount of chlorine in the water." (464:1-2)

The characteristics of the water itself varied. John Coyle believes there is a high calcium content in the water. (18:18-20) The filter on James Wood's inlet side has to be changed about every 30 days because it becomes clogged with some sort of solid matter. (31:18-20) At Richard Engel's house the water leaves a scum on the tile shower glass and everything that is washed in the home. (57:15-17) The water is very hard and tears up Suzuki Richardson's clothes. It leaves a film on everything. She has to filter her drinking water. (61:11-16) The water quality leads Paul J. Kekevian to believe that a rate reduction is in order. (64:23-24) A gritty mess came out of the taps in Elizabeth Palmer's home one evening after United had cut the water on and off as a test. (76:1-25; 79:23-25; 80:1-2) John Waddell's water is often brown. (440:8-9) A vivid effect of the minerals in the water was illustrated by Melissa Goller's cat's bowl. Mellissa and her cat have been in Jacksonville about a year and a half. She changes the water twice a day. There was a "lovely green copper ring inside of this bowl." (447:5-10) Ms. Goller went on to explain, "I have frequent company, because I have family in Daytona. Nobody will drink my water. The first comment I have from all visitors to my home is that this is the worst tasting water they have ever had." (448:1-5) John Pitts succinctly related that, `The water is not good." (462:5-6) And then in response to a question from Commissioner Garcia about the taste of United's water, Walter F. Davis replied, `We don't care for it. We buy water from Publix. My wife can't stand it." (977:22-25; 978:1-3)

A common perception by United's customers was that United has not met their expectations after prior requests for funds to improve matters. "United Water justified their last rate increase by saying that the water plant and sewer treatment facility needed upgrading. As of this date there is still no apparent significant improvement in our water service," as expressed by James Wood. (22:3-8) "We question what they have done since 1992 when they claim they needed to increase our rates to upgrade our water treatment facility and wastewater treatment facility. The service hasn't improved. All we have to judge them by are results; and at this point results are slow in coming." Id. (25:1-3; 25:10; 25:19-21) Melissa Goller provided a historical perspective, stating, "Just as a final note, after being away for about nine years, when we got back into town and moved back into our home, after noticing that the quality had declined since nine years, since we had been here, I did happen to notice that even though the water quality has declined, apparently the company had enough money to build a beautiful new headquarters on -- off of Monument Road. Obviously, the earnings aren't going back into where it's needed." (448:21-25; 449:1-4) This was confirmed by Eric Vandenhende's observation, "The water rates have gone up and up. We see no increased service. We see no form of better service for it." (453:19-21)

Jacksonville homeowner association spokesperson James Wood discussed how the water pressure remains intermittently low and the residents are concerned about the fluctuating pressures in their homes and also in the fire hydrants in the neighborhood. (22:9; 22:21-25)

United's replies to customer inquiries came into question. "The company is slow to respond to problems and/or customer complaints," explained James Wood. (22:9-11) "When the service is interrupted for whatever reason and a customer calls in a problem, there's an apparent lack of concern and responsiveness on the part of United Water of Florida. They act as if the customer couldn't possibly know that there is no water coming out of their tap." "They should be required to respond to customer complaints in a timely fashion." Id. (25:10-16; 26:15-16) Don Bruno thinks, "they are not customer oriented." He had a leak in his pool, so he thinks the sewer quantity charge should have been lower, since the water was not going down the sewer. He received no satisfaction or even sympathy from the company. (68:9-10; 68:1-5; 68:7-9) "Just this morning I called to find out about the hearing, and it took about five minutes sitting on the phone to find out when and where this hearing was. Certainly their people should know when and where the hearing was this morning." Elizabeth Palmer (77:10-15) Yvon Bizier remarked that, "All rates have been going up and our water service has been going down, definitely down. They've piped water to three other subdivisions in my neighborhood cutting my front yard, and each time they do anything in our neighborhood, the water pressure is lower and the chlorine is absolutely terrible." ((444:25; 445:1-5)

The maintenance has been slow or inadequate. For example, Don Bruno pleas to the PSC for help, because, "The odor from the lift station near his house is horrible. They have been called time and time again without result." (66:20-22) A similar aggravating circumstance was reiterated by James Wood; "It took almost a month to get a water leak repaired in the water main side of the service connection at 4847 Marsh Hammock Drive East and 1432 Marsh Hammock Drive South despite almost daily calls to United Water of Florida. Then it took the better part of another month to get them to repair the street and areas they had excavated." (22:12-18) Another recurring problem was "The level of service in the Fruit Cove and the northwest St. Johns County area has been marginal with water pumping station outages three or more times in the last year." Keith Moffett (87:1-4)

Attention was drawn to the fact that when compared to other local water provides, United is the most expensive already. (24:1-3) Robert H. LaBelle called our attention to this by asserting that the 40.4% rate hike "would be 60% higher that the rates currently charged to customers of the City of Jacksonville and be among the highest in the state, based on a recent article in the Florida Times Union comparing rates among major Florida cities." (44:18-22)

Having to filter the water seemed to be a common practice. "I have a filter on my inlet side and I change it about every 30 days. It appears to be clogged with some sort of solid matter." James Wood (31:18-20) Mr. De Hof installed a water filter to stop the odor. (33:23-25; 34:1-8) Richard Engel says that he cannot drink the water from the tap without filtering it. (57:13-14) "We have to have a water softener, and we have to put lemon in our water in order to even consider drinking it. We never have it in mixed drinks." Paul J. Kekevian (63:10-13) "I do filter my drinking water and, also, I find the water to be corrosive." Claire Bee (84:20-22) "The mineral content of the water is also very high." John Waddell (437:17-18) John Pitts had to install a filter system on his kitchen water. (462:9-10)

One person preferred monthly billing. Frank De Hof (33:4-5) Many more thought better of quarterly billing; Robert H. LaBelle (54:17-25), Richard Engel (60:8-9), Suzuki Richardson (61:18-21), Don Bruno (73:6-7), Claire Bee (85:5-6), Ann Lord (434:6), Norval Bell (440:24-25), Hazel Thomas (443:1-2), Yvon Bizier ((445:18-20), and Melissa Goller (449:5-7).

The added expense of buying bottled water was common to many customers. Robert H. LaBelle (42:7-10), John Waddell (437:14-16), Norval Bell (440:16-18)

The information provided to the customers about the rate case was too confusing. Robert H. LaBelle (43:16-21)

Two people mentioned the late fee. "UWF has requested the implementation of a late charge of $3.00 for accounts past due by 21 days. I request that the 21-day deadline be extended to 30 days..." Robert H. LaBelle (52:14-17) "I also ask that a full 30 days be allowed prior to the assessment of a late fee. If 90% of the checks arrive on time, why does United Water of Florida say that 40% of their customers pay late?" John Waddell (438:6-9)

Several customers felt that pool leak problems were not addressed equitably. Mr. Bruno had a leak in his pool, so he felt the sewer quantity charge should have been lower, since the water was not going down the sewer. (68:1-5; 68:7-9) "I think that it's only fair that if I have to put water in my pool because of a leak, that United Water give me credit no matter what my normal consumption rate is. I think there's no relationship whatsoever to my normal consumption rate and a leak in my pool." La Belle (88:18-23) Mr. Norval Bell was astonished to find he gets charged sewage water fees to fill his pool. (440:10-13)

The customers perceived a lack of concern for their health by United. Elizabeth Palmer recalled an incident whereby the company cut the water off and on for a trial without warning anyone; prior to this, they said they would cut it off the following week and would send a notice from Public Health when the water was cleared to drink. She called United but couldn't find anything out, so she can attest to their lack of service. (76:1-25) Then there was another outage and the customers had not been warned to not drink the water. Id. (80:407) "As to another statement I heard this morning about United Water cutting off the water without notifying customers in the area, for repairs, I have to agree that there have been numerous times where this has happened." Ann Lord (432:20-24) Then there was Melissa Goller's experience. "We've had instances as I'm bathing my child in the shower were all of a sudden we receive an unannounced burst of chlorine one night that was so terrifically bad it burned my child, his skin." (447:14-17) "We also have had unannounced interruptions in service, which I also find inexcusable. With daily maintenance of certain lines, certainly we could have some sort of notice in the neighborhood so that we, too, would not turn on our water and receive that lovely, gurgling, black goo that comes through the pipes after being serviced." Melissa Goller (447:19-25) Terri Emans said that her three year old kitchen faucet got pitted out and was shooting water up to her ceiling, so she had to replace it and her shower. She wonders about the safety of the water since if it's doing that to her faucets, what is it doing to her kids and their stomachs. She can't believe it's safe. (460:11-19)

There have been problems with the customers' plumbing because of the water. Claire Bee finds the water to be corrosive. (84:20-22) Her friend had to replace all of her plumbing within 10 years of it being built. (84:23-25) Terry Goller noticed that everyone in his neighborhood has had to replace their hot water heaters. (451:21-23) Teri Emans' faucets rusted out like the others have mentioned. (460:3-4)

Ann Lord says that the sewerage charge is not fair. "We do not water our lawn or wash automobiles with United Water's water. We found out a long time ago that if we did, we would pay the sewer charge for the water even though it did not go into the waste treatment plant." (430:24-25; 431:1-4)

Customers question the will of the PSC to help them. "The belief most commonly expressed is that the rate increase is already a done deal and that the hearing and other processes are perfunctory; that the Florida PSC will grant the increase no matter what." LaBelle (41:9-12) Mr. La Belle wonders whether it matters to the Commissioners that none of the UWF customers he knows will drink their tap water because of its foul taste, or that he has personally experienced two major sewerage backups in to his house since 1985 caused by UWF. (42:4-6; 42:22-25) "And the Public Service Commission, you're supposed to be our watchdog. You'resupposed to be working for the public, and it seems like you're not. And if such a rate increase should go through, I would fault you all,..." Asa Williams (456:15-19)

TEST YEAR

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

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)

DISCUSSION:

* During the hearings, the parties stipulated that a 13-month average balance should be utilized in determining test year rate base. The Commission approved the stipulation without objection. (Tr. 1/28/97 at 732 - 733)

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

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)

DISCUSSION:

*Ortega Hills WWTP

UWF has included $1,000,000 in its projections which represents the expenses it says that it will incur in the Ortega Hills WWTP phase out. (Ex 37, Tr. 809). Rather than refurbish the Ortega Hills WWTP, UWF intends to interconnect with neighboring Ortega Utilities Company. (hereinafter, Ortega) In addition, UWF will incur certain plant capacity charges levied by Ortega. (Tr. 788; Tr. 529) and UWF will be responsible for recurring treatment fees. (Tr. 530) Although Ortega operates more than one wastewater treatment plant, UWF will interconnect only to the Blanding plant. (Tr. 521) UWF witness Sambamurthi noted that the Blanding plant was not expanded to accommodate UWF flows. (Tr. 521) The average annual flow of wastewater generated by UWF customers which is to be diverted to the Blanding plant is approaching 220,000 GPD, or approximately 800 connections. (Tr. 785)

Despite the assurances extended to UWF by Ortega to UWF that Ortega has adequate capacity to treat the wastewater flows formerly treated by the Ortega Hills WWTP, there is evidence which suggests that Ortega actually lacks the capacity. In Order No. PSC-95-1376-FOF-WS (Exhibit 25), the commission unequivocally found Ortega's Blanding plant to be 100% used and useful. Stated in simple terms, this amounts to a finding by the commission that the treatment capacity of the Blanding plant is presently needed by Ortega customers--at least to the extent that the order requires Ortega ratepayers to provide in their recurring monthly rates a return to Ortega investors for their investment in the Blanding WWTP.

Whereas margin reserve might be thought to have provided Ortega some cushion to accommodate growth--such as the additional flows from UWF's former Ortega Hills WWTP, no margin of reserve was included in the used and useful calculations in the Ortega case. (Tr. 525; Ex. 25, numbered page 257)

Because the commission has already found the Blanding WWTP 100% used and useful by the Ortega customers, it would be disingenuous for the commission to enter an order necessarily finding that UWF customers can use it too. It is equally disingenuous for the commission to enter an order necessarily finding that while Ortega customers must pay a return (and depreciation) on the Blanding WWTP that UWF must pay a return too.

UWF Sambamurthi attempted to explain that apparent double use and double recovery by identifying the used and useful calculation as a "concept for rate making, probably." (Tr. 525) Yet no valid "concept for rate making" can yield a result wherein a given utility can recover on one set of asset from two sets of customers.

Either the commission's used and useful calculations as exemplified in the Ortega and in this case are flawed, or there is serious risk that Ortega cannot actually accommodate the wastewater flows currently treated by the Ortega Hills WWTP.

To permit the addition of the UWF flows to a plant which has already been adjudged 100% used and useful is to permit a double recovery by the Ortega investors. On the other hand, if the commission finds validity in its own order, it can scarcely find that a diversion of the UWF flows to Ortega is a prudent undertaking by this utility.

Projections other than the Ortega WWTP:

In its initial filing, UWF projected plant additions of $7.09 million during 1996 and $6.86 million during 1997 for its water operations and $18.08 million during 1996 and $13.71 million during 1997 for its wastewater operations, resulting in total projected additions of $45.74 million. (Tr. 695; Ex 4, Schedule A-3) Based on UWF's responses to OPC Interrogatory Nos. 60 and 61, actual water plant in service was $3.63 million less than the budgeted amount included in the filing as of September 30, 1996 and wastewater plant in service was $1.27 million under budget during the same time frame, resulting in a combined amount of $4.9 million under budget as of September 30, 1996. (Tr. 696) In its rebuttal testimonies, the Company provided the actual plant in service balances as of December 31, 1996. As of December 31, 1996, UWF's combined actual plant additions for 1996 were $2.871 million less than it had budgeted in the filling. The 1996 Yulee WWTP land addition of $1,175,700 was included in the actual additions, but not the budgeted additions. (Ex 39) The Yulee WWTP land addition is discussed in further detail in Issue No. 8. If the Yulee WWTP land additions is removed from the actual 1996 additions, the actual 1996 plant additions would be $4 million less than the amount that was included in the filing. ($2.871 million + $1.176 million)

As previously indicated, the Company originally projected $6.86 million of additions to water plant in service for 1997 and $13.71 million of additions to wastewater plant in service for 1997, resulting in combined estimated 1997 plant additions of $20.57 million. (Ex 4, Schedule A-3) In its response to OPC Interrogatory No. 78, the Company provided its revised estimated plant addition for 1997 for the projects which were included in its initial filing. Based on the response, the Company's projected additions for the projects included in UWF's filing have been reduced from $20.57 million to $17.88 million, which is a $2.69 million decrease. (Ex 29, Schedule 7-C, page 4) Additionally, based on a comparison of the response to the projected additions in the original filing on a per project basis (Ex 4, Response to Deficiency Letter, Item 19, Tab No. 20), the dates that several of the projects were anticipated to be placed into service have been revised. In most cases the projected in service dates were put back further in the year. This results in a further impact on rate base, since the parties have stipulated to utilize the 13-month average rate base methodology. (See Issue No. 2)

Subsequent to its response to OPC Interrogatory No. 78, UWF has further revised its projected 1997 plant additions and is now purportedly projecting 1997 plant additions of $21.14

million based on its rebuttal filing. (Ex 41) This amount is $3.25 million higher than the $17.88 million of projected 1997 plant additions indicated in response to OPC Interrogatory No. 78 and is approximately $640,000 higher than the projected 1997 plant additions included in UWF's original filing of $20.57 million. The main reason for the large, $3.25 million discrepancy between UWF's response to OPC Interrogatory No. 78 and UWF's rebuttal position is that UWF has included thirteen new projects in its rebuttal position from which were not included in its initial rate filing. Additionally, the Company has now projected that several of the projects which it projected to have in service during 1996, but did not, will now be placed into service in 1997 in addition to the originally projected 1997 projects and the new projects.

The Company is apparently taking the position that they were not requesting specific projects in the filing, but rather a specific plant addition cost level. During hearings, the Company's counsel provided the following description of the Company's position:

> We didn't come to the Commission and say here is exactly what's going to be done. We came to the Commission and said, "We are getting ready to spend $45 million. this is our today's best guess of what these $45 million are going to be spent for." (Tr. 120)

However, this statement made during the hearings ignores the fact that UWF's initial filing contained a significant level of testimony offered by UWF Witness Cleveland describing the specific projects that it had included in its estimated 1996 and 1997 plant additions, with a higher level of description for the larger projects. The discussion is contained in the transcripts at pages 777 through 798. Additionally, the Company provided a listing of the specific projects included in its projected plant additions for 1996 and 1997 in both its MFRs (Ex 4, Response to Deficiency Letter, Item 19, Tab No. 20) and as an attachment to Mr. Cleveland testimony (Ex 37). It was upon these projects that both the OPC and Staff based its interrogatories and analysis. It is not appropriate for the Company to then come in during the rebuttal stage and significantly revise the level of those projects and add several new projects to its request, nor is it appropriate for the Company to now take the position that it was not actually requesting that the specific projects be included, but rather "$45 million". This would harm the parties by not allowing for adequate review of the new projects included in the rebuttal testimony. As pointed out by Commissioner Kiesling during the hearings:

> It's not like one big project was going to be built and suddenly they found out it wasn't needed. They just

transferred the amounts to other new projects. And that's the kind of moving target that I think is difficult for anyone to prepare for and to go to hearing on. (Tr. 165)

The OPC also questions the validity of UWF's proposed increase in its projected 1997 level of plant additions which is beyond even the level of projected 1997 additions included in the original filing. This is even more questionable when considering the fact that the actual 1996 additions were $2.871 million less than UWF budgeted in the filling and $4 million less than budgeted if the Yulee WWTP land addition is excluded from the analysis. Despite the fact that UWF did not meet its projected 1996 plant addition level, it now apparently believes that it can meet and increase its projected 1997 plant addition level.

The Company provided an exhibit which discussed the major variances between the actual 1996 additions versus the projected 1996 additions. Examples of some of the reasons for variances provided by the Company included projects being delayed, DOT revised schedules, and slower developer activity. (Ex. 40) When question regarding the DOT revised schedule which caused actual additions to be below budget, and whether or not that sort of change is likely for 1997, Company Witness Cleveland responded as follows:

> With DOT projection it's a moving target: All you can do is plan based on discussions with DOT, which is what we did. When they change their mind, we have no control over those things. (Tr. 814)

The Witness also agreed that there are projects included in the 1997 plant additions that are geared to DOT plans.

When asked whether or not there are other projects in the Company's 1997 projections which are subject to delays, Company Witness Cleveland responded:

> Certain delays are outside our control, certainly. It would be the intention of the Company to do every thing in its power to complete the projects as planned. but as we know from experience, certain things happen that we cannot control. And at this pint in 1997 it's very difficult to say what is going to happen by the end of year. (Tr. 815)

The Company also agreed that it is the customers who will bear the risk of uncertainty if the Commission approves UWF's projected 1997 plant additions as they will pay a return on the projected investment. (Tr. 815)

Considering the high level of slippage in UWF's projected 1996 plant additions and the fact that UWF's rebuttal testimony includes numerous new projects which the parties have not had an opportunity to adequately scrutinize, the OPC recommends that 1997 plant additions be based on the amounts and the in-service dates provided by the Company in response to OPC Interrogatory No. 78, which has been provided as Schedule 7-C in Exhibit 29. This would allow for the specific projects requested by UWF in its initial filing, updated as of the response to the Interrogatory to reflect revised estimated costs and in-service dates for those specific projects. As a result, the projected additions would be based upon the specific projects which the parties have had adequate opportunity to review for appropriateness. UWF's projected additions, by month, for 1997 resulting from the response to OPC Interrogatory No. 78 is presented in Exhibit 29, Schedule 7-A, page 1, for water operations and Schedule 7-B, page 1, for wastewater operations.

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

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)

DISCUSSION:

* The foregoing position is supported in the record. The Yulee purchase of $1,175,700 is shown with the subsequent agreement to purchase the Sunray system (Tr. 802). UWF Cleveland confirms that the utility contemplates no construction on the Yulee land during the next five years.

(Tr. 818, 820) Of course, the utility has let no contracts for any construction. (Tr. 891) The utility expects to use the property to meet additional capacity in seven years. (Tr. 818)

It is also true that the land in question enjoys development potential, and presumable, an attending tendency to appreciate. (Tr. 803)

UWF would have the commission charge current customers for a return on investment which according to their own estimates will not be used for seven years.

That events of the next seven years are uncertain is obvious--and the potential error of predictions is shown in this record on this issue. UWF Cleveland's testimony shows that the acquisition of Sunray was unforseen, thus delaying the use of the Yulee land for at least seven years. (Tr. 802) Common sense shows that other contingencies might arise so as to defer the usefulness of the Yulee land into the even more distant future. One of those contingencies might find the utility selling the land for its development potential, the disposition of the gain on sale uncertain.

The Yulee land will not be used for years and is simply not used and useful to today's customers. Consequently, rates which result in this case should not provide for a return on it.

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

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)

DISCUSSION:

* UWF has not made any adjustments to reduce either its purchased power or chemical costs to account for excessive unaccounted for water. UWF has pointed out that the unaccounted for water percentage during the test year for UWF a whole is 9.9%, which is within the 12.5% level that the Commission indicated in proposed Rule 25-30.432. (Tr. 482 - 483) However, when the unaccounted for water percentage is

looked at on a system by system basis, UWF has exceeded the allowed percentage in numerous systems, and some significantly. UWF provided the unaccounted for water percentages in its MFRs on Schedule F-1 on a system by system basis. (Ex 4) Examples of systems which exceed the Commission allowed percentage by a substantial amount include: the Milmar Manor service area at a 41.6% unaccounted for water rate, the Ponce De Leon area at a 20.8% unaccounted for water rate, the Ridgeland area at a 22.3% unaccounted for water rate, the Riverview area at a 25% unaccounted for water rate and the Town and Country area at a 45.9% unaccounted for water rate. (Ex 4, Schedule F-1)

UWF has indicated that it will "seek to reduce its water loss by the most gallons, even if the improvement would be in a large service subarea which has a low percentage of water loss as opposed to improving the water loss percentage of a small service subarea with a higher percentage of water loss." (Tr. 502 - 503) UWF should not be permitted to ignore the level of accounted for water in its smaller service territories. Test year purchased power and chemical costs should be reduced for the UWF systems in which the unaccounted for water level exceeds the level allowed by the Commission.

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

OPC: No. (Larkin)

DISCUSSION:

* Mr. Sambamurthi, the general manager of the utility, agreed with OPC that margin reserve is for future customers. In fact, he elaborated:

By Mr. McLean:

Q Okay. Well, you told me that margin reserve, the beneficiaries of margin reserve, are current customers or future customers?

By Witness Sambamurthi:

A No, Margin reserve is for future customers.

Q Oh, it is exclusively for future customers?

A I would say so.

(Tr. 532)

Mr. Sambamurthi's testimony should dispel any notion that current customers should pay any return whatsoever on assets--represented by margin reserve--which are clearly held by the utility for the benefit of future customers.

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

OPC: No. (Larkin)

DISCUSSION:

* Please see Issue 11.

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

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)

DISCUSSION:

* Please see issue 14.

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

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)

DISCUSSION:

* The used and useful calculation regarding the Ponce de Leon WWTP is illustrative of the approach taken to the used and useful calculation utilized by UWF. The Ponce de Leon WWTP has a design capacity of 400,000 GPD, or the capacity to serve 1,000 connections. (Tr. 494) It is currently receiving 20,000 to 21,000 GPD, or five percent of its capacity. (Tr. 516) Yet in the judgement of UWF witness Guastella, this plant which is serving a flow 5% of its capacity becomes 100% used and useful. (Tr. 562)

In order to find a use for the remaining 95% of this particular plant, Witness Guastella utilized less than 25% of its actual capacity in his calculation: he calculated as if the plant had a capacity of 95,000 GPD rather than its actual capacity of 400,000. (Tr. 562) Mr. Guastella apparently used this number because the company, recognizing the expense of permitting the plant at its actual capacity, first partitioned, then permitted the plant at 95,000. Of course the investment required in the Ponce de Leon WWTP was not similarly downsized. (Tr. 515)

Mr. Guastella then calculated a margin reserve--which Mr. Sambamurthi testified was for the use of future customers (Tr. 532)--such that the margin reserve is actually larger than the current flows at the plant. (Tr. Tr. 517; Ex. 26, sched 2, 3 of 3) This despite a long-standing commission policy of restricting margin reserve to 20% of existing flows.

Only able to reach 44% used and useful after having ignored more than 75% of the capacity of the plant, and generously providing for a margin reserve which is greater than the present customer loading, witness Guastella found the plant 100% used and useful based upon the "obvious" notion that since the portion of the Ponce de Leon WWTP considered by him amounted to only 0.8% of the company's total treatment capacity and that the plant cost only 0.4% of the company's total investment in WWTP, that the "regulatory rate setting mechanism called 'used and useful' is not applicable under these circumstances." (Tr. 563)

Mr. Guastella's skill in reaching 100% used and useful is not restricted to the wastewater assets. It is to be found on the water side as well, wherein his calculations of used and useful assume that a utility must be able to meet peak demands, meet fire flow, with the largest wells out of service. (Tr. 579) As Mr. Guastella concedes, his calculation would require customers to service an investment which is put in place to meed extremely unlikely contingencies. (Tr. 583) At no place in his testimony did Mr. Guastella relate the remote contingencies in his calculations with the prudency of the investment required to meet those contingencies should they ever occur. In lieu of such a comparison, he referred the commission to unnamed people "who have designed systems [who have] come to the conclusion that that's the appropriate way." (Tr. 583) So, according to Mr. Guastella, customers of this utility should be required to pay a return on assets which are in place to meet contingencies which will nearly certainly never occur.

The evidence provided by UWF on the issue of Used and Useful is woefully inadequate. On the wastewater side, the extraordinarily generous calculations of Mr. Guastella are laid bare in a close scrutiny of those associated with the Ponce de Leon WWTP, in which a plant operating at 5% of its capacity becomes 100% used and useful, and its entire investment proposed for inclusion in rate base.

On the water side, it is clear that the same extraordinarily generous calculations are extant. The utility proposes to have a return on investment in assets put in place to meet contingencies which will never occur.

A very substantial adjustment to the utility's view of used and useful is appropriate.

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

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)

DISCUSSION:

* Please see issue 14.

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

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)

DISCUSSION:

* Please see issue 14.

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

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)

DISCUSSION:

* The utility makes scant use of margin reserve as it lays claim to 100% used and useful by other means. To the extent the

utility or the commission does allow margin reserve, it should impute CIAC to the margin reserve. As witness Sambamurthi made clear, margin reserve is for the exclusive use of future customers. (Tr. 532)

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)

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)

DISCUSSION:

* In 1986, UWF changed its depreciation rates. Prior to the change, UWF had been depreciating all of its plant based on a composite depreciation rate. The change purportedly resulted in the same overall composite rate but consisted of individual rates by plant account number. The Company's change in rates violated Commission Rule 25030.140 F.A.C., which, according to Staff's audit report for the 14 years ended December 31, 1994 (Audit Control #93-216-1-1), SAB 17, requires utilities to continue to utilize a certain depreciation rate of set of rates from the last Commission action until the first Commission action under the new depreciation rule which was effected March 22, 1984. (Tr. 703) The current case is the first rate case for UWF since the new depreciation rule was issued, therefore, UWF should not have changed its depreciation rates during 1986. It was noted in Ms. DeRonne's testimony that while she did not confirm the do the calculations necessary to confirm the amount of adjustment recommended by Staff, she adopted Staff's recommendation since it was consistent with Commission Rules. (Tr. 704) It should be noted that the Company is currently claiming that the Staff's calculations are incorrect. As the OPC did not check or recalculate Staff's calculation, we can not take a position as to whether or not Staff's calculations are incorrect as claimed by UWF.

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

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)

DISCUSSION:

* The revisions to the additions to plant in service will have an impact on accumulated depreciation, as the test year level of depreciation will be premised upon the amount of plant in service for each month of the test year. OPC Witness DeRonne has recommended that the reduction to accumulated depreciation resulting from the reduction to plant in service be calculated by first determining the percentage reduction between the 13-month average plant in service included in the filing and the 13-month average plant in service recommended by the OPC based upon the additions provided in response to Interrogatory No. 78 (See Issue No. 5). This percentage should then be applied to the 13-month average accumulated depreciation balance included in the filing in order to determine the estimated impact of the revisions on accumulated depreciation. (Tr. 701) This adjustment to accumulated depreciation should be made in addition to the adjustment discussed in Issue No. 20, which presents the adjustment necessary to reflect accumulated deprecation based upon the 13-month average rate base methodology.

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

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)

DISCUSSION:

* During the hearings, the parties stipulated that a 13-month average balance should be utilized in determining test year rate base. The Commission approved the stipulation without objection. (Tr. 732 - 733) Likewise, the Office of Public Counsel's position that accumulated depreciation be premised upon the 13-month average balance of plant in service should be adopted to ensure a matching of test year accumulated depreciatin with test year plant in service and test year

depreciation expense. Thus, accumulated depreciation should initially be reduced by $760,678 for water operations and $1,820,853 for wastewater operations. The reduction is based on the difference between accumulated depreciation based on the 13-month average plant in service, as calculated by UWF, and the amount of accumulated depreciation actually requested by UWF which is based on year end plant in service. (Ex 29, Schedule 4)

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

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)

DISCUSSION:

* The Company has included $594,326 in rate base for its water operations and $867,986 in rate base for its wastewater operations related to acquisition adjustments. (Tr. 644; Ex 4, MFR Schedules A-1 and A-2) The acquisition adjustments are related to the purchase of six water systems and five wastewater systems, each of which occurred since UWF's last rate case. In response to OPC Interrogatory No. 29, the Company purports that each of the acquisition adjustments have already been approved by the Commission. (Tr. 644)

The Company has not yet amortized any of the acquisition adjustments on its books, nor has it offset rate base for the accumulated amortization beyond what it anticipates accruing during 1997. It is the Company's claim that it has not yet begun amortizing the acquisition adjustments because the Commission has not yet specifically approved an amortization period. (Tr. 644 - 645) In the filing, the Company proposed a 20 year amortization period for each of the acquisition adjustments in the current case. (Tr. 645) It should be noted that during the hearings, Company witness McGuire indicated that the Company is proposing a 15 year amortization period. (Tr. 887) However, during the hearings was the first indication that the Company is proposing a 15 year amortization period. Prior to this point, the Company had consistently requested a 20 year amortization period and based its calculations on this request, in both its MFRs in Schedule G-35 (Ex 4) and in UWF Witness McGuire's rebuttal testimony (Tr. 9). It is not appropriate for the Company to change its position regarding the proposed length of amortization at such a late date, particular when it has presented no evidence to substantiate its proposed change.

Regardless of the length of amortization period, the Company should have begun amortizing its acquisition adjustments when each of the respective adjustments were recorded on the Company's books. As stated by OPC Witness Larkin, "Similar to the treatment of depreciation expense on plant assets, the Company should have begun amortizing the acquisition adjustments on its books the date they were recorded on the books." (Tr. 645) The Company rebutted stating that the NARUC Uniform System of Accounts indicates as follows: "The amounts recorded in this account with respect to each property acquisition shall be amortized, or otherwise disposed of as the Commission may approve or direct." (Tr. 848) Consequently, it is the Company's position that the Commission has not yet specifically approved the amortization period for the acquisition adjustments, therefore, it is appropriate that the Company had not yet begun amortizing the amounts. (Tr. 847 - 848)

The Company's position ignores the fact that each of the acquisitions adjustments were previously approved by the Commission, prior to the current case. It has been general policy that when an acquisition adjustment is approved, it is amortized. (Tr. 664) As stated by OPC Witness Larkin, "it being the Commission policy that they be amortized, that the Company has no opposition to the recording of them, that they relate to a system that is providing service to customers, and that the purchase or the payment of an acquisition adjustment is related to service as it's provided, then the reasonable thing is that it should have been amortized from the date it went into the account." (Tr. 665) The amortization of the acquisition adjustments should have been at the time that the acquisition adjustments were recorded on the Company's books. (Tr. 645)

The amount of accumulated amortization of acquisition adjustments that should be offset against rate base should be calculated assuming amortization had occurred from the date that the acquisition adjustments were recorded on the books through the middle of the future test year. (Tr. 646) The middle of the future test year should be used since the parties have agreed to the 13-month average rate base methodology in the current case. The calculation should also be calculated utilizing the twenty year amortization period proposed by the Company in its filing. The calculation is presented in Exhibit 29 on Schedule 9, and results in accumulated amortization of $145,660 and $284,547 for water and wastewater operations, respectively.

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

OPC: Agrees with staff. (Larkin)

DISCUSSION:

* Based on the Late Filed Exhibit #6 (Ex 15), the Company does not intend to fund $426,764 if its 1997 Other Postretirement Employee Benefit ("OPEB") cost, yet the Company has included its full projected 1997 OPEB expense in test year expenses. The unfunded portion, $426,764, represents a cost free source of capital to the Company as it intends to collect the full expense from ratepayers, yet only fund a small portion of the amount collected. The Company stated that it would agree to include in rate base the unfunded portion of its OPEB expense recovery. (Tr. 848 - 849) Rate base should be reduced by the projected 1997 test year unfunded OPEB cost of $426,764.

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

OPC: The appropriate capital structure for rate making 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)

DISCUSSION:

* United Water Florida has proposed a 13 month average capital structure utilizing the parent company capital structure as of December 31, 1995. It is UWF's position that the parent capital structure represents a surrogate for the actual invested capital which UWF would have invested had it been a stand alone company. (Tr. 836)

There are several flaws in the underlining theory which negates UWF's bases for recommending this capital structure.

Office of the Public Counsel Witness Larkin details these problems and adjusts the Company's capital structure to reflect a capital structure which more reasonably represents the underlying flow of funds necessary to construct the plant additions at issue in this case. The following paragraphs will discuss each of the components and their adjustments as recommended by Witness Larkin and why that adjustment should be adopted by this Commission.

Witness Larkin recommends two adjustments to deferred income taxes which are discussed in Issue No. 29. Both of these adjustments should be adopted by the Commission.

In addition to adjustment to deferred income taxes, Witness Larkin has adjusted the Company's debt component to reflect the full amount of a $20,000,000 tax exempt bond issue, issued through the City of Jacksonville, Florida. The Company's annual reports states "In August 1995, United Water Works issued $20,000,000 of 6.35% tax exempt water and sewer revenue bonds, due 2025 through the City of Jacksonville, Florida. The proceeds are being used to fund capital improvements of United Water Florida [a subsidiary of United Water Works]." The Company's annual report clearly indicates that this issue sponsored by the City of Jacksonville was used and designed specifically for the water plant improvements at issue in this case. (Tr. 637-639)

The Company's 1995 average capital structure only reflects $2.6 million of this issue. (Tr. 638). The issue was dated August of 1995 with the funds being held by a trustee. The funds are drawn down as the plant for which these bonds were issued is completed. Clearly it would be inappropriate not to reflect this issue specifically designed to finance the water improvements in United Water Florida's service area in the Company's capital structure. Witness Larkin has proposed that long term debt be increased by the difference between the amount necessary to balance the capital additions recommended by Witness DeRonne with a capital structure necessary to finance this construction. (Tr. 637-639). The calculation of the OPC's recommended capital structure is presented in Exhibit 29, Schedule 2, pages 1-3.

<u>**ISSUE 28**</u>**: What is the appropriate weighted average cost of debt?**

<u>OPC</u>: 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)

<u>**DISCUSSION**</u>:

* Office of the Public Counsel Witness Larkin, has adjusted the Company's capital structure to reflect a bond issue, issued

for construction of some of the facilities in United Water Florida's service territory. In addition, Witness Larkin is proposing to adjust the Company's weighted cost of debt to reflect the full issuance of the tax free bond issue of $20 million. (Tr. 638-639). In regards to the use of the $20 million bond issue Company Witness McGuire stated during the hearings as follows:

> Now, with Mr. Cleveland's forecast, yeah, we could assume it might very well be. We could assume that because I'm sure a portion of that will be taken up by that construction program that we've undertaken.
>
> Q: So you're changing your answer then to yes?
>
> A: Yeah. I'm saying it's certainly a possibility with our construction forecast. (Tr. 878-879)

Witness McGuire is concluding that the $20 million issue will at least be, in part, utilized in the Company's construction program. He goes on to agree with Mr. Larkin's treatment of the unamortized discount and issuing expense. (Tr. 879) While Mr. McGuire does not agree specifically with Mr. Larkin's calculation, the end result is that the weighted cost of debt calculated by Mr. Larkin would be an appropriate debt cost to utilize reflecting the full issuance of the $20 million tax free bond issue.

In Exhibit 30, Witness Larkin explained how the weighted cost of debt calculation was made and how he arrived at his recommended 8.57% weighted cost of debt. It should be pointed out that Witness Larkin, in preparing Exhibit 30, discovered an error in the Company's calculation. After correcting for that error, the revised weighted cost of debt has increased to 8.65%. It is this corrected weighted cost of debt of 8.65% that the Office of Public Counsel is recommending.

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

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)

DISCUSSION:

* OPC Witness Larkin recommends that deferred income taxes be

adjusted for a calculation error in the Company's 13-month average. The month of December 1995 used in the 13-month calculation by the Company was understated. This understatement resulted in understating the deferred income taxes by $52,777. Mr. Larkin corrected for this error. (Tr. 635) The Company has not disputed that such an error occurred.

The next adjustment which Witness Larkin makes to deferred income taxes is a result of the 1996 and 1997 construction program. The Company's capital structure is composed of 13-month average balances for the year 1995. The year 1995 does not reflect the large construction program that will and has taken place in 1996 and 1997. The Company states that this construction program will have "minimal impact on the level of accumulated deferred income taxes in 1996 and 1997." As Witness Larkin points out in his testimony (Tr. 636-637) such an assumption is unreasonable. Deferred income taxes increase when construction programs are undertaken. This is because there is a direct relationship between deferred income taxes and the plant balances. When plant balances increase, deferred income tax increases because of the associated additional tax deduction related to accelerated depreciation on plant additions. Clearly, it would be inappropriate to merely adopt the 13-month average capital structure of 1995 which does not reflect the appropriate capital level for deferred income taxes. Witness Larkin has made estimated calculations which have not been disputed by the Company and has added an additional $139,398 for deferred income taxes to the Company's proposed capital structure. (Tr. 637; Ex 29, Schedule 2)

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?

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)

DISCUSSION:

* The weighted cost of capital is the result of multiplying the capital ratios determined in Issue 27 by the weighted cost of each component of capital. The OPC in Issue 27 has recommended a capital structure that results in the ratios shown above. The OPC has also recommended a weighted cost of debt of 8.57%, which is also shown above. Because the capital structure changes under Mr. Larkin's scenario, there is a change in the cost rate for common equity. The Commission's Order in Docket No. 960006-WS of May 31, 1996, indicates that a capital structure with an equity ratio of 36.10%, which is the equity ratio of invested capital recommended by Mr. Larkin requires the maximum return on equity authorized which is 11.88%. (Tr. 639-640) Utilizing Larkin's capital structure and cost rates the weighted cost of capital would be 9.62%, as recommended in Witness Larkin's testimony. (Tr. 640; Ex 29, Schedule 2)

In preparing Exhibit 30, Witness Larkin discovered an error in the Company's calculation of its weighted cost of debt. That error is in the Company's favor. UWF inadvertently did not add the amortization of issuing expense in calculating the total interest cost utilized in developing the weighted cost of debt. If this error is corrected, the weighted cost of debt increases from that recommended by Mr. Larkin of 8.57% to 8.65%. (Ex 30). The correction of this error in the weighing of total capital costs results in a weighted cost of total capital of 9.67%. This is a 5 basis point change in the total weighted cost of capital as a result of correcting the error in the cost rate associated with long term debt. The following calculation shows the total weighted cost of capital considering the correction of the Company's calculation error.

Description	Ratio	Cost	Weighted
Long Term Debt	60.55%	8.65%	5.24%
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%		9.67%

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?

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)

DISCUSSION:

* In the current case, UWF has requested that a $3 late payment fee be implemented. If such a fee is implemented, then it is only fair that the revenue that will be collected from ratepayers be included in the revenue requirement calculations. (Tr. 646 - 647) In response to OPC Interrogatory No. 45, the Company estimated potential late payment fee revenues of $162,000. This $162,000 should be added to test year revenues. (Tr. 647 - 648)

The Company has indicated that it will not have the capacity to bill the late payment fee until its new billing system is in service, which is projected for early 1998. (Tr. 646) This is less than one year after the final rates resulting from this case will go into effect. Consequently, if the late payment fee is approved by the Commission, then the associated revenues should be included in the revenue requirement calculation.

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

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)

DISCUSSION:

* The Company's filing included several vacant positions and four new positions, resulting in a projected test year employee count of 106 employees. Subsequent to the filing of its testimony, UWF removed the four new positions, but added two new positions, resulting in a revised employee count of 104 employees. (Tr. 13) UWF's rebuttal request included the costs associated with the revised projected employee count of 104. (Ex 9) As of the date of UWF's response to OPC Interrogatory No. 56, six of the 104 revised positions were vacant, resulting in an actual employee count of 98 employees. This calculates out to a requested vacancy rate of 5.8%. (Tr. 706) As of the date of the hearings, UWF had reduced its approved employee positions for 1997 to 102 and had "...100 employees on board, out of which 96 are regular full-time employees and four are temporary." (Tr. 513) Thus, UWF's full-time employee compliment had actually decreased from 98 to 96 prior to the hearings.

It is not realistic to assume that UWF will reach its projected level of full time employees contained in its initial filing of 106 nor the level contained in its rebuttal filing of 104, particularly in light of the recent reduction in the full time employee count and the fact that the current full time employee count is only 96 employees.

Included in the new positions for which UWF is seeking recovery is a "Utility Person II" for which UWF has projected a test year payroll cost of $55,963. According to the Company's rebuttal testimony, the position is needed "due to more stringent regulations relating to traffic control and the growth in the territory." (Tr. 306) The traffic control function consists of a person directing traffic while the Company works on public rights of way. (Tr. 535) It is likely that this function could be served by either an entry level position or even "a temporary position during periods that you would need such a function to be done." (Tr. 725) The $55,963 of payroll costs requested by UWF for this new position is excessive. The excessive level lends further support to the OPC's position that the costs associated with the positions for which UWF identified as being vacant positions be denied, as the Utility Person II is included on that list.

The calculation of the OPC's recommended reduction to test year payroll expense of $88,878 and $103,953 for water and wastewater operations, respectively, is contained in Exhibit 29, Schedule 11. The adjustment reflects the $53,925 correction to the base year salary and wage expense, UWF's revised 1997 salary and wage costs based on the 104 employee count and the removal of the six positions that were included in UWF's revised projection, resulting in projected payroll costs for the employee compliment of 98. (Tr. 707) The calculation of the recommended reduction to payroll tax expense in contained in Exhibit 29, Schedule 13.

<u>**ISSUE 37**</u>**: Is UWF's projected 9% increase in medical and dental costs occurring between 1996 and 1997 appropriate?**

<u>OPC</u>: 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)

<u>**DISCUSSION**</u>

* In its filing, UWF projected a 9% cost increase for medical and dental premiums occurring between 1996 and 1997. The only support provided by the Company for its projected 9% annual increase is the fact that the Company's actuaries, Alexander & Alexander, utilized a medical trend rate of 9% for 1997 in its 1995 actuarial valuation for the Company. (Tr. 307 - 308) The Company failed to mention that the same actuarial report utilized to support its projected 9% increase in medical and dental benefits in 1997 estimated a 10.1% medical trend rate for 1996. (Ex 10) However, when the Company's actual 1996 medical and dental premiums are applied to the actual employee count during 1996 of 98, the resulting medical and dental cost actually <u>decreased</u> by approximately 3.76% from the 1995 cost. (Tr. 711 and Ex 29, Schedule 14, page 2 of 5) The Company did not rebut this claim. Obviously, the medical trend rate utilized by the Company's actuaries for 1996 was not reflective of the actual percentage change in medical and dental costs occurring between 1995 and 1996. Likewise, the medical trend rate utilized by the actuaries for 1997 should not be utilized in estimating the percentage increase in medical and dental costs. The purpose of actuarial valuations are to estimate future postretirement benefit and pension costs, not to estimate short term costs.

The Company did not provide any information from its medical or dental insurance providers validating the projected 9% increase. (Tr. 710) Consequently, the Office of Public Counsel's recommendation that the 1997 price index of 2.5% be applied to the actual 1996 premiums to estimate test year medical and dental costs should be adopted by the Commission. (Tr. 711) According to the Company, the purpose of the price index is to increase unadjusted expense accounts by an inflationary factor. (Tr. 300) The Company utilized the Gross Domestic implicit Price Deflator as its price index. While the expenses in each account will likely increase, or possibly decrease for some, by different percentage rates, use of the price index serves to approximate the overall percentage that the costs, taken as a whole, will change.

<u>ISSUE 38</u>: Is UWF's projected test year medical, dental and life insurance expenses reasonable?

<u>OPC</u>: 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)

<u>DISCUSSION</u>:

* UWF's adjustment to medical costs includes costs associated with medical and dental insurance, life insurance and retiree costs. The resulting cost is offset by employee contributions. In calculating test year medical and dental insurance costs, UWF applied the known 1996 premiums to its originally projected test year employee count of 106, allocated to each type of coverage based on the historic percentage of employees in each plan. UWF then increased the resulting amount by 9% to estimate its test year medical and dental cost level. The test year projected employee contributions were based on a similar calculation. (Tr. 709)

The Company's calculations should be revised for medical and dental costs, along with employee contributions, to reflect the actual employee count of 98. This is the employee count recommended by the Office of Public Counsel in its position on Issue No. 35 regarding salary and wage costs. UWF has agreed that pro forma medical and dental costs should be determined based on the employee compliment reflected in the salary and wage expense included in the final revenue requirement calculation. (Tr. 331) The Company's calculation should then be further revised to reflect a 2.5% increase to the actual, known 1996 medical and dental premiums as opposed to the 9% increase proposed by the Company. The 2.5% rate is the estimated 1997 price index utilized by UWF throughout its filing. This is addressed in further detail in the OPC's position on Issue No. 37 regarding the appropriate percentage increase in medical and dental expense.

UWF's proposed test year medical costs includes $17,698 identified as "Retirees", with no additional explanation provided by the Company, nor any workpapers showing how the 1996 cost level, which the Company inflated by 9%, was determined. As pointed out in the testimony of OPC Witness DeRonne, "the cost of medical insurance for the Company's retired employees would be included in the postretirement benefit other than pensions cost determined by the Company's actuary." (Tr. 712) Since the Company's filing includes a separate adjustment for the costs associated with postretirement benefits other than pensions, the "Retiree" cost included in UWF's proposed test year medical costs should be disallowed in order to avoid a double counting of retiree medical costs in rates. (Tr. 712) The Company did not offer any rebuttal to this OPC position, nor did it provide any further explanation regarding the costs included in the "Retiree" item.

UWF's life insurance costs are directly related to the amount of salary and wage costs incurred by the Company. UWF's proposed test year life insurance costs should also be reduced to reflect the impact from the Office of Public Counsel's recommended reduction to salary and wage expense. The necessary calculation is presented on Exhibit 29, Schedule 14, page 5 of 5.

Based on the above presented facts and the record in this case, the OPC's recommended reduction to UWF's proposed test year medical, dental and life insurance expense should be reduced by $25,393 for water operations and $45,142 for wastewater operations. (Tr. 713 and Ex 29, Schedule 34, page 1 of 5)

ISSUE 39: Are any adjustments necessary to the projected test year expenses for Other Postretirement Employee Benefits

(OPEBs)?

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)

DISCUSSION:

* The starting point in UWF's test year OPEB cost calculation was amounts provided by the Company's actuary, Alexander & Alexander. The Company increased the amounts provided by its actuary in order to reflect the estimated increase in the service cost component of the OPEB expense resulting from its projected increase in its employee count. The increase in the service cost component of the OPEB expense was calculated by UWF by dividing the projected 1997 service cost provided by its actuary by 97 employees, the number of current employees utilized in the actuarial valuation, to estimate a cost per employee. The Company then multiplied the resulting 1997 cost per employee of $2,656 by its projected test year employee count of 106 employees to determine its estimate test year service cost. The workpapers showing the Company's calculations were provided in response to Staff Production of Documents No. 5. (Ex 14)

The Company agreed during cross examination that if the Commission determines that it is appropriate to remove any additional positions from the calculation of test year salary and wages, OPEB expenses should be adjusted accordingly. (Tr. 332)

The service cost component of the projected OPEB expense should be reduced to reflect the impact of the OPC's proposed employee count of 98 employees, which is discussed under Issue No. 35, as opposed to UWF's inclusion of its initially projected employee count of 106 employees. The reduction of 8 positions (106 - 98) results in a $21,248 reduction to OPEB costs based on the Company's calculated service cost per employee of $2,656 ($2,656 x 8 = $21,248). The application of the test year expense factor of 84.07% (Ex 29, Schedule 13) results in a reduction to test year expenses of approximately $17,900.

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

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)

DISCUSSION:

* In its initial filing, UWF projected a $22,077 increase in its base year employee savings plan costs, representing a 31% increase. (Tr. 714) This was a significantly higher increase on a percentage basis than the projected increase in salary and wage costs over the same period. One reason for the large discrepancy was the fact that the Company calculated its test year employee savings plan costs based on the assumption that 100% of its employees would participate in the savings plan at the maximum applicable level in the future test year. (Tr. 714) This is an unrealistic assumption, particularly when UWF's response to OPC Interrogatory No. 41(b) indicated that only 86% of UWF's employees participated in the 401(K) program during the base year. (Tr. 715)

As stated in the testimony of OPC Witness DeRonne, "There is a direct correlation between the salary and wage levels and employee savings plan costs." (Tr. 715) The level of salary and wage costs recommended by the OPC for the test year, which is discussed in Issue No. 35, results in an 8.53% increase in salary and wage costs occurring between the base year and the test year. (Ex 29, Schedule 12) It is the OPC's recommendation that since savings plan costs and salary and wage costs are directly correlated, test year employee savings plan expense be calculated based on the application of the OPC's recommended percentage increase to salaries and wages occurring between the base year and the test year to the base year employee savings plan cost. As shown in Exhibit 29, Schedule 15, this recommendation results in reductions of $4,665 and $8,292 to UWF's proposed water and wastewater savings plan expense, respectively.

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

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)

DISCUSSION:

* According to UWF's response to OPC Interrogatory No. 21, test year expenses include legal costs associated with fines paid

to the EPA and DER violations. Clearly, UWF's ratepayers should not finance the Company's violation of EPA or DER regulations. (Tr. 650 - 651) Test year expenses should be reduced to $163 and $290 for water and wastewater operations, respectively, in order to ensure that ratepayers are not required to support the legal costs resulting from violations of EPA and DER regulations. (Ex 29, Schedule 21)

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

__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)

__DISCUSSION__:

* UWF's projected test year expenses include $307,993 for vehicle leases. This is exclusive of estimated fuel and vehicle maintenance costs. The projected $307,993 is for lease payments for 54 vehicles. (Ex 14, Schedule G-29 workpapers) As previously mentioned under Issue No. 35, UWF currently 96 full time positions filled as of the date of the hearings. This equates to more than one vehicle for every two employees, or one vehicle to every 1.78 employees (96 employees / 54 vehicles). The Office of Public Counsel questions the necessity, or the prudence, particular when considering the size of the rate increase requested by UWF in this case, of having one vehicle for every 1.78 employees.

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

__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)

__DISCUSSION__:

* According to UWF's response to OPC Interrogatory No. 35(f), the Company has deferred $86,450 in legal costs associated with its attempted acquisition of Sunray Utilities. (Tr. 655) The Company has included $7,726 in test year amortization expense associated with these deferred legal costs. Acquisition costs should be amortized over the life of the

associated assets. UWF is proposing in this case to amortize its acquisition adjustments over a 20 year period. (Tr. 655) The Company's acquisition adjustments do not include the Sunray Acquisition, as the acquisition has not yet been completed. If the Utility has not yet purchased the Sunray facility, then the associated legal costs should not be allowed for inclusion in test year expenses. Additionally, since the Company has not yet purchased the facility, current customers should not be required to pay the associated acquisition costs via their inclusion in test year expenses. (Tr. 676) Consequently, test year expenses should be $7,726 for UWF's water operations in order to remove the amortization of the deferred acquisition legal costs. (Ex. 29, Schedule 24)

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

<u>OPC</u>: 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)

<u>DISCUSSION</u>:

* During 1995 and 1996, the Company deferred $155,800 associated with its Vision 2000 program. (Ex 14, Schedule G-35 workpapers) The Company has included $9,347 and $16,618 in its water and wastewater test year operating expenses, respectively, associated with ten months worth of its proposed five year amortization of the deferred Vision 2000 costs. (Ex 29, Schedule 24; Ex. 4, Schedule G-35)

UWF's response to OPC Interrogatory No. 34, parts (a) and (c) provided the following description of the Vision 2000 program:

a) Vision 2000 was initiated by the two Companies to guide United Water through the merger between UWR and GWS. It included three important corporate initiatives: communication, culture and productivity.

c) The primary purpose of Vision 2000 was the

> successful integration of the two separate and independent companies. The benefits are internal such as reductions in paperwork and improved processes. The most tangible benefit to date is the purchased power for wastewater treatment plants.

Based on the descriptions provided by UWF, the Vision 2000 costs are a result of the merger. (Tr. 656)

It is the OPC's position that such costs should not be amortized and charged to ratepayers over a five year period, as proposed by the Company. These are organizational costs resulting from the merger. Based on UWF's 1995 consolidated annual report to the Commission and the Company's depreciation schedules included with the MFRs, the Company does not amortize its miscellaneous intangible plant or its organization costs. Since the Vision 2000 costs are related to merger guidance, ratepayers should not be charged with the amortization of the deferred costs. (Tr. 656 - 657) Consequently, test year expenses should be reduced by $9,347 and $16,618 for water and wastewater operations, respectively. (Ex. 29, Schedule 24)

<u>ISSUE 48</u>: 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?

<u>OPC</u>: 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)

<u>DISCUSSION</u>:

* The Company deferred $110,819 of moving costs during 1994, 1995 and 1996 which it is seeking to amortize over a five year period. Test year expenses include $4,489 for water operations and $7,981 for wastewater operations associated with ten months of amortization expense. (Ex 14, Schedule G-35 workpapers) The Company deferred $3,463 during 1994, $59,531 during 1995 and the remainder during 1996. (Jost LFE 12; Tr. 324) The Company incurred no moving expenses in 1990, 1991, 1992, or 1993. (Tr. 323 - 324)

According to UWF, the deferred moving costs were not associated with the merger, but were for the moving of two employees, a county supervisor and an assistant manager, each of which came from one of UWF's subsidiaries. (Tr. 324 - 325)

The costs for relocation of employees should be considered a normal operating expense and should not be permitted to be deferred for future recovery. As stated by OPC Witness Larkin during cross examination:

> Normally, the only thing that should be amortizable is something that's not within the Company's control: storm damage, a unique water break, a unique repair that was the result of a storm.
>
> But, clearly, they are under they are under control or they can control whom they move where and when they move them. So to save those expenses and then amortize them and say, well, ratepayers [sic] ought to pay; the only reason one ought to amortize something is that the Company didn't have a chance to mitigate or avoid or control that expense. That's not the case with moving expenses. (Tr. 676 - 677)

The amortization of the deferred moving expenses should be disallowed for inclusion in test year expenses.

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

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)

DISCUSSION:

* UWF's test year expenses include $722 and $1,283 for its water and wastewater operations, respectively. (Tr. 649; Ex 29, Schedule 20) While the OPC does agree that contributions to certain organization may produce a societal benefit, the OPC strongly feels that ratepayers should not be forced to contribute to organizations. This is exactly what will happen if the Company is permitted to include costs associated with donations and contributions in its proposed test year operating expenses. (Tr. 649) Ratepayers should give to organization of their choice, should they so choose to, not be forced to give to organizations selected by UWF. The Company

has agreed that if it gives to a charity to which a customer objects, the customer has no say and no remedy in which to avoid contributing. (Tr. 320 - 321) This is not appropriate. Consequently, test year expenses should be reduced by $722 and $1,283 for water and wastewater operations, respectively.

With respect to chamber of commerce dues, the purpose of UWF's membership is: "to establish a presence in the community and become acquainted with area businesses." (Tr. 650) Since such memberships are public relations oriented, ratepayers should not be required to pay for the Company's membership. Test year water and wastewater operating expenses include $486 and $863, respectively, for the Company's membership in chambers of commerce. (Tr. 650; Ex 29, Schedule 19) These costs should be removed.

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

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)

DISCUSSION:

* According to Citizens response to OPC Interrogatory No. 25, test year expenses included $1,525 for water and $2,711 for wastewater operations associated with public relations advertising. (Tr. 649; Ex 26, Schedule 17) Additionally, in response to OPC Interrogatory No. 19, the Company indicated that test year expenses included payroll costs associated with a Manager of External Affairs business Development, whose job functions pertain primarily to public relations activities. According to OPC Interrogatory No. 56, UWF's revised test year payroll costs includes $49,705 for this position, $42,573 of which would be included in test year expense. (Ex 26, Schedule 16) Of the $42,573 expense amount, $15,326 was allocated to water operations and $27,247 was allocated to wastewater operations. (Tr. 650; Ex 26, Schedule 16)

The purpose of public relations expenditures is to promote the Company's corporate name and to publicize itself as a good corporate citizen. As such, the public relations costs should be the responsibility of UWF's shareholders, not its captive ratepayers. (Tr. 649) The costs should be removed from test year expenses. The Company did not rebut this OPC position in its rebuttal testimonies.

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

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)

DISCUSSION:

* During the hearings, the parties stipulated that a 13-month average balance should be utilized in determining test year rate base. The Commission approved the stipulation without objection. (Tr. 732 - 733) Likewise, the Office of Public Counsel's position that depreciation expense be premised upon the 13-month average balance of plant in service should be adopted to ensure a matching of test year expenses with test year rate base. Thus, depreciation expense should initially be reduced by $211,220 for water operations and $296,646 for wastewater operations. The reduction is based on the difference between depreciation expense based on the 13-month average plant in service, as calculated by UWF, and the amount of depreciation expense actually requested by UWF which is based on year end plant in service. (Ex 29, Schedule 22)

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

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)

DISCUSSION:

* The Company schedules referred to in the OPC's position, specifically Schedules A-3, A-14, B-3, B-13 and G-41 are included in the MFRs, which are included in the record as Exhibit 4. The transposition error results in a $91,000 ($1,323,173 - $1,232,173) overstatement of depreciation expense. The Company did not rebut this OPC position. "In fact, the Company agreed during the hearings that it had made the transposition error. (Tr. 871)"

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

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)

DISCUSSION:

* The revisions to the additions to plant in service discussed in Issue No. 2 will have an impact on depreciation expense, as the test year level of depreciation will be premised upon the amount of plant in service for each month of the test year. The average depreciation rates resulting from the depreciation expense and plant in service contained in UWF's MFRs is 2.98% for water operations and 3.53% for wastewater operations. The calculation of the average deprecation rates is presented in Exhibit 29, Schedule 23. These average depreciation rates should be applied to the reductions to the thirteen month average test year plant in service (See Issue No. 5) in order to estimate the impact of the reductions to plant in service to depreciation expense. (Tr. 702) This adjustment to depreciation expense should be made in addition to the adjustment discussed in Issue No. 54, which presents the adjustment necessary to reflect deprecation expense based upon the 13-month average rate base methodology.

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

OPC: Agrees with staff.

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

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)

DISCUSSION:

* The purpose of an interest synchronization adjustment is to synchronize rate base and cost of capital with the income tax calculation. (Tr. 657) Lack of such an adjustment would result in a mismatching of the three items. The Company's filing includes an interest deduction in its income tax calculation of $1,351,946 for water operations and $2,703,500 for wastewater operations. (Ex 4, Schedule C-2) The interest deduction should be revised to reflect weighted cost of debt, including short and long term debt, adopted by the Commission times the amount of rate base ultimately approved by the Commission.

ISSUE 63: What is the appropriate revenue requirement?

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

RATES AND RATE STRUCTURE

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

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)

Respectfully Submitted,

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CERTIFICATE OF SERVICE
DOCTET NO. 960451-WS

I HEREBY CERTIFY that a copy of the foregoing Citizens' Posthearing Statement has been furnished by U.S. Mail or by hand-delivery, where designated with an asterisk, to the following parties on this 26th day of February, 1997.

Harold McLean

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