

ORIGINAL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for rate
increase in Pinellas County by
Mid-County Services, Inc.

DOCKET NO. 971065-SU
FILED:

COMMISSION STAFF'S PREHEARING STATEMENT

Pursuant to Order No. PSC-98-0709-PCO-SU, issued May 22, 1998, the Commission Staff (Staff) files its prehearing statement as follows:

A. Witnesses

Staff intends to call the following witnesses:

Charleston J. Winston of the Florida Public Service Commission Division of Auditing and Financial Analysis. He will testify to the staff audit report.

Hillary Y. Sweeney of the Florida Public Service Commission Division of Auditing and Financial Analysis. She will testify to the staff audit report.

Robert J. Crouch of the Florida Public Service Commission Division of Water and Wastewater. He will testify regarding used and useful calculations, the determination of wastewater flows in the used and useful equation, margin reserve, and certain pro-forma projects added to rate base.

Barry F. Davis of the Florida Public Service Commission Division of Water and Wastewater. He will testify regarding contributions in aid of construction, amortization, allocation of common costs, and wastewater rates.

B. Exhibits

Staff intends to sponsor the following exhibits:

RJC-1: Guidelines for Preparation of Capacity Analysis Reports

RJC-2: Excerpt from physics text

DOCUMENT NUMBER-DATE

~~00528~~ MAY 24 1998

FPSC-RECORDS/REPORTING

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- RJC-3: Florida Department of Environmental Protection Wastewater Application Form 2A
- RJC-4: Letter dated July 30, 1992 from Richard H. Harvey, Director, Division of Water Facilities, Florida Department of Environmental Regulation
- RJC-5: Florida Department of Environmental Regulation wastewater treatment plant permit
- BFD-1: Comparison of the allocation of salaries from the Florida office showing the allocation by customer equivalents and by gallons of wastewater treated
- BFD-2: Contents of pipe, Clow Corporation
- HYS-1: Audit Exceptions 1 through 5 of the staff audit report
- HYS-2: Staff audit work papers for Insurance-Other Account (Account 759)
- CJW-1: Administrative portion and Audit Exceptions 6 through 14 of the staff audit report
- CJW-2: Utility cost report

Staff further reserves the right to use additional exhibits for the purpose of cross-examination.

C. Basic Position

The information gathered through discovery and prefiled testimony indicates, at this point, that the utility is entitled to some level of increase. The specific level cannot be determined until the evidence presented at hearing is analyzed.

D. Issues of Fact, Law and Policy

The following are issues identified by Staff and its positions on these issues. Staff's positions are preliminary, are based upon materials filed by the utility or obtained through discovery and are intended to inform the parties of Staff's preliminary positions. Staff's final positions will be based upon an analysis of the evidence presented at the hearing.

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ISSUE 1: What is the appropriate flow data to use for calculating used and useful for wastewater treatment plant and effluent disposal?

POSITION: The appropriate flow data to use is the flow upon which the FDEP operating permit is based. The newer FDEP operating permits contain the most recent and accurate information describing the flows upon which capacity is based. When such information is not available, the average daily flow in the maximum month should be used. For this case, as indicated by the FDEP permit, annual average daily flow (AADF), should be used for calculating used and useful. (Crouch)

ISSUE 2: Should the utility be granted a margin reserve?

POSITION: Yes. The utility should be granted a margin reserve of 26,825 gallons per day (GPD) equaling 3% of its treatment plant flow capacity, based on the linear regression method of calculating growth and an eighteen-month construction period. (Crouch)

ISSUE 3: What is the appropriate used and useful percentage of the wastewater treatment facility?

POSITION: The wastewater treatment plant should be considered to be 83.09% used and useful. (Crouch)

ISSUE 4: What is the appropriate used and useful percentage of the wastewater collection system and effluent disposal system?

POSITION: Staff recommends the collection system and effluent disposal system should be considered 100% used and useful with no margin reserve. (Crouch)

ISSUE 5: Should the Commission include an imputation of Contributions in Aid of Construction (CIAC) on the margin reserve?

POSITION: Yes. The Commission should include an imputation of CIAC as a matching provision to the margin reserve calculation. However, as an averaging method, only 50% of the imputed CIAC should be recognized since the imputed amount will be collected over the life of the margin reserve period rather than all at the beginning of

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the period. In addition, the imputation should be limited to the amount of net plant included in the margin reserve. Accordingly, wastewater CIAC should be increased by \$50,733. Corresponding adjustments should also be made to increase wastewater accumulated amortization of CIAC by \$943 and decrease test year amortization expense by \$1,887. (B. Davis)

ISSUE 6: Should construction work in progress (CWIP) be corrected for errors and should pro forma plant additions be shown as utility plant in service?

POSITION: Yes, CWIP should be reduced by \$4,500 to correct errors and \$195,891 of pro forma plant additions should be reclassified in rate base and shown as utility plant in service. (B. Davis)

ISSUE 7: Should operation and maintenance (O&M) expense be reduced for life insurance policies for officers, directors and key employees?

POSITION: Yes. O&M expenses should be reduced by \$3,983 because the purpose of the policies is to protect the company and does not demonstrate a clear benefit to the ratepayers. Further, the Uniform System of Accounts states that these expenses should be recorded as non-utility expenses. (Sweeney)

ISSUE 8: Are the allocations from Utilities, Inc. a reasonable distribution of the cost of the services provided to Mid-County?

POSITION: No, the allocation methods employed by Utilities, Inc. at the time of this filing overstate costs to Mid-County. Operation and maintenance expenses should be reduced by \$119,685, depreciation expense should be reduced by \$13,747 and taxes other than income should be reduced by \$2,293. (B. Davis)

ISSUE 9: What is the appropriate amount of rate case expense?

POSITION: Only prudently incurred rate case expense should be allowed. The final amount is subject to further development of the record.

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E. Stipulated Issues


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

F. Pending Matters

There are no matters pending at this time.

G. Requirements That Cannot Be Complied With

There are no requirements of Order No. PSC-98-0709-PCO-SU that cannot be complied with at this time.



Jennifer S. Brubaker, Senior Attorney
FLORIDA PUBLIC SERVICE COMMISSION
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850
(850) 413-6199

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of COMMISSION STAFF'S PREHEARING STATEMENT has been furnished by U.S. Mail, this 24th day of May, 1999, to the following:

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

Stephen Burgess, Esquire
Office of Public Counsel
c/o The Florida Legislature
111 W. Madison St., #812
Tallahassee, FL 32399-1400



Jennifer S. Grubaker, Senior Attorney
FLORIDA PUBLIC SERVICE COMMISSION
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850
(850) 413-6199