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June 25, 2001

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RECORDS AND REPORTING

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

Re: Docket No. 991437-WU

Dear Ms. Bayo:

Enclosed for filing in the above-referenced docket are the original and 15 copies of Citizens' Prehearing 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,

RECEIVED & FILED

[Signature]
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[Signature]

Charles J. Beck
Deputy Public Counsel

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CJB:bsr
Enclosures

DOCUMENT NUMBER-DATE

07842 JUN 25 01

FPSC-RECORDS/REPORTING

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for Increase)
in Water Rates in Orange County)
by Wedgefield Utilities, Inc.)

Docket 991437-WU
Filed June 25, 2001

CITIZENS PREHEARING STATEMENT

The Citizens of Florida (Citizens), by and through Jack Shreve, Public Counsel, file this prehearing statement.

Witnesses

Citizens prefiled direct testimony by Hugh Larkin, Jr., and Ted. L. Bidy. Mr. Bidy also filed rebuttal testimony.

Mr. Larkin's testimony explains why the Commission should implement a sharing approach to the acquisition adjustment in this case if, and only if, the company can demonstrate that customers are better off as a result of its acquisition of Wedgefield Utilities. Without a convincing showing of this, the full acquisition adjustment should be recognized by the Commission. Mr. Larkin also calculates the effect on revenue requirement from the acquisition adjustment and Mr. Bidy's used and useful analysis.

Mr. Bidy's direct testimony presents an original cost study of Wedgefield Utilities. His original cost study of Wedgefield's gross plant shows a cost of about \$1,000,000 less than the amount shown in the company's MFR's. Mr. Bidy also addresses used and useful issues in his direct and rebuttal testimony.

DOCUMENT NUMBER-DATE
07842 JUN 25 01
FPSC-RECORDS/REPORTING

Exhibits

Mr. Larkin's testimony contains an appendix 1, setting forth his qualifications, and an appendix 2, his comments in the acquisition adjustment workshop. His exhibit HL-1 contains schedule 1 (calculation of return on equity based on actual investment and 50/50 sharing of negative acquisition adjustment), schedule 2 (revenue requirement - adjusted for negative acquisition adjustment impact, and calculation of rate of return limitation based on 150% of allowed ROE), schedule 3 (calculation of negative amortization expense and average unamortized balance), and schedule 4 (used and useful negative acquisition adjustment - water).

Mr. Bidy's direct testimony contains the following exhibits:

EXHIBIT NAME	EXH. NO.
SUMMARY TABULATION OF ECON PERMITS FOR WATER PLANT	TLB-1
ECON PERMIT OF 1/16/63 FOR WATER PLANT	TLB-1.1
ECON PERMIT OF 2/27/64 FOR DISTRIBUTION SYSTEM EXPANSION	TLB-1.2
ECON PERMIT OF 3/7/75 FOR NEW 12" WELL	TLB-1.3
ECON PERMIT OF 6/24/77 FOR EXPANSION OF DISTRIBUTION SYSTEM	TLB-1.4
ECON PERMIT OF 10/18/78 FOR MAJOR EXPANSION OF DISTRIBUTION SYSTEM	TLB-1.5
ECON PERMIT OF 4/14/80 FOR WELL NO. 2	TLB-1.6

ECON PERMIT OF 11/19/84 FOR ION EXCHANGE SOFTENER & LIME	TLB-1.7
ECON PERMIT OF 9/28/87 FOR 350,000 GAL. STORAGE TANK AND 2,000 GPM ROOF MOUNTED AERATOR	TLB-1.8
ECON PERMIT OF 7/15/88 FOR THREE NEW ION EXCHANGE SOFTENERS AND HIGH SERVICE PUMPS	TLB-1.9
ECON PERMIT OF 9/12/90 FOR NEW 10" WELL NO. 3	TLB-1.10
CORRESPONDENCE BETWEEN FDEP AND ECON RELATING TO PERMITS, SANITARY SURVEYS, ETC.	TLB-2
TABULATION ENTITLED "COMPARISON OF ANNUAL REPORTS FOR WATER PLANT IN SERVICE"	TLB-3
ECON'S ANNUAL REPORT SHEETS OF WATER PLANT IN SERVICE	TLB-3.1
TRANSMISSION & DISTRIBUTION SYSTEM INVENTORY FROM ECON'S 1981 ANNUAL REPORT TO PSC	TLB-4
TRANSMISSION & DISTRIBUTION SYSTEM INVENTORY FROM ECON'S 1995 ANNUAL REPORT TO PSC	TLB-4.1
TRANSMISSION & DISTRIBUTION SYSTEM INVENTORY FROM WEDGEFIELD'S 1996 ANNUAL REPORT TO PSC	TLB-4.2
TRANSMISSION & DISTRIBUTION SYSTEM INVENTORY FROM JUNE, 1995 ORANGE CO. ACQUISITION FEASIBILITY ANALYSIS	TLB-4.3
ORIGINAL COST ESTIMATE FOR PLANT IN SERVICE ITEMS FOR	

PERMITTED FACILITIES	TLB-5
ORIGINAL COST STUDY OF WATER PLANT IN SERVICE FOR WEDGEFIELD UTILITIES AS OF JANUARY 6, 1996	TLB-5.1
ANALYSIS OF REPLACED DISTRIBUTION SYSTEM LINES	TLB-6
PHOTOGRAPHS OF TREATMENT PLANT FACILITIES MADE DURING INSPECTION OF 4/25/01	TLB-7
USED AND USEFUL CALCULATIONS	TLB-8

Statement of Basic Position

The Commission should adopt a sharing approach to the acquisition adjustment in this case if, and only if, the company can show that customers are better off as a result of the acquisition. Otherwise, the full acquisition adjustment should be recognized.

The sharing of benefits approach shares the benefits of the acquisition adjustment 50/50 between customers and the company, with the caveat that the utility's return on equity should not exceed 150% of the Commission's leverage-graph authorized return on equity.

Without this approach, the Commission's proposed agency action order provides the utility an unthinkable return on equity of 69% on its actual investment. The utility has done nothing to deserve this lavish return. The company made virtually no additional investments in the company since the purchase (rate base has actually declined since then); quality of service complaints are high; the company has no

construction projections or budgets; and it has no formal preventative maintenance program. It is completely unreasonable to expect utility customers to pay rates designed to give a monopoly a 69% return on equity on its actual investment.

In addition, an original cost study presented by Citizens shows gross plant at about \$1,000,000 less than amount of plant in service shown in the company's MFR's. This buttresses the argument for using the company's actual investment instead of the amount contained in its predecessor's books.

Used and useful adjustments should be made as outlined in the testimony of Ted Bidy.

Issues and Positions

ISSUE 1 What is the appropriate method for determining used and useful for source of supply and pumping, for water treatment, and for storage plant for the Wedgefield System?

Citizens' Position:

The Commission should follow the *Ten States Standards* and make two comparisons: total maximum day demand to total capacity, and average day demand to firm reliable capacity. (Bidy)

ISSUE 2 Should used and useful be calculated on the individual components in issue one or on the components listed in issue one as a whole?

Citizens' Position: Individual components should be used reflecting FDEP standards

for sizing various components of water plant. (Bidly)

ISSUE 3 Based on the methodologies determined in issues one and two, what is the appropriate used and useful percentage for these components of the Wedgefield system?

Citizens' Position: The appropriate used and useful percentages are shown in exhibit TLB-8. (Bidly)

ISSUE 4 What is the appropriate period to consider customer demand (peak day or 5 peak day average)?

Citizens' Position: Maximum day flow should be calculated using the five maximum days of the maximum month, to avoid unusual flows. (Bidly)

ISSUE 5 What is the appropriate allowance for unaccounted for water for the Wedgefield system?

Citizens' Position: A maximum allowance of 10% of ADF is reasonable. (Bidly)

ISSUE 6 What is the appropriate used and useful percentage for the land purchased

on June 18, 1999, that should be included in rate base?

Citizens' Position: The appropriate amount is the amount contained in the proposed agency action order.

ISSUE 7 Should the utility's rate base include a negative acquisition adjustment?

Citizens' Position: Yes. The Commission should adopt a sharing approach to the acquisition adjustment in this case if, and only if, the company can show that customers are better off as a result of the acquisition. Otherwise, the full acquisition adjustment should be recognized.

The sharing of benefits approach shares the benefits of the acquisition adjustment 50/50 between customers and the company, with the caveat that the utility's return on equity should not exceed 150% of the Commission's leverage-graph authorized return on equity.

Without this approach, the Commission's proposed agency action order provides the utility an unthinkable return on equity of 69% on its actual investment. The utility has done nothing to deserve this lavish return. The company made virtually no additional investments in the company since the purchase (rate base has actually declined since then); quality of service complaints are high; the company has no construction projections or budgets; and it has no formal preventative maintenance program. It is completely unreasonable to expect utility customers to pay rates designed to give a monopoly a 69% return on equity on its actual investment.

In addition, an original cost study presented by Citizens shows gross plant at about \$1,000,000 less than amount of plant in service shown in the company's MFR's. This buttresses the argument for using the company's actual investment instead of the amount contained in its predecessor's books. (Larkin, Bidy)

ISSUE 8 What is the appropriate percentage of revenue requirement to be recovered through the base facility charge and gallonage charge, respectively?

Citizens' Position: Citizens do not object to the percentages contained in the proposed agency action order.

ISSUE 9 What is the appropriate amount of additional rate case expense that should be allowed?

Citizens' Position: The company filed no testimony on this issue. Therefore, the maximum allowable amount of rate case expense is that contained in the proposed agency action order.

ISSUE 11 What adjustments, if any, should be made to the utility's plant-in-service, accumulated depreciation, and depreciation expense?

Citizens' Position: Adjustments consistent with the preceding issues should be made.

(Larkin)

ISSUE 12 What is the appropriate working capital allowance?

Citizens' Position: Adjustments to working capital consistent with the preceding issues should be made. (Larkin)

ISSUE 13 What is the appropriate rate base?

Citizens' Position: Adjustments to rate base consistent with the preceding issues should be made. (Larkin)

ISSUE 14 What is the appropriate weighted average cost of capital including the proper components, amounts and cost rates associated with the capital structure for the test year ended June 30, 1999?

Citizens' Position: Adjustments consistent with the preceding issues should be made.

(Larkin)

ISSUE 15 What is the appropriate allowance for funds used during construction

(AFUDC) rate?

Citizens' Position: Adjustments consistent with the preceding issues should be made.

(Larkin).

ISSUE 16 What is the appropriate amount of rate case expense?

Citizens' Position: The company filed no testimony on this issue. Therefore, the maximum allowable amount of rate case expense is that contained in the proposed agency action order.

ISSUE 17 What adjustments, if any, should be made to the utility's property taxes?

Citizens' Position: Adjustments consistent with the preceding issues should be made.

(Larkin).

ISSUE 18 What is the test year operating income before any revenue increase?

Citizens' Position: Adjustments consistent with the preceding issues should be made.

(Larkin).

ISSUE 19 What is the appropriate revenue requirement?

Citizens' Position: Adopting the Citizens' proposed sharing of the benefits from the acquisition adjustment and Mr. Bidy's used and useful recommendations, rates prior to the interim rate increase should be reduced by \$41,805. Since the interim order implemented a rate increase of \$103,394, a reduction of \$145,199 to the current interim rates is necessary.

ISSUE 20 Is repression of consumption likely to occur, and, if so, what is the appropriate adjustment and the resulting consumption to be used to calculate consumption charges?

Citizens' Position: Since the Commission should reduce rates, there should be no repression.

ISSUE 21 What are the appropriate monthly rates for water service for this utility?

Citizens' Position: Rates will result from the Commission's decision on the other issues in the case.

ISSUE 22 What is the appropriate amount of the interim refund, if any?

Citizens' Position: Since rates should be reduced from the level in existence prior to the interim rate increase, the entire amount of the interim rate increase should be refunded.

Stipulations

There are no stipulations.

Pending Motions or Other Matters

There are no pending motions or other matters by Citizens.

Confidentiality

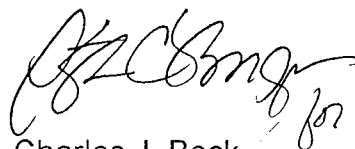
Citizens have no requests for confidentiality.

Compliance with Order Establishing Procedure

Citizens believe we have complied with the order establishing procedure.

Respectfully submitted,

JACK SHREVE
PUBLIC COUNSEL

A handwritten signature in black ink, appearing to read 'CJ Beck for', is written over the typed name of Charles J. Beck.

Charles J. Beck
Deputy Public Counsel
Fla. Bar no. 217281

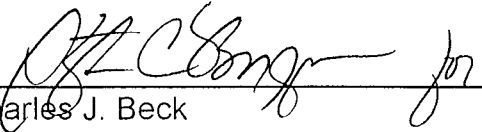
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Attorneys for Florida's Citizens

DOCKET NO. 991437-WU
CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a copy of the foregoing has been furnished by U.S.
Mail or hand-delivery to the following parties on this 25th day of June, 2001.


Charles J. Beck

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