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October 12, 2001

Ms. Blanca S. Bayó, Director
Division of the Commission Clerk
and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0870

RE: Docket No. 010006-WS

Dear Ms. Bayó:

Enclosed are an original and fifteen copies of Citizens' Prehearing Statement for filing in the above-referenced docket.

Also enclosed is a 3.5 inch diskette containing Citizens' Prehearing Statement in WordPerfect for Windows 6.1. Please indicate receipt of filing by date-stamping the attached copy of this letter and returning it to this office. Thank you for your assistance in this matter.

Sincerely,

Stephen C. Burgess
Deputy Public Counsel

SCB/dsb
Enclosures

- APP _____
- CAF _____
- CMP _____
- COM 5 _____
- CTR _____
- ECR _____
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- RGO _____
- SEC 1 _____
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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Water and wastewater)
industry annual reestablishment)
of authorized range of return on)
common equity of water and)
wastewater utilities pursuant to)
Section 367.081(4)(f), F.S.)
_____)

DOCKET NO. 010006-WS
DATED: October 12, 2001

CITIZENS' PREHEARING STATEMENT

The Citizens of the State of Florida, through their attorney, the Public Counsel, consistent with Order No. PSC-01-1447-PCO-WS, hereby file this Prehearing Statement.

(a) The Citizens will call Mark A. Cicchetti as an expert to testify on the proper leverage formula methodology to be used in establishing the authorized range of return on common equity for Commission regulated water and wastewater utilities. The Citizens will also call Mr. Cicchetti to rebut certain portions of the testimony submitted by Dr. Morin and Mr. Lester.

(b) Attached to Mr. Cicchetti's initial testimony are:

- (1) Attachment I describing qualifications and experience;
- (2) Attachment 2 - Water Company Index Investment Characteristics (2 pages);
- (3) Attachment 3 - Discounted Cash Flow Model;
- (4) Attachment 4 - Risk Premium Analysis (4 pages);
- (5) Attachment 5 - Risk Premium Analysis Results; and
- (6) Attachment 6 - Summary of Results.

(c) The leverage formula described in Order No. PSC-01-1226-PAA-WS results in liberal equity returns that equal or exceed the "range of returns on common equity for an average water and wastewater utility," as required by Section 367.081(4)(f), Florida Statutes.

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(d) ISSUE 1: What is the appropriate range of returns on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), Florida Statutes?

POSITION: 9.14% ROE @ 100% equity ratio to 10.24% ROE @ 40% (or lower) Equity ratio, based on the formula: Return on Common Equity = 8.41% + 0.731/Equity Ratio (Cicchetti).

(e) ISSUE 1: Does Section 367.081(4)(f), Florida Statutes, allow the Commission to establish a leverage formula that systematically results in an allowed equity return that is higher than the actual measured cost of equity for an average water or wastewater utility at the corresponding equity ratio?

POSITION: No. Section 367.081(4)(f), F.S., contemplates the establishment of authorized equity returns that equal -- not systematically exceed -- the actual cost of equity.

(f) ISSUE 1: Should the Commission, as a matter of sound public policy, select a leverage formula that results in allowed equity returns that systematically exceed the actual measured cost of equity?

POSITION: No. Sound public policy would dictate that the leverage formula result in allowed equity returns that equal the actual measured cost of equity.

(g) The Citizens are not aware of any issues that have been stipulated by the parties.

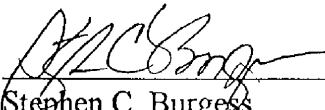
(h) The Citizens are not aware of any pending motions.

(i) The Citizens have no claims for confidentiality.

(j) The Citizens believe they can comply with all requirements of Order No. PSC-01-1447-PCO-WS.

Respectfully submitted,

JACK SHREVE
Public Counsel



Stephen C. Burgess
Deputy Public Counsel

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Attorneys for the Citizens of the
State of Florida

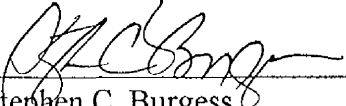
**CERTIFICATE OF SERVICE
DOCKET NO. 010006-WS**

I HEREBY CERTIFY that a true and exact copy of the above and foregoing CITIZENS' PREHEARING STATEMENT has been furnished by hand-delivery* or U.S. Mail to the following parties of record this 12th day of October, 2001.

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