

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for limited proceeding to recover costs of water system improvements in Marion County by Sunshine Utilities of Central Florida, Inc.

DOCKET NO. 992015-WU

FILED: SEPTEMBER 6, 2002

COMMISSION STAFF'S PREHEARING STATEMENT

Pursuant to Order No. PSC-02-0852-PCO-WU, filed June 20, 2002, as revised by Order No. PSC-02-1118-PCO-WU, issued August 15, 2002, the Commission Staff (Staff) of the Florida Public Service Commission files its Prehearing Statement as follows:

a. All Known Witnesses

Staff intends to call the following witnesses:

Richard S. Lott of the Department of Environmental Protection (DEP). He will testify as to the current treatment process of Sunshine Utilities of Central Florida, Inc. (Sunshine or utility), for its Lakeview Hills water system to address the specific dichloroethylene contamination problem.

Mike Sims of the Marion County Solid Waste Department. He will testify as to the assistance being provided by Marion County in addressing the water contamination problem at Sunshine. Also, he will describe Marion County's proposal to have the utility provide service to an area outside the utility's service territory and the County's willingness to provide financial assistance.

b. All Known Exhibits

Staff has identified and intends to sponsor the following exhibits:

RSL-1: Copy of Permit to Install Dual-Tower Filter System

DOCUMENT NUMBER DATE

09437 SEP-08

FPSC-COMMISSION CLERK

c. Staff's Statement of Basic Position

Staff's positions are preliminary and based on materials filed by the parties, the Commission's actions in Proposed Agency Action (PAA) Order No. PSC-02-0656-PAA-WU, and on discovery. The preliminary positions are offered to assist the parties in preparing for the hearing. Staff's final positions will be based upon all the evidence in the record and may differ from the preliminary positions stated herein.

d. Staff's Position on the Issues

**ISSUE 1:** Should the Commission approve Sunshine's requested limited proceeding to increase its rates for all customers to interconnect five of its water systems?

**STAFF'S**

**POSITION:** Yes. The plan as delineated in PAA Order No. PSC-02-0656-PAA-WU, which includes the low cost funding from DEP appears reasonable. However, staff's final position will be based upon the evidence in the record and may differ from its preliminary position stated above. (Lott, Sims)

**ISSUE 2:** Should an adjustment be made to plant in service to retire a utility vehicle?

**STAFF'S**

**POSITION:** Yes. Plant in service and accumulated depreciation should both be reduced by \$15,036 to reflect the retirement of the utility's van. Further, staff believes that retained earnings and depreciation expense should both be reduced by \$2,506 to remove test year depreciation expense associated with this van. Pursuant to staff's review of the protests of Sunshine and the Office of Public Counsel (OPC), it does not appear that this issue was protested, and pursuant to Section 120.80(13)(b), Florida Statutes, issues in the proposed action which are not in dispute are deemed stipulated.

**ISSUE 3:** Should any adjustment be made to the test year amount of CIAC and Accumulated Amortization of CIAC?

**STAFF'S**

**POSITION:** Yes. CIAC should be increased by \$15,453 to transfer inactive advances for construction. Accumulated Amortization of CIAC and Amortization of CIAC expense should be increased both by \$479. Pursuant to staff's review of the protests of Sunshine and OPC, it does not appear that this issue was protested, and pursuant to Section 120.80(13)(b), Florida Statutes, issues in the proposed action which are not in dispute are deemed stipulated.

**ISSUE 4:** What rate base components should be approved for Sunshine's proposed project?

**STAFF'S**

**POSITION:** Staff's preliminary position is that the pro forma rate base associated with the proposed interconnection is \$885,929. The detail adjustments that make up this amount are discussed in PAA Order No. PSC-02-0656-PAA-WU. However, staff's final position will be based upon the evidence in the record and may differ from its preliminary position stated above. (Sims)

**ISSUE 5:** What is the appropriate test year rate base?

**STAFF'S**

**POSITION:** The appropriate amount is subject to the resolution of other issues.

**ISSUE 6:** What is the appropriate return on equity for Sunshine?

**STAFF'S**

**POSITION:** The appropriate return on equity for Sunshine should be based on the leverage formula in effect at the time of the Commission's final vote on this issue. Using the

current leverage formula, the appropriate return on equity would be 11.34%, with a range of 10.34% to 12.34%. However, staff notes that the protest of OPC to that portion of PAA Order No. PSC-02-0898-PAA-WS, issued July 5, 2002, in Docket No. 020006-WS, which proposed a new leverage formula has been withdrawn, and it appears that an Order consummating the new leverage formula will be issued in the near future.

**ISSUE 7:** What is the appropriate regulatory treatment of loans to officers?

**STAFF'S**

**POSITION:** These loans to the officers should be treated as a reduction to common equity. Common equity should be reduced by \$116,238. Pursuant to staff's review of the protests of Sunshine and OPC, it does not appear that this issue was protested, and pursuant to Section 120.80(13)(b), Florida Statutes, issues in the proposed action which are not in dispute are deemed stipulated.

**ISSUE 8:** What is the appropriate test-year amount of long-term debt?

**STAFF'S**

**POSITION:** The appropriate test-year amount of long-term debt is \$1,495,314. Pursuant to staff's review of the protests of Sunshine and OPC, it does not appear that this issue was protested, and pursuant to Section 120.80(13)(b), Florida Statutes, issues in the proposed action which are not in dispute are deemed stipulated.

**ISSUE 9:** What is the appropriate weighted average cost of capital for the test year-ended December 31, 2001?

**STAFF'S**

**POSITION:** The appropriate weighted average cost of capital is subject to the resolution of other issues.

**ISSUE 10**: Should revenues be imputed for additional customers?

**STAFF'S**

**POSITION**: Yes. The Commission should impute test year revenues of \$3,739 to reflect the addition of 37 ERCs.

**ISSUE 11**: Should an adjustment be made to the salary levels of the utility's officers?

**STAFF'S**

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

**ISSUE 12**: What are the appropriate pro forma expenses associated with plant additions and retirements?

**STAFF'S**

**POSITION**: The appropriate pro forma expenses associated with plant additions and retirements are \$912. Pursuant to staff's review of the protests of Sunshine and OPC, it does not appear that this issue was protested, and pursuant to Section 120.80(13)(b), Florida Statutes, issues in the proposed action which are not in dispute are deemed stipulated.

**ISSUE 13**: What is the appropriate amount of rate case expense for this docket?

**STAFF'S**

**POSITION**: Rate case expense for the utility's duplicative filings should be disallowed. Based on the Commission's proposed approval of the project, total rate case expense through the PAA process of \$74,929 should be allowed. This results in a decrease of \$40,409 for the cost of the duplicative filings, to the utility's requested rate case expense through that time. Only prudently incurred rate case expense should be allowed, and any prudently incurred rate case expense incurred subsequent to the PAA process should be added to the amount shown above. The total allowable rate case expense should be amortized

over four years, pursuant to Section 367.0816, Florida Statutes.

**ISSUE 14:** What is the appropriate net operating income (NOI) before any calculation for any increase for this docket?

**STAFF'S**

**POSITION:** The appropriate amount is subject to the resolution of other issues. However, in the calculation of NOI, there should be no provision for income taxes because Sunshine is a Subchapter S corporation.

**ISSUE 15:** What is the appropriate revenue requirement?

**STAFF'S**

**POSITION:** The appropriate amount is subject to the resolution of other issues.

**ISSUE 16:** What are the appropriate water rates?

**STAFF'S**

**POSITION:** The appropriate calculation of rates is subject to the resolution of other issues. However, any rate increase should not be effective until the plant improvements are completed and placed in service.

**ISSUE 17:** What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of amortized rate case expense as required by Section 367.0816, Florida Statutes?

**STAFF'S**

**POSITION:** The water rates should be reduced to remove the Commission approved rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. The amount of the rate reduction is subject to the resolution of other issues.

e. Stipulated Issues

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

f. Pending Matters

1. Staff has been advised that the parties have reached a stipulated settlement of OPC's Motion to Compel.

2. OPC has moved for the Commission to Permit Additional Interrogatories.

g. Pending Confidentiality Claims or Requests

Sunshine claims confidentiality for information used by Ms. Kimberly H. Dismukes in her prefiled direct testimony.

h. Compliance with Order Nos. PSC-02-0852-PCO-WU and PSC-02-1118-PCO-WU

There are no requirements that cannot be complied with at this time.

Respectfully submitted this 6<sup>th</sup> day of September, 2002.



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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the COMMISSION STAFF'S PREHEARING STATEMENT has been furnished by U.S.

Mail this 6<sup>th</sup> day of September, 2002 to the following:

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