

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for rate
increase in Marion, Orange,
Pasco, Pinellas, and Seminole
Counties by Utilities, Inc. of
Florida.

DOCKET NO. 020071-WS
ORDER NO. PSC-03-0935-PHO-WS
ISSUED: August 14, 2003

Pursuant to Notice and in accordance with Rule 28-106.209, Florida Administrative Code, a Prehearing Conference was held on August 4, 2003, in Tallahassee, Florida, before Commissioner Braulio L. Baez, as Prehearing Officer.

APPEARANCES:

MARTIN S. FRIEDMAN, ESQUIRE, Rose, Sundstrom & Bentley, LLP, 600 S. North Lake Blvd., Suite 160, Altamonte Springs, Florida 32701
On behalf of Utilities, Inc. of Florida.

STEPHEN C. BURGESS, ESQUIRE, and STEPHEN C. REILLY, Office of Public Counsel, 111 W. Madison Street, Room 812, Tallahassee, Florida 32399-1400
On behalf of Office of Public Counsel.

ROSANNE GERVASI, ESQUIRE, and LORENA A. HOLLEY, ESQUIRE, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850
On behalf of the Florida Public Service Commission.

PREHEARING ORDER

I. CONDUCT OF PROCEEDINGS

Pursuant to Rule 28-106.211, Florida Administrative Code, this Order is issued to prevent delay and to promote the just, speedy, and inexpensive determination of all aspects of this case.

DOCUMENT NUMBER DATE

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FPSC-COMMISSION CLERK

II. CASE BACKGROUND

Utilities, Inc. of Florida (UIF or utility) is a Class A utility providing water and wastewater service to systems in the following counties: Marion, Orange, Pasco, Pinellas, and Seminole.

By letter dated February 26, 2002, UIF requested test year approval in order to file an application for general rate relief for all of its systems. On June 28, 2002, the utility filed minimum filing requirements (MFRs) to justify its requested rate increase. By letter dated July 19, 2002, the utility was notified that the MFRs were deficient. In response to that deficiency letter, the utility submitted additional explanations, schedules and data on September 3, 2002. However, by letter dated September 11, 2002, the utility was notified that the MFRs were still deficient. UIF corrected the remaining deficiencies on October 3, 2002. Thus, the utility was notified that October 3, 2002, was established as the official date of filing for the utility's rate case.

On October 31, 2002, UIF materially amended its MFR rate schedules, and as such, the official date of filing was reset to that date. After discussions with our staff concerning material billing errors in the MFRs, the utility agreed to extend the deadlines for Commission action on UIF's interim and final rate requests. By letter dated December 4, 2002, UIF waived the 60-day deadline on its request for interim rates for a period of 120 days. UIF also waived, for a period of 120 days, the eight-month deadline for final action on its application. Final rates were suspended by Order No. PSC-03-0030-PCO-WS, issued January 6, 2003, and interim rates were granted by Order No. PSC-03-0568-PCO-WS, issued May 5, 2003. The deadline for final action on UIF's application for general rate relief is October 28, 2003.

UIF requested that this rate case be scheduled directly for hearing. In support thereof, the utility filed its direct testimony with its June 28, 2002, MFR filing. The Office of Public Counsel (OPC) served its Notice of Intervention in this docket and by Order No. PSC-02-1026-PCO-WS, issued July 29, 2002, OPC's intervention was acknowledged.

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By Order No. PSC-02-0657-PAA-WU, issued May 14, 2002, in Docket No. 991890-WU (gain on sale docket), this Commission found that a gain of \$61,669 was realized on the sale of UIF's Druid Isle water system and a portion of its Oakland Shores water system to the City of Maitland in Orange County. The Commission further found that a gain of \$269,661 was realized on the sale of UIF's Green Acres Campground water and wastewater facilities to the City of Altamonte Springs in Seminole County. By proposed agency action, the Commission ordered that the remaining customers of UIF would not receive recovery of the realized gains from the Maitland or Altamonte sales. On June 4, 2002, OPC protested the Order and requested a hearing on the matter. By Order No. PSC-02-1467-PCO-WS, issued October 25, 2002, this docket was consolidated with the gain on sale docket, and the gain on sale docket was closed. Pursuant to Order No. PSC-02-1808-PCO-WS, UIF filed its gain on sale testimony on February 17, 2003. The protested gain on sale issues are included herein.

Order No. PSC-02-1495-PCO-WS, the Order Establishing Procedure to be followed in this docket, was issued on October 31, 2002. That Order was revised by Orders Nos. PSC-02-1808-PCO-WS and PSC-03-0389-PCO-WS, issued December 20, 2002, and March 20, 2003, respectively.

III. JURISDICTION

This Commission is vested with jurisdiction over the subject matter by the provisions of Chapters 120 and 367, Florida Statutes. This prehearing conference will be governed by said Chapter and Chapters 25-22, 25-30, and 28-106, Florida Administrative Code.

IV. PROCEDURE FOR HANDLING CONFIDENTIAL INFORMATION

A. Any information provided pursuant to a discovery request for which proprietary confidential business information status is requested shall be treated by the Commission and the parties as confidential. The information shall be exempt from Section 119.07(1), Florida Statutes, pending a formal ruling on such request by the Commission, or upon the return of the information to the person providing the information. If no determination of confidentiality has been made and the information has not been used in the proceeding, it shall be returned expeditiously to the person

providing the information. If a determination of confidentiality has been made and the information was not entered into the record of the proceeding, it shall be returned to the person providing the information within the time periods set forth in Section 367.156, Florida Statutes.

B. It is the policy of the Florida Public Service Commission that all Commission hearings be open to the public at all times. The Commission also recognizes its obligation pursuant to Section 367.156, Florida Statutes, to protect proprietary confidential business information from disclosure outside the proceeding.

1. Any party intending to utilize confidential documents at hearing for which no ruling has been made, must be prepared to present their justifications at hearing, so that a ruling can be made at hearing.

2. In the event it becomes necessary to use confidential information during the hearing, the following procedures will be observed:

- a) Any party wishing to use any proprietary confidential business information, as that term is defined in Section 367.156, Florida Statutes, shall notify the Prehearing Officer and all parties of record by the time of the Prehearing Conference, or if not known at that time, no later than seven (7) days prior to the beginning of the hearing. The notice shall include a procedure to assure that the confidential nature of the information is preserved as required by statute.
- b) Failure of any party to comply with 1) above shall be grounds to deny the party the opportunity to present evidence which is proprietary confidential business information.
- c) When confidential information is used in the hearing, parties must have copies for the Commissioners, necessary staff, and the Court Reporter, in envelopes clearly marked with the nature of the contents. Any party wishing to

examine the confidential material that is not subject to an order granting confidentiality shall be provided a copy in the same fashion as provided to the Commissioners, subject to execution of any appropriate protective agreement with the owner of the material.

- d) Counsel and witnesses are cautioned to avoid verbalizing confidential information in such a way that would compromise the confidential information. Therefore, confidential information should be presented by written exhibit when reasonably possible to do so.
- e) At the conclusion of that portion of the hearing that involves confidential information, all copies of confidential exhibits shall be returned to the proffering party. If a confidential exhibit has been admitted into evidence, the copy provided to the Court Reporter shall be retained in the Division of the Commission Clerk and Administrative Services's confidential files.

V. POST-HEARING PROCEDURES

Each party shall file a post-hearing statement of issues and positions. A summary of each position of no more than 50 words, set off with asterisks, shall be included in that statement. If a party's position has not changed since the issuance of the prehearing order, the post-hearing statement may simply restate the prehearing position; however, if the prehearing position is longer than 50 words, it must be reduced to no more than 50 words. If a party fails to file a post-hearing statement, that party shall have waived all issues and may be dismissed from the proceeding.

Pursuant to Rule 28-106.215, Florida Administrative Code, a party's proposed findings of fact and conclusions of law, if any, statement of issues and positions, and brief, shall together total no more than 60 pages, and shall be filed at the same time.

VI. PREFILED TESTIMONY AND EXHIBITS; WITNESSES

Testimony of all witnesses to be sponsored by the parties and staff has been prefiled. All testimony which has been prefiled in this case will be inserted into the record as though read after the witness has taken the stand and affirmed the correctness of the testimony and associated exhibits. All testimony remains subject to appropriate objections. Each witness will have the opportunity to orally summarize his or her testimony at the time he or she takes the stand. Summaries of testimony shall be limited to five minutes. Upon insertion of a witness' testimony, exhibits appended thereto may be marked for identification. After all parties and Staff have had the opportunity to object and cross-examine, the exhibit may be moved into the record. All other exhibits may be similarly identified and entered into the record at the appropriate time during the hearing.

Witnesses are reminded that, on cross-examination, responses to questions calling for a simple yes or no answer shall be so answered first, after which the witness may explain his or her answer.

The Commission frequently administers the testimonial oath to more than one witness at a time. Therefore, when a witness takes the stand to testify, the attorney calling the witness is directed to ask the witness to affirm whether he or she has been sworn.

VII. ORDER OF WITNESSES

<u>Witness</u>	<u>Proffered By</u>	<u>Issues #</u>
<u>Direct</u>		
**Patrick C. Flynn	UIF	1, 26, 27
**David L. Orr	"	1, 26, 27
Steven M. Lubertozzi	"	2, 3, 4, 5, 6, 7, 15, 17, 18, 20, 21, 22, 23, 24, 25, 27, 28, 32, 33, 37
Hugh A. Gower	"	29

<u>Witness</u>	<u>Proffered By</u>	<u>Issues #</u>
Frank Seidman	"	8, 9, 10, 11, 12, 13, 26, 27
Ted L. Bidy, P.E./P.L.S.	OPC	1, 3, 8, 9, 10, 11, 12, 13, 26, 27
Donna DeRonne, CPA	"	2, 3, 4, 7, 12, 17, 18, 20, 21, 23, 24, 26, 27, 37, 38
Kimberly H. Dismukes	"	5, 6, 22, 25, 28, 29
Mark A. Cicchetti	"	15, 16, 17, 18, 28, 29
James H. Berghorn	FPSC	1
Peter H. Burghardt	"	1
*Kimberly M. Dodson	"	1
Paul J. Morrison	"	1
Gary P. Miller	"	1
William V. Ryland	"	1
Pepe Menendez	"	1
Jeffrey A. Small	"	5, 7, 22, 23, 24
Kathy L. Welch	"	5, 15, 22
Richard P. Redemann	"	11, 12, 13, 26, 27
Jay W. Yingling	"	26
Dwight T. Jenkins	"	
Frances J. Lingo	"	32, 33

Rebuttal

Patrick C. Flynn	UIF	1, 26, 27
**David L. Orr	"	1, 26, 27
*Pauline M. Ahern	"	16

<u>Witness</u>	<u>Proffered By</u>	<u>Issues #</u>
Hugh A. Gower	"	29
Steven M. Lubertozi	"	2, 3, 4, 5, 6, 7, 15, 17, 18, 20, 21, 22, 23, 24, 25, 27, 28, 32, 33, 37
Frank Seidman	"	8, 9, 10, 11, 12, 13, 26, 27

*Witnesses Ahern and Dodson are unavailable to appear on Friday, August 22, 2003.

**Witnesses Flynn and Orr will adopt the prefiled direct testimony of Donald W. Rasmussen, who is unavailable to testify at the hearing.

VIII. BASIC POSITIONS

UIF: UIF is entitled to a rate increase as contained within its revised and final application and MFRs presented with the initial application and the increased water and wastewater revenues as specified therein.

OPC: OPC's position is that the revenue increases proposed by UIF in its MFR filings, original and revised, are substantially overstated. Instead of being presented on a system-by-system basis, the revenue requirement calculations presented in the Company's MFRs consisted of the combined water systems and combined wastewater systems within each County. The eight sets of MFR calculations provided by the Company presented combined revenue requirements for each of the following: Marion County water, Marion County wastewater, Orange County water, Pasco County water, Pasco County wastewater, Pinellas County water, Seminole County water, and Seminole County wastewater. OPC's calculations show that reductions in rates on a combined basis are warranted for five of the eight above-identified revenue requirement calculations presented by the Company in this case. On a combined basis, the Company's request, based on the

Company's October 3, 2002 2nd Revised MFR filing, results in an overall requested increase in revenues of approximately \$1.1 million. The OPC's calculations show that for all of the systems included in this case, on a combined basis, the overall result should be a decrease in revenues of \$149,247, not an increase. The OPC's position incorporates adjustments sponsored by its witnesses, along with the adoption of many of the recommendations presented by the Commission's Audit Staff in its Audit Reports.

This case has been fraught with problems resulting entirely from the Company's lack of diligence throughout the entire regulatory process. The Company was required to re-file substantial portions of its schedules several times in this case for failure to meet the Commission's minimum filing requirements. The Company was unable to follow some of the most basic and long-standing MFR instructions, such as the requirement that rate base be determined on a 13-month average basis. It became burdensome to keep track of the number of revisions the Company filed to several of its E schedules due to errors, omissions and discrepancies. Throughout this case, the Company was regularly late in responding to OPC interrogatory requests, in many cases extremely so. The OPC was required to file many Motions to Compel in this case to receive responses to interrogatories and requests for production of documents. The extreme tardiness of the Company in responding to interrogatories and requests for production of documents, coupled with the frequent revisions to the MFR filing schedules and the Company's continued failure to follow the NARUC Uniform System of Accounts, negatively impacted Citizens' analysis of the Company's rate increase requests. If anything, the result is that the revenue requirements calculated by the OPC for each of the County systems are likely overstated and additional adjustments beyond those presented by the OPC and Commission Staff may be warranted. As a result of the numerous problems caused by UIF throughout this case and its continued failure to be in compliance with long-standing Commission rules, at a minimum, OPC recommends that the Commission adopt its recommendation

that the allowed return on equity be set at the low-point of the ROE range of reasonableness.

FPSC: Staff's review of UIF's MFRs indicate that UIF is entitled to some level of rate increase, at least in three of the five counties that are the subjects of this rate case. Staff's positions are preliminary and based on materials filed by the parties 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.

IX. ISSUES AND POSITIONS

QUALITY OF SERVICE

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

POSITIONS

UIF: Yes. (FLYNN, ORR)

OPC: No position at this time. (BIDDY, CUSTOMER TESTIMONY)

FPSC: Yes. The quality of service is satisfactory. (BERGHORN, BURGHARDT, DODSON, MENENDEZ, MILLER, MORRISON, RYLAND)

RATE BASE

ISSUE 2: Should any amortization of the undepreciated portion of retired plant or demolition costs be included in the test year?

POSITIONS

UIF: Yes. Amortization expense should be allowed in the test year. The NARUC USOA requires Commission authorization before implementing amortization. FPSC Rule 25-30.433, Rate Case Proceedings, at subparagraph (9), provides for the method of amortizing forced abandoned or prudently retired plant. As the section title implies, it is to be

determined in a rate case proceeding and this is the first rate proceeding in which amortization could be considered. The amount requested by the utility is based on retired plant net of depreciation through the test year and is therefore a lesser expense to the ratepayer than had it been implemented at the dates of retirement. The annual amortization amounts that should be allowed for Weathersfield is \$10,460 and \$22,988 for Summertree. (LUBERTOZZI)

OPC: Agree with staff's position. (DERONNE)

FPSC: No amortization should be allowed, as these costs should have been fully recovered.

ISSUE 3: Are any additional adjustments necessary to properly reflect the condemnation and resulting retirement of the Lincoln Heights wastewater treatment plant?

POSITIONS

UIF: Yes. Amortization expense should be allowed in the test year. The NARUC USOA requires Commission authorization before implementing amortization. FPSC Rule 25-30.433, Rate Case Proceedings, at subparagraph (9), provides for the method of amortizing forced abandoned or prudently retired plant. As the section title implies, it is to be determined in a rate case proceeding and this is the first rate proceeding in which amortization could be considered. The amount requested by the utility is based on retired plant net of depreciation through the test year and is therefore a lesser expense to the ratepayer than had it been implemented at the dates of retirement. The annual amortization amounts that should be allowed for Ravenna Park is \$36,912. (LUBERTOZZI)

OPC: No amortization of the net plant costs being retired or condemnation related costs should be allowed in this case. The condemnation of the Lincoln Heights wastewater treatment plant and the subsequent acquisition of a portion of the surrounding land is the subject of on-going litigation. If such litigation has been completed,

the Company has not presented the level of evidence in this record necessary to justify inclusion of any of the related costs at this time. Staff's Audit Report contained many adjustments associated with the deferral of substantial legal fees associated with the proceedings and litigation, which the OPC agrees with and has reflected in addressing other issues. Additionally, according to the Staff Audit Report, Disclosure No. 1, the Company received \$154,190 in June 1999 from the Department of Transportation, and this \$154,190 received by the Company for the land is not reflected anywhere in the Company's MFR filing. Additionally, Staff indicated in the disclosure that the litigation is still on-going. With the on-going litigation, the issue of the amount of compensation to ultimately be received by the Company as a result of the condemnation and land acquisition remains open and the Company has not presented adequate information or justification in this case for recovery of this cost at this time. (DERONNE, BIDDY)

FPSC: Since the litigation from the condemnation proceeding is ongoing, it is premature to calculate the appropriate gain or loss on abandonment in this rate case. The utility should continue to accrue any costs associated with these proceedings in a Deferred Debit Account-186 until the litigation and condemnation proceedings are resolved. At that time, the utility may petition the Commission to request the proper ratemaking treatment of these costs.

ISSUE 4: Should any amortization expense be included for the Seminole County wastewater system televideo inspection charges?

POSITIONS

UIF: Yes. (LUBERTOZZI)

OPC: No, because they would have been fully amortized before the test year if recorded properly when incurred. (DERONNE)

FPSC: Agree with OPC.

ISSUE 5: What adjustments, if any, should be made to the utility's UPIS with respect to common plant allocations from Water Services Corporation?

POSITIONS

UIF: UIF accepts the staff's adjustments, except for amount of plant for computers, which should be \$61,490, with accumulated depreciation of \$34,721. (LUBERTOZZI)

OPC: Rate base should be reduced for allocations from WSC. UIF failed to demonstrate that the allocation methodology used to allocate costs from WSC was reasonable. Furthermore, it was unable to even produce documents showing how the primary allocation factor was developed. Therefore, OPC recommends that all allocation from WSC be disallowed for ratemaking purposes. As reflected on Exhibit KHD-1, Schedule 1, test year rate base should be reduced by \$82,102. (DISMUKES)

FPSC: TESTIFYING STAFF'S POSITION: The following adjustments should be made to allocated plant to reflect corrections to the utility's method of recording allocations from Water Service Corporation. (SMALL, WELCH)

WSC Allocations of Common Plant

<u>County</u>	<u>Water</u>	<u>Wastewater</u>
Marion	(651)	(87)
Orange	(994)	0
Pasco	(91)	1,459
Pinellas	(1,686)	0
Seminole	3,649	1,989

NON-TESTIFYING STAFF'S POSITION: No position at this time pending further development of the record.

ISSUE 6: What adjustment should be made to CIAC and amortization of CIAC to reflect the contribution received from the City of Altamonte Springs?

POSITIONS

UIF: None. UIF did not receive any CIAC from the City of Altamonte Springs. (LUBERTOZZI)

OPC: When UIF negotiated the contract with Altamonte Springs to provide the Weathersfield system with wholesale wastewater service, the contract provided that at the time of connection, Altamonte Springs would pay UIF \$107,000. UIF has not adequately explained why these funds were reflected on the books of Utilities, Inc. as opposed to UIF. OPC recommends that these funds be reflected on the books of UIF as a contribution. Accordingly, the Weathersfield system's (Seminole County) rate base should be reduced by \$105,217 and test year expenses should be reduced by \$3,567. (DISMUKES)

FPSC: Agree with OPC.

ISSUE 7: What adjustments, if any, should be made to the amount of working capital allocated to each of the utility's operating systems?

POSITIONS

UIF: Accepts the staff's adjustments. (LUBERTOZZI)

OPC: Citizens recommended allocation of the revised working capital differs from Staff's adjustment. Staff's exception, as revised, allocates the working capital balance to each County's water and wastewater system based on the percentage of adjusted O&M expenses for each county system. Citizens' allocation to each system is slightly different from Staff's as the OPC's adjusted O&M expenses differ. The adjustment to working capital (calculated on OPC Exhibit__ (DD)-1 for Marion County, Schedule C-5), results in the following reductions to the working capital requested in the MFR filing for each county system: (1) Seminole County Water reduction of \$349,455; (2) Seminole County Wastewater reduction of \$404,619; (3) Pinellas County Water reduction of \$24,647; (4) Pasco County Water reduction of \$213,043; (5) Pasco County wastewater reduction of \$226,009; (6) Marion County Water reduction of \$102,192; (7) Marion County Wastewater reduction of \$39,333; and (8) Orange County Water reduction of \$66,735. Combined, these result in an overall reduction to the Company's requested cash working capital for all systems of \$1,426,033, consistent with Staff's recommendation. (DERONNE)

FPSC: TESTIFYING STAFF'S POSITION: The following adjustments should be made to working capital allocated to the utility's operating systems to properly reflect an allocation based on year-end O & M expense after adjustments. (SMALL)

<u>County</u>	<u>Water</u>	<u>Wastewater</u>
Marion	(\$102,088)	(\$40,077)
Orange	(\$66,622)	\$0
Pasco	(\$209,314)	(\$226,517)

Pinellas	(\$23,415)	\$0
Seminole	(\$350,243)	(\$407,758)

NON-TESTIFYING STAFF'S POSITION: No position pending further development of the record.

ISSUE 8: If the Commission determines a system or a component of a system to be 100% used and useful in a prior case, is it obligated to keep that system 100% used and useful in a subsequent case?

POSITIONS

UIF: No. However, the burden is on the party recommending less than 100% to prove that the Commission legally erred in its decision or that the circumstances have changed from those in the previous case to such a great extent that the result is no longer valid. (SEIDMAN)

OPC: No. The Commission should reexamine each component of all utility systems in light of present day circumstances. For instance, there may have been changes or additions to the components of the utility system since the prior case. The former case finding of 100% used and useful may have been the result of erroneous calculations, or the former case may not have been contested in connection with the used and useful percentages. The reexamination of the used and useful percentage of each component should not prejudice the Utility since the current U/U calculations should confirm the prior case calculations if indeed a 100% U/U percentage was warranted. (BIDDY)

FPSC: The Commission should not be prohibited from determining a used and useful percentage in a current proceeding that is less than that found in a prior proceeding. However, the specific circumstances that cause the decrease in the used and useful should be fully explored in the current proceeding. Decreases as a result only from a decline in demand would not be an appropriate reason to lower used

and useful, but corrections of errors, increases in capacity, or changes in methodology should be considered. This is consistent with the Commission's decision in Order No. PSC-96-1320-FOF-WS, issued October 30, 1996, in Docket No. 950495-WS.

ISSUE 9: If a local jurisdiction requires fire flow, is the Commission obligated to give the Utility a fire flow allowance even if the system provides little or no fire flow?

POSITIONS

UIF: Yes, if the system provides fire flow and the utility requests fire flow consideration. (SEIDMAN)

OPC: No. The fire flow requirement by local jurisdictions applies to new systems and most utility systems which do not have adequate fire flow are seldom upgraded to provide the present day fire flow requirement. Therefore, if the Utility has not invested in additional water plant to provide the present day required fire flow, the Utility should not be given a gift of the additional demand of the required fire flow to be used in the numerator of the U/U calculation as additional flow, when in fact, there is no such flow and has not been since the system was started. Simply placing one or two fire hydrants near the wells where large lines exist and leaving the remainder of the system with small lines and no fire flow is not adequate reason to grant the system the fire flow required for new systems. Furthermore, some systems, with small lines and less than the required fire flow, install fire hydrants at the end of dead end lines as a substitute for blow off valves for cleansing the system of stale water at these dead ends. Such installations are common practices in subdivision developments. Obviously, such hydrants do nothing to add fire flow. (BIDDY)

FPSC: Yes. A fire flow allowance should be allowed if there is a local requirement to provide fire flow, fire hydrants

exist in the service area, and the utility has not been cited for failure to provide fire flow protection.

ISSUE 10: Should any of the UIF systems be considered as 100% used and useful because they are built out?

POSITIONS

UIF: Yes, assuming that the issue relates only to the distribution and collection systems, all of UIF's systems should be included as 100% used and useful because they are "built out" within the exception of the Summertree system in Pasco County and the Golden Hills/Crownwood system in Marion County. (SEIDMAN)

OPC: A system should be deemed to be built out when it is actually built out and the entire available ERCs are served by the utility system. As a practical matter, when a system becomes 98 to 100% used and useful for its available connections, the system could be said to be practically built out. But, the practice of calling a system "built out" when the used and useful percentage of the system is 70%, 80%, 85%, 90% or even 95% flies in the face of reason. The practice of the PSC Staff and this Utility in claiming such system to be "built out" and giving a 100% U/U percentage for such systems is simply wrong. Obviously systems with 5, 10, 15, 20, 25, 30 or more percentage capacity remaining are not built out and to claim such would be just a gift to the Utility.

The general practice of the PSC Staff is to examine the water distribution and collection systems and if found to have a high U/U percentage, to call these distribution and collection systems built out and therefore 100% used and useful. Even more disturbing is the practice to then automatically assign a 100% U/U percentage to the wells and treatment plants of these systems simply because the distribution and collection systems are found to have high U/U percentages. (BIDDY)

FPSC: A practical build out used and useful determination should incorporate multiple considerations such as actual

versus available connections, historical growth patterns, age of the system, prior Commission findings, minimum system sizing necessary to accommodate existing connections, private wells and septic tank exclusions to available connections, and single homes on multiple lots.

ISSUE 11: What methodology should be employed to calculate the used and useful percentages, and what are the appropriate used and useful percentages for the utility's water treatment systems, including source of supply and pumping, water treatment plants, and storage and high service pumping?

POSITIONS

UIF: The Commission does not have a rule that sets out a methodology to determine used and useful for water systems. In the instant case, for the purposes of determining used and useful, source of supply and pumping, water treatment plants and storage and high service pumping should be evaluated together, as a system. Used and useful should be calculated using the Commission's standard formula of dividing the sum of (peak demand + fire flow - excess unaccounted for water + property needed to serve five years after the test year) by the firm reliable capacity. Based on the availability of well capacity, storage capacity and high service pumping capacity, a determination should be made as to whether to evaluate peak demand on the basis of peak day (adjusted for anomalies), peak hour or instantaneous demand. The proper used and useful percentages are 100% for all systems. (SEIDMAN)

OPC: Each component of the Utility's water treatment systems should be separately considered and individual U/U percentages calculated. In general the sizing criteria determined by the Florida Department of Environmental Protection (FDEP) should be determined and then modified by a five year growth factor, fire flow if furnished and with any excessive unaccounted for water deducted. This size or capacity should then be compared to the actual existing size or capacity of each component. The

individual components and the appropriate U/U calculation methodology for each is as follows:

First, the source of supply and pumping should be evaluated in accordance with the FDEP rule for design of these facilities. This rule is a FDEP design guideline under Chapter 62-555.330 FAC, which sets forth Section 3.2.1.1 of the Recommended Standards for Water Works (*Ten States Standards*) as the governing rule. Section 3.2.1.1 of *Ten States Standards* states: "The developed groundwater source capacity shall equal or exceed the design maximum day demand and equal or exceed the design average day demand with the largest producing well out of service." (Firm Reliable Capacity)

From this rule, it is clear that two comparisons are required, namely Total Maximum Day Demand to Total Capacity and Average Day Demand to the Firm Reliable Capacity. It is obvious that the largest percentage of the two comparisons must be used to satisfy the Ten States Rule.

When computing the maximum day capacity and firm reliable capacity, the well pumping rate should be taken for the full 24 hour period since we are dealing with extreme cases of short duration and well pumps can operate at full flow for these periods. Modern pumps are guaranteed to run continuously for several thousand hours although these pumps are rarely running continuously since controls shut the pumps off for brief periods when enough pressure exists in the distribution system. This 24 hours of flow during the limited time that the largest well is down for repairs causes no harm to the aquifer. The wells are designed and developed to operate at full capacity with limited draw-down for several days. There is therefore no reason to restrict the flow from these wells to a 12 hour or other arbitrary period of time. Such a restriction results in an arbitrary understatement of the capacity of the wells, which causes an unjustified overstatement of the used and useful percentages.

In determining the maximum day flow, it is always better to use the average of the five maximum days of the

maximum month. This average helps you avoid anomalies such as fire flow and leaks and better represents the true maximum day flow.

The demand in these U/U calculations must be modified by three factors. Florida Statutes require a five year growth factor to be included in the demand. An appropriate fire flow should be added if fire flow is furnished, and up to a 10% allowance for unaccounted for water is also permitted. All of these additions should put to rest any objection that OPC is only obtaining the minimum capacities by use of the Ten States Rule. It should be noted that there is nothing in this mandatory FDEP sizing rule that requires consideration of instantaneous flows or other peaked flows.

Secondly, water treatment plants should also have their U/U percentages calculated by considering the FDEP rule for sizing such facilities in comparison to the existing maximum capacity. The FDEP rule requires the Water Treatment Plant to be designed for Maximum Day Flow plus whatever other demands are on the system. Therefore, to calculate a proper U/U percentage, the Maximum Day demand modified by other factors such as 5 years growth, fire flow and adjusted for excessive unaccounted for water should be compared to the Maximum Day Capacity. Again, as stated above, the average of the 5 max days of the max month should be used for Maximum day capacity.

Notice again that the FDEP rule for sizing of Water Treatment Plants says nothing about consideration of instantaneous flows or other peaked flows. The growth capacity added along with fire flow and allowing up to 10% unaccounted for water should be considered as furnishing these peak flows for systems without storage and high service pumping. Peak flows should be furnished by system storage and high service pumping. Customers should not be forced to pay for vastly oversized well and pumping facilities because the Utility fails to provide proper water storage. Oversized wells and pumping is not an efficient or cost effective way to provide for peak flows.

Furthermore, changing water use patterns and the trend towards water conservation are serving to decrease the peak flows of these water systems. For example, in the present case, the water use per ERC in these 22 systems varies from about 67 GPD/ERC to about 305 GPD/ERC with the average being 211 GPD/ERC. These low values of consumption do not justify artificial and inordinately large instantaneous or peaked flow considerations when determining system demands.

Thirdly, for storage facilities, a comparison to FDEP design guidelines should control. The FDEP recognizes both American Water Works Association (AWWA) and Ten States Standards guidelines for storage facilities and these criteria should both be evaluated for the storage facilities.

As discussed above AWWA Manual 32 suggests that equalization storage is about 20 to 25 percent of the Average Day Flow (ADF). Fire storage is to be included if fire flow is provided. Emergency storage is an owner's option and is not required. Ten States Standards requires fire flow storage if fire flow is provided. Ten States sets up a minimum storage equal to ADF for systems not providing fire flow. This requirement may be reduced when the source of supply and treatment facilities have sufficient capacity with standby power to supplement peak demands of the system. Emergency storage is not mentioned in this reference.

When the system is furnishing fire flow, half ADF of storage is used in the test formula developed below. That amount is more than adequate for peak hour demand storage compared to the 20 to 25 percent ADF suggested in the AWWA M32. The one day ADF storage criteria mentioned in Ten States Standards was reduced to one half day because MDF design was used for supply wells and all wells are required to have emergency power. Fire storage was used. No emergency storage was included. Considering all the guidelines, the following U/U formulas for storage facilities have been developed by OPC.

For systems without fire flow:

$$U/U = \text{One Day ADF} / \text{Total System Capacity}$$

For Systems with Fire Flow:

$$U/U = (1/2 \text{ ADF} + \text{FF}) / \text{Total System Capacity}$$

The ADF in the above formulas is of course adjusted for 5 years growth and for any excessive unaccounted for water. The U/U calculation rationale for storage facilities should not be an issue since OPC found all storage facilities to be 100% used and useful.

Finally for high service pumping, the same rationale and methodology of calculating used and useful percentages should be used as stated above for Source of Supply and Pumping. This Ten States Rule also applies for sizing of High Service Pumping.

Detailed discussion of OPC's methodology for determining the U/U percentages for each component can be found in Exhibit TLB-2. The appropriate U/U percentages for all components are calculated in detail in Exhibit TLB-3. (BIDDY)

FPSC: The used and useful methodology set forth in FPSC Exhibit ____ (RPR-2), should be used for calculating the proper amount of used and useful.

For systems with storage, the single maximum day flow during the test year as reflected in the utility's DEP monthly operating reports should be used unless it appears that some extraordinary event occurred during the period, such as a main break or a fire. If such an anomaly is believed to have occurred during the test period, the average of the five highest days within a 30 day period during the test year should be used. When computing the maximum day and firm reliable capacity, the well pumping rates should be for 12 hour days.

For systems with little or no storage, the demand should be based on a peak hour instead of a peak day.

The Commission has consistently recognized the need for fire flow protection and considers it in its determination of used and useful.

Based on FPSC Exhibit ____ (RPR-2), the UIF water systems in Seminole, Pinellas, and Orange Counties and all of the water systems in Pasco County except Summertree should be considered 100% used and useful because the service territories are built out. Based on FPSC Exhibit ____ (RPR-2), AWWA standards, and the Ten State Standards, Summertree in Pasco County and Golden Hills in Marion County are 100% used and useful.

The UIF water treatment systems in Marion, Seminole, Pinellas, Orange, and Pasco Counties are 100% used and useful. The UIF water distribution systems in Marion, Seminole, Pinellas, Orange, and Pasco Counties are 100% used and useful. (REDEMANN)

ISSUE 12: What methodology should be employed to calculate the used and useful percentages, and what are the appropriate used and useful percentages for the utility's wastewater treatment plants?

POSITIONS

UIF: The appropriate methodology is set forth in FPSC Rule 25-30.432, F.A.C. Based upon that methodology the Crownwood wastewater treatment plant is 68.72% used and useful and 100% for the others. (SEIDMAN)

OPC: The settled Commission policy has been to compare the wastewater plants actual flow rates to the FDEP permitted flow rate, with its plant flow rate being on the same basis as shown in the FDEP permit. In other words, if the FDEP permit basis is annual average daily flow (AADF), then the test year AADF should also be used. This rationale insures that both the numerator and denominator of the used and useful formula are arrived at from the same basis and that like quantities are being compared. Comparing flows arrived at from a different basis would be mathematically meaningless. The actual

formula is expressed as a fraction, with the test year flow plus the five years growth divided by the FDEP permitted flow, with the test year flow being adjusted for any excessive inflow and infiltration. This methodology is discussed in detail in OPC Exhibit ____ (TLB-2). The actual calculations and used and useful percentages of the Utility's wastewater plants is provided in OPC Exhibit ____ (TLB-3). OPC witness Bidy also discusses in some detail the complete removal of three wastewater plants from plant in service or alternatively considering them 100% nonused and useful because they have been completely taken off line and are no longer in service.

The impact of Citizens recommended non-used and useful percentages on net plant in service and depreciation expense, along with the schedule number references in OPC Exhibit__ (DD-1) for each county in which the calculations are presented, is provided below: (BIDDY, DERONNE)

	Sch. Nos.	Net PIS	Deprec. Exp.
Crownwood Sewer (Marion)	C-4/ B-6	\$ (6,458)	\$ (1,347)
WisBar Wastewater (Pasco)	C-4	\$ (467)	\$ (15)
Summertree W/W Treatment Plant (Pasco) - Remove 100%	C-3	\$(158,495)	\$ (6,760)
Summertree Wastewater (Pasco)	C-4	\$ (99,330)	\$ (3,693)
Weathersfield W/W Treatment Plant (Seminole) - Remove 100%	C-3	\$ (63,679)	\$ (4,723)
Weathersfield Wastewater (Seminole)	C-5	\$ (19,746)	\$ (914)

	Sch. Nos.	Net PIS	Deprec. Exp.
Lincoln Heights W/W Treatment Plant (Seminole) - Remove 100%	C-4	\$(316,403)	\$(11,148)
Ravenna Park/Lincoln Heights Wastewater (Seminole)	C-5	\$ (29,341)	\$ (729)

FPSC: In calculating the used and useful percentages for wastewater treatment plants, Rule 25-30.432, Florida Administrative Code, should be used. The Crownwood wastewater plant in Marion County is 68.65% used and useful. (REDEMANN)

ISSUE 13: What methodology should be employed to calculate the used and useful percentages, and what are the appropriate used and useful percentages for the utility's water distribution and wastewater collection systems?

POSITIONS

UIF: The Commission does not have a rule that sets out a methodology to determine used and useful for distribution and collection systems. Typically, the Commission evaluates the relationship of lots on which customers exist or have existed to lots to which service is available, on a case by case basis, with due regard to growth and the system configuration. (SEIDMAN)

OPC: The Commission has a long standing methodology for computing the used and useful percentages of water distribution and wastewater collection systems. The methodology requires a comparison of the total connected equivalent residential connections (ERCs) to the total ERCs available for service. The relationship is expressed as a fraction with the total connected lots in the numerator plus 5 years growth divided by the total available ERC's. This methodology is discussed in detail in Exhibit TLB-2. The actual used and useful

calculations for each of the systems is provided in Exhibit TLB-3. (BIDDY)

FPSC: Staff agrees with the methodology posed by OPC, with the exception of a built-out system, and/or a system that is wholly contributed, where no methodology would be employed and the system would be 100% used and useful. All water distribution and wastewater collection systems are 100% used and useful. (REDEMANN)

ISSUE 14: What is the appropriate rate base?

POSITIONS

UIF: The appropriate rate base is a fall-out issue subject to the resolution of other issues.

OPC: This is a fall-out issue impacted by other issues.

FPSC: The appropriate rate base is subject to the resolution of all other rate base issues.

COST OF CAPITAL

ISSUE 15: What is the appropriate cost rate for short-term debt?

POSITIONS

UIF: The appropriate cost rate for short-term debt is 5.18%. (LUBERTOZZI)

OPC: The cost of the company's short-term debt should be 2.0%. (CICCHETTI)

FPSC: The appropriate cost rate for short-term debt should be 5.18%. (WELCH)

ISSUE 16: What is the appropriate return on equity (ROE) for UIF?

POSITIONS

UIF: Return on equity should be established in accordance with the leverage formula, and which Public Counsel has stipulated to in prior Class A utility rate cases. (AHERN)

OPC: Because UIF is a significantly larger than average water and wastewater utility in Florida, witness Cicchetti recommends the Commission apply the leverage formula without the third adjustment of 50 basis points for small size. Two adjustments for small size will remain, the 40 basis point bond-yield-differential adjustment to recognize the difference in size between the companies in the indexes used to calculate the cost of equity and UIF, and the 50 basis point private-placement premium to recognize that investors require a liquidity premium to hold privately placed debt. Although many Florida water and wastewater utilities are small, they are still regulated entities and have lower risk than similar non-regulated utilities. Applying the leverage formula after making witness Cicchetti's 50 basis point adjustment yields an appropriate ROE range of 9.41 to 11.41%.

Citizens recommend that revenue requirement be based on the low end of its recommended range of 9.41%, as discussed further in Issue No. 37. (CICCHETTI)

FPSC: The ROE should be calculated based on the leverage formula in effect at the time of the Commission's final decision in this docket.

ISSUE 17: Should UIF's ROE be lowered as a penalty to reflect the quality of its books and records?

POSITIONS

UIF: No, this issue had been addressed in the recent Cypress Lakes Utility rate case. (LUBERTOZZI)

OPC: Citizens recommend that revenue requirement be based on the low end of its recommended range of 9.41%, as discussed further in Issue No. 47. Citizens' recommended overall rate of return calculated based on the mid-point of the ROE range and the low-point of the range (which is Citizens' primary recommendation) for each county is presented below: (CICCHETTI, DERONNE)

County	ROR based on Mid-point of ROE range	ROR based on Low-point of ROE Range (Recommended)
Marion	8.17%	7.76%
Orange	8.07%	7.68%
Pasco	8.17%	7.77%
Pinellas	8.16%	7.76%
Seminole	8.17%	7.77%

FPSC: No position pending further development of the record.

ISSUE 18: What is the appropriate cost of overall rate of return for water and wastewater for each county?

POSITIONS

UIF:

County	Rate of Return (Water) (%)	Rate of Return (Wastewater) (%)
Marion	9.34%	9.34%
Orange	9.10%	
Pasco	9.27%	9.29%
Pinellas	9.19%	
Seminole	9.27%	9.29%

(LUBERTOZZI)

OPC: With the exception of the rate of return on equity used by Staff, Citizens agrees with the recommendations made by Staff in Audit Exception 16. OPC Exhibit__ (DD-1) for each County, Schedule Nos. D-1, presents the calculation of the overall rate of return for each county based on Staff's recommendations, however, with the OPC's recommended rate base incorporated in the calculations and OPC's recommended rate of return on equity. These schedules (Schedule Nos. D-1) present the components of the capital structure, along with the appropriate cost rates.

Citizens' recommended overall rate of return calculated based on the mid-point of the ROE range and the low-point of the range (which is Citizens' primary recommendation) for each county is presented below: (CICCHETTI, DERONNE)

County	ROR based on Mid-point of ROE range	ROR based on Low-point of ROE Range (Recommended)
Marion	8.17%	7.76%
Orange	8.07%	7.68%
Pasco	8.17%	7.77%
Pinellas	8.16%	7.76%
Seminole	8.17%	7.77%

FPSC: The appropriate rate of return is subject to the resolution of other issues.

NET OPERATING INCOME

ISSUE 19: What is the appropriate amount of test year revenues?

POSITIONS

UIF: The appropriate amount of test year revenues is subject to resolution of other issues.

OPC: This is a fallout issue subject to the resolution of other issues.

FPSC: The appropriate amount of test year revenues is subject to the resolution of other issues.

ISSUE 20: What adjustment, if any, should be made to operation and maintenance expense to normalize purchase water expense for the Oakland Shores system in Seminole County?

POSITIONS

UIF: No adjustments should be made. (LUBERTOZZI)

OPC: The Company's Oakland Shores water system in Seminole County treats its own water, but has an automatic interconnection with the City of Altamonte Springs. Test year purchase water expense for the Oakland Shores system should be reduced by \$1,632 to reflect a normalized level. (OPC Exhibit__ (DD-1) - Seminole County, Schedule B-5) (DERONNE)

FPSC: No position pending further development of the record.

ISSUE 21: What adjustment, if any, should be made to uncollectible expense to reflect a normalized level for the Weathersfield water system in Seminole County?

POSITIONS

UIF: No adjustments should be made. (LUBERTOZZI)

OPC: Test year uncollectible expense for the Weathersfield water system in Seminole County should be reduced by \$538 to reflect the four-year average, normalized expense level. (OPC Exhibit__ (DD-1) - Seminole County, Schedule B-8) (DERONNE)

FPSC: No position pending further development of the record.

ISSUE 22: What adjustments, if any, should be made to the utility's operation and maintenance expense with respect to amounts allocated from WSC?

POSITIONS

UIF: Accepts the staff's adjustments. (LUBERTOZZI)

OPC: The Company was unable to document how it determined the single family equivalent statistic which is the foundation for the customer equivalent allocation factor. It was unable to produce ERC information to allow the Staff auditors to evaluate the reasonableness of the allocation method. UIF has failed to meet its burden of proof concerning the costs allocated from WSC. UIF did not comply with the Commission's rules concerning the minimum filing requirements for affiliate transactions. Accordingly, the Commission should disallow all costs associated with charges from WSC. These adjustments are reflected on Exhibit KHD-1, Schedule 1. The total disallowance for all systems is \$149,189.

OPC's recommended adjustments for UIF Office charges are reflected on Exhibit KHD-1, Schedules 1 and 11. OPC adjustments are as follows:

	Seminole		Marion		Pasco		Orange	Pinellas
	Water	Sewer	Water	Sewer	Water	Sewer	Water	Water
Expense Allocations from UIF	\$(1,628)	\$(882)	\$(822)	\$(123)	\$785	\$246	\$(235)	\$2,659

(DISMUKES)

FPSC: The utility's common costs which are allocated to the UIF systems are overstated by \$88,560, consisting of \$50,167 removed from Cost Center 600, and \$38,393 in amounts allocated from Water Service Corporation (WSC). Additionally, the utility's allocations are materially misstated because of errors in the calculation of its Customer Equivalent percentages for these systems. The following adjustments should be made. (SMALL, WELCH)

<u>Operation and Maintenance Expense</u>		
<u>County</u>	<u>Water</u>	<u>Wastewater</u>
Marion	(7,304)	(1,037)
Orange	(2,753)	0
Pasco	(14,066)	2,535
Pinellas	(9,310)	0
Seminole	(36,824)	(19,800)

ISSUE 23: Should adjustments be made to the amount of salaries, pensions and benefit expense and payroll taxes included in the Company's MFR filing?

POSITIONS

UIF: Yes, agree with the staff's adjustments. (LUBERTOZZI)

OPC: Yes, several adjustments to the salary expense, pension and benefit expense and payroll tax expense are necessary to: (1) correct errors in the calculations included in the MFR filings; (2) reflect the impact of actual salary increases granted instead of overstated estimates included in MFR filings; (3) reflect updated employee levels and positions; (4) reflect that a portion of the increase in salaries and wages would be capitalized instead of expensed; and (5) reflect the allocation of office salaries, benefits and payroll taxes to each of the county systems based on the allocation percentages recommended by the OPC. The updated salary, benefits and

payroll tax calculations provided by the Company in response to Citizens' Interrogatory No. 144 should be used in calculating the appropriate expense levels, with a few revisions. The salary for an open position included in the Company's response should be removed, and the allocation to UIF for one of the employees needs to be corrected. Additionally, the allocations to each county system should be revised based on Citizens' recommended allocation factors, and a portion of the increase from the test year salary level needs to be capitalized. The OPC's revisions do not reflect the slight revisions made by the Company for salaries allocated from WSC, as Citizens have recommended in another issue that all costs allocated from WSC be removed.

The table below presents a summary of the revisions to the salary and wage expense, benefit expense and payroll tax expense included in the Company's MFR filing by each County system. These adjustments can be found at OPC Exhibit__ (DD-1), Schedules B-2, B-3 and B-4, respectively, for each county. (DERONNE)

	Payroll Expense Adjustment	Benefit Expense Adjustment	Payroll Tax Adjustment
Marion - Water	(\$587)	(\$335)	(\$213)
Marion - Wastewater	(\$86)	(\$50)	(\$32)
Orange - Water	(\$3,251)	(\$695)	(\$455)
Pasco - Water	(\$568)	\$1,259	\$394
Pasco - Wastewater	(\$177)	\$393	\$123
Pinellas - Water	(\$21,550)	(\$3,318)	(\$1,496)
Seminole - Water	(\$7,574)	\$58	(\$255)
Seminole - Wastewater	(\$4,088)	\$33	(\$138)

FPSC: TESTIFYING STAFF'S POSITION: Yes. Salaries, and pension and benefit expenses should be adjusted as follows.
 (SMALL)

<u>System</u>	<u>Salary Expense</u>	<u>Pension & Benefit Expense</u>
Marion-Water	(\$3,206)	(\$814)
Marion-WW	(\$465)	(\$118)
Orange-Water	(\$2,945)	(\$748)
Pasco-Water	\$15,153	\$3,576
Pasco-WW	\$6,476	\$1,560
Pinellas-Water	(\$23,315)	(\$5,920)
Seminole-Water	\$8,666	\$2,199
Seminole-WW	\$4,698	\$1,191

The utility's payroll tax expense should be adjusted as follows for reallocations and corrections of errors:
 (SMALL)

<u>County</u>	<u>Water</u>	<u>Wastewater</u>
Marion	(\$477)	(\$69)
Orange	(\$438)	\$0
Pasco	\$1,994	\$883
Pinellas	(\$3,472)	\$0
Seminole	\$1,289	\$698

NON-TESTIFYING STAFF'S POSITION: Adjustments are necessary to correct test year salaries, but the final adjustments are subject to further development of the record.

ISSUE 24: What adjustments, if any, should be made to the utility's O & M expense in Seminole County with respect to the wastewater interconnection with the City of Sanford?

POSITIONS

UIF: Accepts the staff's position. (LUBERTOZZI)

OPC: During the historic test year, on July 1, 2001, the Company's Lincoln Heights wastewater treatment plant in Seminole County was removed from service. Staff Audit Exception 23, which reduces the Seminole County wastewater O&M expense included in the MFR filing by \$80,751, annualizes the impact on O&M expense due to the resulting wastewater interconnection with the City of Sanford and corrects the adjustments included in the Company's MFRs for the annualizations of the purchase wastewater treatment expense. The annualized purchased wastewater expense included by Staff in its calculations supporting Audit Exception 23 should be decreased an additional \$7,451, resulting in a net reduction for this issue of \$88,202.

The Commission's audit staff used a 14-month average purchased wastewater treatment expense using the period July 2001 through August 2002 to calculate a 12-month average total purchase wastewater treat expense of \$142,086. However, the July 2001 and August 2001 amounts that were included in Staff's calculation is not reflective of normal operating conditions or normal monthly expense levels. Consequently, the annualized purchase wastewater treatment expense should be recalculated based on the actual expense incurred during the twelve-month period from September 1, 2001 through August 31, 2002 to reflect a normal, on-going level. The additional adjustment is calculated in OPC Exhibit__ (DD-1) for Seminole County, Schedule B-9. (DERONNE)

FPSC: O & M expense for Seminole County should be reduced by \$80,751 to reflect the effects of the interconnection of the Lincoln Heights/Ravenna wastewater system with the City of Sanford system, and the commencement of an

agreement to purchase wastewater treatment from the City of Sanford. (SMALL)

ISSUE 25: What is the appropriate amount of rate case expense?

POSITIONS

UIF: The total as per the rebuttal update and the most recent information to be provided as a late-filed exhibit in this case. (LUBERTOZZI)

OPC: OPC recommends that the Commission disallow a substantial amount of the rate case expense requested in this proceeding. UIF has been unable to produce reliable and accurate MFRs. It took UIF four tries to get its MFRs accurate. In addition, its responses to OPC's discovery have been inadequate and often extremely late. The Company filed numerous revisions to its MFRs. The costs associated with the deficiencies in the Company's MFRs and discovery responses should not be borne by ratepayers. Instead, these costs should be absorbed by the stockholders of UI. UI is the largest privately held water and wastewater company operating in the United States. The extent of the errors in the MFR filings should not be tolerated by the Commission and the costs should not be borne by ratepayers. It is the intention of OPC to provide a recommendation on the subject of rate case expense once complete documentation is submitted by the Company, therefore, OPC reserves the right to update its position once complete documentation is provided. In the interim, OPC recommends that the Commission should disallow a substantial portion of UIF's requested rate case expenses. Of the total rate case expense of \$404,090, OPC recommends that \$303,090 be disallowed. (DISMUKES)

FPSC: Only prudently incurred rate case expense should be allowed. Further, rate case expense associated with correcting errors and revising MFRs should be disallowed. The final amount is subject to further development of the record.

ISSUE 26: Does UIF have excessive unaccounted for water and if so, what adjustments should be made?

POSITIONS

UIF: Only the Pasco-Orangewood, Pasco-Summertree and Pinellas-Lake Tarpon systems have excessive unaccounted for water. The excess percentages are 5.0%, 3.7%, and 8.1%, respectively. The electric, chemical and purchased water expense of the respective counties should be adjusted to reflect the relative impact of the related systems. (SEIDMAN, ORR, FLYNN)

OPC: Yes. The Citizens analyzed the flow records for each of the 17 water systems by subtracting the "Total Water Sold" and other permitted uses such as fire flows, line flushing, etc. from the "Total Water Pumped" and divided this difference by the "Total Water Pumped." This value yields the total percentage for unaccounted for water in each system. These calculations revealed that 10 out of the 17 water systems had unaccounted for water during the test year in excess of 10% with one as high as 22%. Historically, unaccounted for water in excess of 10% has been considered by the Commission to be excessive and appropriate to be deducted from the "demand" when calculating the used and useful percentages for a water system. The excessive unaccounted for water was deducted from the demand in all of Mr. Bidy's used and useful calculations contained in TLB-3.

The excessive unaccounted for water percentages should be applied to the test year chemical, purchased power and purchased water expense for the applicable systems. OPC's recommended adjustment to reflect the impact of excessive unaccounted for water is presented in Exhibit__ (DD-1) for each County, resulting in: (1) a \$1,465 reduction to Marion County expenses (Marion Schedule B-7); (2) a \$987 reduction to Pasco County expenses for the Summertree and Orangewood water systems (Pasco Schedule B-5); (3) a \$751 reduction to Pinellas County expenses (Pinellas Schedule B-6); and (4) a \$285 reduction to Seminole County expenses for the Little

Wekiva, Weathersfield, Phillips and Ravenna Park water systems (Seminole Schedule B-6). (BIDDY, DERONNE)

FPSC: UIF has excessive unaccounted for water in Seminole and Orange Counties, but the amount is immaterial or the utility is addressing the problem. UIF has excessive unaccounted for water in Golden Hills/Crownwood (12.2%) in Marion County, Orangewood (7.5%), Summertree (6.2%) in Pasco County, and Lake Tarpon (10.6%) in Pinellas County. The electrical and chemical expenses for those systems should be reduced. For the Golden Hills/Crownwood water system, a reduction of \$140.42 should be made to Account No. 618 Chemicals and a reduction of \$1,325.03 should be made to Account No. 615 Purchased Power. The total excessive unaccounted for water for the Pasco County water systems is 4.49%. Therefore, a reduction of \$210.99 should be made to Account No. 618 Chemicals and a reduction of \$699.90 should be made to Account No. 615 Purchased Power. For the Lake Tarpon water system, a reduction of \$22.32 should be made to Account No. 618 Chemicals and a reduction of \$271.81 should be made to Account No. 615 Purchased Power. (REDEMANN, YINGLING)

ISSUE 27: Does UIF have excessive infiltration/inflow in any of its wastewater systems, and if so, what adjustments should be made?

POSITIONS

UIF: Yes. The only inflow and infiltration problem is in the Ravenna Park/Lincoln Heights wastewater system in Seminole County. Any adjustments should be offset by the cost of the inflow and infiltration investigation of \$25,000, amortized over 3 years. (SEIDMAN, LUBERTOZZI, ORR, FLYNN)

OPC: Yes. 4 of the 5 wastewater systems had inflow and infiltration (I/I) considerably in excess of 10%, which is about the limit of I/I that should be allowable. Only the Wis-Bar system was found to have less than 10% I/I. With the assumption that 80% of total water sold is

approximately the amount of water returned to the system in the form of wastewater, witness Bidly subtracted 80% of the total water sold from the total amount of wastewater treated. The value obtained was then divided by the total wastewater treated to obtain a percentage that represents the approximate I/I. The Summertree system was found to have 25.62% I/I; the Ravenna Park/Lincoln Heights system was found to have 21.47% I/I; the Weathersfield system was found to have 11.23% I/I; and the Golden Hill/Crownwood system was found to have 11.43% I/I. The calculations in Exhibit TLB-6 show the excessive I/I percentages. Since 3 of the 4 wastewater systems with excessive I/I have no wastewater treatment plant, the excessive I/I percentage should be applied to the operational costs of pumping the wastewater to others for treatment and to the cost of purchased treatment.

The application of Citizens' recommended excessive Inflow & Infiltration percentages to the test year purchase power and purchased sewage treatment expense for the systems is calculated in Exhibit__ (DD-1) for each county, resulting in the follow adjustments: (1) a \$12,730 reduction to Pasco County expense for the Summertree wastewater system (Pasco Schedule B-6); and (2) a \$30,122 reduction to Seminole County expense for the Weathersfield and Ravenna Park/Lincoln Heights wastewater systems (Seminole Schedule B-7). (BIDDY, DERONNE)

FPSC: Yes. The utility has an infiltration/inflow problem in the Ravenna Park/Lincoln Heights wastewater system in Seminole County. An adjustment should be made to Account No. 710 Purchased Sewage Expense in Seminole County for excessive infiltration/inflow to remove \$45,478. (REDEMANN)

ISSUE 28: Is there a gain on sale with respect to the sale of the Druid Isle water system and of a portion of the Oakland Shores water system to the City of Maitland and/or with respect to the sale of the Green Acres Campground water and wastewater facilities to the City of Altamonte Springs, and if so, in what amounts?

POSITIONS

UIF: Yes. The prior Order of this Commission set forth those amounts. (LUBERTOZZI)

OPC: Yes. The amount of the gain on sale is \$67,695 for the Druid Isle sale and \$269,662 for the Green Acres sale. The amount for Druid Isle is slightly more than the amount previously found reasonable by the Commission because UIF was unable to provide support for \$14,566 of legal costs which it had used to reduce the gain on sale. Therefore, OPC recommends that the selling costs for the Druid Isle sale be reduced by \$14,566. This reduction produced a gain on sale of \$67,695 for Druid Isle compared to the \$ 61,669 found reasonable by the Commission in Order No. PSC-99-21721-FOF-WU. (CICCHETTI, DISMUKES)

FPSC: Yes. Pursuant to Order No. PSC-02-0657-PAA-WU, the City of Maitland sale resulted in a gain of \$61,669. Pursuant to Order No. PSC-02-0657-PAA-WU, the City of Altamonte Springs sale resulted in a gain of \$269,661.

ISSUE 29: Should gains or losses on the sale of utility assets be included in cost of service for rate setting purposes?

POSITIONS

UIF: No. (GOWER)

OPC: Yes. The Commission should require UIF to amortize the total gain of \$337,357 above-the-line for current ratemaking purposes. OPC recommends that the Commission amortize the gain over five years. The five-year amortization period is consistent with the Commission's treatment of other gains on sale. Therefore, test year income should be increased by \$67,471. OPC recommends that the gain on sale be spread across of the UIF systems as shown on Schedule 3 of Exhibit KHD-1. (CICCHETTI, DISMUKES)

FPSC: The answer to this question should be determined on a case by case basis. With respect to whether any gain on sale should be included in cost of service in this rate case, staff takes no position pending further development of the record.

ISSUE 30: What is the test year operating income before any revenue increase?

POSITIONS

UIF: The appropriate operating income before revenue increase is subject to the resolution of other issues.

OPC: This is a fall-out issue impacted by the resolution of other issues.

FPSC: The appropriate operating income before revenue increase is subject to the resolution of other issues.

ISSUE 31: What is the appropriate revenue requirement?

POSITIONS

UIF: The appropriate revenue requirement is subject to the resolution of other issues.

OPC: This is a fall-out issue impacted by the resolution of other issues.

FPSC: The appropriate revenue requirement is subject to the resolution of other issues.

RATES AND RATE STRUCTURE

ISSUE 32: What are the appropriate bills, ERCs and gallons to be used to set water and wastewater rates for the 2001 test year?

POSITIONS

UIF: No position at this time. (LUBERTOZZI)

OPC: No position at this time.

FPSC: No position at this time pending further development of the record. (LINGO)

ISSUE 33: Is the utility's proposed rate consolidation for Pasco and Seminole Counties appropriate, and if not, what if any rate consolidation is appropriate for those counties?

POSITIONS

UIF: There is sufficient information either to calculate consolidated rates or stand-alone rates in Pasco or Seminole County. (LUBERTOZZI)

OPC: No position at this time.

FPSC: TESTIFYING STAFF'S POSITION: No. Based upon review and analysis of the information provided by the utility, there is insufficient information either to calculate consolidated rates or stand-alone rates in Pasco or Seminole County. Therefore, there should be no rate increase with respect to the systems in those Counties. (LINGO)

NON-TESTIFYING STAFF'S POSITION: No position pending further development of the record.

ISSUE 34: What are the appropriate rates for water service for this utility?

POSITIONS

UIF: The appropriate water rates are subject to the resolution of other issues.

OPC: This is a fallout issue subject to the resolution of other issues.

FPSC: The appropriate water rates are subject to the resolution of other issues.

ISSUE 35: What are the appropriate rates for wastewater service for this utility?

POSITIONS

UIF: The appropriate water rates are subject to the resolution of other issues.

OPC: This is a fallout issue subject to the resolution of other issues.

FPSC: The appropriate wastewater rates are subject to the resolution of other issues.

ISSUE 36: 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?

POSITIONS

UIF: The amount of the rate reduction is subject to the resolution of other issues.

OPC: This is a fallout issue subject to the resolution of other issues.

FPSC: The amount of the rate reduction is subject to the resolution of other issues.

ISSUE 37: Should the utility be required to show cause, in writing within 21 days, why it should not be fined for its apparent violation of Rule 25-30.115, Florida Administrative Code, and Order No. PSC-97-0531-FOF-WU, issued May 9, 1995, in Docket No. 960444-WU, for its failure to maintain its books and records in conformance with the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts?

POSITIONS

UIF: No, this issue had been addressed in the recent Cypress Lakes Utility rate case. (LUBERTOZZI)

OPC: Non-compliance with Commission Rule No. 25-30.115 has been a long-standing issue with Utilities, Inc. and its utility systems. In addition to the Order cited in the question above, this issue has also been addressed for Utilities, Inc. and its utility systems in Order Nos. PSC-00-2388-AS-WU issued December 13, 2000, PSC-00-1528-PAA-WU issued August 23, 2000, PSC-95-0574-FOF-WS issued May 9, 1995; PSC-96-0910-FOF-WS issued July 15, 1996; and PSC-98-0524-FOF-SU issued April 16, 1998. Considering the long-standing problems and the lack of progress in addressing these problems, Citizens recommend that the Commission adopt an authorized return on equity based on the low-end of the return on equity range instead of the midpoint of the ROE range. Based on the return on equity range recommended by Citizens' witness Mark Cicchetti, this results in an ROE of 9.41% for determining the appropriate revenue requirement in this case. The adoption of the low-end of the range of reasonableness would provide a needed incentive for the Company to improve its books and records and to come into compliance with the Commission's Rules and the NARUC Uniform System of Accounts. This utility has demonstrated time and again that the much needed improvements will not occur absent a penalty or substantial incentive to do so. In the Company's next rate case

proceeding, the Commission could then revisit this issue and if, at that future date, the Company has adopted the much needed improvements in its accounting records, then the return on equity could be set at the mid-point of the range of reasonableness. (DERONNE)

FPSC: No position at this time pending further development of the record.

ISSUE 38: Should the docket be closed?

POSITIONS

UIF: If the Commission's final order is not appealed, this docket should be closed upon the expiration of the time for filing an appeal.

OPC: Not until the case has been concluded. (DERONNE)

FPSC: If the Commission's final order is not appealed, this docket should be closed upon the expiration of the time for filing an appeal.

X. EXHIBIT LIST

<u>Witness</u>	<u>Proffered</u> <u>By</u>	<u>I.D. No.</u>	<u>Description</u>
	<u>Direct</u>		
Steven M. Lubertozzi	UIF	_____	Composite MFRs
		SML-1 (as amended)	
	"	_____	Billing Analysis
		SML-2	Schedules
Frank Seidman	"	_____	List of Systems
		FS-1	Evaluated
	"	_____	Summary Description
		FS-2	of Each Water and/or Wastewater System, By County

<u>Witness</u>	<u>Proffered</u> <u>By</u>	<u>I.D. No.</u>	<u>Description</u>
	"	FS-3	Summary - Used and Useful Percentages
Ted L. Bidy	OPC	TLB-1	Resume
	"	TLB-2	Used & Useful Calculation Rationale
	"	TLB-3	Used & Useful Calculations
	"	TLB-4	Unaccounted for Water Calculations
	"	TLB-5	Analysis of Plant in Service Amounts
	"	TLB-6	Excessive I/I Calculations
	"	TLB-7	Fire Flow Test Data
	"	TLB-8	Analysis of Cases Cited by Utility as Supporting Instantaneous Flows for U/U Calculations
Donna DeRonne	"	Appendix 1	Qualifications of Donna DeRonne, C.P.A.
	"	DD-1 (Orange County)	A-1 Calculation of Water Revenue Requirement B-1 Schedule of Adjustments to Operating Income

<u>Witness</u>	<u>Proffered</u> <u>By</u>	<u>I.D. No.</u>	<u>Description</u>
			B-2 Salary & Wage Expense - Revision & Reallocation
			B-3 Employee Benefits Expense - Revision & Reallocation
			B-4 Payroll Tax Expense - Revision & Reallocation
			B-5 Interest Synchronization
			B-6 Income Tax Expense
			C-1 Schedule of Water Rate Base
			C-2 Non-Used & Useful Net Plant in Service - Crescent Heights
			D-1 Rate of Return
			A-1 Calculation of Water Revenue Requirement
			A-2 Calculation of Sewer Revenue Requirement
			B-1 Schedule of Adjustments to Operating Income

"

DD-1
 (Pasco
 County)

<u>Witness</u>	<u>Proffered</u> <u>By</u>	<u>I.D. No.</u>	<u>Description</u>
			B-2 Salary & Wage Expense - Revision & Reallocation
			B-3 Employee Benefits Expense - Revision & Reallocation
			B-4 Payroll Tax Expense - Revision & Reallocation
			B-5 Excessive Lost & Unaccounted for Water
			B-6 Excessive Inflow & Infiltration Expense
			B-7 Interest Synchronization
			B-8 Income Tax Expense
			C-1 Schedule of Water Rate Base
			C-2 Schedule of Sewer Rate Base
			C-3 Removal of Summertree Wastewater Treatment Plant

<u>Witness</u>	<u>Proffered</u> <u>By</u>	<u>I.D. No.</u>	<u>Description</u>
			C-4 Non-Used & Useful Net Plant in Service
	"		D-1 Rate of Return
		<u>DD-1</u> (Pinellas County)	A-1 Calculation of Water Revenue Requirement
			B-1 Schedule of Adjustments to Operating Income
			B-2 Salary & Wage Expense - Revision & Reallocation
			B-3 Employee Benefits Expense - Revision & Reallocation
			B-4 Payroll Tax Expense - Revision & Reallocation
			B-5 Non-Used & Useful Water Plant - Depreciation Expense
			B-6 Excessive Lost & Unaccounted for Water
			B-7 Interest Synchronization
			B-8 Income Tax Expense

<u>Witness</u>	<u>Proffered</u> <u>By</u>	<u>I.D. No.</u>	<u>Description</u>
			C-1 Schedule of Water Rate Base
			C-2 Non-Used & Useful Water Plant
			D-1 Rate of Return
	"	<hr/> DD-1 (Seminole County)	A-1 Calculation of Water Revenue Requirement
			A-2 Calculation of Sewer Revenue Requirement
			B-1 Schedule of Adjustments to Operating Income
			B-2 Oakland Shores Purchase Water Expense
			B-3 Salary & Wage Expense - Revision & Reallocation
			B-4 Employee Benefits Expense - Revision & Reallocation
			B-5 Payroll Tax Expense - Revision & Reallocation

<u>Witness</u>	<u>Proffered</u> <u>By</u>	<u>I.D. No.</u>	<u>Description</u>
			B-6 Excessive Lost & Unaccounted and Inflow & Infiltration
			B-7 Excessive Inflow & Infiltration Expense
			B-8 Uncollectible Expense Adjustment - Weathersfield
			B-9 Purchase Wastewater Treatment - Lincoln Heights
			B-10 Interest Synchronization
			B-11 Income Tax Expense
			C-1 Schedule of Water Rate Base
			C-2 Schedule of Sewer Rate Base
			C-3 Removal of Weathersfield Plant not Used & Useful
			C-4 Removal of Lincoln Heights Plant not Used & Useful

<u>Witness</u>	<u>Proffered</u> <u>By</u>	<u>I.D. No.</u>	<u>Description</u>
			C-5 Non-Used & Useful Net Plant in Service
	"		D-1 Rate of Return
		DD-1 (Marion County)	A-1 Calculation of Water Revenue Requirement
			A-2 Calculation of Sewer Revenue Requirement
			B-1 Schedule of Adjustments to Operating Income
			B-2 Salary & Wage Expense - Revision & Reallocation
			B-3 Employee Benefits Expense - Revision & Reallocation
			B-4 Payroll Tax Expense - Revision & Reallocation
			B-5 Non-Used & Useful Water Plant - Depreciation Expense
			B-6 Non-Used & Useful Sewer Plant - Depreciation Expense

<u>Witness</u>	<u>Proffered</u> <u>By</u>	<u>I.D. No.</u>	<u>Description</u>
			B-7 Excessive Lost & Unaccounted for Water
			B-8 Interest Synchronization
			B-9 Income Tax Expense
			C-1 Schedule of Water Rate Base
			C-2 Schedule of Sewer Rate Base
			C-3 Non-Used & Useful Water Plant
			C-4 Non-Used & Useful Sewer Plant
			C-5 Adjustment to Cash Working Capital - All Systems
			D-1 Rate of Return
Kimberly H. Dismukes	"	<u>Appendix 1</u>	Qualifications of Kimberly H. Dismukes
	"	<u>KHD-1</u>	Schedule 1 - Summary of Adjustments
			Schedule 2 - State Commission Policies on Gain on Sale
			Schedule 3 - Gain on Sale

<u>Witness</u>	<u>Proffered</u> <u>By</u>	<u>I.D. No.</u>	<u>Description</u>
			Schedule 4 - Organizational Chart
			Schedule 5 - Comparison of Customers, ERC's Customer Equivalents and Revenue
			Schedule 6 - ERC Comparison
			Schedule 7 - Revenue Comparison
			Schedule 8 - Subsidiary Revenue Statistics 2001
			Schedule 9 - Subsidiary Statistics 2001
			Schedule 10 - Allocation Factors between UIF Counties and Systems
			Schedule 11 - Affiliate Expense Allocation and Adjustments
			Schedule 12 - Rate Base Allocation Adjustment

<u>Witness</u>	<u>Proffered</u> <u>By</u>	<u>I.D. No.</u>	<u>Description</u>
Mark A. Cicchetti	"	<u>Attachment 1</u>	Qualifications of Mark A. Cicchetti
			Leverage Formula
Jeffrey A. Small	"	<u>JAS-1</u>	Staff Audit Report
Kathy L. Welch	"	<u>KLW-1</u>	Staff Affiliate Transactions Audit Report
	"	<u>KLW-2</u>	Alternate Cost of Capital Schedules
Richard P. Redemann	"	<u>RPR-1</u>	Resume
	"	<u>RPR-2</u>	Used and useful Formulas and Assumptions
	"	<u>RPR-3</u>	Distribution Network Analysis AWWA M32
	"	<u>RPR-4</u>	UIF Water Systems
	"	<u>RPR-5</u>	Water Distribution Training
	"	<u>RPR-6</u>	Distribution Network Analysis AWWA M32
	"	<u>RPR-7</u>	St. Johns - Unaccounted for Water
	"	<u>RPR-8</u>	SWFWMD - Unaccounted for Water

<u>Witness</u>	<u>Proffered</u> <u>By</u>	<u>I.D. No.</u>	<u>Description</u>
	"	_____ RPR-9	Unaccounted for Water Adjustments
	"	_____ RPR-10	Groundwater AWWA M21
Jay W. Yingling	"	_____ JWY-1	References
	"	_____ JWY-2	Locations of UIF Water Systems Within the Northern Tampa Bay Water Use Caution Area
	"	_____ JWY-3	Location of UIF Water System in Marion County
Dwight T. Jenkins	FPSC	_____ DTJ-1	Resume
	"	_____ DTJ-2	Map of the District's 1998 priority water resource caution area boundaries
	"	_____ DTJ-3	Map of the District's 2003 priority water resource caution areas
Frances J. Lingo	"	_____ FJL-1	Utilities Inc. of Florida: Current Water Rate Design
	"	_____ FJL-2	Utilities, Inc. of Florida: Proposed Water Rate Design

<u>Witness</u>	<u>Proffered</u> <u>By</u>	<u>I.D. No.</u>	<u>Description</u>
"	"	<u>FJL-3</u>	Utilities, Inc. of Florida: Current Wastewater Rate Design
"	"	<u>FJL-4</u>	Utilities, Inc. of Florida: Proposed Wastewater Rate Design
"	"	<u>FJL-5</u>	Utilities, Inc. of Florida: Proposed Base Facility Charge Differentials
"	"	<u>FJL-6</u>	Utilities, Inc. of Florida: Increase in Water System Cost per Customer Due to Change to Monthly Billing
"	"	<u>FJL-7</u>	Utilities, Inc. of Florida: Analysis of Requested Rate Design - Water Systems
"	"	<u>FJL-8</u>	Utilities, Inc. of Florida: Illustrative Water Rate Design

<u>Witness</u>	<u>Proffered</u> <u>By</u>	<u>I.D. No.</u>	<u>Description</u>
Staff Composite Exhibit No. 1 - Engineering	"	Staff (Comp-1)	UIF's response to Staff's Interrogatory Nos. 1, 2, 19-21, 40, 43, 3, 8, 23, 4, 25-27, 39, 41, 42, 44, 45, 53 (Pasco County), 54M, 58-68A-D, 69, 71, UIF's supplemental response to Interrogatory No. 59; UIF's responses to Staff's Request for Production of Document Nos. 5A-B, 11, 13
Staff Composite Exhibit No. 2 - Net Operating Income	"	Staff (Comp-2)	UIF's response to OPC's Interrogatory Nos. 139, 140, 142, 143, 144, 145, and attachment to UIF's response to OPC's Interrogatory No. 144
Staff Composite Exhibit No. 3 - Rate Design	"	Staff (Comp-3)	UIF's response to Staff's Interrogatory Nos. 46, 47, 51-54, 50, 48, 49, and 55
<u>Rebuttal</u>			
Pauline M. Ahern	UIF	PMA-1	Professional Qualifications of Pauline M. Ahern
	"	PMA-2	Recommended Common Equity Cost Rate

<u>Witness</u>	<u>Proffered</u> <u>By</u>	<u>I.D. No.</u>	<u>Description</u>
Steven M. Lubertozzi	"	<u>SML-3</u>	Retirement Schedule
	"	<u>SML-4</u>	Contract with City of Maitland
	"	<u>SML-5</u>	Contract with City of Altamonte Springs
	"	<u>SML-6</u>	Summary of Estimated Rate Case Expense
	"	<u>SML-7</u>	Schedule of Costs Incurred to Date and Supporting Notices
	"	<u>SML-8</u>	Response to Utilities, Inc. of Florida to Order to Show Cause
	"	<u>SML-9</u>	System Specific Rate Base Schedules
	"	<u>SML-10</u>	Responses of UIF to Staff Audit Report relating to UIF
	"	<u>SML-11</u>	Responses of UIF to Staff Audit Report relating to Water Services Corp.
	"	<u>SML-12</u>	Supplemental Response to UIF Audit Exception No. 5
David L. Orr	"	<u>DLO-1</u>	Letter dated July 27, 2000 from Bryan K. Gongre to Bill Ryland at FDEP

<u>Witness</u>	<u>Proffered</u> <u>By</u>	<u>I.D. No.</u>	<u>Description</u>
	"	FS-9	Well and Pumping Capacity - Hydropneumatic Systems Comparison of Bidly U&U to Ten State Standards Section 7.2.2
	"	FS-10	Analysis of Bidly Used and Useful for Systems with No or Negligible Storage

Parties and Staff reserve the right to identify additional exhibits for the purpose of cross-examination.

XI. PROPOSED STIPULATIONS

CATEGORY 1 STIPULATIONS: Parties and staff agree that these issues should be stipulated.

- The following adjustments are necessary to reflect prior Commission-ordered water rate base adjustments.

<u>Water Systems</u> <u>by County</u>	<u>Plant</u>	<u>Land</u>	<u>Accum.</u> <u>Deprec.</u>	<u>CIAC</u>	<u>Accum.</u> <u>Amort.</u> <u>of CIAC</u>
Marion	(\$14,314)	\$4,467	\$1,005	\$0	\$0
Orange	(\$7,056)	\$0	\$8,292	\$0	\$0
Pasco - Orangewood	(\$18,891)	\$0	\$31,723	\$0	(\$13,837)
Pasco - Summertree/PPW	\$44,763	(\$815)	(\$24,822)	(\$98,232)	\$52,177
Pasco - Wis Bar	\$264,632	\$2,910	(\$191,029)	(\$12,627)	\$8,163
Pinellas	(\$30,651)	(\$3,701)	(\$1,266)	\$0	\$0
Seminole	(\$70,137)	(\$513)	\$101,897	\$0	\$0

The following corresponding adjustments shall also be made to accumulated depreciation, depreciation expense, accumulated amortization of CIAC, and CIAC amortization expense.

<u>Water Systems by County</u>	<u>Average Accumulated Depreciation</u>	<u>Year-End Accumulated Depreciation</u>	<u>Depreciation Expense</u>	<u>Average Accum. Amort. of CIAC</u>	<u>Year-End Accum. Amort. of CIAC</u>	<u>CIAC Amort. Exp.</u>
Marion	\$302	\$603	(\$603)	\$0	\$0	\$0
Orange	\$100	\$199	(\$199)	\$0	\$0	\$0
Pasco - Orangewood	\$350	\$700	(\$700)	\$0	\$0	\$0
Pasco - Summertree/PPW	(\$36,291)	(\$38,201)	\$3,820	\$34,103	\$35,896	\$3,590
Pasco - Wis Bar	(\$6,400)	(\$9,823)	\$6,847	\$321	\$485	\$327
Pinellas	\$453	\$905	(\$905)	\$0	\$0	\$0
Seminole	\$1,037	\$2,073	(\$2,073)	\$0	\$0	\$0

Further, the adjustments to reflect prior Commission-ordered water rate base balance for Summertree PPW included adjustments to plant, land, and accumulated depreciation adjustments for plant held for future use. These adjustments relate to Summertree PPW's Well No. 2.

The following adjustments are necessary to reflect prior Commission-ordered wastewater rate base adjustments.

<u>Wastewater Systems by County</u>	<u>Plant</u>	<u>Land</u>	<u>Accum. Deprec.</u>	<u>CIAC</u>	<u>Accum. Amort. of CIAC</u>
Marion	(\$1,633)	\$720	\$738	\$0	\$0
Pasco - Summertree/PPW	(\$19,352)	(\$1,546)	\$8,505	(\$88,459)	\$54,931
Pasco - Wis Bar	\$114,133	\$500	(\$17,191)	(\$17,232)	\$8,234
Seminole	(\$34,076)	\$0	\$47,818	\$0	\$0

The following corresponding adjustments shall also be made to accumulated depreciation, depreciation expense, accumulated amortization of CIAC, and CIAC amortization expense.

<u>Wastewater Systems by County</u>	<u>Average Accumulated Depreciation</u>	<u>Year-End Accumulated Depreciation</u>	<u>Depreciation Expense</u>	<u>Average Accum. Amort. of CIAC</u>	<u>Year-End Accum. Amort. of CIAC</u>	<u>CIAC Amort. Exp.</u>
Marion	(\$63)	(\$126)	\$126	\$0	\$0	\$0
Seminole	\$482	\$964	(\$964)	\$0	\$0	\$0
Pasco - Summertree	\$10,880	\$11,454	(\$1,145)	\$27,000	\$28,421	\$2,842
Pasco - WisBar	(\$2,752)	(\$4,118)	\$2,733	\$421	\$626	\$411

2. UIF's utility plant-in-service (UPIS) shall be reduced to remove amounts incorrectly recorded as organization costs.

<u>Accounts 301/351</u>	<u>Plant & Accum. Deprec.</u>	<u>DEP. Exp.</u>
Marion - Water	(\$263)	(\$7)
Pasco - Water	(\$872)	(\$22)
Pasco - Water (WisBar/Berthold)	(\$24,667)	(\$617)
Pasco - Wastewater	(\$872)	(\$22)

The Seminole County water account shall also be reduced by \$2,952, and the wastewater account by \$9,724 and \$9,579, with corresponding reductions to water depreciation expense of \$74 and to wastewater depreciation expense of \$552, for charges in 1999 and 2000 for capitalized executive salaries described as time spent working on condemnation issues related to the Lincoln Heights wastewater treatment plant site.

3. The Marion, Pasco, and Seminole County water and wastewater systems' UPIS, accumulated depreciation, and depreciation expense shall be reduced by the following amounts. The reductions to UPIS shall be placed in a Deferred Debit Account-186, and amortized over a five year period.

<u>County</u>	<u>Date</u>	<u>Acct. No.</u>	<u>UPIS Amt.</u>	<u>DEP. Rate</u>	<u>Acc. DEP. Avg TY Adj.</u>	<u>Acc. DEP. EOTY Adj.</u>	<u>Amort. Exp.</u>	<u>DEP. Exp.</u>
Marion-W	03/96	304	(\$1,122)	3.03%	(\$17)	(\$34)	\$224	(\$34)
Marion-WW	08/99	380	(\$901)	2.86%	(\$13)	(\$26)	\$180	(\$26)
Seminole-	04/94	361	(\$2,725)	2.22%	(\$31)	(\$61)	\$0	(\$61)
Pasco-	12/98	311	(\$3,317)	5.00%	(\$83)	(\$166)	\$664	(\$166)
Pasco-WW	10/00	354	(\$2,784)	2.63%	(\$37)	(\$73)	\$557	(\$73)
Pasco-WW	02/01	354	<u>(\$3,387)</u>	2.63%	<u>(\$22)</u>	<u>(\$45)</u>	<u>\$677</u>	<u>(\$45)</u>
Pasco-WW			(\$6,171)		(\$59)	(\$118)	\$1,234	(\$118)

4. UPIS shall be reduced by \$46,944 and accumulated depreciation shall be reduced by \$12,755 to remove the balance of the demolition and removal costs for the Summertree PPW wastewater system in Pasco County. The net of these charges (\$34,189) shall be placed in a deferred debit Account-186 pending disposition by the Commission. Additionally, the utility shall reduce its depreciation expense by \$1,343 for Pasco County wastewater for the test year to account for the effect of the above adjustment.
5. All land and water treatment plant associated with the Crescent Heights and Davis Shores water systems in Orange county shall be retired from service as illustrated below.

<u>Acct.#</u>	<u>Description</u>	UPIS @12/31/2001	Acc./DEP. @12/31/2001	Acc./DEP. Avg. Test Year	DEP. Exp. Adj.
302	Land & Land Rights	(\$2,783)	\$0	\$0	\$0
304	Structures & Improvements	(\$5,247)	(\$2,357)	(\$2,277)	(\$159)
307	Wells & Springs	(\$11,696)	(\$3,934)	(\$3,739)	(\$390)
311	Pumping Equipment	(\$19,894)	(\$10,471)	(\$9,973)	(\$995)
320	Treatment Equipment	(\$3,769)	(\$2,297)	(\$2,211)	(\$171)
Unassigned Acc./DEP.		\$0	(\$12,856)	(\$12,856)	\$0
Total Retirement		(\$40,606)	(\$31,915)	(\$31,056)	(\$1,715)

6. The Seminole County wastewater plant shall be retired by reducing UPIS by \$398,852, accumulated depreciation by \$75,169, and depreciation expense by \$11,267.

7. The Seminole land account shall be reduced by \$101,519, and the following amounts shall be reclassified accordingly.

Reclassify preliminary studies cost to Acct. No. 183.	\$ 14,935
Reclassify WW discharge relocation cost to Acct. No. 354.	\$ 43,859
Reclassify WW utility main relocations to Acct. No. 361.	\$ 28,185
Reclassify AFUDC accruals to Acct. No. 426.	\$ 14,540
Total Audit Staff Adjustments	\$101,519

8. The following adjustments shall be made to properly account for retirements made.

	<u>Plant & Accum. Depr.</u>		<u>Depreciation Expense</u>	
	<u>Water</u>	<u>Wastewater</u>	<u>Water</u>	<u>Wastewater</u>
Marion	(\$26,688)	\$0	(\$721)	\$0
Pasco	(\$50,162)	\$0	(\$1,409)	\$0
Pinellas	(\$10,250)	\$0	(\$238)	\$0
Seminole	(\$69,891)	(\$67,270)	(\$1,854)	(\$1,495)

9. All components of wastewater plants that have been taken out of service shall be removed from plant in service.

10. The following adjustments shall be made to wastewater accumulated depreciation and depreciation expense to reflect use of incorrect depreciation rates for Pumping Equipment and Treatment & Disposal Equipment.

County	Accumulated Depreciation	Depreciation Expense
Marion	\$21,744	\$2,632
Pasco	\$57,828	\$7,972
Seminole	\$83,141	\$11,988

11. The following adjustments shall be made to allocated plant, accumulated depreciation and depreciation expense to reflect the utility's failure to record retirements of assets which were replaced during the test year.

<u>County</u>	<u>Common Plant</u>		<u>Accumulated Depreciation</u>		<u>Depreciation Expense</u>	
	<u>Water</u>	<u>Wastewater</u>	<u>Water</u>	<u>Wastewater</u>	<u>Water</u>	<u>Wastewater</u>
Marion	(142)	(13)	(147)	(19)	(10)	(2)
Orange	(479)	0	(517)	0	(7)	0
Pasco	(812)	(299)	(853)	(315)	(59)	(22)
Pinellas	(171)	0	(175)	0	(12)	0
Seminole	(3,813)	(2,059)	(4,161)	(2,250)	(57)	(31)

12. The following adjustments shall be made to accumulated amortization of CIAC and test year amortization of CIAC, to correct errors in the composite amortization rates used to calculate depreciation expense for the test year.

<u>County</u>	<u>Water</u>	<u>Wastewater</u>
Marion	\$395	\$0
Orange	\$178	\$0
Pasco	\$3,845	\$911
Pinellas	\$785	\$0
Seminole	\$7,429	(\$2,881)

13. For Summertree PPW in Pasco County, water and wastewater accumulated amortization of CIAC shall be increased by \$27,713 and \$37,410, respectively.
14. The following adjustments shall be made to remove the utility's incorrect adjustments to reconcile its MFRs to the general ledger balances.

	CIAC	Accumulated Amort. of CIAC
Orange County Water	(\$17,592)	(\$10,709)
Pinellas County Water	\$3,791	\$1,652
Pasco County Water	\$0	(\$35,680)

15. Water and wastewater CIAC for Seminole County shall be increased by \$52,000 and \$48,000, respectively, to reclassify unsubstantiated balances in the utility's Advances for Construction accounts. Further, water and wastewater accumulated amortization of CIAC shall be increased by \$2,225 and \$1,085, respectively, to reflect calculated amortization of the above amounts, and water and wastewater CIAC amortization expense shall be increased by \$2,225 and \$1,085, respectively.
16. UIF's total working capital shall be decreased by \$1,426,034 to reflect overstated cash, overstated current liabilities, and use of year-end balances.
17. Working capital shall be allocated based on the Commission-approved balances of O & M expenses by system.
18. The appropriate cost rate for long-term debt shall be 8.63%.
19. The appropriate balances for customer deposits shall be as follows.

<u>County</u>	<u>Amount</u>
Orange	\$4,862
Pasco	\$15,276
Seminole	\$43,789
Pinellas	\$3,723
Marion	\$5,026

20. An AFUDC rate shall be approved based on the Commission-approved cost of capital and shall be effective as of the effective date of the final order.
21. Any adjustments made to UIF's adjusted test year revenues shall be made by:
 - 1) using the billing determinants decided in Issue 32,
 - 2) using rates currently in effect for UIF to determine the annualized test year revenues, which includes index rate increases that have previously been put into place in accordance with Rule 25-30.420, F.A.C.,
 - 3) recording the difference between recorded test year revenues and annualized test year revenues MFR Schedule B-2 and B-3.
22. Annualizing test year wastewater revenues for Marion County results in an increase of \$11,374.
23. Adjustments shall be made to O & M expense allocated from Cost Centers 603 and 639 for items not related to UIF's operations and for unsupported costs. With regard to Orange County, water O & M expenses shall be reduced by \$121. With regard to Seminole County, water and wastewater O & M expenses shall be reduced by \$978 and \$529, respectively. With regard to Pasco County, water and wastewater O & M expenses shall be reduced by \$574 and \$212, respectively. With regard to Pinellas County, water O & M expenses shall be reduced by \$117.

24. The balance in the UIF Office cost center 600 to be allocated to O & M expense for the various systems in this case shall be reduced by a net amount of \$50,167, as follows.

Reason	Amount
Expenditure not supported by invoice	\$(5,801)
Expenditure not related to UIF systems	(1,219)
Legal fees to be deferred pending outcome of lawsuit	(2,398)
Legal fees related to a specific UIF system	(3,010)
Computer maintenance fees not representative of annual cost	(3,000)
Non-recurring extraordinary insurance loss	(20,825)
Amortization of insurance loss	4,165
Amortization of fees related to condemnation to be deferred	(19,345)
Amortization of capitalized costs	1,266
Total	(50,167)

25. Purchased Wastewater Expense shall be reduced by \$23,770 for Pasco County and increased by \$23,770 for Seminole County to correctly classify invoices from the City of Sanford. Further, the utility failed to remove excess accruals or reversals from its MFRs. The following adjustments are required to properly report the actual invoiced amounts for the 12-month period ended December 31, 2001.

County	Account (s)	Water	<u>Wastewater</u>
Marion	615	(\$818)	\$0
Orange	610	(\$3,200)	\$0
Pasco	610/710	(\$600)	\$6,750
Pasco	710	\$0	\$0
Seminole	610/710	(\$175)	(\$9,300)

Further, O&M expenses shall be decreased by \$719 for Pasco County wastewater Account 720 and \$1,894 for Seminole County water Account 610 to remove unsupported costs. Legal fees charged to UIF Cost Center 600 of \$3,011 shall be removed and directly charged to the Summertree PPW system in Pasco County. Water Account 633 and Wastewater Account 733 shall be increased by \$2,199 and \$812, respectively.

26. The utility's property tax expense shall be adjusted as follows for reallocations and corrections of errors:

County	Water	Wastewater
Marion	(\$4,225)	(\$609)
Orange	(\$1,953)	\$0
Pasco	(\$7,288)	\$5,587
Pinellas	(\$736)	\$0
Seminole	\$2,946	\$127

27. For all counties or systems receiving rate relief in this case, the BFC/gallage rate structure should be maintained. The general service gallage charge should be 20 percent greater than the residential service gallage charge. A residential wastewater gallage cap of 10,000 gallons per month should be approved for Marion County. If Pasco County is granted rate relief, the current wastewater residential gallage cap of 6,000 gallons per month should be maintained for the Summertree/Paradise Point system. If Seminole County id granted rate relief, a wastewater residential gallage cap of 10,000 gallons per month should be approved.
28. For those counties or systems receiving rate relief in this case, the appropriate adjustment should be calculated using the methodology contained in Staff witness Yingling's testimony.

29. To establish the proper refund amount, a revised interim revenue requirement shall be calculated utilizing the same data used to establish final rates. Rate case expense and other pro-forma adjustments that were not incurred during the interim collection period shall be removed. This adjusted interim period revenue requirement shall be compared with the final revenue requirement, after miscellaneous service revenues have been removed.
30. UIF shall submit, within 90 days after the date of the final order in this docket, a description of all entries or adjustments to its future annual reports, books and records, and other financial reports as required by the Commission in this rate case.

CATEGORY 2 STIPULATIONS: OPC takes no position as to whether these issues should be stipulated.

31. The gallonage allotment in the base facility charge (BFC) for the Buena Vista and Wis-Bar water systems in Pasco County shall be discontinued.
32. The utility shall be allowed to convert to monthly billing in those systems in which bi-monthly billing currently exists.
33. No revenue requirement reallocations from wastewater systems to water systems shall be made.
34. For those counties granted rate relief in this proceeding, the appropriate water rate structure for the systems located in the Southwest Florida Water Management District is the rate structure discussed in the testimony of staff witness Yingling, and for those systems located in the St. Johns River Water Management District, the appropriate water rate structure is the rate structure discussed in the testimony of staff witness Jenkins.
35. The utility shall file an amendment application by October 1, 2003, to include the Bear Lake and Crystal Lake area it is currently serving outside its territory. The amendment application shall be processed administratively.

XII. PENDING MOTIONS

There are no motions pending at this time.

XIII. PENDING CONFIDENTIALITY MATTERS

There are no confidentiality matters pending at this time.

XIV. RULINGS

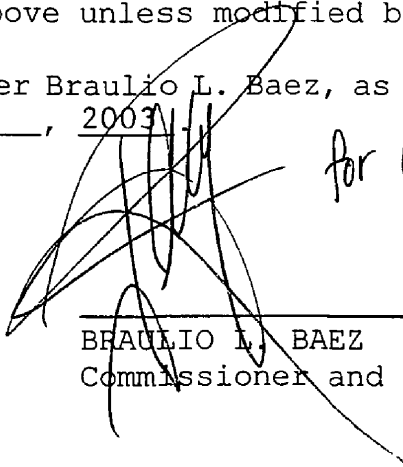
Opening statements, if any, shall not exceed ten minutes per party.

Based on the foregoing, it is

ORDERED by Commissioner Braulio L. Baez, as Prehearing Officer, that this Prehearing Order shall govern the conduct of these proceedings as set forth above unless modified by the Commission.

By ORDER of Commissioner Braulio L. Baez, as Prehearing Officer, this 14th day of August, 2003

for Commissioner Braulio Baez



BRAULIO L. BAEZ
Commissioner and Prehearing Officer

(S E A L)

RG/LAH

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

Any party adversely affected by this order, which is preliminary, procedural or intermediate in nature, may request: (1) reconsideration within 10 days pursuant to Rule 25-22.0376, Florida Administrative Code; or (2) judicial review by the Florida Supreme Court, in the case of an electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or wastewater utility. A motion for reconsideration shall be filed with the Director, Division of the Commission Clerk and Administrative Services, in the form prescribed by Rule 25-22.060, Florida Administrative Code. Judicial review of a preliminary, procedural or intermediate ruling or order is available if review of the final action will not provide an adequate remedy. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.