

M E M O R A N D U M

July 5, 1994

ORIGINAL
FILE COPY

TO: DIVISION OF RECORDS AND REPORTING

FROM: DIVISION OF LEGAL SERVICES (PIERSON) *RP*

RE: DOCKET NO. 940-██████████ Petition for interim and permanent rate increase in Franklin County by ST. GEORGE ISLAND UTILITY COMPANY, LTD.

Attached is a Prehearing Statement to be filed in the above-referenced docket.

RJP/dp

Attachment

cc: Division of Water and Wastewater (Willis, Amaya, Crouch, Merchant, Moniz, Rasberry, Williams)

I: 94109PHS.RJP

ACK _____

AEA _____

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DOCUMENT NUMBER-DATE

06630 JUL-5 84

FPSC-RECORDS/REPORTING

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition for interim and) DOCKET NO. 940109-WU
permanent rate increase in) FILED: July 5, 1994
Franklin County by ST. GEORGE)
ISLAND UTILITY COMPANY, LTD.)
_____)

COMMISSION STAFF'S PREHEARING STATEMENT

Pursuant to Order No. PSC-94-0320-PCO-WU, issued March 21, 1994, the Commission Staff (Staff) files its prehearing statement as follows:

A. WITNESSES

Staff will sponsor the following witnesses:

<u>Witness</u>	<u>Subject(s)</u>
Cliff McKeown	Quality of service and compliance with Dept. of Environmental Protection (DEP) requirements
John A. Kintz	Quality of service and system capacity
Alan C. Pierce	System capacity and availability of service/fire protection
James W. Abbott	Availability of fire protection service
Nancy L. Gaffney	Audit of St. George Island Utility Co., Ltd. (St. George or utility)

B. EXHIBITS

Staff witnesses will sponsor the following exhibits:

<u>Sponsor</u>	<u>Exhibit No.</u>	<u>Description</u>
McKeown	CM-1	System pressure graphs
McKeown	CM-2	DEP Permit DS19-222055

DOCUMENT NUMBER-DATE
06530 JUL-5 94
FPSC-RECORDS/REPORTING

<u>Sponsor</u>	<u>Exhibit No.</u>	<u>Description</u>
McKeown	CM-3	12/22/93 letter from G. Brown to DEP
McKeown	CM-4	04/21/94 letter from G. Brown to DEP
McKeown	CM-5	10/27/93 deficiency letter to G. Brown
McKeown	CM-6	12/07/93 deficiency letter to G. Brown
McKeown	CM-7	08/24/93 Sanitary Survey Report
McKeown	CM-8	12/23/93 response of G. Brown to Sanitary Survey
McKeown	CM-9	DEP letter to Baskerville-Donovan
McKeown	CM-10	01/13/94 St. George settlement proposal
McKeown	CM-11	DEP response to St. George settlement proposal
McKeown	CM-12	DEP response to H ₂ S report
McKeown	CM-13	04/30/92 partial final judgment
McKeown	CM-14	DEP approval to place Well No. 3 in service
McKeown	CM-15	09/09/93 DEP request for additional testing
McKeown	CM-16	Correspondence regarding contamination/cross-connection
Kintz	JAK-1	02/17/94 memo regarding system capacity

<u>Sponsor</u>	<u>Exhibit No.</u>	<u>Description</u>
Pierce	ACP-1	Graph of growth on St. George Island 1988-94
Pierce	ACP-2	Comparison of growth inside/outside Plantation 1988-93
Abbott	JWA-1	Fire Dept. payments to St. George
Abbott	JWA-2	07/16/92 letter and attachments regarding fire hydrant testing at Plantation
Abbott	JWA-3	Flow testing on St. George Island (to be produced at hearing)
Gaffney	NLG-1	Audit Report
Gaffney	NLG-2	Audit Exception 10

In addition to the above, Staff reserves the right to identify other exhibits for the purposes of cross examination.

C. STATEMENT OF BASIC POSITION

A review of St. George's application, its minimum filing requirements, the audit report, and information provided in response to discovery requests seems to indicate that St. George is entitled to some level, as yet undetermined, of a rate increase.

D - F. ISSUES OF FACT, LAW, AND POLICY

QUALITY OF SERVICE

ISSUE 1: Is the quality of service provided by St. George Island Utility Co., Ltd. satisfactory?

POSITION: No position at this time pending testimony to be provided at the hearing.

RATE BASE

ISSUE 2: Should plant in service be reduced by \$12,665 as stated in Audit Exception No. 6? (Possible Stipulation)

POSITION: Yes.

ISSUE 3: Should the utility's pro forma adjustment of \$21,000 for engineering design fees, as stated in Audit Exception No. 14, be removed?

POSITION: Yes.

ISSUE 4: Should plant in service be reduced by \$1,295 for leasehold improvements?

POSITION: Yes.

ISSUE 5: Should Accumulated Depreciation be increased by \$10,327 per Audit Exception No. 15?

POSITION: Yes.

ISSUE 6: Should adjustments be made to plant and contributions in aid of construction (CIAC)?

POSITION: Yes. Any unrecorded contributions should be included on the utility's books.

ISSUE 7: Is an adjustment necessary to increase CIAC to record contributions from Department of Natural Resources for Rattlesnake Cove?

POSITION: Yes. CIAC should be increased by \$27,873.

ISSUE 8: Should an adjustment be made to impute the full amount of CIAC for 30 lots not recorded at the required charge according to Audit Exception No. 17?

POSITION: Yes. CIAC should be increased by \$45,600

ISSUE 9: Should CIAC be increased by \$29,759 to record costs associated with contributions paid by the St. George Island Volunteer Fire Department (SGIVFD) and Higdon and Bates?

POSITION: Yes. The utility recorded \$9,250 in 1987 as non-utility revenue and removed \$4,000 from other revenue in 1992,

stating that part of the fee should be booked as CIAC. The SGIVFD has contributed the following amounts to the utility for fire hydrants: \$4,385.59 in 1986; \$9,550 in 1987; \$1,500 in 1988; \$2,823 in 1989; \$6,000 in 1991 and \$4,000 in 1992; and additional monies have been contributed, but after the test year. In addition, in the utility's response to this audit exception, it states "Also in 1991, \$1,500 was collected from Higdon and Bates,...". Therefore, an adjustment of \$29,758.59 should be made to increase CIAC.

ISSUE 10: Should Accumulated Amortization of CIAC be increased by \$10,635 according to Audit Exception No. 16.

POSITION: Yes.

ISSUE 11: What is the appropriate level of test year rate base?

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

COST OF CAPITAL

ISSUE 12: What capital structure should be used for ratemaking purposes?

POSITION: The utility's actual capital structure should be used for ratemaking purposes.

ISSUE 13: What is the weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure used for ratemaking purposes?

POSITION: No position at this time.

OPERATING INCOME

ISSUE 14: Should employee salaries and wages be reduced?

POSITION: No. If the utility proves that the second field assistant is actually working full-time, the expense should be allowed.

ISSUE 15: Should pension and benefits be reduced?

POSITION: Yes, as suggested in Audit Disclosure No. 4, Health benefits should be reduced by \$900. Also, the company's proposed pension expense should be disallowed due to the lack of a pension plan based on an external trust fund.

ISSUE 16: Should an adjustment be made to reduce engineering contractual services by \$1,959 as suggested in Audit Disclosure No. 6?

POSITION: Yes. The utility included a pro forma adjustment to its contractual services-engineering on the basis that it now retains Mr. Wayne Coloney for \$500 per month. Staff believes that the actual test year expenses less the interest paid to Baskerville-Donovan for a past due balance is reasonable for contractual services-engineering.

ISSUE 17: Should an adjustment be made to reduce legal contractual services?

POSITION: Yes, if it is found that these services are not necessary for the day to day operations of the utility.

ISSUE 18: Should an adjustment be made to reduce management fees?

POSITION Yes, if it is found that the quality of the management services are unsatisfactory, the fees should be reduced.

ISSUE 19: Should an adjustment be made to reduce the utility's pro forma adjustment to contractual services-other for storage tank maintenance, pipe cleaning, testing, and uniforms?

POSITION: Yes. If the utility cannot provide three bids which support the requested amounts, the expenses should be removed.

ISSUE 20: Should an adjustment be made to reduce the rent for the Tallahassee office per Audit Disclosure No. 10?

POSITION: Yes, the office rent should be reduced by \$3,600.

ISSUE 21: Should transportation expenses be reduced?

POSITION: Yes, the transportation expenses requested for the office personnel should be disallowed since no travel logs could be provided. For the field personnel, the travel logs since May 18, 1994 will be produced at hearing and this evidence will need to be reviewed.

ISSUE 22: Should an adjustment be made to reduce insurance expense since the utility does not have policies in effect?

POSITION: Yes, since the policies are not in effect and no signed contracts have been provided, an adjustment should be made.

ISSUE 23: Is St. George's level of unaccounted for water excessive, and if so, should an adjustment be made to the chemical and purchased power expenses?

POSITION: No.

ISSUE 24: Should bad debt expense be reduced to reflect a reasonable level?

POSITION: Yes, we agree with the OPC witness that it should be decreased by \$4,707

ISSUE 25: Should miscellaneous expenses be reduced?

POSITION: Yes, per Audit Disclosure No. 13, the cellular phone in the name of Sandra Chase for \$1,376 and corporate filing fees for other associated companies of \$576 should be removed.

ISSUE 26: What is the appropriate amount of rate case expense?

POSITION: No position at this time. However, only prudently incurred rate case expense should be allowed.

ISSUE 27: Should an adjustment be made to amortization expenses for system analysis, aerator analysis, hydrological study, and fire protection study?

POSITION: Yes. The amortization period for the system and aerator analyses should be five years instead of the requested two years. The expense for the hydrological study should be allowed only if the utility provides documentation which supports the requested amount. The fire protection study expense should be removed. Instead of spending money for a study which will not provide any additional fire fighting capacity. The issue of additional capacity is addressed under Issue 41.

ISSUE 28: Should depreciation expense be increased by \$5,432 as stated in Audit Exception No. 27?

POSITION: Yes.

ISSUE 29: Should an adjustment be made to correct the utility's depreciation rates as set forth in Rule 25-30.140?

POSITION: Yes. In its filing the utility used the depreciation rates for a Class C utility. Since it is a Class B utility, Accumulated depreciation, Amortization of CIAC and Depreciation expense should be adjusted accordingly.

ISSUE 30: Should an adjustment be made to taxes other than income?

POSITION: This is a fall-out issue and the final amount is subject to the resolution of other issues.

ISSUE 31: What is the appropriate level of test year operating income?

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

REVENUE REQUIREMENT

ISSUE 32: What is the total revenue requirement?

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

RATES AND CHARGES

ISSUE 33: What are the appropriate rates and charges and their effective dates?

POSITION: The appropriate rates will be determined after the resolution of other issues.

ISSUE 34: Should the utility's service availability policy and charges be revised?

POSITION: Pending the resolution of other rate base and CIAC issues, the service availability charges should be reviewed to determine any necessary revisions.

ISSUE 35: Should the utility's service availability charges be escrowed?

POSITION: Yes

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 the amortized rate case expense?

POSITION: The appropriate amount by which rates should be reduced four years after the established effective date is determined after the resolution of other issues.

ISSUE 37: In determining whether any portion of the interim increase granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any?

POSITION: If final rates are lower than interim rates, any revenues collected under interim rates in excess of those that would have been generated under the final approved rates should be refunded with interest.

ISSUE 38: Should the utility's AFPI charge be adjusted?

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

OTHER ISSUES

ISSUE 39: Does the utility keep its books and records in substantial compliance with the Commission's Rules and Regulations and, if not, should it be penalized?

POSITION: No. The utility should be required to keep its books and records in accordance with the Commission's Rules and Regulations. If a penalty is to be applied, the only method available is to reduce the utility's management fees, since the utility doesn't have any equity.

ISSUE 40: What is the number of ERCs that the utility is currently serving and what is the maximum number of ERCs that the utility is capable of serving while maintaining compliance with the regulatory agencies?

POSITION: The utility was serving 1,027 ERCs in May 1993. The maximum number of ERCs that the utility is capable of serving is 1,346 ERCs, as long as the current Northwest Florida Water Management District's restriction to 700,000 gpd withdrawal from the aquifer remains in effect and where an ERC is defined as 520 gpd. This maximum number is derived with well number 3 on-line and DS19-222055 permitted improvements in place.

ISSUE 41: Is additional capacity required of the utility, and if so, what specific actions, if any, are necessary in order to achieve additional capacity?

POSITION: Yes; however, staff does not have a position at this time as to what specific actions are needed.

ISSUE 42: Does the utility own the third well property and its improvements?

POSITION: No position, but the utility should provide proof that the property is in its name.

G. STIPULATIONS

St. George, OPC, the District, and Staff have stipulated to the following:

1. Plant in service should be reduced by \$2,067 for lack of support documentation, as per Audit Exception No. 5.
2. Plant in service should be reduced by \$876 for unsupported costs associated with the third well, as per Audit Exception No. 9.
3. Plant in service should be reduced by \$2,370 for duplicative recording of Coloney Company invoices as stated in Audit Exception No. 10.
4. Plant in service should be reduced by \$12,518 to remove costs associated with the 50,000 gallon storage tank as stated in Audit Exception No. 12. In addition, corresponding adjustments should be made to reduce accumulated depreciation by \$629 and depreciation expense by \$358.
5. Plant in service should be adjusted for plant retirements as stated in Audit Exception No. 8, as follows:
 - a. An adjustment should be made to increase plant in service by \$1,675 and accumulated depreciation by \$168. In December of 1988 an adjustment was made to retire a copier on the island; however, the copier was never recorded on the books.
 - b. An adjustment should be made to reduce plant in service by \$7,029, accumulated depreciation by \$3,866 and depreciation expense by \$351, to record the retirement of a pump at well #1 which was replaced. In February 1989 the pump was replaced with a new pump but the retirement was not recorded.

- c. An adjustment should be made to reduce plant in service by \$10,378, accumulated depreciation by \$2,077, and depreciation expense by \$519, to record the retirement of a pump at well #2. In July 1989 the pump was replaced but the retirement was not recorded on the company's books.
 - d. An adjustment should be made to decrease plant in service by \$3,654, accumulated depreciation by \$972 and depreciation expense by \$244 to retire a Harris 3M Copier that was not recorded.
6. Plant in service should be reduced by \$3,098 of transportation expenses, as stated in Audit Exception No. 7.
 7. Land and Land Rights should be reduced by \$570 to remove non-utility related charges per Audit Exception No. 4.
 8. Materials and supplies should be reduced by \$4,851 as stated under Audit Exception No. 22.
 9. Chemical expenses should be reduced by \$657 as per Audit Exception No. 21.

In addition to the above, St. George and Staff have stipulated to, and neither OPC nor the District have taken a position on, the following:

10. Plant in service should be increased by \$1,941, as shown in Audit Exception No. 11, for the utility's new generator.
11. Advances for Construction should be decreased by \$9,257, as stated in Audit Exception No. 20.
12. The cost rate for customer deposits should be reduced in accordance with Rule 25-30.111, Florida Administrative Code.
13. The cost of common equity should be set using the leverage formula in effect at the time of the Agenda Conference for the final order in this proceeding.
14. Used and useful shall be determined in the following manner:
 - a. All Source of Supply, Treatment and General Plant is considered 100% used and useful.
 - b. All Transmission and Distribution Plant is considered 100% used and useful except for the distribution mains (less than 8" diameter) in Account 331.4 Transmission &

Distribution Mains serving certain subdivisions within the area known as the Plantation, which lines were constructed for the benefit of the developer. The cost of distribution lines (less than 8" diameter) within the following subdivisions will be subject to a used & useful factor equal to used lots divided by total lots, as follows:

	<u>Used, 8/92</u>	<u>Total</u>
Oyster Bay Village	2	27
Heron Bay Village	5	23
Bay Cove Village	9	34
Pelican Beach Village	28	58
Dolphin Beach Village	26	43
Indian Bay Village	8	30
Bay View Village	7	27
Windjammer Village	14	40
Treasure Beach Village	23	52
Plantation Beach Village	32	67
Turtle Beach Village	26	58
Pebble Beach Village	33	75
Sea Palm Village	32	75
Bay Palm Village	5	22
Sandpiper Village	8	34
Sea Pine Village	11	40
Sea Dune Village	18	34
Osprey Village	10	22
Bay Pine Village	<u>3</u>	<u>11</u>
	300	772
Less '93 additions	<u>(15)</u>	
Used lots - 1992	285	

$$\text{Used and useful factor} = \frac{285}{772} = .369$$

The used and useful factor will be applied to the original cost of 2" and 6" mains, valves and fittings in the designated Plantation areas per the inventory on the 1992 Baskerville Donovan system drawings. See Attachment A, which details the mains and valves. The appropriate test year average balance in Account 331.4 will be reduced by the non-used and useful amount of designated Plantation area original cost.

- c. Accumulated depreciation and depreciation expense for Acct 331.4 will be adjusted to reflect the net used and useful factor in Plant Account 331.4 after accounting for the used and useful in the designated Plantation areas.
- d. AFPI will be calculated and collected from new customers in the above designated Plantation areas.
- e. The term "used lots" in this stipulation includes all lots in the designated Plantation areas for which a) the fully applicable service availability charge has been paid or b) a \$500 service availability charge has been prepaid and a base facility charge is being paid in accordance with the terms of the settlement agreement under Order No. 23649, whether or not there is a meter.

Finally, St. George, OPC, and Staff have stipulated to, and the District has taken no position on, the following:

- 15. Test year contractual services-other should be reduced by \$3,873, per Audit Exception No. 24. (The adjustment suggested in Audit Exception No. 24 was actually \$4,373. However, in its response to the audit, the utility provided support for \$500 of that amount.)

**H. MOTIONS OR OTHER MATTERS
STAFF SEEKS ACTION UPON**

There are no pending motions or other matters that Staff seeks action upon.

**I. REQUIREMENTS OF ORDER NO. PSC-94-0320-
PCO-WU THAT CANNOT BE COMPLIED WITH**

There are no requirements of Order No. PSC-94-0320-PCO-WU that Staff is unable to comply with at this time.



Robert J. Pierson, Staff Counsel
FLORIDA PUBLIC SERVICE COMMISSION
101 East Gaines Street
Tallahassee, Florida 32399-0863
(904) 487-2740

Docket No. 940109-WU
St. George Island Utility Company, Ltd.
Used and Useful—Plantation Distribution Lines

ATTACHMENT A

Plantation Subdivision	Valves		Map of 6" Main		Map of 2" Main		Total Lots Available	Lots Connected
	2" Valves	6" Valves	Inches	Linear Feet	Inches	Linear Feet		
OYSTER BAY	0	3	8	1,600	0	0	27	2
HERON BAY	0	3	7.75	1,550	0	0	23	5
BAY COVE	0	2	9	1,800	2.5	500	34	9
PELICAN BEACH	1	3	14	2,800	6.75	1,350	58	28
DOLPHIN BEACH	0	4	11.75	2,350	2.5	500	43	26
INDIAN BAY	0	3	6.75	1,350	3	600	30	8
BAYVIEW	0	2	6	1,200	0.75	150	27	7
WINDJAMMER	0	3	9.25	1,850	5	1,000	40	14
TREASURE BEACH	1	4	13	2,600	7	1,400	52	23
PLANTATION BEACH	4	4	15	3,000	7.75	1,550	67	32
TURTLE BEACH	0	4	24.75	4,950	0	0	58	26
PEBBLE BEACH	0	3	18.5	3,700	0	0	75	33
SEA PALM	0	8	32	6,400	1.75	350	75	32
BAY PALM	2	1	4.75	950	10	2,000	22	5
SANDPIPER	0	2	11.25	2,250	4	800	34	8
SEA PINE	0	3	16.25	3,250	0	0	40	11
SEA DUNE	0	2	10.5	2,100	0	0	34	18
OSPREY VILLAGE	0	1	6	1,200	0	0	22	10
BAY PINE	5	0	0	0	9.5	1,900	11	3
TOTALS	13	55		44,900		12,100 (Less 93 Adds)	772	300 <u>-15</u> 285

Used & Useful % On Distribution Mains in Plantation =

285/772 =

36.9%

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition for interim and) DOCKET NO. 940109-WU
permanent rate increase in) FILED: July 5, 1994
Franklin County by ST. GEORGE)
ISLAND UTILITY COMPANY, LTD.)
_____)

CERTIFICATE OF SERVICE

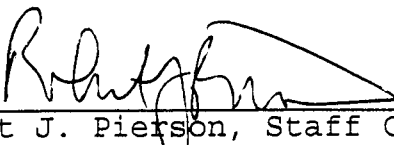
I HEREBY CERTIFY that a true and correct copy of the Commission Staff's Prehearing Statement has been furnished to the following by facsimile transmission and U.S. Mail, this 5th day of July, 1994.

Steven Pfeiffer, Esquire
Apgar, Pelham, Pfeiffer
& Theriaque
909 East Park Avenue
Tallahassee, FL 32301

Gene Brown, Esquire
St. George Island Utility Co., Ltd.
3848 Killearn Court
Tallahassee, FL 32308

Barbara Sanders, Esquire
St. George Island Water and
Sewer District
Post Office Box 57
Apalachicola, FL 32320

Harold McLean, Esquire
Office of Public Counsel
c/o The Florida Legislature
111 West Madison Street
Suite 812
Tallahassee, FL 32399-1400



Robert J. Pierson, Staff Counsel

FLORIDA PUBLIC SERVICE COMMISSION
101 East Gaines Street
Tallahassee, Florida 32399-0863
(904) 487-2740