

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for increase) DOCKET NO. 960329-WS
in rates and service)
availability charges in Lee)
County by Gulf Utility Company)

In Re: Investigation of rates) DOCKET NO. 960234-WS
of Gulf Utility Company in Lee) ORDER NO. PSC-97-0208-PHO-WS
County for possible overearnings) ISSUED: February 24, 1997

Pursuant to notice, a Prehearing Conference was held on February 17, 1997, in Tallahassee, Florida, before Commissioner J. Terry Deason, as Prehearing Officer.

APPEARANCES:

B. Kenneth Gatlin, Esquire, Gatlin, Schiefelbein & Cowdery, P.A., 1709-D Mahan Drive, Tallahassee, Florida 32208

On behalf of Gulf Utility Company.

Stephen C. Reilly, Esquire, Office of Public Counsel, c/o The Florida Legislature, 111 West Madison Street, Suite 812, Tallahassee, Florida 32399-1400

On behalf of the Citizens of Florida.

Margaret E. O'Sullivan, Esquire, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0863

On behalf of the Commission Staff.

PREHEARING ORDER

I. CASE BACKGROUND

Gulf Utility Company (Gulf or utility) is a Class A utility which serves approximately 7,040 water and 2,435 wastewater customers in Lee County, Florida. The utility is located in a water use caution area as designated by the South Florida Water Management District. Rate base was last established for Gulf's wastewater facilities by Order No. 20272, issued November 7, 1988, in Docket No. 880308-SU. Rate base for water facilities was last established by Order No. 24735, issued July 1, 1991, in Docket No. 900718-WU.

By Order No. PSC-96-0501-FOF-WS, issued April 11, 1996, in Docket No. 960234-WS, the Commission initiated an overearnings investigation and held \$353,492 in annual water revenues subject to

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refund. As noted by that order, the overearnings investigation has been combined with this rate proceeding.

On June 27, 1996, Gulf filed an application for an increase in wastewater rates, approval of a decrease in water rates, and approval of service availability charges. The minimum filing requirements (MFRs) were satisfied on August 23, 1996, which was established as the official filing date pursuant to Section 367.083, Florida Statutes. The utility's requested test year for interim purposes is the historical year ended December 31, 1995. The requested test year for final rates is the projected year ending December 31, 1996.

By Order No. PSC-96-1310-FOF-WS, issued October 28, 1996, the Commission suspended Gulf's proposed rates and approved interim rates subject to refund. This matter was initially set for hearing in Lee County on February 6 and 7, 1997. However, by Order No. PSC-97-0069-PCO-WS, issued January 22, 1997, the matter was rescheduled to March 5 and 6, 1997.

II. PROCEDURE FOR HANDLING CONFIDENTIAL INFORMATION

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.

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.

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

- 1) 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.
- 2) 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.
- 3) 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.
- 4) 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.
- 5) 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 Records and Reporting's confidential files.

III. POST-HEARING PROCEDURES

Rule 25-22.056(3), Florida Administrative Code, requires each party to file a post-hearing statement of issues and positions. A

summary of each position of no more than fifty 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 fifty words, it must be reduced to no more than fifty words. The rule also provides that if a party fails to file a post-hearing statement in conformance with the rule, that party shall have waived all issues and may be dismissed from the proceeding.

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 sixty pages, and shall be filed at the same time. The prehearing officer may modify the page limit for good cause shown. Please see Rule 25-22.056, Florida Administrative Code, for other requirements pertaining to post-hearing filings.

IV. PREFILED TESTIMONY AND EXHIBITS: WITNESSES

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. 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.

V. ORDER OF WITNESSES

<u>Witness</u>	<u>Proffered By</u>	<u>Issues #</u>
<u>Direct</u>		
James W. Moore	Gulf	17, 32, 34, 35, 36, 37, 38, 39, 40, 45, 46, 48, 49, 55, 56, 63
Keith R. Cardey	Gulf	4, 6, 7, 8, 9, 10, 12, 13, 15, 18, 19, 20, 27, 29, 30, 31, 32, 34, 37, 39, 42, 53, 54, 55, 57, 58, 61
Carolyn B. Andrews	Gulf	21, 22, 24, 29, 42, 43, 44, 47, 51, 52, 59
Robert C. Nixon	Gulf	22, 23, 24, 25, 26, 28, 33
Ted L. Biddy	OPC	2, 3, 4, 5, 6, 7, 8, 11, 12, 13, 14, 16, 53
Kimberly H. Dismukes	OPC	6, 7, 17, 18, 19, 21, 22, 23, 24, 25, 26, 29, 32, 33, 34, 36, 37, 38, 40, 41, 44, 48, 53, 55
Thomas M. Beard*	Staff	2
Bernard Kleinschmidt*	Staff	2
Kathy L. Welch*		17, 18, 21, 22, 23, 24, 25, 35, 37, 40, 42, 45, 46, 47, 48, 50
Edith H. Xanders	Staff	55, 56
William Scott Burns*	Staff	55, 56

*These witnesses will be available beginning on the morning of March 6, 1997.

Rebuttal

James W. Moore	Gulf	17, 32, 34, 35, 36, 37, 38, 39, 40, 45, 46, 48, 49, 55, 56, 63
Keith R. Cardey	Gulf	4, 6, 7, 8, 9, 10, 12, 13, 15, 18, 19, 20, 27, 29, 30, 31, 32, 34, 37, 39, 42, 53, 54, 55, 57, 58, 61
James P. Elliot	Gulf	2, 4, 5, 8, 14
Robert C. Nixon	Gulf	22, 23, 24, 25, 26, 28, 33
Steve M. Messner	Gulf	1, 2, 3, 11, 41
Carolyn B. Andrews	Gulf	21, 22, 24, 29, 42, 43, 44, 47, 51, 52, 59

Stipulated Witness

Andrew Barienbrock	Staff	1
William D. Allen	Staff	1
William T. Rendell	Staff	17

VI. BASIC POSITIONS

GULF: Annual operating revenues should be increased by \$366,340 for wastewater, and reduced by \$155,935 for water. This would result in a rate of return of 9.25% on a rate base of \$4,928,296 for wastewater operations and a rate base of \$4,427,672 for water operations. Wastewater capacity fees should be increased from \$550 to \$800/ERC and water capacity fees should be reduced from \$800 to \$550/ERC.

OPC: The utility has understated its revenue by failing to charge for reclaimed water. The utility's expenses are overstated due to transactions with its affiliates, inclusion of inappropriate and non-recurring expenses, inclusion of excessive salary expenses, and inclusion of expenses that are not properly borne by ratepayers. The

utility's cost of capital is overstated because the utility included equity which should have been reflected as a contribution from an affiliated developer. The utility's rate base is overstated due to the inclusion of plant that is non-used and useful and the failure to properly recognize CIAC in rate base. Instead of a rate increase proposed by the utility, the rates should be reduced for both the water and wastewater operations.

STAFF: The information gathered through discovery and prefiled testimony indicates, at this point, that the utility is entitled to some level of increase for its wastewater facilities, and a decrease for its water facilities. The specific levels of increase or decrease cannot be determined until the evidence presented at hearing is analyzed. 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 of the evidence in the record and may differ from the preliminary positions.

VII. ISSUES AND POSITIONS

QUALITY OF SERVICE

ISSUE 1: Is the quality of service provided by Gulf Utility Company satisfactory?

POSITIONS

GULF: Yes. (Messner, Allen, Barienbrock)

OPC: No position at this time pending further customer testimony.

STAFF: No position pending further development of the record. (Allen, Barienbrock)

ISSUE 2: Does the utility provide adequate fire flow to its entire certificated area?

POSITIONS

GULF: Yes. (Messner and Elliot)

OPC: According to the testimony of Thomas Beard, Gulf Utility Company does not provide adequate fire flow to its entire certificated area. Gulf Utility Company did not provide any fire flow test records in response to OPC's request. (Biddy)

STAFF: According to Staff witness Beard, Gulf does not have adequate fire flow. Staff, however, has no position pending further development of the record. (Beard, Kleinschmidt)

RATE BASE

ISSUE 3: Should the one million gallon reject holding tank for the Corkscrew Water Treatment Plant be included in rate base?

POSITIONS

GULF: Yes, the one million gallon reject holding tank is required by Gulf's DEP water treatment plant permit conditions. The Commission may include plant within 24 months from the historical test year, Section 367.0812, Florida Statutes. Also, the Commission may include the prudent cost of the providing service during the period when the rates will be in effect, Section 367.081(3), Florida Statutes. (Messner)

OPC: No. This facility is not yet constructed. (Biddy)

STAFF: It is unknown at this time when this plant will go into service. If a plant addition has not been constructed, and will not go into service until after rates go into effect, it should not be included in rate base. Staff has no further position pending further development of the record.

ISSUE 4: Should any adjustments be made to the chlorine contact chambers at the new Three Oaks Wastewater Treatment Plant?

POSITIONS

GULF: No. These units are necessary in order to maintain the necessary assurance of compliance with Rule 62-610, F.A.C. that requires Class I reliability. (Cardey and Elliot)

OPC: Yes. The cost of the second chlorine contact chamber should be transferred into the plant held for future use account. (Bidly)

STAFF: No.

ISSUE 5: Should any adjustments be made to the old Three Oaks Wastewater Treatment Plant?

POSITIONS

GULF: No, the old Three Oaks Wastewater Treatment Plant should be included in rate base. (Elliot)

OPC: Yes. The cost of the old Three Oaks Wastewater Treatment Plant should be transferred into the plant held for future use account. (Bidly)

STAFF: No, this plant is required by DEP's Class I reliability and redundancy rules.

ISSUE 6: Should the costs associated with the Florida Gulf Coast University (FGCU) be included in this rate proceeding, and what, if any, adjustments are necessary?

POSITIONS

GULF: Yes. These facilities are constructed and are providing service. Such costs should be included in this filing. No adjustments are necessary. (Cardey)

OPC: No. The costs, expenses, and revenue related to Florida Gulf Coast University should be removed from the test year. Water rate base should be reduced by \$367,363 and wastewater rate base should be reduced by \$483,516. Test year revenue should be reduced by \$37,623 for the water operations and by \$47,956 for the wastewater operations. Test year expenses should be reduced by \$19,323 for the water operations and by \$28,885 for the wastewater operations. (Bidly and Dismukes)

STAFF: Yes, these costs should be included. However, some adjustments may be necessary.

USED AND USEFUL

ISSUE 7: Should a margin reserve be allowed for the water and wastewater system, and if so, what amount?

POSITIONS

GULF: Yes, pursuant to established policy. As stated in the MFRs, the appropriate margin reserve periods are 1.5 years load growth in the water operations and 3 years load growth in the wastewater operations. (Cardey)

OPC: No. Margin reserve is for the benefit of future customers and should not be paid for by current customers. Traditionally the Commission allows 18 months for the water and wastewater treatment plants, and 12 months for the water transmission/distribution system and wastewater collection system. If the Commission grants Gulf a margin reserve, the reserve periods should not exceed these periods historically approved by the Commission. (Bidy, Dismukes)

STAFF: Yes. Margin reserve should be one year for all distribution and collection systems, one and a half years for water treatment plants and three years for wastewater treatment plants. These amounts are consistent with recent Commission decisions.

ISSUE 8: Should fire flow be included in the used and useful calculations for the water system, and if so, what is the appropriate allowance?

POSITIONS

GULF: Yes, as set forth in the MFRs. (Cardey and Elliot)

OPC: Fire flow provision should be included in the used and useful calculation of finished water storage but not for the supply wells, treatment plants or distribution mains. The fire flow allowance should be 750 gpm because that is the only documented fire flow filed in this proceeding. (Bidy)

STAFF: Yes, it should be included, but some adjustments may be appropriate.

ISSUE 9: Should economy of scale be considered by the Commission in determining whether facilities are used and useful in the public interest?

POSITIONS

GULF: Yes. Commission policy is to consider economy of scale in determining whether facilities are used and useful in the public service. (Cardey)

OPC: No, all existing and future customers should evenly share the facility costs.

STAFF: Economies of scale should be considered on a case by case basis.

ISSUE 10: Should the Commission recognize economy of scale in determining used and useful for the Corkscrew well field, Corkscrew water treatment plant, Skid #3, and Corkscrew reject water facilities (page 167 and page 9, lines 11 and 12 of MFRs)?

POSITIONS

GULF: Yes. (Cardey)

OPC: All facilities should be designed and constructed in the most cost effective sizes to take advantage of any economy of scale. However, the benefits of any economy of scale should be shared by all current and future customers. Therefore, the used and useful percentage of each facility still should be based upon the current demand for the facility and its capacity. This principle should apply to the Corkscrew well field, water treatment plant, membrane skids (#1, #2, and #3) and reject water facilities, (if constructed).

STAFF: No position pending further development of the record.

ISSUE 11: Should all facility lands be considered 100% used and useful, and if not, what are the appropriate used and useful percentages?

POSITIONS

GULF: Yes. (Cardey and Messner)

OPC: No. Used and useful calculations should be performed to justify the 100% used and useful allocation for facility lands. The appropriate used and useful percentages for

facility lands can be found in Exhibits TLB-2 and TLB-3.
(Biddy)

STAFF: Yes.

ISSUE 12: What is the appropriate method and resulting used and useful percentages for the water system components?

POSITIONS

GULF: Well & Treatment Plant:

The design and sizing of the wells are matched to the capacity of the treatment plant. They are therefore treated as one unit in the determination of used and useful. The used and useful percentage is 88.2% and is based upon Gulf's obligation to provide service to existing and potential customers in its certificated area. Gulf's service responsibility is the sum of the average of five consecutive days maximum flows, a margin reserve, and fire service all related to the capacity of the treatment plants. The principles of economy of scale was used in the determination of used and useful of both wells and treatment facilities. The well field in total is 88.2% used and useful with the San Carlos water supply wells being 100% and Corkscrew water supply wells 82.9% as shown on Appendix A, pages 165-168 MFRs. The San Carlos well field matches the capacity of the treatment plant which the Commission found to be 100% used and useful in the 1991 rate case. Nothing has changed since that time. The Corkscrew well and treatment plant was found to be used and useful based upon the economy of scale principle... namely the non-used and useful plant is assigned to the last increment of capacity added. This is consistent with the prior rate case. The treatment plant in total is 88.2% used and useful and using the principle of economy of scale, the allocation to non-used and useful (excess capacity) is allocated to the last unit of capacity added to the system. The allocation is as follows:

	<u>mg</u>	<u>%U&U</u>
San Carlos WTP	2.415 mg	100%
Corkscrew WTP		
Units 1&2	1.000	100
Unit 3	<u>0.301</u>	<u>38</u>

3.716

88%

(Cardey)

OPC: The appropriate method is "Average of 5 Maximum Daily Flows of the Maximum Month divided by Total Plant Capacity." The resulting used and useful percentage is 69.36%. (Bidly)

STAFF: Staff believes that some adjustment is necessary to the equivalent residential connection (ERC) figures provided by the utility in its MFRs. However, Staff has no further position pending further development of the record.

ISSUE 13: What is the appropriate method and resulting used and useful percentages for water supply wells?

POSITIONS

GULE: 88%, as discussed under Issue 12. (Cardey)

OPC: The appropriate method is "Average of 5 Maximum Daily Flows of the Maximum Month divided by Total Well Capacity." The resulting used and useful percentage is 46.82% (revised from 52.74%). (Bidly)

STAFF: No position pending further development of the record.

ISSUE 14: What is the appropriate method and resulting used and useful percentages for water storage?

POSITIONS

GULE: The Company has 2.6 million gallons of ground storage, less than 18 hours of the peak demand. The amount of adequate storage, including emergency storage is based upon an assessment of risk and degree of system reliability. The water storage facilities are 100% used and useful. (Elliot)

OPC: The appropriate method is "Half Average Daily Flow plus Fire Flow Storage, divided by the Total Storage Capacity." The resulting used and useful percentage is 63.15%, assuming 750 gpm fire flow is provided. (Bidly)

STAFF: No position pending further development of the record.

ISSUE 15: What is the appropriate method and resulting used and useful percentages for the wastewater treatment plant?

POSITIONS

GULF: The wastewater treatment plant is 100% used and useful, (average daily flow in max month divided by plant capacity), as set forth in MFR Schedule F-6. (Cardey)

OPC: The appropriate method is the "average daily flow of the maximum month or annual average daily flow divided by the total plant capacity," depending upon the FDEP permits. San Carlos WWTP is 100% used and useful. Three Oaks WWTP is 64.63% used and useful.

STAFF: Staff believes that some adjustment is necessary to the equivalent residential connection (ERC) figures provided by the utility in its MFRs. However, Staff has no further position pending further development of the record.

ISSUE 16: What are the appropriate used and useful percentages for the water and wastewater facilities?

POSITIONS

GULF: These are set forth in the MFRs and discussed in Issues 12 through 15 above.

OPC: The appropriate used and useful percentages for the water and wastewater facilities are presented in Exhibit TLB-2 and Exhibit TLB-3, respectively. (Bidly)

STAFF: The final percentages are dependant upon the resolution of several other issues.

ISSUE 17: Are adjustments necessary to increase CIAC and decrease equity for lines built for the Caloosa Group (Audit Disclosure 1)?

POSITIONS

GULF: No. (Moore)

OPC: Yes, CIAC should be increased by \$68,144 for the water operations and by \$92,815 for the wastewater operations. Appropriate adjustments should likewise be made to accumulated amortization of CIAC and amortization expense. Equity should be decreased by \$160,929. (Dismukes)

STAFF: Yes. CIAC should be increased by \$68,114 for water and \$92,815 for wastewater. Equity should be decreased by \$160,929. Accumulated Amortization of CIAC should be increased by \$10,855 for water and \$14,145 for wastewater. Test year amortization should be increased by \$2,106 and \$2,755 for water and wastewater, respectively. (Welch, Rendell)

ISSUE 18: Are adjustments necessary to reflect prepaid CIAC as used and useful in rate base? (Audit Disclosure 8)

POSITIONS

GULF: No. Prepaid CIAC is related to future customers. (Cardey)

OPC: Yes, to the extent that the associated plant is included in rate base. In the absence of a showing by the utility that the plant related to prepaid CIAC is not included in rate base, CIAC should be increased by \$379,319 for the water operations and by \$207,304 for the wastewater operations. (Dismukes)

STAFF: Yes. Prepaid CIAC, which relates to plant constructed and included as used and useful in rate base, should be appropriately matched and included in rate base. CIAC should be increased by \$379,319 for water and \$207,304 for wastewater. (Welch)

ISSUE 19: If a margin reserve is approved, should CIAC be imputed on margin reserve, and if so, what amount?

POSITIONS

GULF: No. (Cardey)

OPC: Yes. (Dismukes)

STAFF: If a margin reserve is allowed, CIAC should be recognized in rate base as a matching provision, since most of the ERCs included in the margin reserve have prepaid CIAC.

ISSUE 20: What is the dollar amount of plant costs included in rate base, and what dollar amounts should be included in rate base as CIAC, related to funds received from the South Florida Water Management District's Alternate Water Supply Grants Program?

POSITIONS

GULF: No position pending further development of the record.

OPC: No position pending further development of the record.

STAFF: No position pending further development of the record.

ISSUE 21: Are adjustments necessary to Accumulated Amortization of CIAC to amortize cash contributions using yearly composite rates? (Audit Exception 2)

POSITIONS

GULF: No. Gulf amortizes CIAC using a composite amortization rate that is the same as the composite rate of utility plant, excluding common plant. This is one of the alternative methods permitted pursuant to Rule 25-30.140, F.A.C., which Gulf has followed for a number of years. (Andrews)

OPC: Yes. Accumulated Amortization of CIAC in rate base should be decreased by \$115,371 for the water operations and by \$98,456 for the wastewater operations. Similarly, the CIAC amortization expenses should be increased by \$12,967 for the water operations and decreased by \$7,329 for the wastewater operations. (Dismukes)

STAFF: Yes. Accumulated amortization of CIAC should be decreased by \$115,371 for water and \$98,456 for wastewater. Test year amortization of CIAC should be increased by \$12,967 for water and decreased by \$7,329 for wastewater. (Welch)

ISSUE 22: Is the utility's method of projecting its test year working capital accounts reasonable, and what, if any, adjustments are necessary?

POSITIONS

GULF: Yes. Gulf's method of projecting average test year working capital accounts is reasonable. (The only adjustments required are those set forth in the Utility's positions on Issues 23 through 25: Adjustments should be made to Accounts Payable/Trade, to remove Construction Payables, unamortized debt discount and issuance expense. Materials and supplies should be increased for additional water chemicals expense; and average rate case expense ultimately approved in this proceeding should be substituted for the projected 1996 balance.) (Nixon, Andrews)

OPC: Yes. Working capital should be adjusted as reflected on Ms. Dismukes schedule 17. (Dismukes)

STAFF: Some adjustments are necessary. However, the appropriate amount is dependent upon the resolution of other issues. (Welch)

ISSUE 23: Should unamortized debt discount and issuance expense be included in the working capital calculation (Audit Exception 5)

POSITIONS

GULF: No, this amount is included elsewhere in the rate making process. (Nixon)

OPC: No. This account is already included in determining the cost of debt in the cost of capital. Including this amount in working capital would double count this amount. Working capital should be reduced by \$394,594 as reflected on Ms. Dismukes Schedule 17. (Dismukes)

STAFF: No. This account is already included in determining the cost of debt in the cost of capital. Including this amount in working capital would double count this amount. Working capital should be reduced by \$389,922. (Welch)

ISSUE 24: Is an adjustment necessary to the projected balance of accrued interest for the Industrial Development Revenue Bonds (IDRBs) included in the working capital calculation? (Audit Exception 5)

POSITIONS

- GULF: The projected balance of accrued interest should be adjusted to \$269,790, as set forth on page 15 of the Staff Audit Report. However, the adjusted accrued interest balance should not be included in the working capital computation. (Andrews, Nixon)
- OPC: Yes, working capital should be decreased by \$30,494 to adjust the projected balance of accrued IDRIB interest. (Dismukes)
- STAFF: Yes, working capital should be decreased by \$30,494 to adjust the projected balance of accrued IDRIB interest. (Welch)
- ISSUE 25: Should interest receivable be included in the working capital calculation? (Audit Exception 5)

POSITIONS

- GULF: No. This account should only be included if accrued interest is included in the working capital computation. (Nixon)
- OPC: No. Accounts which earn interest should not be included in working capital. (Dismukes)
- STAFF: No. This account should only be included if the related interest income is included in test year revenues. Working capital should be decreased by \$78,031. (Welch)

ISSUE 26: What is the appropriate allowance for working capital?

POSITIONS

- GULF: \$476,195. (Nixon)
- OPC: Negative working capital of \$46,062 should be included in rate base. (Dismukes)
- STAFF: The final amount depends upon the resolution of other issues.

ISSUE 27: What are the appropriate rate base amounts?

POSITIONS

- GULF:** \$3,963,195 for water and \$4,483,584 for wastewater. (Cardey)
- OPC:** The final amount of rate base is subject to the resolution of other issues.
- STAFF:** The appropriate rate base amounts are dependent upon the resolution of other issues.

COST OF CAPITAL

ISSUE 28: What is the amount of credit Accumulated Deferred Income taxes that should be included in the capital structure?

POSITIONS

- GULF:** The accumulated deferred income taxes are \$1,517,923 as shown on Schedule D-2, page 120 of the MFRs. (Nixon)
- OPC:** No position at this time pending further development of the record.
- STAFF:** The amount of accumulated deferred income taxes is dependent upon the resolution of other issues, except that accumulated deferred income taxes should be increased for the deferred taxes related to the Commission-approved rate case expense.

ISSUE 29: What is the appropriate weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure for the 1996 projected test year?

POSITIONS

- GULF:** As stated in the MFRs. (Andrews)
- OPC:** The appropriate overall cost of capital is 9.22%. The proper components, amounts, and cost rates associated with the capital structure can be found in Schedule 2 of Exhibit KHD-1. (Dismukes)

STAFF: The determination of the weighted average cost of capital is dependent upon the resolution of other cost of capital issues.

NET OPERATING INCOME

ISSUE 30: What are the appropriate water and wastewater gallonage projections for FGCU for the 1996 projected test year, and what adjustments, if any, are necessary to projected revenues?

POSITIONS

GULE: 15 million gallons for water and 10.6 million gallons for wastewater. No adjustments should be made to revenue. (Cardey)

OPC: No position pending further development of the record.

STAFF: No position pending further development of the record.

ISSUE 31: What adjustments, if any, are necessary to the 1996 projected test year revenues to reflect the appropriate miscellaneous service revenues?

POSITIONS

GULE: No adjustments are necessary. (Cardey)

OPC: No position pending further development of the record.

STAFF: No position pending further development of the record.

ISSUE 32: If a reuse rate is approved, and the rate is greater than \$0, should test year revenues be adjusted?

GULE: No. The company's position is that reuse is part of the utility's effluent disposal and treatment process, and as such, golf courses are not customers. (Cardey and Moore)

OPC: Yes. The Commission should increase test year revenue by \$139,599 to reflect the sale of reclaimed water at \$.25 per 1,000 gallons. (Dismukes)

STAFF: Yes.

ISSUE 33: Should any adjustments be made to include in test year income, interest income recorded below the line?

POSITIONS

GULF: No. The projected cash balance for the operating account (test year ended 12/31/96) included interest earnings of just \$559 (\$43 on 13 mo. average basis). This amount has been removed from the working capital computation in Exhibit ___ (RCN-1). (Nixon)

OPC: Yes. Test year income should be increased by \$4,000 to reflect interest income earned on cash included in the Company's working capital allowance. (Dismukes)

STAFF: Agree with OPC's position.

ISSUE 34: Are any adjustments necessary to the projected test year salaries, benefits and payroll taxes for employees that provide services to both Gulf and the Caloosa Group (Audit Disclosure 3)?

POSITIONS

GULF: No. Studies show that the amounts stated are reasonable. (Cardey and Moore)

OPC: Yes. Gulf's salaries should be reduced by \$8,947 to reflect the higher salary paid to employees when they work for the utility instead of its affiliate Caloosa. Appropriate adjustments should likewise be made to employee benefits and payroll taxes. (Dismukes)

STAFF: Yes. Gulf's salaries should be decreased to charge the same hourly rate to shared employees. Further adjustments should also be made to reflect these allocations to employee benefits and payroll taxes. The dollar amounts are subject to the resolution of other issues. (Welch)

ISSUE 35: Are any adjustments necessary to the vice president's salary and benefits (Audit Disclosure 13)?

POSITIONS

GULF: No. (Moore)

OPC: Yes. The vice president's salary should be reduced by \$30,234. Appropriate adjustments should likewise be made to employee benefits and payroll taxes. (Dismukes)

STAFF: Some adjustment may be necessary, since the utility failed to document the number of hours that the vice president spends working on utility related matters. (Welch)

ISSUE 36: Should any adjustments be made to salary expense for excessive pay increases?

POSITIONS

GULF: No. Salary increases were reasonable. (Moore)

OPC: Yes. Salaries should be reduced by \$7,416 to remove excessive pay increases from the test year. (Dismukes)

STAFF: Some adjustment may be necessary, pending further development of the record.

ISSUE 37: Is the annual lease amount charged to Gulf by Caloosa Group reasonable and if not, what adjustments are necessary (Audit Disclosure 4)?

POSITIONS

GULF: Yes. The annual lease amount is reasonable. This amount is justified based on an independent appraisal and the rental fee for the remainder of the space in the same building. (Cardey, Moore)

OPC: No. Test year expenses should be reduced by \$26,182 for the lease of office space from Caloosa by Gulf. (Dismukes)

STAFF: Some adjustment may be necessary, depending upon further development of the record. (Welch)

ISSUE 38: Are any adjustments necessary to the common maintenance expenses associated with the building lease (Audit Disclosure 4)?

POSITIONS

GULF: No. Common maintenance expenses are billed to Gulf at cost. (Moore)

OPC: Yes. Common maintenance expenses should be adjusted to reflect the actual amount that will be paid during the test year. As of July 1996, the amounts in the test year were overstated by \$3,600. (Dismukes)

STAFF: Yes. Some adjustments are necessary. However, the amount is dependent upon further development of the record.

ISSUE 39: Are adjustments necessary to allocate additional administrative and general expenses, including rent, office supplies, miscellaneous business and administrative expense, vehicle expense and computer depreciation to the Caloosa Group (Audit Disclosure 3)?

POSITIONS

GULF: No adjustment should be made to these expenses, except an additional \$1400 should be allocated to the Caloosa Group primarily because of higher rental charges. There is no administrative expense. (Cardey and Moore)

OPC: Yes. Test year expense should be reduced by \$7,445 to reflect administrative and general expenses that have not been properly charged to Caloosa.

STAFF: Yes. Adjustments are necessary to allocate rent, office supplies, miscellaneous business and administrative expenses, vehicle expenses and computer depreciation to Caloosa for shared services.

ISSUE 40: Are any adjustments necessary to Gulf's requested level of directors' fees (Audit Disclosure 2)?

POSITIONS

GULF: No. These are necessary and proper in the conduct of Gulf's business. (Moore)

OPC: Yes. Test year expenses should be reduced by \$9,000 for excessive fees paid to the board of directors. (Dismukes)

STAFF: Some adjustment may be necessary, since some directors do not consistently attend the directors' meetings. (Welch)

ISSUE 41: Should any adjustment be made to remove expenses for lift station coating from the test year?

POSITIONS

GULF: No adjustments should be made for lift station maintenance. (Messner)

OPC: Yes. Test year expenses should be reduced by \$10,500 to remove nonrecurring expenses. (Dismukes)

STAFF: Agree with OPC.

ISSUE 42: Are adjustments necessary to remove charitable contributions from operations and maintenance expenses? (Audit Exception 3)

POSITIONS

GULF: No. These are not included in Gulf's test year. (Cardey, Andrews)

OPC: Agree with Staff.

STAFF: Yes. Water and wastewater miscellaneous expenses should be reduced by \$1,269 and \$640, respectively, to remove charitable contributions from operation and maintenance expenses. (Welch)

ISSUE 43: Should any adjustments be made to remove from test year expenses golf outings and gift basket expenses?

POSITIONS

GULF: No. These are not included in Gulf's test year. (Cardey, Andrews)

OPC: Yes. Test year expenses should be reduced by \$780.

STAFF: No position pending further development of the record.

ISSUE 44: Should the Commission include budgeted "unanticipated" expenses in the test year?

POSITIONS

GULE: OPC's "Unanticipated expenses" is a misnomer. The Company must allow for miscellaneous expenses that occur year in and year out, not itemized specifically in the budgetary process. These expenses occur in the normal course of the business. (Andrews)

OPC: No. These expenses, in the amount of \$4,895, should be removed from test year expenses. (Dismukes)

STAFF: Agree with OPC.

ISSUE 45: Are adjustments necessary to remove amortization of the San Carlos water line project (Audit Disclosure 5)?

POSITIONS

GULE: These costs relate to engineering to supply service to an area without central water service. The Lee County Commission would not require mandatory hook-up, thus making the project uneconomical. The Company is writing the cost off over 5 years. (Moore)

OPC: Agree with Staff.

STAFF: Yes. These costs have not been abandoned and should be removed from test year amortization until the project is added to plant or fully abandoned. Test year amortization should be reduced by \$8,184. (Welch)

ISSUE 46: Is an annual customer satisfaction survey necessary, and what, if any, adjustments are appropriate to test year expenses (Audit Disclosure 10)?

POSITIONS

GULE: Yes. Such survey should not be done less than annually. This is part of the Company's ongoing effort to assure a satisfactory level of service to its customers. The cost of an annual customer survey should be included in test year expenses. (Moore)

OPC: If the customer survey should not be conducted annually, the amount of prudently incurred survey costs should be reduced to reflect the appropriate amortization.

STAFF: If the Commission determines that the survey is not necessary on an annual basis, the cost should be amortized over the appropriate time frame. Any adjustment will be based on further development of the record. (Welch)

ISSUE 47: Are adjustments necessary to remove expensed costs related to preliminary survey charges for FGCU (Audit Disclosure 11)?

POSITIONS

GULF: These costs are engineering service required under the bond indenture, engineering service on franchise mapping, etc. and only \$32 relate to FGCU. The costs are expenses as they should be. (Andrews)

OPC: Agree with Staff.

STAFF: Yes, Contractual Services-Engineering should be reduced by \$1,029 for water and \$310 for wastewater and recorded in construction work in progress. (Welch)

ISSUE 48: Are adjustments necessary to remove local business and entertainment expenses for Gulf's president (Audit Disclosure 15)?

POSITIONS

GULF: No. All expenses are utility business expenses and are explained. There are no entertainment expenses. (Moore)

OPC: Excessive and unreasonable business meals and entertainment expenses should be removed from test year expenses. The amount will be determined pending further development of the record. (Dismukes)

STAFF: Yes, expenses should be reduced by \$1,867 for local business meals and \$120.38 for entertainment. (Welch)

ISSUE 49: What is the appropriate provision for rate case expense?

POSITIONS

GULF: The amount of rate case expense should be \$251,890.65.
(Moore)

OPC: The appropriate amount of rate case expense is subject to
further development of the record.

STAFF: Only prudently incurred rate case expense should be
allowed. The amount is subject to further development of
the record.

ISSUE 50: What adjustments are appropriate to test year
depreciation expense? (Audit Exception 6)

POSITIONS

GULF: Gulf made a mistake in computing depreciation expense,
water should be increased by \$78,338 and wastewater
should be increased by \$42,270. (Andrews)

OPC: Agree with Staff.

STAFF: Adjustments are necessary to remove retirement
adjustments incorrectly made and to remove depreciation
expense on any additional non-used and useful plant
adjustments. (Welch)

ISSUE 51: What is the appropriate provision for income tax expense,
before any rate increase for water and wastewater,
respectively?

POSITIONS

GULF: \$19,663 for wastewater and \$0 for water. (Andrews)

OPC: No position at this time pending the resolution of other
issues.

STAFF: The amount is dependent upon the resolution of other
issues, except that income tax expense should be reduced
for the amortization of the deferred taxes related to the
CIAC gross-up provision.

ISSUE 52: What is the test year operating income before any revenue increase?

POSITIONS

GULF: \$271,124 for water and \$427,344 for wastewater. (Andrews)

OPC: The test year operating income amounts are subject to the resolution of other issues.

STAFF: The test year operating income amounts are subject to the resolution of other issues.

REVENUE REQUIREMENT

ISSUE 53: What is the appropriate revenue requirement?

POSITIONS

GULF: As set forth in the MFRs, as modified by stipulations. (Cardey)

OPC: The revenue requirements are subject to the resolution of other issues. However, the Citizens recommend a rate decrease for both the water and wastewater operations, per the testimony of Ms. Dismukes and Mr. Bidy. (Dismukes and Bidy)

STAFF: The appropriate revenue requirement is an amount that is dependent upon the resolution of other issues.

RATES AND RATE STRUCTURE

ISSUE 54: Should the public fire protection charge be continued, and if so, what is the appropriate charge?

POSITIONS

GULF: Yes, as set forth in the MFRs. (Cardey)

OPC: No position.

STAFF: No position pending further development of the record.

ISSUE 55: Should the Commission determine a reuse rate in this proceeding, and if so, what is the appropriate rate?

POSITIONS

GULF: No. (Cardey and Moore)

OPC: Yes. The reuse rate should be set at \$.25 per thousand gallons. (Dismukes)

STAFF: The Commission should determine a reuse rate in this proceeding. Staff has no position on the amount pending further development of the record. (Xanders, Burns)

ISSUE 56: In light of Section 367.0817, Florida Statutes, should any of the revenue requirement associated with reuse be allocated to Gulf's water customers and recovered through water rates?

POSITIONS

GULF: Gulf does not believe that a rate should be set, but if one is established, it should be allocated to the water customers. (Moore)

OPC: No position.

STAFF: No position pending further development of the record. (Xanders, Burns)

ISSUE 57: What is the appropriate master meter influent service rate?

POSITIONS

GULF: As set forth in the MFRs. (Cardey)

OPC: No position pending further development of the record.

STAFF: No position pending further development of the record.

ISSUE 58: What are the appropriate water and wastewater rates?

POSITIONS

GULF: As set forth in the MFRs. (Cardey)

OPC: The final rates are dependent upon the resolution of other issues.

STAFF: The final rates are dependent upon the resolution of other issues.

ISSUE 59: 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 as required by Section 367.0816, Florida Statutes?

POSITIONS

GULF: One quarter of the approved rate case expense. (Andrews)

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

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

ISSUE 60: What are the appropriate amounts of refunds, if any, for water revenues held subject to refund and the interim wastewater increase?

POSITIONS

GULF: Agree with Staff.

OPC: Agree with Staff.

STAFF: The appropriate amounts of any possible refunds are subject to the resolution of other issues.

SERVICE AVAILABILITY

ISSUE 61: Should the utility's tariff filing to modify its service availability charges be approved as filed?

POSITIONS

GULF: Yes, as set forth in the MFRs. (Cardey)

OPC: No position pending further development of the record.
STAFF: No position pending further development of the record.

OTHER ISSUES

ISSUE 62: What is the appropriate Allowance for Funds Used During Construction (AFUDC) rate?

POSITIONS

GULF: Agree with Staff.
OPC: Agree with Staff.
STAFF: The appropriate rate is subject to the resolution of other issues.

ISSUE 63: Should the special service availability agreement dated December 12, 1996 between Gulf and the Board of Trustees of the Internal Improvement Trust Fund of the State of Florida (FGCU) be approved as filed?

POSITIONS

GULF: Yes. (Moore)
OPC: No position pending further development of the record.
STAFF: No position pending further development of the record.

VIII. EXHIBIT LIST

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
<u>Direct</u> Keith R. Cardey	Gulf	<hr/> (KRC-1)	Minimum Filing Requirements, consisting of all information filed on June 27, 1996.

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
Keith R. Cardey	Gulf	<u>(KRC-2)</u>	Application for Change in Plant Capacity Charges
Keith R. Cardey	Gulf	<u>(KRC-3)</u>	Allocation of General Office Expenses to Caloosa Group, Inc.
Keith R. Cardey	Gulf	<u>(KRC-4)</u>	Order No. 960234-WS Rate Base and Income Statement Adjustments for Water Operations
Keith R. Cardey	Gulf	<u>(KRC-5)</u>	Summary of Prepaid Capacity Charges as of 12/31/95
Keith R. Cardey	Gulf	<u>(KRC-6)</u>	Developer Agreement Provision on Prepaid Capacity Charges
Robert C. Nixon	Gulf	<u>(RCN-1)</u>	"Financial, Rate and Engineering MFRs," Application for Changes in Rates, Schedules C1 to C10
James W. Moore	Gulf	<u>(JWM-1)</u>	Cash flow analysis

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
James W. Moore	Gulf	<u>(JWM-2)</u>	Shareholder investment analysis, 1982-1995
James W. Moore	Gulf	<u>(JWM-3)</u>	Five year capital budget, 1996-2000
James W. Moore	Gulf	<u>(JWM-4)</u>	Support for investments made in the public interest
Carolyn B. Andrews	Gulf	<u>(KRC-1)</u>	All schedules and MFR information not sponsored by other witnesses on direct
Ted L. Bidy	OPC	<u>(TLB-1)</u>	Key and rationale for OPC used and useful calculations
Ted L. Bidy	OPC	<u>(TLB-2)</u>	Used and useful calculations for water systems
Ted L. Bidy	OPC	<u>(TLB-2.1)</u>	ERC calculations/water
Ted L. Bidy	OPC	<u>(TLB-2.2)</u>	Fireflow Test Records Summary
Ted L. Bidy	OPC	<u>(TLB-3)</u>	Used and useful calculations for wastewater systems

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
Ted L. Biddy	OPC	<u>(TLB-3.1)</u>	Water sold to wastewater Customers and Actual Wastewater treated in 1995
Ted L. Biddy	OPC	<u>(TLB-3.2)</u>	Inflow and Infiltration allowance calculations
Ted L. Biddy	OPC	<u>(TLB-3.3)</u>	ERC calculations/ wastewater
Kimberly H. Dismukes	OPC	<u>(TLB-1)</u>	Composite exhibit, comprised of 18 schedules
William T. Rendell	Staff	<u>(WTR-1)</u>	Agreements filed with the FPSC between Caloosa Group and Gulf Utility Company
William T. Rendell	Staff	<u>(WTR-2)</u>	Unanimous written consent to resolutions by the Board of Directors of Gulf Utility Company
William T. Rendell	Staff	<u>(WTR-3)</u>	Gulf Utility C o m p a n y approved water and wastewater service availability tariffs
Kathy L. Welch	Staff	<u>(KLW-1)</u>	Staff Audit Report

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
Edith H. Xanders	Staff	_____ (EHX-1)	Summary of reuse rates
Edith H. Xanders	Staff	_____ (EHX-2)	Responses to reuse rate survey
William S. Burns	Staff	_____ (WSB-1)	Golf Course Consumptive Use Permits
 <u>Rebuttal</u>			
James W. Moore	Gulf	_____ (JWM-5)	Appraisal's Report
James W. Moore	Gulf	_____ (JWM-6)	1996 Wage Survey
James W. Moore	Gulf	_____ (JWM-7)	Rate Case Expense
James W. Moore	Gulf	_____ (JWM-8)	Reuse Agreements
Keith R. Cardey	Gulf	_____ (KRC-7)	Test Year Rate Base, as adjusted
Keith R. Cardey	Gulf	_____ (KRC-8)	Margin Reserve
Keith R. Cardey	Gulf	_____ (KRC-9)	Comparison of Company MFR and OPC's determination of Used and Useful
James P. Elliot	Gulf	_____ (JPE-1)	Rule 62-600.405, F.A.C.
James P. Elliot	Gulf	_____ (JPE-2)	Margin reserve exhibit
James P. Elliot	Gulf	_____ (JPE-3)	Rule 62-555.315, F.A.C.

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
James P. Elliot	Gulf	_____ (JPE-4)	Engineering Design - Information - Definitions - "Net Positive Suction Head" re pumping systems
James P. Elliot	Gulf	_____ (JPE-5)	High Service Pumping-Storage Tank Diagrams
James P. Elliot	Gulf	_____ (JPE-6)	Lee County Land Development Code Ch. 10, Art III, Div. 5-"Fire Safety"
James P. Elliot	Gulf	_____ (JPE-7)	January 14, 1997 fire flow test results (San Carlos Fire District) DEP Permit(s)
Robert C. Nixon	Gulf	_____ (RCN-1)	Average Adjusted Balance Sheet Working Capital Allowance
Robert C. Nixon	Gulf	_____ (RCN-2)	Capital Projects included in Accounts Payable.
Steven M. Messner	Gulf	_____ (SMM-1)	Domestic Wastewater Facility permit No. FLA014519
Carolyn B. Andrews	Gulf	_____ (CBA-1)	December 6, 1996, Gulf Utility Company Response to Audit Report

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
Carolyn B. Andrews	Gulf	_____ (CBA-2)	Test Year Net Operating Income as Adjusted
Carolyn B. Andrews	Gulf	_____ (CBA-3)	Depreciation Expense and Reserve for Depreciation
Carolyn B. Andrews	Gulf	_____ (CBA-4)	Capacity Charges
Carolyn B. Andrews	Gulf	_____ (CBA-5)	1996 Capital Budget

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

IX. PROPOSED STIPULATIONS

The parties have agreed and Staff recommends that the following stipulations are reasonable and should be accepted by the Commission:

- 1). Wastewater plant in service should be reduced by \$2,265 in order to correct the 13-month average balance of wastewater plant reported in the MFRs. (Audit Exception 4)
- 2) The water transmission and distribution system should be considered 100 percent used and useful because the water distribution lines are contributed.
- 3) The entire wastewater collection system should be considered 100 percent used and useful because the collection system is contributed.
- 4) Test year expenses should be reduced by \$792, to remove lobbying-type expenses.
- 5) Test year expenses should be reduced by \$235 to remove expenses related to rotary club dues.

- 6) Charitable contributions should not be included in operation and maintenance expenses. (Audit Exception 3)
- 7) An adjustment of \$8000 should be made to remove expenses for pond cleaning from the test year.
- 8) Consulting costs associated with the overearnings investigation case should be considered rate case expense and included in Gulf's documentation for requested rate case expense. Test year expenses should be reduced by \$4,205 for water and \$1,979 for wastewater. (Audit Disclosure No. 12)
- 9) Payroll taxes should be allocated based on the ratio of payroll costs between water and wastewater. The amounts are subject to the resolution of other issues. (Audit Disclosure 16)
- 10) Test year regulatory assessment fees should be computed to reflect 4.5 percent of adjusted test year revenues, resulting in adjustments of \$(715) for water and \$(1051) for wastewater. (Audit Disclosure 16)
- 11) Private fire protection rates should be calculated in accordance with Rule 25-30.465, Florida Administrative Code.
- 12) For both water and wastewater refund purposes, the final revenue requirements should be adjusted to remove any ratemaking components which were not in service or not incurred during the time interim rates were in effect. These adjusted revenue requirements should be compared to the adjusted test year revenues to determine whether any refund should be ordered. The water test year revenues should be annualized for the two time periods using the rates prior to the water interim rate reduction and the rates subsequent to the water interim rate reduction.
- 13) The appropriate AFUDC rate should be based on the rate of return found to be fair and reasonable by the Commission, and pursuant to Rule 25-30.116, Florida Administrative Code. The rate should be effective January 1, 1997.
- 14) The cost of common equity capital should be determined using the leverage formula in effect at the time of the Commission's decision in this case. OPC has no position as to the use of the leverage formula, but does not intend to pursue it as an issue.

- 15) If any plant costs related to funds received from the South Florida Water Management District's Alternate Water Supply Grants Program have been included in projected rate base, those costs should also be included in rate base as CIAC. Regardless of the ratemaking treatment followed in this rate case, the grant should be recorded as CIAC on the utility's books when received. In no event should the amount of CIAC exceed the amount of related plant in rate base resulting from this transaction.

X. PENDING MOTIONS

There are no pending motions.

XI. RULINGS

Staff's motion to file the additional testimony of Bernard Kleinschmidt, filed February 12, 1997, is granted.

The utility's request to file additional rebuttal testimony in response to Mr. Kleinschmidt's testimony, and to address the special service availability agreement discussed in Issue 63 was granted. The utility shall file such testimony on or before February 25, 1997.

It is therefore,

ORDERED by Commissioner J. Terry Deason, 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 J. Terry Deason, as Prehearing Officer, this 24th day of February, 1997.



J. TERRY DEASON, Commissioner and
Prehearing Officer

(S E A L)

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), 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.

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 25-22.038(2), Florida Administrative Code, if issued by a Prehearing Officer; 2) reconsideration within 15 days pursuant to Rule 25-22.060, Florida Administrative Code, if issued by the Commission; or 3) 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 Records and Reporting, 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.