

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for increase
in service availability charges
for water customers in the Seven
Springs service area in Pasco
County by Aloha Utilities, Inc.

DOCKET NO. 010156-WU
ORDER NO. PSC-02-1428-TRF-WU
ISSUED: October 18, 2002

The following Commissioners participated in the disposition of
this matter:

LILA A. JABER, Chairman
J. TERRY DEASON
BRAULIO L. BAEZ
MICHAEL A. PALECKI
RUDOLPH "RUDY" BRADLEY

ORDER FINALIZING WATER SYSTEM PLANT CAPACITY CHARGES AND
RELEASING ESCROWED FUNDS

BY THE COMMISSION:

BACKGROUND

Aloha Utilities, Inc. (Aloha or utility) is a Class A water and wastewater utility in Pasco County. The utility consists of two distinct service areas, Aloha Gardens and Seven Springs. The utility's service area is located within the Northern Tampa Bay Water Use Caution Area as designated by the Southwest Florida Water Management District (SWFWMD). Critical water supply concerns have been identified by SWFWMD within this area.

On February 1, 2001, the utility filed an application to increase its plant capacity charge for its Seven Springs water system to \$690 per equivalent residential connection (ERC). Aloha filed this request pursuant to Order No. PSC-00-1285-FOF-WS, issued July 14, 2000, in Docket No. 960545-WS. By that Order, this Commission had approved a temporary \$500 plant capacity charge per ERC, subject to refund, pending the filing of the instant application and approval of a final charge by this Commission.

DOCUMENT NUMBER DATE

11326 OCT 18 02

FPSC-COMMISSION CLERK

By Order No. PSC-02-0593-FOF-WU, issued April 30, 2002, in Docket No. 010503-WU (a rate case for Aloha's Seven Springs water system), we increased the temporary plant capacity charge to \$1,000 per ERC, subject to refund. On May 29, 2002, the utility filed a notice of appeal of that Order with the First District Court of Appeal (DCA). On June 14, 2002, Aloha filed a Motion for Stay of Order No. PSC-02-0593-FOF-WU, which included the provision to increase the plant capacity charge to \$1,000 per ERC. By Order No. PSC-02-1056-PCO-WU, issued August 5, 2002, we denied the utility's request to stay the provision to increase the plant capacity charge. However, we did stay several other requirements as set forth in Order No. PSC-02-0593-FOF-WU.

On July 26, 2002, Aloha submitted a revised tariff sheet to reflect the temporary plant capacity charge of \$1,000 per ERC. On August 1, 2002, the utility submitted a proposed notice for this increased charge. With a minor modification, our staff approved the notice on the same day. On August 12, 2002, Aloha sent notices to persons who have filed a written request for service or who have been provided a written estimate for service within the past 12 calendar months. As a result, the \$1,000 charge became effective on August 13, 2002.

On August 20, 2002, Aloha requested that the \$1,000 temporary charge approved by Order No. PSC-02-0593-FOF-WU be made final. This Order addresses whether the temporary \$1,000 per ERC plant capacity charge should be made final. We have jurisdiction pursuant to Section 367.101, Florida Statutes.

WATER PLANT SYSTEM CAPACITY CHARGE

Pursuant to Order No. PSC-00-1285-FOF-WS, we required the utility to implement a pilot project using the best available treatment alternative to enhance the water quality and to diminish the tendency of the water to produce copper sulfide in the customers' homes. In May 1997, the utility's engineer had completed extensive cost estimates for the treatment process, known as packed-tower aeration, which was a possible treatment alternative required by Order No. PSC-00-1285-FOF-WS. However, according to the utility's pilot project reports, Aloha discovered another treatment process, identified by the trade name "MIEX," to

remove the hydrogen sulfide from the water supply. This treatment process uses a specifically engineered magnetic ion exchange resin. Aloha has used this process to test its technical and economical feasibility.

Aloha is nearing completion of its final feasibility report of the MIEX treatment process, which must be completed before extensive cost estimates for this process can be done. The utility engineer's current estimate is that the full-scale MIEX treatment process at Aloha's Seven Springs water system will cost at least \$10,000,000. Also, as noted in Docket No. 010503-WU, Aloha's engineer estimated that the total cost of the pilot project would be approximately \$200,000 to \$300,000.

In addition, SWFWMD has required, through a consent order with the utility, that Aloha conduct a feasibility study for a reverse osmosis (R/O) facility for the Seven Springs water system. The consent order also provided that, if it was determined that the R/O facility was not feasible, Aloha would move forward with an alternative technology feasibility study in order to seek another source for water supply. In its August 20, 2002, letter to staff in the instant docket, the utility stated that the R/O feasibility study will take approximately one year to complete and will cost \$1,000,000. Aloha's engineer estimated that the R/O facility is expected to cost between \$25 and \$30 million. The utility emphasized that this R/O plant is not a replacement to the packed-tower or MIEX process, but it is in addition thereto.

Pursuant to Rule 25-30.580, Florida Administrative Code, a utility's service availability policy shall be designed in accordance with the following guidelines:

- (1) The maximum amount of contribution-in-aid-of-construction, net of amortization, should not exceed 75% of the total original cost, net of accumulated depreciation, of the utility's facilities and plant when the facilities and plant are at design capacity.
- (2) The minimum amount of contribution-in-aid-of-construction should not be less than the percentage of such facilities and plant that is represented by the water transmission and distribution and sewage collection systems.

Aloha's original proposed plant capacity charge of \$690 per ERC in this docket was based only on the treatment process known as packed-tower aeration. According to the utility engineer's estimates, the packed-tower aeration plant upgrades would cost \$11,244,717. Further, Aloha's engineer stated that at buildout in 2015 the plant capacity would be 4.52 million gallons per day (mgd), which is designed to serve 15,044 ERCs. The utility's current tariff reflects an average daily demand per ERC of 270 gpd, and the utility stated in its application that the average daily demand per ERC should be increased to 310 gpd. Based on a discussion with the utility's accounting consultant, the 310 gpd was a typographical error and should have been 300 gpd. Dividing the plant capacity at buildout of 4.52 mgd by the total ERCs at buildout of 15,044, we calculate the average daily demand per ERC to be 300 gpd. The 15,044 ERCs at buildout represents additional ERCs of 5,238 from January 1, 2002 to December 31, 2015.

Using the current meter installation fee of \$75.80 and the estimated additional ERCs of 5,238, meter-related CIAC and plant are projected to increase by \$397,040 at buildout. A \$1,000 per ERC plant capacity charge is projected to provide additional CIAC of \$5,238,000 at buildout. Utilizing the five-year annual report average (from 1997 to 2001) of \$558,389 per year to project donated property at buildout in 2015, the additional donated property at buildout would equate to \$7,817,446.

Because it is not yet known which course of action the utility will take, we have reviewed several potential plant improvement alternatives and the resulting CIAC ratios. We note that all alternatives utilize the following: 1) a capitalized cost of \$200,000 for the pilot project; 2) a capitalized cost of \$1,000,000 for the R/O feasibility study; 3) additional CIAC and plant of \$397,040 for meter installations at buildout; 4) additional donated property of \$7,817,446 at buildout; and 5) additional CIAC of \$5,238,000 at buildout from the collection of the \$1,000 plant capacity charge. Alternative 1 represents the additional \$11,244,717 cost for the packed-tower aeration plant upgrades and \$10 million for the R/O plant upgrades. Alternative 2 represents the additional \$10 million cost for the full-scale MIEEX treatment process and \$10 million for the R/O plant upgrades. Alternative 3 represents the additional \$11,244,717 cost for the packed-tower aeration plant upgrades and \$25 million estimated for the R/O plant

upgrades. Alternative 4 represents the additional \$10 million cost for the full-scale MIEX treatment process and \$25 million estimated for the R/O plant upgrades.

	<u>Alternative 1</u>	<u>Alternative 2</u>	<u>Alternative 3</u>	<u>Alternative 4</u>
Gross CIAC	\$22,235,367	\$22,235,367	\$22,235,367	\$22,235,367
Gross Plant	\$40,854,959	\$39,610,242	\$55,854,959	\$45,610,242
CIAC Ratio	54.43%	56.14%	39.81%	48.75%

The CIAC ratio net of depreciation and amortization at December 31, 2001, was 91.59%, and the gross CIAC ratio on that same date was 86.14%. This represents a difference of only 5.45%. Since the gross CIAC ratios of the four alternatives above are significantly below 75%, we believe that the \$1,000 charge would not cause the utility to exceed the 75% net CIAC maximum limit. The historical December 31, 2001, balance of CIAC for the Seven Springs' water transmission and distribution system was well above the minimum guideline amount. Also, the utility's current service availability policy provides that developers are responsible for all on-site and off-site facilities. With the continuation of this policy, it is projected that the \$1,000 charge would place the CIAC balance at buildout within the range of the minimum and maximum CIAC guideline levels.

Based on the above, we find that the \$1,000 charge complies with Rule 25-30.580, Florida Administrative Code. Thus, the current temporary \$1,000 per ERC plant capacity charge shall be made final. For all non-residential customers, the plant capacity charge shall be \$3.333 per gallon, which is calculated by dividing the \$1,000 per ERC charge by 300 gpd per ERC. These charges shall both be based on an average daily demand 300 gpd per ERC.

If there is no timely protest to this Order by a substantially affected person, the utility shall file the appropriate revised tariff sheets and a proposed notice within twenty days of the date of the Order consummating the Order. The revised tariff sheets shall be approved administratively upon our staff's verification that the tariffs are consistent with our decision and the utility's proposed notice is adequate. If the revised tariff sheets are approved, the service availability charges shall become effective

for connections made on or after the stamped approval date of the revised tariff sheets, pursuant to Rule 25-30.475(2), Florida Administrative Code, provided that the appropriate notice has been made.

The notice shall be mailed or hand delivered to all persons in the service area who have filed a written request for service within the past 12 calendar months or who have been provided a written estimate for service within the past 12 calendar months. The utility shall provide proof of the date the notice was given within 10 days after the date of the notice.

If there is a protest of the Commission's Order, the utility shall continue collection of the \$1,000 charge subject to refund and continue escrowing the difference between \$163.80 and \$1,000.

Pursuant to Order No. PSC-00-1285-FOF-WS, issued July 14, 2000, in Docket No. 960545-WS, Aloha has been escrowing the difference between the previous plant capacity charge of \$163.80 per ERC and the temporary charge of \$500 per ERC. By Order No. PSC-02-0593-FOF-WU, issued April 30, 2002, in Docket No. 010503-WU, we increased the temporary charge and required the utility to escrow the difference between the previous plant capacity charge of \$163.80 per ERC and the temporary charge of \$1,000 per ERC. According to Aloha's refund report submitted on August 14, 2002, the escrow account balance as of July 31, 2002, was \$823,591. This amount represents 82.36% of the utility engineer's estimate of the total cost of the feasibility study for an R/O facility, previously discussed. If there is no protest to this Order, the \$1,000 per ERC plant capacity charge will be final upon the issuance of a Consummating Order. Thus, all escrowed service availability funds for the Seven Springs water system shall be released, and the escrow account shall be closed upon the issuance of a Consummating Order.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the application of Aloha Utilities, Inc., for increased water system plant capacity charges for its Seven Springs service area is approved as set forth in the body of this Order. It is further

ORDER NO. PSC-02-1428-TRF-WU
DOCKET NO. 010156-WU
PAGE 7

ORDERED that, for the Seven Springs service area, Aloha Utilities, Inc., shall charge the service availability charges set forth in the body of this Order. It is further

ORDERED that if there is no timely protest to this Order by a substantially affected person, Aloha Utilities, Inc., shall file the appropriate revised tariff sheets and a proposed notice within twenty days of the date of the Order consummating the Order. It is further

ORDERED that the revised tariff sheets shall be approved administratively upon staff's verification that the tariffs are consistent with our decision and the utility's proposed notice is adequate. It is further

ORDERED that, if this Order becomes final, the service availability charges shall become effective for connections made on or after the stamped approval date of the revised tariff sheets, pursuant to Rule 25-30.475(2), Florida Administrative Code, provided that appropriate notice has been made. It is further

ORDERED that the notice shall be mailed or hand delivered to all persons in the service area who have filed a written request for service within the past 12 calendar months or who have been provided a written estimate for service within the past 12 calendar months. The utility shall provide proof of the date the notice was given within 10 days after the date of the notice. It is further

ORDERED that if there is no timely protest of this Order, the Order on the service availability charges will become final upon the issuance of a Consummating Order. It is further

ORDERED that if there is no protest to this Order, all escrowed service availability funds for the Seven Springs water system shall be released, and the escrow account shall be closed upon the issuance of a Consummating Order. It is further

ORDERED that upon our staff's verification that the revised tariff sheets are consistent with our decision and that the appropriate notice has been made, this docket shall be closed administratively. It is further

ORDER NO. PSC-02-1428-TRF-WU
DOCKET NO. 010156-WU
PAGE 8

ORDERED that if a timely protest is filed, the docket shall remain open pending the resolution of the protest, and Aloha Utilities, Inc., shall continue to escrow the difference between the previous plant capacity charge of \$163.80 per ERC and the temporary charge of \$1,000 per ERC and shall continue to provide a report by the 20th day of each month indicating the monthly and total amount of service availability charges collected subject to refund as of the end of the preceding month, pursuant to Rule 25-30.360(6), Florida Administrative Code.

By ORDER of the Florida Public Service Commission this 18th day of October, 2002.

BLANCA S. BAYÓ, Director
Division of the Commission Clerk
and Administrative Services

By: Kay Flynn
Kay Flynn, Chief
Bureau of Records and Hearing
Services

(S E A L)

RRJ

NOTICE OF FURTHER PROCEEDINGS

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

ORDER NO. PSC-02-1428-TRF-WU
DOCKET NO. 010156-WU
PAGE 9

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.

The Commission's decision on this tariff is interim in nature and will become final, unless a person whose substantial interests are affected by the proposed action files a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on November 8, 2002.

In the absence of such a petition, this Order shall become final and effective upon the issuance of a Consummating Order.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.