

REVISED

FLORIDA PUBLIC SERVICE COMMISSION
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Tallahassee, Florida 32399-0850

M E M O R A N D U M

May 7, 1997

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF LEGAL SERVICES (REYES) *BLK*
DIVISION OF WATER & WASTEWATER (MCCASKILL) *CFM* *BL*

RE: DOCKET NO. 961419-WS - RESPONSE TO COMMISSION ORDER TO
SHOW CAUSE BY ALOHA UTILITIES, INC. IN PASCO COUNTY

AGENDA: MAY 19, 1997 - REGULAR AGENDA - ISSUES 3 AND 5 ARE
PROPOSED AGENCY ACTION -INTERESTED PERSONS MAY
PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: S:\PSC\LEG\WP\961419 .RCM

CASE BACKGROUND

Section 367.081(4)(b), Florida Statutes, provides that the approved rates of any utility which receives all or any portion of its utility service from a governmental authority or from a water or wastewater utility regulated by the Commission and which redistributes that service to its utility customers shall be automatically increased or decreased without hearing, upon verified notice to the Commission 45 days prior to its implementation of the increase or decrease that the rates charged by the governmental authority or other utility have changed.

On December 12, 1995, after a public hearing, the Pasco County Board of County Commissioners approved a rate change for all customers encompassing the period of January 1, 1996 through September 30, 1999. As a result of this rate change, the rates for all bulk water and/or wastewater customers were decreased effective January 1, 1996. On December 20, 1995, the Commission staff received from Pasco County copies of the notices it sent to utilities regulated by the Florida Public Service Commission (PSC), advising the utilities of the bulk water and/or wastewater rate change. There are nine PSC regulated utilities which purchase water and/or wastewater from Pasco County. According to the

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notice, Pasco County extended the January 1, 1996 effective date until April 1, 1996 in order to allow the utilities sufficient time to contact the Commission and/or incorporate the new charges into its rate structure.

The bulk water and/or wastewater rate change approved by Pasco County qualifies for a pass-through rate adjustment for PSC regulated utilities pursuant to Section 367.081(4)(b), Florida Statutes. Section 367.081(4)(e), Florida Statutes, provides that a utility may not adjust its rates under this subsection more than two times in any 12 month period. Therefore, on March 29, 1996, staff sent letters to the nine affected utilities regarding the Pasco County rate change advising them that because Pasco County approved two rate changes in 1996, the utilities had the option of using the pass through statute to adjust their rates accordingly. Specifically, staff informed the utilities that one of the rate changes could be filed as a pass-through in conjunction with an index and the other pass-through adjustment could be filed separately to be effective for October 1, 1996.

Only three of the nine (Utilities Inc. of Florida, Betmar Utilities, Inc. and Jasmine Lakes Utilities Corporation) filed for a pass-through rate reduction. Another utility, Virginia City Utilities, Inc. (Virginia City) had a staff assisted rate case in Docket No. 960625-WU, through which the county's decreased rates were incorporated. By Order No. PSC-96-1226-FOF-WS, issued September 27, 1996, in Docket No. 960878-WS, the remaining five utilities, Hudson Utilities, Inc., d/b/a, Hudson Bay Company (Hudson); Forest Hills Utilities, Inc. (Forest Hills); Mad Hatter Utilities, Inc. (MHU or Utility); Aloha Utilities, Inc. (Aloha); and Southern States Utilities, Inc. (SSU) were ordered to show cause in writing why their rates should not be adjusted, effective April 1, 1996, to reflect the reduction in purchased water and/or wastewater costs to bulk water and/or wastewater customers in Pasco County. Order No. PSC-96-1226-FOF-WS also required the utilities to file the information required by Rule 25-30.425(1)(a) through (f), Florida Administrative Code, along with a calculation of the rate reduction. By Order No. PSC-97-0458-FOF-SU, issued April 22, 1997, in Docket No. 961417-SU, the Commission ordered that no refund was appropriate for Hudson Utilities, Inc. Further, by Order No. PSC-97-0457-FOF-WU, issued April 22, 1997, in Docket No. 961428-SU, the Commission ordered that no reduction in rates was required for Forest Hills. However, to date, no decision has been made in the cases of MHU, Aloha, and SSU.

On October 17, 1996, Aloha filed its response to the show cause order. In its response, Aloha requested a waiver of that provision of the order requiring it to file the information required by Rule 25-30.425(1)(a) through (f), Florida

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Administrative Code, along with a calculation of the rate reduction. This will be discussed further in Issue No. 1. In addition, to the extent that the Commission proposes to require a refund for a system other than Aloha Gardens water system and to the extent the Commission proposes to retroactively apply any reduction based upon the reduced cost of purchased water, Aloha requests a hearing in order to address the legal and factual issues underlying any such proposed reduction.

On March 20, 1997, staff filed its recommendation for the April 1, 1997, agenda conference. At the April 1, 1997 agenda conference, after much discussion, the Commission deferred this item to allow staff time to review the settlement proposal offered by the utility in its October 17, 1996 response to the Commission's show cause order. In addition, the utility was required to provide separate rate base and net operating income statement information for 1995 for its Aloha Gardens and Seven Springs water and wastewater systems, in order for staff to determine the achieved rate of return separately for each system. On April 16, 1997, the utility provided a revised settlement proposal which included rate base and operating income statement calculations for the Aloha Gardens water and wastewater systems for 1995 and actual 1996 purchases of water from Pasco County for the Aloha Gardens water system. As a result of the additional information filed, staff has revised its recommendation previously filed on March 20, 1997.

Aloha Utilities, Inc. is a Class A water and wastewater utility providing service in Pasco County. The utility consists of two distinct service areas -- Aloha Gardens and Seven Springs. These service areas are physically divided by U.S. Highway 19, the major north/south highway through Pinellas and Pasco Counties. According to Aloha's 1995 annual report, the utility serves approximately 10,710 water and 10,207 wastewater customers for both service areas. The utility's gross annual operating revenue for both service areas was \$1,755,387 and \$2,236,585 for the water and wastewater systems, respectively. The utility reported net operating revenue of \$85,106 for the water system and \$6,758 for the wastewater system. The purpose of this recommendation is to determine whether Aloha's rates should be adjusted to reflect the reduction in purchased water and/or wastewater costs.

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DISCUSSION OF ISSUES

ISSUE 1: Should Aloha Utilities, Inc.'s request for a waiver of that provision set forth in Order No. PSC-96-1226-FOF-WS requiring the utility to file the information required by Rule 25-30.425(1)(a) through (f), Florida Administrative Code, along with a calculation of the rate reduction, be granted?

RECOMMENDATION: Because staff was able to obtain the necessary and pertinent information from other independent sources, this issue is moot and a vote on the utility's request is no longer required. (REYES)

STAFF ANALYSIS: As stated earlier, on October 17, 1996, Aloha filed its response to Order No. PSC-96-1226-FOF-WS, issued September 27, 1996, in Docket No. 960878-WS. Order No. PSC-96-1226-FOF-WS required Aloha to show cause in writing why its rates should not be adjusted to reflect the reduction in purchased bulk water and/or wastewater costs in Pasco County.

In its written response to the show cause order, Aloha contends that the second ordering paragraph of Order No. PSC-96-1226-FOF-WS, which requires each utility to file the information required by Rule 25-30.425(1)(a) through (f), Florida Administrative Code, along with a calculation of the rate reduction, is contrary to the Commission's decision at agenda and the filing of that information prior to a determination of what, if any, rate reduction is appropriate is premature and a waste of the utility's time, resources, and consulting fees. Further, the utility requested a waiver of that provision of the Order until such time as a determination is made as to the amount, if any, of a rate reduction for the utility's systems. However, because staff was able to obtain the necessary and pertinent information from other independent sources, this issue is moot, and a vote of the utility's request is no longer required.

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ISSUE 2: Should the Commission accept the settlement proposal offered by Aloha Utilities, Inc. on April 16, 1997?

RECOMMENDATION: Yes, the Commission should accept the settlement proposal offered by Aloha Utilities, Inc. on April 16, 1997. The rates for the Aloha Gardens Water System should be reduced on a going forward basis by \$17,701 or \$.12 per thousand gallons of water sold. The utility should file revised tariff sheets and a proposed customer notice reflecting the appropriate rates and the reason for the reduction. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code. The rates should not be implemented until proof of notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days after the date of the notice. Staff recommends that no reduction should be required for the Seven Springs Water and Aloha Gardens Wastewater Systems. (REYES, MCCASKILL)

STAFF ANALYSIS: Aloha operates the Seven Springs water and wastewater systems and the Aloha Gardens water and wastewater systems. These systems operate under separate sets of rates and totally separate physical operations within Pasco County. As stated earlier, on October 17, 1996, Aloha filed its response to Order No. PSC-96-1226-FOF-WS, issued September 27, 1996, in Docket No. 960878-WS. Order No. PSC-96-1226-FOF-WS required Aloha to show cause in writing why its rates should not be adjusted to reflect the reduction in purchased water and/or wastewater costs to bulk water and/or wastewater customers in Pasco County. Aloha failed to file the information required by Rule 25-30.425 (1) (a) through (f), Florida Administrative Code, pursuant to the Order. Instead, the utility provided a narrative assessment of each system, proposing to reduce its rates for the Aloha Gardens water system on a prospective basis. No reduction was proposed for the Seven Springs water and Aloha Gardens wastewater systems. The Seven Springs wastewater system does not purchase any bulk wastewater treatment from Pasco County.

The utility asserts in its response that it disagrees with the proposition that the Commission has the statutory authority to require a decrease in rates of a regulated utility based upon a decrease in the cost of bulk service received from a governmental provider. The utility further asserts that it does not believe the Commission may reduce rates under Section 367.081(4) (b), Florida Statutes, or any other statutory section without first determining that overearnings exist.

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Staff believes, however, that the Commission is vested with the authority to order a reduction in rates when the utility fails to initiate a decrease pursuant to Section 367.081(4)(b), Florida Statutes. Staff believes that it is appropriate for the Commission to require pass-through decreases in the event that the utility meets or exceeds the minimum of its authorized range of return on equity to reflect the reduction in purchased water and/or wastewater costs to bulk water and/or wastewater customers in Pasco County. This is consistent with the Commission's decision in the cases of Hudson Utilities, Inc., Docket No. 961417-SU, Order No. PSC-97-0458-FOF-SU and Forest Hills Utilities, Inc., Docket No. 961428-SU, Order No. PSC-97-0457-FOF-WU, issued April 22, 1997.

In the absence of the utility filing the information required by Rule 25-30.425 (1)(a) through (f), Florida Administrative Code, staff used information obtained from the Pasco County Utility Department (Pasco County) and the utility's 1995 annual report to develop a "rough" calculation of the reduction. Staff's recommendation of March 20, 1997 was filed and presented to the Commission at the April 1, 1997 Agenda Conference, accordingly. After much discussion, the Commission deferred this item to allow staff time to review the settlement proposal offered by the utility in its October 17, 1996, response to the show cause order. In addition, the utility was required to file separate rate base and net operating income statements for its Aloha Gardens and Seven Springs water and wastewater systems for 1995, in order for staff to determine the achieved return on equity separately for each system.

On April 16, 1997, the utility filed a revised settlement proposal which included actual purchased water costs for the Aloha Gardens water system for 1996, and a rate base and net operating income statement for the Aloha Gardens water and wastewater system. Based on the information provided, staff was able to determine the utility's achieved return on equity for each system for 1995. Accordingly, staff has revised its recommendation of March 20, 1997, as follows.

Seven Springs Water System - The utility did not provide any new or updated information on this system in its April 16, 1997 settlement proposal. However, in its October 17, 1996 response, the utility presented the following arguments regarding why its rates should not be reduced for the Seven Springs system. According to the utility, the Seven Springs water system purchases only a small portion of its water from Pasco County. The utility stated that in 1995, the utility's purchases increased to 61 million gallons for the calendar year, by far the highest level ever purchased by the utility. Further, the utility stated that as a result of the addition of two additional source of supply wells by the Seven Springs water system in late 1995, the utility

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purchased only 2,086,000 gallons of water from Pasco County in the first eight (8) months of 1996. The utility expected the 1996 level of purchased water to be continued on a prospective basis. In addition, the utility stated that on an annualized basis Aloha will, therefore, purchase no more than approximately 3 million gallons of water from Pasco County yearly. The utility also stated that even with the reduction in water costs effective October 1, 1996, (.16 from the rate in effect in 1995) the total impact of the reduction at 3 million gallons a year will be only \$480 on an annual basis. The utility stated that the reduction under any such pass-through would, therefore, be so immaterial as not to affect rates at all and surely cost more to process than the total reduction to be passed-through. Furthermore, the utility stated that it should be noted that the Commission has never recognized the cost of water purchased from Pasco County in the rates of the Seven Springs water system. Finally, the utility stated that the interconnection was made only in recent years in order to allow for emergency purchases during peak periods, but those purchases were anticipated to be immaterial on a going forward basis because of the addition of two new supply wells in late 1995. Based on these facts, the utility stated that the Seven Springs water system was not appropriate for any pass-through reduction of purchased water costs.

As previously stated, in the absence of the utility filing the information required by Rule 25-30.425 (1)(a) through (f), Florida Administrative Code, staff used information obtained from Pasco County and the utility's 1995 annual report to develop a "rough" calculation of the reduction. Using the most recent purchases from Pasco County for the twelve month period October, 1995 to September, 1996, staff has calculated the decreased cost in purchased water. For the period October, 1995, to March, 1996, the utility purchased 5,104,000 gallons of water and for the period April 1, 1996, to September, 1996, the utility purchased 3,632,000 gallons of water from Pasco County. Therefore, for the period October, 1995, to September 1996, the utility purchased a total of 8,736,000 gallons of water from Pasco County. Staff did not have consumption data for the period October, 1995 to September, 1996; therefore, staff used the total gallons of water sold during 1995, as a reasonable proxy. The utility's 1995 annual report indicates that 730,584,000 gallons of water was sold during 1995.

On April 1, 1996, Pasco County's bulk water rate was reduced from \$2.31 to \$2.18 per thousand gallons. On October 1, 1996, the rate was further reduced to \$2.15. Therefore, on a prospective basis, Pasco County's bulk water rate was reduced by \$.16. Staff has calculated the decrease in purchased water cost to be the difference in the purchased water cost at the old rate ($5,104 \times \$2.31$ plus $3,632 \times \$2.18$), or \$19,708; and the purchased water cost

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at the new rate (8,736 x \$2.15), or \$18,782. As a result, the decrease in purchased water cost was calculated to be \$926. The decreased purchased water cost was then divided by the expansion factor for regulatory assessment fees (.955) to determine the total decrease of \$970. The revenue decrease was divided by the gallons of water sold (\$970/730,584) to determine the dollar decrease to the gallonage charge of less than \$.01, or \$.001 per thousand gallons of water sold. Staff's calculation is shown on Schedule No. 1.

As stated earlier, staff believes that a utility's rates should be reduced to reflect a reduction in purchased water and/or wastewater costs in the event that the utility meets or exceeds the minimum of its authorized range of return on equity. This system's last authorized rate of return on equity was established as 10%, by Order No. 9278, issued March 11, 1980, in Docket No. 770720-WS.

The utility's 1995 annual report reflects an achieved rate of return of 9.91%, with an achieved return on equity of 12.73%, on a combined system basis for Aloha's water systems for 1995; however, this information was not provided separately for each water system. At the April 1, 1997 Agenda Conference, the Commission required the utility to file separate rate base and net income statements for the Seven Springs System in order for staff to determine its achieved rate of return on equity. On April 16, 1997, the utility provided a separate rate base and net income calculation for the Aloha Gardens water system. However, this information was not provided for the Seven Springs water system. But, by comparing the separate information provided for the Aloha Gardens water system to the combined system total in the utility's 1995 annual report, staff was able to determine that the Seven Springs water system achieved a rate of return of 10.07% for 1995. Based on this rate of return, the utility's achieved return on equity was calculated to be 13.10%.

Since the utility's achieved return on equity exceeds the minimum of its authorized range of return on equity, a reduction in rates would be required. However, staff notes that the calculated reduction of \$970 is immaterial and will have no effect on rates even if implemented. Therefore, staff recommends that the Commission accept the utility's settlement proposal that no reduction be required for the Seven Springs water system.

In addition, staff notes that the utility states that the Commission has never recognized the cost of water from Pasco County in the rates of Seven Springs. While it appears that there has not been a rate proceeding in which the Pasco County purchased water costs have been included in the rate calculation, staff believes that to the extent that the utility is earning its authorized rate

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of return on equity for the Seven Springs water system, those costs are effectively being recovered through the utility's rates. Further, since it appears that the utility may be exceeding the range of its last authorized rate of return on equity for this system, staff will review the utility's 1996 annual report to determine if a reduction should be made in the overall rates for the utility.

Aloha Gardens Water System - In its October 17, 1996 response, the utility stated that the Aloha Gardens water system purchases approximately 2/3 of its water from Pasco County. In addition, the utility stated that during 1995, the utility experienced a return of 5.5% on its rate base. Further, the utility stated that because the Aloha Gardens water system has a relatively small rate base, the cost reduction on an annualized basis for purchased water would result in a \$16,000 savings based on 1995 purchases. The utility, therefore, stated that while the utility believes that the pass-through statute does not authorize the Commission to require such a reduction, the utility does agree that there is a potential for overearnings in 1996 as a result of this decrease in costs. Finally, the utility stated that it is apparent, however, that some portion of this reduced costs will only bring the utility closer to, or up to, its authorized rate of return; however, in order to avoid responding to detailed inquiries and litigation in this matter and the costs occasioned thereby, the utility is willing to reduce rates on a prospective basis only for the entire cost reduction based upon the 1995 purchases of water in its Aloha Gardens water system. The utility stated that this would constitute a reduction of approximately \$16,000 to \$18,000 in annual revenue.

In its April 16, 1997 settlement proposal, the utility revised or updated its proposed offer of settlement based upon actual information for 1996. The utility provided actual 1996 purchases of water from Pasco County and a calculation of the actual 1996 costs savings from April 1, 1996 to December, 1996, and the annualized cost savings resulting from the reduced cost to the utility of the purchased water. In addition, the utility provided a rate base and net income statement calculation for the Aloha Gardens water system. The information showed that the utility purchased 105,638,000 gallons of water from Pasco County in 1996. On April 1, 1996, Pasco County's bulk water rate was reduced from \$2.31 to \$2.18 per thousand gallons. On October 1, 1996, the rate was further reduced to \$2.15. The utility calculated the proposed reduction of \$17,701 by multiplying the total thousands of gallons purchased (105,638) by \$.16, the difference in the old purchased water rate and the new rate (\$2.31 - \$2.15). The result was a reduction of \$16,904. This amount was then adjusted for regulatory assessment fees at 4.5%, resulting in a total reduction of \$17,701.

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The utility sold 142,122,000 gallons of water. As a result, the proposed rate decrease was calculated to be \$.12 per thousand gallons (\$17,701/142,122). Staff agrees with the utility's calculation. Staff's calculation is reflected on Schedule No. 2.

As stated previously, staff believes that a utility's rates should be reduced to reflect a reduction in purchased water and/or wastewater costs in the event that the utility meets or exceeds the minimum of its authorized range of return on equity. This system's last authorized rate of return on equity was established as 10%, in Docket No. 790027-WS, Order No. 9256, issued February 20, 1980. The utility's 1995 annual report reflects an achieved rate of return of 9.91%, with an achieved return on equity of 12.73%, on a total company basis for the water systems for 1995; however, this information was not provided separately for each water division. However, as previously stated, at the April 1, 1997 agenda conference, the Commission required the utility to file a separate rate base and net income statement for the Aloha Gardens water system in order for staff to determine its achieved rate of return on equity. This information was provided in the utility's April 16, 1997 settlement proposal. The information provided indicates that the Aloha Gardens water system achieved a rate of return of 5.45% for 1995. Based on this rate of return, staff calculates that the utility achieved a return on equity of 2.52%. Since the utility does not meet or exceed the minimum of its authorized range of return on equity, no reduction would be required.

However, as previously stated, the utility indicated that the water system, while earning below its authorized rate of return, has the potential to overearn with even relatively small changes in expenses because of its small rate base. Therefore, in order to avoid responding to detailed inquiries and litigation in this matter and the costs occasioned thereby, the utility proposes to reduce the Aloha Gardens' water rates by the entire cost reduction of \$17,701 or \$.12 per thousand gallons on a going-forward basis. The utility was not able to provide detailed 1996 information for the Aloha Gardens water system at this time to determine the actual amount of overearnings for 1996. That information will be provided in the filing of the utility's 1996 annual report on May 30, 1997.

Staff has reviewed the information provided by the utility in its April 16, 1997 settlement proposal, and concurs with the utility's calculation of cost savings and the rate reduction. Staff, therefore, recommends that the Commission accept the utility's settlement proposal to reduce the rates for the Aloha Gardens water system by \$17,701 or \$.12 per thousand gallons on a going-forward basis.

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In addition to adjusting its water rates, the utility should file revised tariff sheets along with a proposed customer notice reflecting the appropriate rates and the reason for the reduction. The rates should be effective for service rendered as of the stamped approval date on the tariff sheets provided the customers have received notice. The tariff sheets should be approved upon staff's verification that the tariffs are consistent with the Commission's decision and that the customer notice is adequate. The utility should provide proof of the date notice was given within 10 days after the date of the notice.

If the effective date of the new rates falls within a regular billing cycle, the initial bills at the new rates may be prorated. The old charge should be prorated based on the number of days in the billing cycle before the effective date of the new rates. The new charge should be prorated based on the number of days in the billing cycle on or after the effective date of the new rates. In no event should the rates be effective for service rendered prior to the stamped approval date.

Aloha Gardens Wastewater System - The utility did not provide updated information for this system in its settlement proposal of April 16, 1997. However, the utility stated in its October 17, 1996 response that the Aloha Gardens wastewater system purchases all of its wastewater treatment from Pasco County; however, that system is operating at a 21% loss for calendar year 1995. In addition, the utility stated that even with the reduction in costs occasioned by the reduced cost of purchased wastewater treatment, the system will still operate at a 4% loss on a prospective basis. Further, the utility stated that not only is the utility not achieving its authorized rate of return, it is not even breaking even, and will not break even based upon the reduction in costs of purchased wastewater treatment from Pasco County. Finally, the utility stated that the rates established for this utility are presumed reasonable until demonstrated otherwise, and the utility stated that neither the pass-through mechanism or any other mechanism can serve to reduce a utility's rates so that it is kept in the same loss position as existed prior to a reduction in costs. Additionally, the utility stated that this cannot be the conclusion reached by the Commission either as a result of the reading of the plain wording of the pass-through or other statutory sections of Chapter 367, or of general regulatory theory. Therefore, based on the above facts, the utility stated that no negative pass-through is appropriate for the Aloha Gardens Wastewater system.

As previously stated, in the absence of the utility filing the information required by Rule 25-30.425(1)(a) through (f), Florida Administrative Code, staff used information obtained from Pasco County and the utility's 1995 annual report, to develop a "rough"

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calculation of the reduction. Using the most recent purchases from Pasco County for the twelve month period ended December 31, 1995, staff has calculated the decreased cost in purchased wastewater treatment. For the period ended December 31, 1995, the utility purchased 188,230,000 gallons of wastewater treatment from Pasco County. The utility sold 188,230,000 gallons of wastewater treatment for the same time period. On April 1, 1996, Pasco County's bulk wastewater rate was reduced from \$3.11 to \$2.20. On October 1, 1996, the rate was increased to \$2.23. Therefore, on a prospective basis, Pasco County's bulk wastewater rate was reduced by \$.88. Staff has calculated the decrease in purchased wastewater treatment cost to be the difference in the purchased wastewater treatment cost at the old rate (188,230 x \$3.11) and the purchased wastewater treatment cost at the new rate (188,230 x \$2.23). As a result, the decrease in purchased wastewater treatment cost was calculated to be \$165,642 (\$585,395 - \$419,753). The decreased purchased wastewater treatment cost was then divided by the expansion factor for regulatory assessment fees (.955) to determine the total decrease of \$173,447. The revenue decrease was divided by the gallons of wastewater treatment sold (\$173,447/188,230) to determine the dollar decrease to the gallonage charge of \$.92. Staff's calculation is shown on Schedule No. 2.

Staff believes that a utility's rates should be reduced to reflect a reduction in purchased water and/or wastewater costs in the event that the utility meets or exceeds the minimum of its last authorized range of return on equity. This system's last authorized rate of return on equity was established as 12.69%, with a range of 11.69% to 13.69%, by Order No. PSC-92-0578-FOF-SU, issued June 29, 1992, in Docket No. 910540-SU. The utility's 1995 annual report reflects an achieved rate of return of .73%, with an achieved return on equity of a negative 8.29%, on a total company basis for the wastewater systems for 1995; however, this information was not provided separately for each wastewater system. However, as previously stated, at the April 1, 1997 agenda conference, the Commission required the utility to file a separate rate base and net income statement for the Aloha Gardens wastewater system in order for staff to determine its achieved return on equity. This information was provided in the utility's April 16, 1997 settlement proposal. The information provided indicates that the Aloha Gardens wastewater system achieved a negative rate of return of 21.14% for 1995. Based on this rate of return, staff calculates that the utility achieved a negative return on equity of 58.04%. Therefore, since the utility does not meet or exceed the minimum of its authorized range of return on equity, staff recommends that no reduction should be required. Further, it should be noted that even if no reduction is made, based on 1995 data, the system's overall rate of return would be 7.10%, with a 6.29% return on equity. As such, the utility still would not meet

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or exceed the minimum of its authorized rate of return on equity and no reduction would be required.

Based on the above, staff recommends that the Commission accept the utility's settlement proposal that no reduction be required for the Aloha Gardens wastewater system.

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ISSUE 3: Should Aloha Utilities, Inc. be required to refund excess purchased water costs collected from April 1, 1996 to the effective date of the new rates?

RECOMMENDATION: No. Even if the Commission approves staff's recommendation in Issue 2, Aloha Utilities, Inc. should not be required to refund the \$970 windfall resulting from the reduction in purchased water expense for the Seven Springs water system. The Aloha Gardens water and wastewater systems did not meet or exceed the minimum of the range of its last authorized rate of return on equity; as such, no reduction was required and no refund is appropriate. (MCCASKILL)

STAFF ANALYSIS: The amount of revenue potentially subject to refund for the Seven Springs Water system in this case is \$970 on an annualized basis. This is the amount of reduced expense that results from the reduction in purchased water costs from Pasco County. As noted in Issue 3, this amount would only translate to a \$.001 rate reduction; therefore, staff recommends that no rate reduction is necessary.

Staff believes the rate reduction issue and the question of refunds are separate issues. However, in this case the conclusions are the same, i.e., that no refund should be made.

A hypothetical example could be constructed that would make the total dollars in question much larger but still not be large enough to effect rates. In such a case, either a refund or some adjustment such as a one time credit to CIAC could be made. In the instant case, it would most likely be more costly to account for it than to simply recognize it as immaterial.

In rate setting, it is not possible to exactly achieve the revenue requirement because the gallons consumed and rounding rates to the penny does not allow that level of precision. Staff calculates rates as close as possible to the revenue requirement (the difference may not exceed 1%), and the customers or the utility receive the benefit of that imprecision. Generally, staff considers these amounts to be immaterial, and no further adjustment need be made. In this case, an expense has decreased, and the utility enjoys the benefit of that decrease. However, staff views \$970 over the course of a year to be an immaterial amount and in the same vein as rounding errors; therefore, no refund is recommended. Staff will review the utility's annual report for 1996 and future years to assure that overearnings is not taking place.

The Aloha Gardens water and wastewater system earned less than the minimum of its last authorized rate of return on equity.

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Therefore, no reduction was recommended and staff recommends that no refund is appropriate.

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ISSUE 4: Should this docket be closed?

RECOMMENDATION: Upon expiration of the protest period, if a timely protest is not received from a substantially affected person, and upon verification that the utility has reduced its rates to reflect the reduction in purchased water costs to bulk water customers in Pasco County and upon the utility's filing of and staff's approval of the proposed customer notice and the revised tariff sheets, this docket should be closed. (REYES)

STAFF ANALYSIS: Upon expiration of the protest period, if a timely protest is not received from a substantially affected person, and upon verification that the utility has reduced its rates to reflect the reduction in purchased water costs to bulk water customers in Pasco County and upon the utility's filing of and staff's approval of the proposed customer notice and the revised tariff sheets, this docket should be closed.

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Schedule No. 1

ALOHA UTILITIES, INC.
SEVEN SPRINGS WATER DIVISION

PURE GALLONAGE CHARGE PASS THROUGH CALCULATION

<u>PURCHASED WATER COST CALCULATION</u>	<u>WATER</u>
PURCHASED WATER COSTS AT OLD RATE	\$ 19,708
LESS PURCHASED WATER COSTS AT NEW RATE	<u>(18,782)</u>
DECREASE IN PURCHASED WATER COSTS	926
DIVIDE BY EXPANSION FACTOR FOR RAF	<u>.955</u>
DECREASE IN PURCHASED WATER COSTS	\$ 970
DIVIDE BY GALLONS SOLD	<u>730,584</u>
DOLLAR CHANGE TO GALLONAGE CHARGE ONLY	\$ 0.00

DOCKET NO. 961419-WS
MAY 7, 1997

Schedule No. 2

ALOHA UTILITIES, INC.
ALOHA GARDENS WATER DIVISION

PURE GALLONAGE CHARGE PASS THROUGH CALCULATION

<u>PURCHASED WATER COST CALCULATION</u>	<u>WATER</u>
PURCHASED WATER COSTS AT OLD RATE	\$244,024
LESS PURCHASED WATER COSTS AT NEW RATE	<u>(227,120)</u>
DECREASE IN PURCHASED WATER COSTS	16,904
DIVIDE BY EXPANSION FACTOR FOR RAF	<u>.955</u>
DECREASE IN PURCHASED WATER COSTS	\$17,701
DIVIDE BY GALLONS SOLD	<u>142,122</u>
DOLLAR CHANGE TO GALLONAGE CHARGE ONLY	\$ 0.12