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OF COUNSEL

March 15, 2001

VIA HAND DELIVERY

Tricia Merchant, CPA  
Division of Economic Regulation  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399-0850

Re: Aloha Utilities, Inc.; Docket No. 000737-WS  
Investigation of Rates in Pasco County for Possible Overearnings  
Our File No. 26038.31

Dear Tricia:

As a follow up to Bob Nixon's fax to you yesterday, I am writing to further explain the schedules that were provided to you showing a calculation of the authorized rate-of-return for the Aloha Seven Springs system, including several adjustments based upon recent changes.

First, I would note for your information, that the calculated rate-of-return on Schedule No. 1, Page 1 of 2, is calculated to show what would be needed in the way of total revenues in order to achieve a fair rate-of-return overall for the Seven Springs water system. The increase revenue shown in the proforma column is not what has been requested in the Limited Proceeding, nor any other pending proceeding.

However, the Utility does believe that to the extent the Commission is reviewing the overall rate-of-return for the several systems Aloha operates, the Commission must take into account known changes such as those outlined in Mr. Nixon's analysis, and to the extent one system is overearning and another is underearning, the Commission should recognize that fact either by: (1) granting an increase in the system that is underearning if decreases in rates are proposed for those systems overearning; or, (2) not initiating a rate decrease for the systems that are overearning, to the extent they would otherwise be offset by those that are underearning.

While I recognize that it has not been the Commission's practice in the past to grant increases during rate investigations, even when they are shown to be necessary, I do believe that it is not only within the Commission's power, but within its statutory responsibility to do so. The Commission has, on several occasions, considered the fact that one system may be overearning and another underearning, and has proposed no rate change, to the extent those two offset, and still result in no overearnings overall.

APP \_\_\_\_\_  
CAF \_\_\_\_\_  
CMP \_\_\_\_\_  
COM \_\_\_\_\_  
CTR \_\_\_\_\_  
ECR \_\_\_\_\_  
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Finally, I would note for your information, that the Limited Proceeding for increased water rates for the Seven Springs system, was based upon actual water sold during the most recent year. Because the Utility is experiencing some significant growth and water demands are therefore increasing, the ultimate decision concerning final rates in that Limited Proceeding will require adjustment, because with each customer added, all of the water necessary to serve that customer is coming from the bulk purchase from the County at substantially higher cost than Aloha's imbedded cost. In other words, costs per thousand gallons overall, and on average, are increasing with each customer added. Therefore, in order to prevent the Utility having to file for an immediate change in rate relief within another year based solely upon growth, we believe that the Commission must recognize the amount of water required for purchase at the time the Commission's decision is reached, if not projected into the future a few months to one year, and the effect that will have on overall rates that the Utility must charge.

If you have any further questions with regard to the information outlined by Mr. Nixon, or any disagreement with the proposed treatment offered above, please let me know. Let's discuss them before the staff's emergency temporary, or final recommendation is issued.

Sincerely,



F. Marshall Deterding  
For The Firm

FMD/tmg

cc: Ms. Blanca Bayo  
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Jason Fudge, Esquire  
Mr. Bart Fletcher  
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