

VOTE SHEET

MAY 15, 2001

RE: DOCKET NO. 000737-WS - Investigation of rates of Aloha Utilities, Inc. in Pasco County for possible overearnings for the Aloha Gardens water and wastewater systems and the Seven Springs water system. (Deferred from May 1, 2001 Commission Conference; revised recommendation filed.)

ISSUE 1: Should the utility be allowed to capitalize invoices previously expensed?

RECOMMENDATION: No. The capitalization of previously expensed invoices should be disallowed. Plant, accumulated depreciation, and depreciation expense as of December 31, 1999 for Aloha Gardens should be reduced as follows:

<u>System</u>	<u>Plant</u>	<u>Accumulated Depreciation</u>	<u>Depreciation Expense</u>
Water	\$3,669	\$1,064	\$122
Wastewater	\$1,567	\$917	\$87

APPROVED

COMMISSIONERS ASSIGNED: Full Commission

COMMISSIONERS' SIGNATURES

MAJORITY

DISSENTING

Michael A. Palush

John M. ...

...

...

REMARKS/DISSENTING COMMENTS:

DOCUMENT NUMBER-DATE

06103 MAY 16 2001

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ISSUE 2: Should an item expensed by the utility during the 1999 test year be capitalized to plant?

RECOMMENDATION: Yes. The utility erroneously expensed an item during the 1999 test year that should have been capitalized to plant. Aloha Gardens wastewater plant balance should be increased by \$3,816 and its O&M expenses should be reduced by \$3,816. In addition, accumulated depreciation and depreciation expense should be increased by \$106 for the Aloha Gardens wastewater system.

APPROVED

ISSUE 3: Should adjustments be made to include costs associated with the utility's new office building?

RECOMMENDATION: Yes. Pro forma adjustments for the Aloha Gardens costs associated with the utility's new office building should be allowed. The following annualized adjustments should be made:

	<u>Water</u>	<u>Wastewater</u>
Plant	\$70,952	\$70,952
Land	\$5,876	\$5,876
Accumulated Depreciation	\$2,004	\$2,004
Depreciation Expense	\$2,172	\$2,172
Rent Expense	(\$2,622)	(\$2,622)
Maintenance & Insurance	\$757	\$757
Property Taxes	\$1,236	\$1,236

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ISSUE 4: Should an adjustment be made to correct an error in the land balances of the utility's Aloha Gardens wastewater system and Seven Springs wastewater system?

RECOMMENDATION: Yes. The land balance for the Aloha Gardens wastewater system should be increased by \$3,030. In addition, the amortization expense for the Aloha Gardens wastewater system should be increased by \$1,515.

APPROVED

ISSUE 5: What are the used and useful percentages of the Aloha Gardens water and wastewater systems?

RECOMMENDATION: The entire Aloha Gardens water treatment, and the wastewater collection and water distribution systems should be considered 100% used and useful.

APPROVED

ISSUE 6: Should an adjustment be made to accumulated depreciation associated with new computer equipment and system software?

RECOMMENDATION: Yes. The utility used an incorrect depreciation rate. As such, Aloha Gardens accumulated depreciation and depreciation expense should be increased for the December 31, 1999 test year as follows:

<u>System</u>	<u>Accumulated Depreciation</u>	<u>Depreciation Expense</u>
Water	\$484	\$968
Wastewater	\$217	\$433

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ISSUE 7: What is the appropriate working capital allowance for the Aloha Gardens water and wastewater systems?

RECOMMENDATION: Consistent with the Commission-approved working capital in Docket No. 991643-SU, the appropriate working capital allowance is \$38,056 for Aloha Gardens water and \$90,263 for Aloha Gardens wastewater.

APPROVED

ISSUE 8: What is the appropriate rate base for the Aloha Gardens water and wastewater systems?

RECOMMENDATION: Consistent with other recommended adjustments, the appropriate rate bases for the Aloha Gardens water and wastewater systems are \$83,830 and \$539,102, respectively.

APPROVED

ISSUE 9: Should any adjustment be made to long-term debt to determine the overall cost of capital?

RECOMMENDATION: Yes. Long-term debt should be increased by \$3,995,580 to included the mortgage for the new building and the construction loan for the Seven Springs wastewater system. The appropriate long-term cost rate should be 10.17%.

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ISSUE 10: What is the appropriate Return on Equity (ROE) to determine the overall cost of capital?

RECOMMENDATION: The appropriate ROE is 9.93% with a range of reasonableness of 8.93% to 10.93%.

APPROVED

ISSUE 11: What is the appropriate overall cost of capital?

RECOMMENDATION: Consistent with other recommended adjustments, the appropriate weighted average cost of capital for the Aloha Gardens water and wastewater systems is 9.93%.

APPROVED

ISSUE 12: Should any adjustment be made to operating revenues?

RECOMMENDATION: Yes. Since the Commission approved a 1999 index and pass-through that became effective on January 18, 2000, it is appropriate to reflect the associated annualized revenues as pro forma adjustments. Operating revenues should be increased by \$6,828 for Aloha Gardens water and \$53,687 for Aloha Gardens wastewater.

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ISSUE 13: What is the appropriate salary for Aloha's vice-president?

RECOMMENDATION: The vice-president's salary should be 20% of the president's salary. As a result, Salary & Wages - Officers, Employee Benefits, and Payroll Tax accounts for Aloha Gardens should be reduced as follows:

<u>System</u>	<u>Salary & Wages - Officers</u>	<u>Employee Benefits</u>	<u>Payroll Tax</u>
Water	\$6,292	\$2,551	\$537
Wastewater	\$6,292	\$2,671	\$497

APPROVED

ISSUE 14: Should any pro forma adjustment be made to Salaries and Wages - Employees?

RECOMMENDATION: Yes. Salaries and Wages - Employees should be increased to recognize the annualized salary of an employee hired during 1999. Salaries and Wages - Employees should be increased by \$2,372 for Aloha Gardens water and \$2,171 for Aloha Gardens wastewater. In addition, Pensions and Benefits should be increased by \$813 for Aloha Gardens water and \$745 for Aloha Gardens wastewater. Further, payroll taxes should be increased by \$181 for Aloha Gardens water and \$166 for Aloha Gardens wastewater.

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ISSUE 15: Should any adjustments be made for purchased water and sewage treatment expenses?

RECOMMENDATION: Yes. Purchased water should be adjusted to correct a misclassification, to reflect the 10/1/00 pass-through increase, and to normalize an annual expense due to a faulty meter. Purchased water expense should be increased by \$76,387 for Aloha Gardens water, and sewage treatment expense should be increased by \$59,588 for Aloha Gardens wastewater. Staff recommends that the utility should be precluded from filing for a pass-through rate adjustment based on purchased water and sewage treatment rates that became effective on 10/1/00.

APPROVED

ISSUE 16: Should miscellaneous expenses for Aloha Gardens water and wastewater be increased?

RECOMMENDATION: Yes. To correct an erroneous allocation, miscellaneous expenses for Aloha Gardens water and wastewater systems should be increased each by \$2,174.

APPROVED

ISSUE 17: Should any adjustment be made to Contractual Services - Accounting?

RECOMMENDATION: Yes. To amortize a non-recurring expense, Contractual Services - Accounting expense should be reduced by \$1,251 each for Aloha Gardens water and wastewater.

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ISSUE 18: Should any other pro forma O&M expense adjustments be made for the utility's Aloha Gardens water and wastewater systems?

RECOMMENDATION: Yes. It is reasonable and appropriate to recognize inflation for 2000 and pro forma billing costs. As such, O&M expenses should be increased by \$7,159 for Aloha Gardens water and by \$6,790 for Aloha Gardens wastewater.

APPROVED

ISSUE 19: What is the appropriate amount of rate case expense related to this current earnings investigation of the Aloha Gardens water and wastewater systems?

RECOMMENDATION: Rate case expense of \$5,966 and \$5,445 should be allowed for the Aloha Gardens water and wastewater systems, respectively. To reflect the 4-year amortization, the O&M expenses of Aloha Gardens water and wastewater should be increased by \$1,491 and \$1,361, respectively.

APPROVED

ISSUE 20: What is the test year operating income before any increase or decrease for the utility's Aloha Gardens water and wastewater systems?

RECOMMENDATION: Based on recommended adjustments discussed in previous issues, the appropriate test year operating income before any increase or decrease is \$25,794 for Aloha Gardens water and \$93,831 for Aloha Gardens.

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ISSUE 21: What is the appropriate revenue requirement for the Aloha Gardens water and wastewater systems?

RECOMMENDATION: The following revenue requirements for Aloha Gardens should be approved:

<u>System</u>	<u>Total</u>	<u>\$ Increase</u>	<u>%Increase</u>
Water	\$494,535	(\$29,325)	(5.60)%
Wastewater	\$995,348	(\$67,624)	(6.36)%

APPROVED

ISSUE 22: In determining whether any refunds are appropriate, how should the refund be calculated, and what is the amount of the refund, if any?

RECOMMENDATION: The final revenue requirement should be adjusted for items not representative of the period interim rates were in effect. The adjusted final revenue requirement should then be compared with the interim revenue requirement to determine whether a refund is necessary. Based on the analysis of Aloha Gardens in staff's May 3, 2001 memorandum, the utility should refund 1.41% for water and 5.53% for wastewater from January 18, 2000 until June 28, 2000. Further, refunds of ~~9.16%~~ 5.70% and ~~6.60%~~ 6.42% for water and wastewater, respectively, should be required from June 29, 2000 until the effective date of the new final rates. Pursuant to Rule 25-30.360(3), Florida Administrative Code, the refunds should be made to the customers of record as of the date the PAA Order is final and made on the basis of usage. The refunds should be made with interest in accordance with Rule 25-30.360(4), Florida Administrative Code. The utility should provide refund reports pursuant to Rule 25-30.360(7), Florida Administrative Code. The utility should treat any unclaimed refunds as CIAC in accordance with Rule 25-30.360(8), Florida Administrative Code.

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as modified

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ISSUE 23: Are the present rates for the utility's Aloha Gardens water and wastewater systems appropriate on a going-forward basis?

RECOMMENDATION: No. The rates for Aloha Gardens water and wastewater should be decreased by 5.70% and 6.42%, respectively. The utility should file revised tariff sheets and a proposed customer notice reflecting the appropriate rates and the reason for the reduction within 20 days of the date that the Order is final. 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 proper 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.

APPROVED

ISSUE 24: Should the amount of revenues secured for the Aloha Gardens water and wastewater and the Seven Springs water system be adjusted?

RECOMMENDATION: Yes. The appropriate amount of security for Aloha Gardens water and wastewater is \$109,739. The appropriate amount to secure for the Seven Springs water system is \$68,388. Since the total security for these three systems is \$178,127, staff recommends that \$53,923 of the \$232,050 previously approved corporate undertaking should be released. Upon staff's verification that the refunds for the Aloha Gardens water and wastewater systems have been completed, \$109,739 of the corporate undertaking should be released.

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ISSUE 25: Should this docket be closed?

RECOMMENDATION: No. This docket should remain open pending the completion of the Commission's investigation of the earnings for the Seven Springs water system.

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