

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: 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.

DOCKET NO. 000737-WS

In re: Notice of intent to increase water and wastewater rates in Pasco County, based upon application of provisions of Section 367.081(4)(a) & (b), F.S., by Aloha Utilities, Inc.

DOCKET NO. 010518-WS  
ORDER NO. PSC-01-1374-PAA-WS  
ISSUED: June 27, 2001

The following Commissioners participated in the disposition of this matter:

E. LEON JACOBS, JR., Chairman  
J. TERRY DEASON  
LILA A. JABER  
BRAULIO L. BAEZ  
MICHAEL A. PALECKI

NOTICE OF PROPOSED AGENCY ACTION  
ORDER DEFERRING OVERTURNINGS TO 2001, ALLOWING IMPLEMENTATION  
OF 2000 PRICE INDEX, ORDERING NO REDUCTION IN RATES,  
ACCEPTING STIPULATION OF THE UTILITY, AND  
RELEASING CORPORATE UNDERTAKING

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

List of Acronyms and Technical Terms

The following is a list of acronyms and technical terms which are used in this Order.

DOCUMENT NUMBER-DATE

07948 JUN 27 2001

FPSC-RECORDS/REPORTING

CIAC	Contributions-in-Aid-of-Construction
CTs	Contributed Taxes
DEP	Department of Environmental Protection
ERCs	Equivalent Residential Connections
MFRs	Minimum Filing Requirements
NARUC	National Association of Regulatory Utility Commissioners
NOI	Net Operating Income
O&M	Operation and Maintenance
ROE	Return on Equity
SWFWMD	Southwest Florida Water Management District
USOA	Uniform System of Accounts

#### BACKGROUND

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

By Order No. PSC-00-1289-FOF-WS, issued July 18, 2000, in Docket No. 000737-WS, we initiated a formal investigation of the rates and charges of the Aloha Gardens water and wastewater systems and the Seven Springs water system, based on the utility's 1999 annual report. Pursuant to Section 367.083, Florida Statutes, the official date of filing for this overearnings investigation was the issuance date of Order No. PSC-00-1289-FOF-WS. For the Seven Springs water system, we held \$52,378, or 3.04% of total test year revenues of \$1,723,085, subject to refund.

By Order No. PSC-01-0101-PCO-WS, issued January 11, 2001, we increased the corporate undertaking approved in Order No. PSC-00-1289-FOF-WS by \$70,910, resulting in total secured revenues of \$232,050 as a guarantee of any potential refund of water and wastewater revenues collected under the interim conditions.

The last rate case for Aloha was for the Seven Springs wastewater system processed in Docket No. 991643-SU. By Order No. PSC-01-0326-FOF-SU (Final Order), issued February 6, 2001, we established final rates and charges for that system. By Order No. PSC-01-0961-FOF-SU, issued April 18, 2001, we addressed recon-

sideration of the Final Order, but our decision did not affect the final rates.

On March 21, 2001, Aloha filed a notice to implement a 2000 index and pass-through rate adjustment for the Aloha Gardens water and wastewater systems and the Seven Springs water system. In this filing, Aloha waived implementing the pass-through increase in the statutory 45-day period, and requested that it be allowed to implement both the price index and pass through increase in 60 days.

Moreover, by letter dated April 16, 2001, Aloha requested approval of a test year for its Seven Springs water system. Docket No. 010503-WU was assigned to that case. By letter dated April 27, 2001, the utility's requested December 31, 2001 projected test year was approved and the minimum filing requirements were required to be filed by July 31, 2001.

At the May 15, 2001 agenda conference, we determined that the Aloha Gardens water and wastewater systems had overearned and we required refunds and rate reductions for those systems. At that same agenda conference, we denied the utility's requested 2000 index and pass-through for the Aloha Gardens systems because the utility was found to be overearning and the increased expenses for the index and pass-through were considered in our overearnings determination. We authorized the utility's pass-through request for the Seven Springs water system, but deferred our decision on the requested 2000 index for this system. Proposed agency action (PAA) Orders Nos. PSC-01-1245-PAA-WS and PSC-01-1242-PAA-WS memorializing our decisions were issued June 4, 2001.

To determine whether refunds are warranted for the Seven Springs water system, we have utilized the simple average test year ended December 31, 2000, based on the audited test year ended December 31, 1999 balances and the utility's 2000 annual report balances. To determine the appropriateness of the utility's existing rates on a prospective basis, we have also utilized the simple average test year ended December 31, 2000 and have included pro forma expense adjustments for known and measurable changes for the calendar year-end 2001. This is different from the Aloha Gardens systems, for which we used a 1999 test year and included

pro forma plant and expense adjustments for known and measurable changes in the calendar year-end 2000.

Pursuant to Order No. PSC-01-0997-PAA-WU, issued April 23, 2001, in Docket No. 010168-WU, we found that the December 31, 1999 test year was inappropriate to determine the earnings level for the Seven Springs water system. Because the service area is currently experiencing substantial customer growth without concurrent increases in plant, the Seven Springs water system is collecting greater revenues and CIAC which make the 1999 historical test year stale and unrepresentative of the current and prospective earnings for this system.

This Order addresses: 1) whether any refunds to Seven Springs water ratepayers are appropriate; 2) whether the existing rates for the utility's Seven Springs water system should be maintained; and 3) whether the utility should be granted a 2000 index for this system. We have jurisdiction pursuant to Sections 367.081 and 367.082, Florida Statutes.

#### RATE BASE

##### New Office Building

In its 2000 annual report, Aloha recorded the office building improvements allocating 14% each to Aloha Gardens water and wastewater and 36% each to Seven Springs water and wastewater. However, the utility allocated the building and associated land based on 12.5% each to Aloha Gardens water and wastewater and 37.5% each to Seven Springs water and wastewater. Aloha also recorded a \$82,830 value for the associated land related to the building. In addition, the utility recorded a 28.19% non-utility adjustment to the total cost of the building and associated land.

By PAA Order No. PSC-01-1245-PAA-WS, issued June 4, 2001, we found the following adjustments appropriate for the Aloha Gardens systems: 1) the value of land associated with the new building was \$64,409; 2) the non-utility percentage was 29.40%; and 3) the appropriate allocation to the Seven Springs water system was 36% for the building related costs. Consistent with our prior decision, we find that the above adjustments are appropriate for the Seven Springs water system. Accordingly, for the Seven Springs

water system, plant shall be increased by \$1,019, and land shall be reduced by \$970, respectively.

In its 2000 annual report, Aloha included \$17,479 for rent of the former office building. Since this is a non-recurring cost, this cost shall be removed for prospective rate setting purposes. The Seven Springs water system's allocated portion of the rent is \$6,117. As such, O&M expenses for the Seven Springs water system shall be reduced by \$6,117.

#### Used and Useful Percentages

The Seven Springs water distribution system is virtually all contributed. Recently, Aloha had to add two new supply wells and hydro-pneumatic tanks in order to meet increasing demand. Aloha is currently looking at possible scenarios whereby it can improve existing quality and quantity of its treated water and also meet the ever increasing demand caused by the rapid development in Aloha's service area. Therefore, the Seven Springs water plant shall be considered 100% used and useful when current use and 5 years growth allowance are considered.

#### Accumulated Depreciation

In Audit Disclosure No. 3, our auditors stated that Aloha capitalized new computer equipment and system software purchased in 1998 and 1999. The utility classified these costs as office furniture using a 15-year depreciable life. The allocated additions as of December 31, 1999 were \$40,212 for Seven Springs water.

According to Rule 25-30.140, Florida Administrative Code, computer equipment is to be depreciated over six years instead of fifteen. Consistent with this rule, the depreciation rate for the computer equipment shall be corrected for the simple average test year ending December 31, 2000. Accordingly, accumulated depreciation and depreciation expense shall be increased by \$6,032 and \$4,021, respectively.

Contributed Taxes (CTs)

By Order No. PSC-01-0326-FOF-SU, issued February 6, 2001, in Docket No. 991643-SU, we amortized CTs by the composite amortization rate of taxable CIAC from 1987 to 1996. Further, we found it appropriate to treat CTs and accumulated amortization of CTs as CIAC and accumulated amortization of CIAC, respectively. According to the utility's response to our staff's data request, the composite amortization rate of taxable CIAC, from 1987 to 1996, for the Seven Springs water system was 2.61%.

Consistent with the theory of normalization, we determined that the benefits of CTs shall be passed back to the ratepayers over the lives of the related assets. See Order No. 23541, issued October 1, 1990, in Docket No. 860184-PU. The utility's 2.61% composite amortization rate complies with our directive in Order No. 23541 that the utility pass back the benefits of CTs to ratepayers over the lives of related assets. The 2.61% amortization rate yields an annual amortization of \$30,691. Therefore, based upon the foregoing, the appropriate amortization rate is 2.61% and the appropriate annual amortization amount is \$30,691.

According to its 1999 annual report, the utility amortized CTs using an amortization rate of 2.5% which resulted in an annual amortization amount of \$29,397. Pursuant to its 2000 annual report, Aloha amortized CTs using an amortization rate of 3.5% which resulted in an annual amortization amount of \$42,214. Based on a discussion with the utility's accounting consultant, Aloha erroneously amortized its CTs in 2000 using the current year's composite CIAC amortization rate. Based upon the foregoing, the accumulated amortization of CIAC shall be decreased by \$5,115 and the annual amortization of CTs shall be decreased by \$11,523 (\$42,214 less \$30,691).

Working Capital Allowance

Pursuant to Rule 25-30.433(2), Florida Administrative Code, we have calculated working capital using the balance sheet approach. Our adjustments to the working capital allowance for the Seven Springs water system, and a corresponding adjustment to O&M

expenses that results from our adjustment to working capital, are discussed below.

Adjustments Consistent With Docket No. 991643-SU

Pursuant to our staff's data request, the utility's accounting consultant provided Aloha's 1999 and 2000 simple average working capital calculation. Based on our review, several adjustments are necessary to calculate this system's allocated working capital. First, in the utility's working capital calculation, the 1999 year-end balance of customer accounts receivable included income tax refund receivables of \$113,846. We note that the utility's working capital calculation did exclude the income tax refund receivables from the 2000 year-end balance of customer accounts receivable. Consistent with the working capital approved in Docket No. 991643-SU, it is appropriate to exclude the income tax refund receivables from working capital.

Second, Aloha's calculation did not net the bad debt allowance with the customer accounts receivable in 2000. We note that the utility's working capital calculation did net the bad debt allowance with the customer accounts receivable in 1999. Consistent with the working capital approved in Docket No. 991643-SU, we find it appropriate to include bad debt allowance associated with the customer accounts receivable in 2000.

Third, consistent with the working capital approved in Docket No. 991643-SU, we find it is appropriate to calculate this system's allocated working capital based on the following: 1) the exclusion of income tax deposits; 2) the exclusion of rate case expense associated with Docket No. 991643-SU; and 3) the use of the same O&M expense percentage allocation.

Regulatory Commission Expense for Docket No. 960545-WS

In Dockets Nos. 970536-WS and 980245-WS, we required that the costs incurred in 1998 and in subsequent years for Docket No. 960545-WS be deferred until those costs ceased. Further, we required that the unamortized balance of regulatory commission expense for Docket No. 960545-WS be amortized over five years. See Order No. PSC-99-1917-PAA-WS, issued September 28, 1999 in the above-noted dockets.

On July 14, 2000, we issued Order No. PSC-00-1285-FOF-WS in Docket No. 960545-WS. On July 31, 2000, Aloha filed a motion for clarification of that Order. By Order No. PSC-00-1628-FOF-WS, issued September 12, 2000, we clarified that Order regarding the requirements of the pilot project. Although Aloha was required to file reports in 2001, we find that the case was substantially completed during 2000.

On June 7, 2000, our staff propounded an undocketed data request to the utility regarding its regulatory commission expense associated with Docket No. 960545-WS. In the utility's response, Aloha provided support documentation for its actual costs incurred in that docket. The utility's 2000 annual report reflects that the balance of regulatory commission expense associated with Docket No. 960545-WS was \$328,676 and that no amortization of this expense had begun. We find that the total cost of \$328,676, reflected in the utility's 2000 annual report, is reasonable.

Moreover, consistent with Order No. PSC-99-1917-PAA-WS, we find that it was appropriate to begin amortizing those costs in 2000. Therefore, we have reduced working capital to reflect one year's amortization of this regulatory commission expense. Further, the O&M expense of the Seven Springs water system shall be increased by \$65,735 ( $\$328,676$  divided by 5) for this amortization.

#### Specific Working Capital Increase for Pilot Project

By Order No. PSC-00-1285-FOF-WS, issued July 14, 2000, in Docket No. 960545-WS, we ordered 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." According to its letter dated December 15, 2000, Aloha stated that the estimated cost of this pilot project would be \$380,000. Further, the utility stated that the cost should be amortized over five years, beginning immediately. Based on our review of the engineering cost estimate provided by the utility, we find that the \$380,000 estimate is reasonable.

According to the NARUC USOA for Class A water utilities, Account 183 - Preliminary Survey and Investigation Charges is accounted for as follows:

This account shall be charged with all expenditures for preliminary surveys, plans, investigations, etc., made for the purpose of determining the feasibility of projects under contemplation. If construction results, this account shall be credited and the appropriate utility plant account charged. If the work is abandoned, the charge shall be to account 426 - Miscellaneous Nonutility Expenses, or to the appropriate operating expense account unless otherwise ordered by the Commission (See account 675 - Miscellaneous Expenses).

We find that the \$380,000 costs for the pilot project shall be considered as preliminary survey and investigation charges. Because the results of the pilot project are not yet completed, we find it appropriate to recognize these costs in working capital only. The appropriate final treatment for these costs can be addressed in the upcoming rate case for this system. Accordingly, working capital for the Seven Springs water system shall be increased by \$190,000 (\$380,000 divided by 2) the average balance of the estimated cost of the pilot project.

#### Conclusion

Based on the above adjustments, the appropriate working capital allowance is \$343,090 for the Seven Springs water system. Accordingly, working capital for this system shall be increased by \$124,667. Further, O&M expenses for this system shall also be increased by \$65,735.

#### Total Rate Base

Based on the simple average test year balances and our adjustments, we calculate rate base for the Seven Springs water system to be \$1,222,488 for both refund and prospective rate purposes. This represents an increase of \$113,570 from the utility's simple average rate base balance. Our rate base calculation is shown on Schedule No. 1-A. Our adjustments to rate base are shown on Schedule No. 1-B.

COST OF CAPITAL

Long-Term Debt

According to the utility's 2000 annual report, Aloha calculated a weighted average cost rate of 10.33% for long-term debt. However, we have recalculated the weighted cost rate for long-term debt based on the following: 1) use of the average balance of long-term debt using Aloha's 1999 and 2000 annual reports; 2) use of the cost rates reflected on Schedule F-17 on Aloha's 2000 annual report; 3) adjustment of cost rates for related party long-term debt to prime plus two percent, consistent with our decision in Docket No. 991643-SU; and 4) adjustment of two cost rates for the amortization of debt issuing expense, consistent with our decision in Docket No. 991643-SU.

Based on this recalculation, we find that the appropriate weighted average cost rate for long-term debt is 10.28%. Accordingly, the utility's weighted average cost rate of 10.33% for long-term debt shall be reduced by five basis points.

Return on Equity (ROE)

The last authorized ROE for Seven Springs water was 10.12%. This cost rate was set by this Commission in Dockets Nos. 970536-WS and 980245-WS. Also, this Commission has established Aloha's preferred stock cost rate to be equal to that of common equity. See Order No. PSC-99-1917-PAA-WS, issued September 28, 1999.

By Order No. PSC-00-1162-PAA-WS, issued June 26, 2000, in Docket No. 000006-WS, we approved the current leverage formula used to establish the authorized ROE for water and wastewater utilities. That Order was consummated by Order No. PSC-00-1299-CO-WS, issued July 18, 2000. By PAA Order No. PSC-01-1226-PAA-WS, issued June 1, 2001, we approved the new leverage formula, but that PAA Order had not become final and effective as of the date of our vote in this docket. Based on Aloha's adjusted capital structure, the current leverage formula yields a cost of equity of 9.93%. Therefore, we find that the appropriate ROE is 9.93% with a range of reasonableness of 8.93% to 10.93%.

Weighted Average Cost of Capital

Consistent with our adjustments, the appropriate weighted average cost of capital for the Seven Springs water is 9.98%.

NET OPERATING INCOME

Related Party Purchased Water Transactions

The Seven Springs water system consists of eight wells. Well No. 1 is owned by Mr. Jack Mitchell (Mitchell). Wells Nos. 3 and 4 are owned by Tahitian Development (Tahitian). Wells Nos. 6 and 7 are owned by Interphase, Inc. (Interphase). Well No. 5 is no longer functioning, and Wells Nos. 2, 8, and 9 are owned by the utility. According to its responses to our staff's data request, Mitchell, Tahitian and Interphase own the land and original wells and are responsible for all property taxes. However, Aloha has been responsible for all operating expenses (*i.e.*, repairs and maintenance) and improvements to the original wells. Thus, we find that these purchased water transactions basically provide payment of royalties for raw water.

In its application for a limited proceeding in Docket No. 010168-WU, Aloha provided a schedule of the gallons of water sold to Aloha by Mitchell, Tahitian, and Interphase for the 2000 calendar year-end. Mitchell charges \$0.10 per 1,000 gallons and both Tahitian and Interphase charge \$0.32 per 1,000 gallons. According to the utility's 2000 annual report, Tahitian and Interphase are related parties of Aloha. Based on the utility's 2000 annual report and our staff's search of the Secretary of State's online corporation database, Mitchell is not a related party of the utility.

According to the utility's response on February 24, 1999 to our staff's data request, the Mitchell property is a 6,700 acre parcel of property in which Aloha has a right to locate its wells and a 10-acre water plant site anywhere on the property. The only restriction is that each well site has a minimum circumference of approximately one acre. Under the agreement with Tahitian, the utility can extract water on a 30-acre parcel of land with the one acre restriction discussed above. Under the agreement with Interphase, Aloha can extract water on any parcels of a 638 acre

tract, subject to the one acre restriction.

In our analysis of these purchased water transactions, we find it appropriate to discuss the history of the purchased water transactions with Mitchell, Tahitian, and Interphase, and our prior decision in the 1995 overearnings investigation of Florida Cities Water Company (FCWC).

#### History of Purchased Water Transactions

Based on contracts provided by Aloha, the agreements for purchase of water date back to 1972 for Mitchell, 1977 for Tahitian, and 1978 for Interphase. The 1972 agreement with Mitchell called for Aloha to pay \$0.05 per thousand gallons of water extracted from Mitchell's land. On October 1, 1975, Mitchell and Aloha executed another agreement which called for Aloha to pay \$0.10 per thousand gallons of water extracted. In Aloha's 1977 rate case, we noted this \$0.10 per thousand gallon charge by Mitchell. See Order No. 8450, issued August 29, 1978, in Docket No. 770720-WS.

The 1977 agreement with Tahitian called for Aloha to pay \$0.10 per thousand gallons of water extracted. On December 28, 1988, this agreement was amended and the charge was increased to \$0.25 per thousand gallons of water extracted. On January 1, 1992, Tahitian and Aloha amended their agreement again and the charge was increased to \$0.32 per thousand gallons of water extracted. The 1978 agreement with Interphase called for Aloha to pay \$0.10 per thousand gallons of water extracted. This agreement was also amended and the charge increased to \$0.32 per thousand gallons of water extracted. We note that the term period for all the current agreements with Mitchell, Tahitian, and Interphase are perpetual.

#### Our Decision Regarding FCWC's Royalty for Raw Water

In Docket No. 951029-WU, an overearnings investigation, FCWC's operating expenses included a royalty fee for raw water extracted. The fee was based on a series of related party transactions that began in 1973. On April 23, 1973, a related party of FCWC granted an easement to another related party of FCWC to operate wellfields and do other work necessary for delivery of water on 149 of 16,000 acres. At this time, these same parties agreed on a royalty fee of

\$0.03 per thousand gallons for all water pumped from the wells. On June 24, 1973, FCWC's related party sold the 16,000 acres to a third non-related party for \$800 per acre.

FCWC offered three options to compare the value of this easement. First, FCWC recommended using Lee County's 1978 comparable purchase price of land for the County's own wellfield. Second, FCWC proposed the above purchase price because FCWC's ultimate water usage allowance is twice as much as Lee County's allotted capacity. Third, FCWC suggested an independent appraisal of the easement area.

Order No. PSC-96-0859-FOF-WU, issued July 2, 1996, in Docket No. 951029-WU, states, in pertinent part:

We find that the third approach of using a land appraisal to measure the worth of the easement provides a direct means of testing the fairness of the assessed royalty charge. . . . Using the respective weighted percentages, the total acreage assigned to FCWC is 613.75 acres. At the most conservative cost of \$800 per acre (the cost per acre in the 1973 sale to non-affiliated interests), the investment attributable to this land would be \$491,000. Based upon an 8.75% rate of return, the return is calculated to be \$42,963. With taxes estimated to be: \$8,347 for property taxes, \$8,867 for income taxes, and \$2,836 for gross receipts taxes, the total expense would be \$63,013. This is \$5,067 more than the royalty expense of \$57,946 used for the 1996 test year, and equates to a cost of \$0.0326 per 1,000 gallons.

Based on the above comparative analysis, we found that the \$0.03 per thousand gallon royalty fee was a reasonable expenditure in relation to the value acquired.

#### Royalty Fees for Water Extraction by Aloha

Section 367.156, Florida Statutes, states, in pertinent part, that this Commission "shall continue to have reasonable access to all utility records and records of affiliated companies, . . . regarding transactions or cost allocations among the utility and such affiliated companies, and such records necessary to ensure

that a utility's ratepayers do not subsidize nonutility activities."

On February 24, 1999, our staff requested that Aloha provide documentation of the original cost of the land upon which the wells of Mitchell, Tahitian, and Interphase are located. The utility replied that these parcels of land have never been devoted to public use because Aloha does not own the land and that the cost or value of the land is unknown to Aloha.

On June 7, 2000, our staff requested that Aloha provide the following: 1) the date the purchased water wells were placed into service; 2) an itemized cost breakdown of each well; and 3) an explanation of why the utility did not purchase the land upon which each well is located. The utility stated that Tahitian and Interphase's wells were placed into service by Aloha appropriately in the early to mid 1970s and 1980, respectively. However, Aloha stated that it has no records regarding these dates. Aloha asserted that it does not have information concerning the original cost of the wells.

With regard to the utility's decision not to purchase the land, Aloha stated that the wells were drilled and the agreements related to their use by the utility were entered into in the 1970s. The utility asserted that during this time there was a great deal of concern about saltwater intrusion into wells throughout the Highway 19 corridor in Pasco County. In fact, the utility stated that many of the wells of private utilities were taken offline, and those utilities began purchasing water from the Pasco Water Authority. In addition, Aloha indicated that neither the unrelated nor the related parties were or are interested in selling the property upon which the well sites are located. Further, the utility suggested that it would have been imprudent to purchase new property for individual well sites and to utilize them, considering the many failing wells in the area at that time. Aloha stated that the arrangement with Mitchell, Tahitian, and Interphase was prudent because of the utility's right to withdraw water from a very large area of property and, to the extent one well location produces unsatisfactory water, the utility can easily move to other locations.

On September 25, 2000, pursuant to Section 367.156(1) and (2), Florida Statutes, our staff again requested the date that Tahitian and Interphase's wells were placed into service and an itemized cost breakdown of these wells. Our staff also requested the cost of the land upon which these wells are located. Upon further research into annual reports previously filed with the Commission, the utility indicated that purchases from Tahitian began in 1978 and purchases from Interphase began in 1988. Regarding the original cost of the wells, Aloha asserted that the records that the utility is required to keep in order to comply with the NARUC USOA do not require keeping expense related invoices or detail for any significant length of time. Further, Aloha stated that it was informed by both Tahitian and Interphase that their record retention is about seven years, which is imposed by the Internal Revenue Service. Concerning the cost of the land, Aloha stated that, to its knowledge, there has been no appraisal of these properties.

By their very nature, related party transactions require closer scrutiny. Although a transaction between related parties is not per se unreasonable, it is the utility's burden to prove that its costs are reasonable. Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982). This burden is even greater when the transaction is between related parties. In GTE Florida, Inc. v. Deason, 642 So. 2d 545 (Fla. 1994) (GTE), the Court established that the standard to use in evaluating affiliate transactions is whether those transactions exceed the going market rate or are otherwise inherently unfair.

Regardless of the circumstances which resulted in the purchase water transactions with Mitchell, Tahitian, and Interphase, the reasonableness of the charges is the issue. The royalty fee for raw water was addressed thoroughly in FCWC's 1995 overearnings investigation. We find it appropriate to apply the same standards utilized to evaluate the appropriateness of the royalty fees for raw water in the instant case. As indicated above, the utility has maintained that its related parties do not have documentation of the original cost of the well and land when first devoted to the service of Aloha ratepayers. However, because it is the utility's burden to prove that its costs are reasonable, we find that the utility should have taken the appropriate steps to determine the original cost of the land and wells as of the date the utility

began extracting water from these wells, in order to determine if the utility's decision to purchase raw water was the most cost effective choice. Specifically, the appropriate steps might have been to have these lands appraised by an independent appraiser and to retain the services of a professional engineer to conduct an original cost study on the wells initially installed. Without this information, we cannot evaluate the reasonableness of these royalty fees at this time.

#### Conclusion

Although this Commission did not specifically discuss the approval of Mitchell's \$0.10 per thousand gallon rate in Order No. 8450, we did approve the examiner's findings, which included the adjustment to increase purchased water expense to reflect the increase in Mitchell's rate from \$0.05 to \$0.10 per thousand gallons. Further, based upon review of our staff's file for Docket No. 770720-WS, we note that the only supporting documentation for this adjustment was a one page engineering working paper that stated this rate was increasing based on a new contract. The related party transactions with Tahitian were not addressed either in the Order or in the docket file.

Consistent with GTE, Aloha shall not receive recovery of any related cost in excess of that which exceeds the going market rate. Because the Mitchell agreement is an arms-length transaction, we find that the \$0.10 per thousand gallon rate shall be considered the market rate for purposes of determining the appropriate level of earnings in this docket. As such, we shall reduce the related party rates of \$0.32 per thousand gallons to \$0.10 per thousand gallons, which is equal to the rate charged by Mitchell, the non-related third party. Using the 2000 purchased gallons from these related parties that was provided by Aloha, this results in a \$95,070 reduction to O&M expenses for the utility's Seven Springs water system. Moreover, the issue regarding the reasonableness of the rates charged by Mitchell, Tahitian, and Interphase shall be addressed in the upcoming rate case for the Seven Springs water system.

Although we have made this adjustment for the purpose of this overearnings investigation, Aloha has requested that we approve its stipulation that it would accept the use of \$0.10 per thousand

gallons for the purposes of calculating overearnings, but that this adjustment would not be used for the purposes of calculating interim rates in its upcoming rate case for the Seven Springs water division. We find it appropriate to approve this stipulation. However, we note that we are not precluded from finding that the \$0.10 per thousand gallons charge for purchased raw water is appropriate for the calculation of final rates in Aloha's upcoming rate case if Aloha fails to meet its burden of proof.

#### Pro Forma O&M Expense Adjustments

We find that two pro forma O&M expense adjustments are necessary. They are as follows.

##### Pro Forma Adjustment to Salaries and Wages - Employees

By letter dated December 15, 2000, Aloha asserted that it was in the process of interviewing for a new receptionist position, which it planned to fill in January of 2001. In addition, the utility stated that it planned to hire an additional billing clerk and customer service representative. Aloha stated that the annual salaries for the receptionist, billing clerk, and customer service representative total \$52,000. At the May 15, 2001 agenda conference, Aloha stated that these employees had been hired.

We find that it was reasonable for Aloha to fill these positions and the salaries appear to be reasonable. Because they were added in 2001, it is not appropriate to make any adjustment to the 2000 amount. However, it is appropriate to recognize the increased O&M expense in 2001 for these three additional employees. Accordingly, salaries and wages - employees for the Seven Springs water system shall be increased by \$18,938. This amount represents the Seven Spring water system's allocated portion of the total annual salaries of the three additional employees. The corresponding adjustments for pensions and benefits and payroll taxes are an increase of \$6,496, and \$1,449, respectively.

##### Pro Forma Adjustment to Purchased Water Expense

On December 18, 2000, Aloha began purchasing significantly more water from the County to reduce its pumping that was in excess of its SWFWMD water use permit capacity limit. Based on

information received from the County, Aloha purchased 77,832,000 gallons of water in 2000. In addition, the utility purchased 102,856,000 gallons from January to March of 2001 with no gallons purchased from March 20, 2001 to May 19, 2001, when the County last read the meter for the Seven Springs water system. We find it appropriate to recognize as a 2001 pro forma O&M expense adjustment the additional 25,024,000 gallons purchased in 2001 over the total gallons purchased in 2000. Therefore, O&M expenses shall be increased by \$55,053 (25,024,000 divided by 1,000 multiplied by the County's rate of \$2.20 per thousand gallons) to recognize the significant increase of purchased water in 2001.

#### Net Operating Income (NOI) of the Utility

Based on the above-noted adjustments, the test year operating income before calculation for an increase or decrease for the Seven Springs water system is \$131,276 for refund purposes and \$83,988 for the purposes of determining the appropriateness of existing rates on a prospective basis. Schedules Nos. 3-A and 3-B depict our NOI calculation and adjustments, respectively, for refund purposes. Schedules Nos. 3-C and 3-D reflect our NOI calculation and adjustments, respectively, for the purposes of determining the appropriateness of existing rates on a prospective basis.

#### REVENUE REQUIREMENT

Based on all of the above, the revenue requirement for the test year ending December 31, 2000 is \$1,779,101. Because Aloha had adjusted test year revenues of \$1,794,660, the utility had excess revenues of \$15,559 (or 0.87%). The revenue requirement for the test year ending December 31, 2000, with 2001 pro forma expense adjustments, is \$1,858,492. This calculation reflects underearnings of \$63,832 (or 3.56%) from the adjusted test year revenues of \$1,794,660.

#### DEFERRAL OF REVENUES AND REFUND REQUIREMENT

Although we have calculated that Aloha's Seven Springs water system had excess earnings of \$15,559 for the test year ended December 31, 2000, we note that the excess earnings are only 0.87% of total revenues. Therefore, the cost of administering the refund could very easily be as much or more than the amount that would be

refunded. Moreover, it appears that this system will not be overearning in 2001, but will be underearning due to increased O&M expenses for additional employees and increased purchased water costs. Moreover, if Aloha continues to purchase greater quantities of water from the County, the underearnings will be even greater. As such, we find it appropriate to consider whether Aloha should be allowed to defer all overearnings to 2001.

We have addressed revenue deferrals in the water and wastewater industry on several occasions. By Order No. PSC-98-1384-FOF-SU, issued October 14, 1998, in Docket No. 970991-SU, we allowed FCWC to defer 1996 and 1997 excess earnings until 2000. In that case, we found that water and wastewater utilities should be afforded the opportunity to defer excess revenues, especially when long-term benefits exceed the short-term benefits of refunds and temporary rate reductions. See also Order No. PSC-99-1742-PAA-WS, issued September 7, 1999, in Docket No. 981258-WS; Order No. PSC-00-1165-PAA-WS, issued June 27, 2000, in Docket No. 990243-WS; and Order No. PSC-00-2117-PAA-SU, issued November 7, 2000, in Docket No. 000090-SU.

We find that this case is similar to the cases cited above. Therefore, we find that the most prudent treatment for these excess earnings is to allow Aloha to defer these amounts to offset any underearnings in 2001.

For the foregoing reasons, no refunds shall be required in this case and the \$15,559 plus interest shall be recorded on the utility's books as a deferred credit. Pursuant to Rule 25-30.360, Florida Administrative Code, interest shall be calculated on this amount based on the 30-day commercial paper rate. As of June 30, 2001, the amount of this liability is \$16,860. Upon this Order becoming final, the utility shall defer \$15,559 and include the deferred revenues as a separate line item in its capital structure with a cost rate equal to the thirty-day commercial paper rate.

#### RATES

Based on our analysis, the prospective 2001 revenue requirement generates an achieved return below the minimum level of the overall cost of capital. Further, if the utility purchases additional water from the County, the underearnings in 2001 will be

greater. Aloha has filed for test year approval in Docket No. 010503-WU and is expected to file its MFRs by July 31, 2001 for the Seven Springs water system. Based on the above, we find that it is inappropriate to lower rates because to do so would not allow the utility the opportunity to earn a fair rate of return on its investment and recover its prudent operating costs, as required by Section 367.081, Florida Statutes. Therefore, Aloha shall continue charging its present rates for the Seven Springs water system.

#### 2000 Price Index

On March 21, 2001, Aloha filed its Notice of Intent to Increase Its Rates (Notice) pursuant to the price indexing and pass-through provisions of Sections 367.081(4)(a) and (b), Florida Statutes. In the Notice, Aloha requested that it be allowed to use the 2000 GNP Deflator Index factor set forth in Order No. PSC-00-0206-FOF-WS, issued February 1, 2000, in Docket No. 000005-WS. Pursuant to Section 367.081(4)(c), Florida Statutes, the utility filed an affirmation under oath as to the accuracy of the figures and calculations upon which the price index increase was based, stating that the change would not cause the utility to exceed the range of its last authorized rate of return on equity. By the Notice, the utility sought to increase its water and wastewater rates for the Aloha Gardens service area, and its water rates for the Seven Springs service area.

By PAA Order No. PSC-01-1245-PAA-WS, we denied the utility's requested 2000 price index and pass-through for the Aloha Gardens water and wastewater systems in Docket No. 010518-WS, because these requested expenses were considered in our overearnings determinations for those systems. We did authorize the utility's pass-through request for the Seven Springs water system. However, after discussion concerning whether the utility should be allowed to implement the 2000 index increase for the Seven Springs water system, we deferred our decision on the matter until after a decision was made on whether that system overearned in 2000.

Pursuant to Order No. PSC-00-0206-FOF-WS, the 2000 price index application utilizes the historical 1999 year-end O&M expenses (absent certain specific accounts) and escalates them by the 2000 GNP Price Deflator Index factor of 1.36%. The purpose of the index

provision is to allow utilities to increase their rates in order to offset the effects of inflation.

Although Aloha overearned in the year 2000, it appears that implementation of the 2000 price index increase will not cause overearnings in the future. Section 367.081(4)(d), Florida Statutes, authorizes this Commission to order a utility to refund, with interest, a price index (or pass-through) increase if, within 15 months after the filing of the annual report, we find "that the utility exceeded the range of its last authorized rate of return on equity after an adjustment in rates . . . was implemented within the year for which the report was filed or was implemented in the preceding year."

Section 367.081(4)(a), Florida Statutes, governs the implementation of a price index increase, and states in pertinent part:

The commission by rule shall establish the procedure to be used in determining such indices and a procedure by which a utility, without further action by the commission . . . may implement an increase or decrease in its rates based upon the application of the indices to the amount of the major categories of operating costs incurred by the utility during the immediately preceding calendar year, except to the extent of any disallowances or adjustments for those expenses of that utility in its most recent rate proceeding before the commission. . . . A utility may not use this procedure between the official filing date of the rate proceeding and 1 year thereafter, unless the case is completed or terminated at an earlier date. A utility may not use this procedure . . . to increase its rates by application of a price index other than the most recent price index authorized by the commission at the time of filing.

Rule 25-30.420, Florida Administrative Code, governs price index increases, and subsection (7) of that rule states: "No utility shall implement a rate increase pursuant to this rule within one year of the official date that it filed a rate proceeding, unless the rate proceeding has been completed or terminated."

Although Rule 25-30.420, Florida Administrative Code, refers to the date that the utility files a rate proceeding, the statutory reference is to "the rate proceeding," and states that the price index procedure may not be used "between the official filing date of the rate proceeding and 1 year thereafter, unless the case is completed or terminated at an earlier date." Pursuant to Section 367.083, Florida Statutes, the official date of filing for this overearnings investigation is July 18, 2000, the issuance date of Order No. PSC-00-1289-FOF-WS, by which the investigation was initiated.

The question is whether this overearnings investigation, a Commission-initiated rate proceeding, bars the use of the price index procedure by Aloha for the earlier of one year from July 18, 2000 or the completion of the overearnings docket. Upon consideration of the arguments, we believe that the statutory prohibition against the use of the procedure between the official filing date of the rate proceeding and one year thereafter (unless the case is completed or terminated at an earlier date), refers to the most recent rate proceeding filed by a utility, as opposed to an overearnings case initiated by this Commission. This interpretation comports with Rule 25-30.420, Florida Administrative Code, and recognizes that a utility has no control over when this Commission initiates a rate proceeding, as opposed to when the utility files a rate proceeding of its own volition.

We also note that if a utility is precluded from implementing a price index increase during the pendency of an overearnings investigation and the results of the investigation show that the utility was not overearning, the utility would have unduly lost its opportunity to collect the price index increase during the time that the investigation was ongoing for up to 12 months. Finally, and importantly, as previously noted, there are protections built into the price index statute which allow for us to require a refund if a utility implements a price index increase for a period during which it is later determined to have overearned and utilities are required to affirm under oath that they do not believe the increase will cause them to overearn. Moreover, Rule 25-30.420(4), Florida Administrative Code, authorizes this Commission, upon a finding of good cause, to require that a price index rate increase be implemented under a bond or corporate undertaking in the same manner as interim rates. Therefore, if the circumstances require

it, we could further protect the customers by requiring that the increase be implemented under a bond or corporate undertaking in the same manner as interim rates, so that security would be in place in the event that a refund is ultimately required.

. There is some question about how long a utility may wait between filing for a price index and actually implementing the rates. In this case, Aloha timely filed for the 2000 price index increase on March 21, 2001, but was barred from implementing that increase because of its pending limited rate proceeding in Docket No. 010168-WU. That limited rate proceeding was completed with the issuance of Order No. PSC-01-1124-CO-WU on May 16, 2001. Rule 25-30.420(2), Florida Administrative Code, states that the utility must wait at least 60 days from the date of the filing of the notice to implement the increase. However, it does not address how much longer the utility may wait and whether a utility may file for price indexes but save the implementation of the index to a later date. We need not address that question in this case, because Aloha is not unduly delaying the implementation of the 2000 price index.

Based on all of the above, we shall exercise our discretion and allow Aloha to implement the 2000 price index with the understanding that if there are overearnings within the statutory fifteen-month timeframe, refunds will be made. Moreover, our staff shall consider whether rulemaking is appropriate for further clarification of the price index procedures.

CLOSURE OF OVEREARNINGS DOCKET AND RELEASE OF CORPORATE UNDERTAKING

By PAA Order No. PSC-01-1245-PAA-WS, we ordered Aloha to make refunds to its Aloha Gardens water and wastewater customers and to lower its rates for these systems. This overearnings docket shall remain open pending our staff's verification that the required refunds are made and the utility's submission of tariff sheets for the Aloha Gardens water and wastewater systems are consistent with our decision in Order No. PSC-01-1245-PAA-WS. Upon our staff's verification, this overearnings docket shall be administratively closed, if no person whose substantial interests are affected by PAA Order No. PSC-01-1245-PAA-WS for the Aloha Gardens water and wastewater systems and this PAA Order for the Seven Springs water system files a protest within 21 days of the issuance dates of the

ORDER NO. PSC-01-1374-PAA-WS  
DOCKETS NOS. 000737-WS, 010518-WS  
PAGE 24

respective Orders. Accordingly, if no protest is filed, the corporate undertaking for the Seven Springs water system shall be released.

CLOSURE OF DOCKET NO. 010518-WS

If no person whose substantial interests are affected by this proposed agency action Order for the Seven Springs water system files a protest within 21 days of the issuance of this Order, the decision will become final and effective upon the issuance of a Consummating Order, and Docket No. 010518-WS shall be closed upon issuance of the Consummating Order.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Aloha Utilities, Inc., shall make no refunds to its Seven Springs customers, but shall record the \$15,559 of overearnings plus interest on the utility's books as a deferred credit. Pursuant to Rule 25-30.360, Florida Administrative Code, interest shall be calculated on this amount based on the 30-day commercial paper rate. Upon this Order becoming final, the utility shall defer \$15,559 and include the deferred revenues as a separate line item in its capital structure with a cost rate equal to the thirty-day commercial paper rate. It is further

ORDERED that Aloha Utilities, Inc., shall not be required to reduce its rates to its Seven Springs customers. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that Aloha Utilities, Inc., shall be allowed to implement the 2000 price index with the understanding that if there are overearnings within the statutory fifteen-month timeframe, refunds will be made. It is further

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DOCKETS NOS. 000737-WS, 010518-WS  
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ORDERED that the stipulation of Aloha Utilities, Inc., that \$0.10 per one thousand gallons be used as the market price for purchased water for the purposes of this overearnings docket, but that the \$0.10 charge per thousand gallons shall not be used in determining interim rates for the utility's upcoming rate case for its Seven Springs water division is approved as set forth in the body of this Order. It is further

ORDERED that the issue regarding the reasonableness of the rates charged by Mr. Jack Mitchell, Tahitian Development, and Interphase, Inc., shall be addressed in the upcoming rate case for the Seven Springs water system. It is further

ORDERED that Docket No. 000737-WS shall remain open pending our staff's verification that the required refunds are made and the utility's submission of tariff sheets for the Aloha Gardens water and wastewater systems are consistent with our decision in Order No. PSC-01-1245-PAA-WS. Upon our staff's verification, this overearnings docket shall be administratively closed, if no person whose substantial interests are affected by Order No. PSC-01-1245-PAA-WS, issued on June 4, 2001 for the Aloha Gardens water and wastewater systems and this proposed agency action Order for the Seven Springs water system files a protest within 21 days of the issuance dates of the respective Orders. It is further

ORDERED that if no timely protest to this Order is filed by a substantially affected person, the corporate undertaking for the Seven Springs water system shall be released. It is further

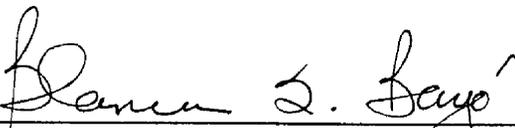
ORDERED that each of the findings made in the body of this Order is hereby approved in every respect. It is further

ORDERED that all matters contained in the schedules attached hereto are incorporated herein by reference. It is further

ORDERED that if no person whose substantial interests are affected by this proposed agency action Order for the Seven Springs water system files a protest within 21 days of the issuance of this Order, the decision will become final and effective upon the issuance of a Consummating Order, and Docket No. 010518-WS shall be closed upon issuance of the Consummating Order.

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DOCKETS NOS. 000737-WS, 010518-WS  
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By ORDER of the Florida Public Service Commission this 27th  
day of June, 2001.

  
\_\_\_\_\_  
BLANCA S. BAYÓ, Director  
Division of Records and Reporting

( S E A L )

RRJ

Chairman E. Leon Jacobs dissented on the Commission's decision to defer overearnings and would have designated the overearnings to be used for the promotion of a conservation program.

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing that is available under Section 120.57, 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 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 action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative

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Code. This petition must be received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on July 18, 2001.

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 these dockets before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

**ALOHA UTILITIES, INC. - SEVEN SPRINGS SYSTEM** **SCHEDULE NO. 1-A**  
**SCHEDULE OF WATER RATE BASE - FOR REFUND AND RATE PURPOSES** **DOCKET NO. 000737-WS**  
**SIMPLE AVERAGE TEST YEAR ENDED 12/31/00**

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	COMMN ADJUST- MENTS	COMMN ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$9,034,175	\$0	\$9,034,175	\$1,019	\$9,035,193
2 LAND & LAND RIGHTS	\$32,716	\$0	\$32,716	(\$970)	\$31,746
3 NON-USED & USEFUL COMPONENTS	\$0	\$0	\$0	\$0	\$0
4 ACCUMULATED DEPRECIATION	(\$2,028,863)	\$0	(\$2,028,863)	(\$6,032)	(\$2,034,894)
5 CIAC	(\$8,854,421)	\$0	(\$8,854,421)	\$0	(\$8,854,421)
6 AMORTIZATION OF CIAC	\$1,887,823	\$0	\$1,887,823	(\$5,115)	\$1,882,708
7 DEFERRED INCOME TAXES	\$819,066	\$0	\$819,066	\$0	\$819,066
8 WORKING CAPITAL ALLOWANCE	<u>\$218,423</u>	<u>\$0</u>	<u>\$218,423</u>	<u>\$124,667</u>	<u>\$343,090</u>
<b>RATE BASE</b>	<u>\$1,108,918</u>	<u>\$0</u>	<u>\$1,108,918</u>	<u>\$113,570</u>	<u>\$1,222,488</u>

**ALOHA UTILITIES, INC. - SEVEN SPRINGS SYSTEM  
ADJUSTMENTS TO RATE BASE - FOR REFUND AND RATE PURPOSES  
SIMPLE AVERAGE TEST YEAR ENDED 12/31/00**

**SCHEDULE NO. 1-B  
DOCKET NO. 000737-WS**

EXPLANATION	WATER
<b><u>PLANT IN SERVICE</u></b>	
To reflect the appropriate cost of new building and improvements.	<u>\$1,019</u>
<b><u>LAND</u></b>	
To reflect the appropriate cost land associated with the new building.	<u>(\$970)</u>
<b><u>ACCUMULATED DEPRECIATION</u></b>	
To reflect the correct depreciation rate for computer equipment.	<u>(\$6,032)</u>
<b><u>ACCUMULATED AMORTIZATION OF CIAC</u></b>	
Reflect the appropriate amortization of contributed taxes.	<u>(\$5,115)</u>
<b><u>WORKING CAPITAL</u></b>	
To reflect the appropriate working capital.	<u>\$124,667</u>

**ALOHA UTILITIES, INC. - SEVEN SPRINGS WATER SYSTEM  
 CAPITAL STRUCTURE - FOR REFUND AND RATE PURPOSES  
 SIMPLE AVERAGE TEST YEAR ENDED 12/31/00**

**SCHEDULE NO. 2  
 DOCKET NO. 000737-WS**

DESCRIPTION	TOTAL CAPITAL	SPECIFIC ADJUSTMENTS (EXPLAIN)	PRO RATA ADJUSTMENTS	CAPITAL RECONCILED TO RATE BASE	RATIO	COST RATE	WEIGHTED COST
<b>PER UTILITY AVERAGE 2000</b>							
1 LONG TERM DEBT	\$6,293,691	\$0	(\$5,535,748)	\$757,943	68.35%	10.33%	7.06%
2 SHORT-TERM DEBT	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
3 PREFERRED STOCK	\$600,000	\$0	(\$527,743)	\$72,257	6.52%	9.93%	0.65%
4 COMMON EQUITY	\$1,865,352	\$0	(\$1,640,709)	\$224,643	20.26%	9.93%	2.01%
5 CUSTOMER DEPOSITS	\$449,017 (1)	\$0	(\$394,942)	\$54,075	4.88%	6.00%	0.29%
6 OTHER	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
7 <b>TOTAL CAPITAL</b>	<u>\$9,208,059</u>	<u>\$0</u>	<u>(\$8,099,141)</u>	<u>\$1,108,918</u>	<u>100.00%</u>		<u>10.01%</u>
<b>PER COMMN AVERAGE 2000</b>							
8 LONG TERM DEBT	\$6,293,691	\$0	(\$5,458,123)	\$835,568	68.35%	10.28%	7.03%
9 SHORT-TERM DEBT	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
10 PREFERRED STOCK	\$600,000	\$0	(\$520,342)	\$79,658	6.52%	9.93%	0.65%
11 COMMON EQUITY	\$1,865,352	\$0	(\$1,617,702)	\$247,649	20.26%	9.93%	2.01%
12 CUSTOMER DEPOSITS	\$449,017	\$0	(\$389,404)	\$59,613	4.88%	6.00%	0.29%
13 OTHER	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
14 <b>TOTAL CAPITAL</b>	<u>\$9,208,059</u>	<u>\$0</u>	<u>(\$7,985,571)</u>	<u>\$1,222,488</u>	<u>100.00%</u>		<u>9.98%</u>
						<b>LOW</b>	<b>HIGH</b>
RETURN ON EQUITY						<u>8.93%</u>	<u>10.93%</u>
OVERALL RATE OF RETURN						<u>9.78%</u>	<u>10.18%</u>
Footnote:							
(1) The source for the 1999 year-end balance is the utility's response to our staff's Interrogatory No. 37 provided in Docket No. 991643-SU.							

ALOHA UTILITIES, INC. - SEVEN SPRINGS SYSTEM  
 STATEMENT OF WATER OPERATIONS - FOR REFUND PURPOSES  
 SIMPLE AVERAGE TEST YEAR ENDED 12/31/00

SCHEDULE NO. 3-A  
 DOCKET NO. 000737-WS

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMN ADJUSTMENTS	COMMN ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	<u>\$1,794,660</u>	<u>\$0</u>	<u>\$1,794,660</u>	<u>\$0</u>	<u>\$1,794,660</u>	<u>(\$15,559)</u> -0.87%	<u>\$1,779,101</u>
OPERATING EXPENSES:							
2 OPERATION & MAINTENANCE	\$1,380,692	\$0	\$1,380,692	(\$29,334)	\$1,351,358		\$1,351,358
3 DEPRECIATION	\$69,796	\$0	69,796	4,021	73,817		73,817
4 AMORTIZATION	(\$42,214)	\$0	(42,214)	\$11,523	(30,691)		(30,691)
5 TAXES OTHER THAN INCOME	\$243,699	\$0	\$243,699	\$0	\$243,699	(\$700)	\$242,999
6 INCOME TAXES	<u>\$34,072</u>	<u>\$0</u>	<u>\$34,072</u>	<u>(\$8,871)</u>	<u>\$25,201</u>	<u>(\$5,591)</u>	<u>\$19,609</u>
7 TOTAL OPERATING EXPENSES	<u>\$1,686,045</u>	<u>\$0</u>	<u>\$1,686,045</u>	<u>(\$22,661)</u>	<u>\$1,663,384</u>	<u>(\$6,292)</u>	<u>\$1,657,092</u>
8 OPERATING INCOME	<u>\$108,615</u>	<u>\$0</u>	<u>\$108,615</u>	<u>\$22,661</u>	<u>\$131,276</u>	<u>(\$9,268)</u>	<u>\$122,008</u>
9 RATE BASE	<u>\$1,108,918</u>		<u>\$1,108,918</u>		<u>\$1,222,488</u>		<u>\$1,222,488</u>
10 RATE OF RETURN	<u>9.79%</u>		<u>9.79%</u>		<u>10.74%</u>		<u>9.98%</u>

**ALOHA UTILITIES, INC. - SEVEN SPRINGS SYSTEM  
 ADJUSTMENTS TO OPERATING INCOME - FOR REFUND PURPOSES  
 SIMPLE AVERAGE TEST YEAR ENDED 12/31/00**

**SCHEDULE NO. 3-B  
 DOCKET NO. 000737-WS**

EXPLANATION	WATER
<b><u>OPERATION &amp; MAINTENANCE EXPENSE</u></b>	
1 Amortize regulatory commission expenses of Docket No. 960545-WS.	\$65,735
2 Related party purchased water expense.	<u>(95,070)</u>
Total	<u>(\$29,334)</u>
<b><u>DEPRECIATION EXPENSE</u></b>	
To reflect the correct depreciation rate for computer equipment.	<u>\$4,021</u>
<b><u>AMORTIZATION EXPENSE</u></b>	
Reflect the appropriate amortization of contributed taxes.	<u>\$11,523</u>
<b><u>INCOME TAXES</u></b>	
To adjust to test year income tax expense.	<u>(\$8,871)</u>

**ALOHA UTILITIES, INC. - SEVEN SPRINGS SYSTEM  
 STATEMENT OF WATER OPERATIONS - FOR RATE PURPOSES  
 SIMPLE AVERAGE TEST YEAR ENDED 12/31/00**

**SCHEDULE NO. 3-C  
 DOCKET NO. 000737-WS**

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	COMMN ADJUST- MENTS	COMMN ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	<u>\$1,794,660</u>	\$0	<u>\$1,794,660</u>	\$0	<u>\$1,794,660</u>	<u>\$63,832</u> 3.56%	<u>\$1,858,492</u>
<b>OPERATING EXPENSES:</b>							
2 OPERATION & MAINTENANCE	\$1,380,692	\$0	\$1,380,692	\$45,036	\$1,425,728		\$1,425,728
3 DEPRECIATION	\$69,796	\$0	69,796	4,021	73,817		73,817
4 AMORTIZATION	(\$42,214)	\$0	(42,214)	\$11,523	(30,691)		(30,691)
5 TAXES OTHER THAN INCOME	\$243,699	\$0	\$243,699	\$1,449	\$245,148	\$2,872	\$248,020
6 INCOME TAXES	<u>\$34,072</u>	\$0	<u>\$34,072</u>	<u>(\$37,402)</u>	<u>(\$3,330)</u>	<u>\$22,939</u>	<u>\$19,609</u>
7 TOTAL OPERATING EXPENSES	<u>\$1,686,045</u>	\$0	<u>\$1,686,045</u>	<u>\$24,627</u>	<u>\$1,710,672</u>	<u>\$25,812</u>	<u>\$1,736,484</u>
8 OPERATING INCOME	<u>\$108,615</u>	\$0	<u>\$108,615</u>	<u>(\$24,627)</u>	<u>\$83,988</u>	<u>\$38,021</u>	<u>\$122,008</u>
9 RATE BASE	<u>\$1,108,918</u>		<u>\$1,108,918</u>		<u>\$1,222,488</u>		<u>\$1,222,488</u>
10 RATE OF RETURN	<u>9.79%</u>		<u>9.79%</u>		<u>6.87%</u>		<u>9.98%</u>

**ALOHA UTILITIES, INC. - SEVEN SPRINGS SYSTEM  
 ADJUSTMENTS TO OPERATING INCOME - FOR RATE PURPOSES  
 SIMPLE AVERAGE TEST YEAR ENDED 12/31/00**

**SCHEDULE NO. 3-D  
 DOCKET NO. 000737-WS**

EXPLANATION	WATER
<b><u>OPERATION &amp; MAINTENANCE EXPENSE</u></b>	
1 To remove rent expense from old building.	(\$6,117)
2 Amortize regulatory commission expenses of Docket No. 960545-WS.	65,735
3 Related party purchased water expense.	(95,070)
4 Pro forma salaries.	18,938
5 Pro forma benefits.	6,496
6 To reflect the significant increase of purchased water in the first quarter of 2001.	<u>55,053</u>
Total	<u>\$45,036</u>
 <b><u>DEPRECIATION EXPENSE</u></b>	
To reflect the correct depreciation rate for computer equipment.	<u>\$4,021</u>
 <b><u>AMORTIZATION EXPENSE</u></b>	
Reflect the appropriate amortization of contributed taxes.	<u>\$11,523</u>
 <b><u>TAXES OTHER THAN INCOME</u></b>	
Increase Payroll tax associated with pro forma salaries.	<u>\$1,449</u>
 <b><u>INCOME TAXES</u></b>	
To adjust to test year income tax expense.	<u>(\$37,402)</u>