

VOTE SHEET

APRIL 2, 2002

RE: Docket No. 010503-WU - Application for increase in water rates for Seven Springs System in Pasco County by Aloha Utilities, Inc.

ISSUE 1: Is the quality of service satisfactory?

RECOMMENDATION: No. The utility's overall quality of service is unsatisfactory. Due to Aloha's long-term problems with black water and other water quality complaints, long-term violation of its consumptive use permit, its lack of a proactive approach to finding acceptable solutions to these problems, and the customer complaints about the attitude of the utility, the overall quality of service of Aloha should be considered unsatisfactory.

APPROVED

COMMISSIONERS ASSIGNED: Jaber, Baez, Palecki

COMMISSIONERS' SIGNATURES

MAJORITY

DISSENTING

[Handwritten signatures of majority commissioners]

[Empty lines for dissenting signatures]

REMARKS/DISSENTING COMMENTS:

DOCUMENT NUMBER-DATE

03749 APR-28

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ISSUE 2: Should the utility's rate increase request be denied due to poor quality of service?

RECOMMENDATION: No. The utility's rates should be set so as to give it the opportunity to earn within the minimum of its authorized rate of return in accordance with the holding in Gulf Power v. Wilson, 597 So. 2d 270 (Fla. 1992). However, because of the dissatisfaction of the customers with the poor quality of the water service and the treatment that they receive from the utility in response to customer complaints, the rates should be set using the minimum of the range of return on equity. Also, to reflect the poor management of this utility, the salaries of both the President and Vice President should be reduced by 50% as set forth in the analysis portion of staff's March 21, 2002 memorandum. The utility should also be ordered to make improvements beginning with Wells 8 and 9 and then to all of its wells to implement a treatment process designed to remove at least 98% of the hydrogen sulfide in the raw water. Such improvements to all of Aloha's wells should be placed into service by no later than December 31, 2003. Moreover, Aloha should submit a plan within 90 days of the date of the Final Order in this docket showing how it intends to comply with the above-noted requirements for the removal of hydrogen sulfide. Finally, Aloha should implement the 5 customer service measures addressed in the staff analysis within 120 days from the date of the Final Order. An

additional O+M expense of \$44,136 should be allowed to implement these customer service measures.

MODIFIED

Approved with noted modification.

ISSUE 3: What is the appropriate cost of the Commission- ordered pilot project to include in working capital for the Seven Springs water system?

RECOMMENDATION: The appropriate amount to include is \$54,270, which is the average cumulative balance of expenditures projected for the test year. This results in a \$135,730 decrease to the utility's requested amount of \$190,000.

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ISSUE 4: What is the appropriate working capital allowance?

RECOMMENDATION: This issue is a fall-out of Issue 3 and the recommended amount of rate case expense. The appropriate working capital allowance for the utility's Seven Springs water system is ~~\$446,284~~. \$445,482.

MODIFIED

Approved with noted modification.

ISSUE 5: What is the appropriate projected rate base?

RECOMMENDATION: The projected 13-month average rate base is ~~\$1,382,168~~.
\$1,381,612.

MODIFIED

Approved with noted modification.

ISSUE 6: Stipulated at hearing.

ISSUE 7: What is the appropriate projected weighted average cost of capital for the projected test year ending December 31, 2001?

RECOMMENDATION: The weighted average cost of capital should be ~~8.61%~~ ^{8.52%}. This is based on a return on equity of ~~10.88%~~, which is the minimum of the newly established range of ~~10.88% to 12.88%~~. The cost of capital calculation also is based on Stipulations 7, 8, and 20, and stipulated Issue 6.

10.34% to 12.34% 10.34%

MODIFIED

Approved with noted modifications.

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ISSUE 8: What are the appropriate number of gallons sold for the projected 2001 test year?

RECOMMENDATION: The appropriate number of gallons sold for the projected test year 2001 are 905,635,244 for residential service and 110,486,540 for general service, as shown in Exhibit 21.

APPROVED

ISSUE 9(a): What is the appropriate projected number of purchased water gallons from Pasco County, and what is the resulting expense?

RECOMMENDATION: The appropriate projected number of purchased water gallons from Pasco County at this time is zero with a resulting expense of \$0. Staff also recommends that Aloha be required to perform a cost benefit analysis of an appropriate alternative water supply that allows it to fit permanently into the long-term alternative water supply plan in a manner that is not deleterious to the environment, or to Aloha's ratepayers. This analysis should include negotiating with Pasco County for a better bulk rate, which might include paying an impact fee up-front.

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ISSUE 9(b): Should a provision be made to monitor whether the gallons pumped from Aloha's wells differs from the maximum permitted quantity on an annual average basis under the Water Use Permit (WUP)?

RECOMMENDATION: Based on staff's recommendation in Issue 9(a), no additional monitoring requirements for earnings purposes are necessary. However, if the Commission denies or changes staff's recommendation regarding the purchase of water from Pasco County, the Commission should implement quarterly monitoring of statistics of water purchased and water pumped. This should be an immaterial cost to the utility and thus no additional costs should be included in this proceeding.

APPROVED

ISSUE 9(c): What provision should the Commission make within rate setting for the potential shortfall or excess if usage by customers differs from that included in the rate setting?

RECOMMENDATION: No provision should be made in addition to those already provided for in Section 367.081 and 367.0814, Florida Statutes.

APPROVED

ISSUE 10: Should projected chemicals and purchased power be adjusted?

RECOMMENDATION: Yes. Chemical expense should be decreased by \$2,234 to remove the impact of inflation for the test year. No adjustment is needed for purchased power expense.

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ISSUE 11: Should an adjustment be made to employee salaries and wages for open positions?

RECOMMENDATION: Yes. Salaries and wage expense should be decreased by \$19,835 to remove the projected salary for a new utility director position. This position was not filled at the time of the hearing in January 2002. A corresponding adjustment should also be made to decrease pensions and benefits expense by \$4,384, for a total decrease of \$24,219. This represents the allocated portion for the new position for the Seven Springs water system.

APPROVED

ISSUE 12: Stipulated at hearing.

ISSUE 13: What adjustments should be made to pension expense?

RECOMMENDATION: The parties agreed that pension expense should be increased by \$40,509 to correct a recording error and the benefits percentage of 22.10%. Pension expense should also be increased by \$10,580 to reflect the benefits for the pro forma salaries at the 22.10% level.

APPROVED

ISSUE 14: Does the utility have excessive unaccounted-for water, and if so, what adjustments should be made?

RECOMMENDATION: No. Aloha does not have excessive unaccounted-for water and an allowance of 10% has been used for the projected test year.

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ISSUE 15: Should an adjustment be made for related-party purchased water transactions?

RECOMMENDATION: The royalty fee charged by the related parties should be reduced to \$0.10 per thousand gallons.

APPROVED

ISSUE 16: What is the appropriate amount of rate case expense?

RECOMMENDATION: The appropriate rate case expense for this docket is \$205,209. Pursuant to Section 367.0816, F.S., rate case expense shall be amortized over 4 years. This results in annual rate case expense of \$51,302. An adjustment should be made to O&M expenses of \$60,323 to adjust the amount requested by the utility in its MFRs.

APPROVED

ISSUE 17: What conservation programs, and associated expenses, are appropriate for this utility at this time?

RECOMMENDATION: The utility should be allowed to recover \$120,000 in its rates for monthly service for the implementation of conservation programs as described in staff's March 21, 2002 memorandum.

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ISSUE 18: What is the test year operating income before any revenue increase?

RECOMMENDATION: Based on the adjustments discussed in previous issues, staff recommends that the test year operating income before any provision for increased revenues should be ~~\$115,045~~ \$117,714.

MODIFIED

Approved with noted modification.

ISSUE 19: What is the appropriate revenue requirement?

RECOMMENDATION: The following revenue requirement should be approved.

	Test Year	\$	Revenue	%
	<u>Revenues</u>	<u>Increase</u> <u>Decrease</u>	<u>Requirement</u>	<u>Increase</u> <u>Decrease</u>
Water	\$1,979,140	\$6,648 \$0	\$1,985,788 \$1,979,140	0.34% 0%

MODIFIED

Approved with noted modification.

ISSUE 20: What is the appropriate rate structure for this utility?

RECOMMENDATION: The recommended rate structure for residential customers is a BFC and two-tier inclining-block rate structure. The usage blocks should be for monthly usage of: 1) 0-10,000 gallons; and 2) in excess of 10,000 gallons. The rate in the second usage block should be 1.25 times greater than the rate in the first block, with a BFC cost recovery allocation of 28%. The traditional BFC and uniform gallonage charge rate structure should be implemented for the General Service class. All gallonage allotments included in the BFC should be eliminated.

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ISSUE 21: Is repression of consumption likely to occur, and, if so, what is the appropriate adjustment and the resulting consumption to be used to calculate consumption charges?

RECOMMENDATION: No repression adjustment due to a change in rates is appropriate. However, a 2.5% reduction in residential consumption should be made to recognize the impact of conservation programs recommended in Issue 17. The resulting consumption to be used to calculate consumption charges is 993,482 Kgal.

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ISSUE 22: What are the appropriate monthly rates for service?

RECOMMENDATION: The appropriate monthly rates are listed below.

Residential Service Water Rates

Meter size	Current	Staff Recommended
<u>BFC</u>		
5/8" x 3/4"	\$7.32 (includes 3Kgal)	\$4.43 \$4.02
3/4"	\$0.00	\$6.65 \$6.03
1"	\$0.00	\$11.08 \$10.05
1 1/2"	\$0.00	\$22.15 \$20.10
<u>Usage charges</u>		
Per 1,000 gals		
0 - 3,000 gals	\$0.00	\$1.34 \$1.38
3,000-10,000	\$1.32	\$1.34 \$1.38
Over 10,000 gals	\$1.32	\$1.67 \$1.72

General Service Rates

Meter Size	Current	Staff Recommended
<u>BFC</u>		
5/8" x 3/4"	\$7.32*	\$4.43 \$4.02
1"	\$19.46*	\$11.08 \$10.05
1 1/2"	\$36.49*	\$22.15 \$20.10
2"	\$58.80*	\$35.44 \$32.16
3"	\$116.83*	\$70.88 \$64.32
4"	\$182.85*	\$110.75 \$100.50
6"	\$282.76*	\$221.50 \$201.00
8"	\$577.67*	\$354.00 \$321.60
10"	\$841.62*	\$509.45 \$462.30

*Current General Service BFC include minimum gallonage allowances.

Usage Charges

All usage Per 1,000 gals	\$1.32	\$1.44 \$1.49
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In addition, tariffs should reflect that the Vacation Rate should be set at the new BFC of ~~\$4.43~~ \$4.02.

These rates, also shown on Schedule No. 4 of staff's March 21, 2002 memorandum, are designed to produce revenues of ~~\$1,985,788~~, excluding miscellaneous service charge revenues. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code. The rates should not be implemented until staff has approved the proposed customer notice, and the notice has been received by the customers. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

\$1,946,855

MODIFIED

Approved with noted modification.

ISSUE 23: What are the appropriate service availability charges for the Seven Springs water system?

RECOMMENDATION: An interim plant capacity charge of \$1,000 should be approved to offset future plant requirements. The utility shall deposit the difference between \$1,000 and the current charge of \$163.80 in its current interest-bearing escrow account to guarantee the interim funds collected subject to refund. The escrowed funds shall not be released until the Commission has verified that Aloha has sufficiently invested in the required plant improvements. All other escrow requirements as established by the Commission in Order No. PSC-00-1285-FOF-WS, issued on July 14, 2000, shall continue to apply. Revised tariff sheets and a proposed customer notice shall be filed by April 30, 2002, to reflect the \$1,000 interim plant capacity charge. The proposed notice shall include the date the notice will be issued, a statement that the utility is increasing its water plant capacity charge for new connections to the Seven Springs system from an interim charge of \$500 per ERC to \$1,000 per ERC, on a temporary basis, subject to refund; the utility's address, telephone number and business hours; and a statement that any comments concerning the

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charge should be addressed to the Director of the Division of the Commission Clerk and Administrative Services at 2540 Shumard Oak Boulevard, Tallahassee, FL 32399-0870. The approved charge shall be effective for connections made on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(2), Florida Administrative Code, providing the appropriate notice has been made.

The notice shall be mailed or hand-delivered to all persons in the service area who have filed a written request for service within the past 12 calendar months or who have been provided service within the past 12 calendar months. In addition, the utility shall publish a copy of the approved notice in a newspaper of general circulation in its service area within 10 days of staff's approval of the notice. The utility shall provide proof of the date the notice was given within 10 days after the date of the notice. This increase is recommended in order to fund future plant requirements necessary to address solutions to the black water and long-term water supply issues.

APPROVED

ISSUE 24: Is an interim refund appropriate and if so in what amount?
(Issue not in Prehearing Order.)

RECOMMENDATION: The proper refund amount should be calculated by using the same data used to establish final rates, excluding rate case expense. This revised revenue requirement for the interim collection period should be compared to the amount of interim revenues granted. Based on this calculation, the utility should be required to refund ~~4.01%~~ of water revenues collected under interim rates. The refund should be made with interest in accordance with Rule 25-30.360(4), Florida Administrative Code. The utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), Florida Administrative Code.

4.87%

MODIFIED

Approved with noted modification.

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ISSUE 25: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, Florida Statutes? (Issue not in Prehearing Order.)

RECOMMENDATION: The water should be reduced as shown on Schedule 5 of staff's March 21, 2002 memorandum, to remove rate case expense grossed up for regulatory assessment fees and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year recovery period, pursuant to Section 367.0816, Florida Statutes. The utility should be required to file revised tariff sheets and a proposed customer notice setting forth the lower rates and the reason for the reduction not later than one month prior to the actual date of the required rate reduction.

APPROVED

ISSUE 26: Should this docket be closed?

RECOMMENDATION: The docket should be closed after the time for filing an appeal has run.

APPROVED