

State of Florida

ORIGINAL



Public Service Commission

RECEIVED FPSC

-M-E-M-O-R-A-N-D-U-M-03 NOV 17 PM 3:19

COMMISSION CLERK

DATE: November 17, 2003
TO: Division of the Commission Clerk and Administrative Services
FROM: Ralph Jaeger - Office of the General Counsel - Economic Regulation Section
RE: Docket No. 010503-WU - Application for Increase in Water Rates for Seven Springs System in Pasco County by Aloha Utilities, Inc.

The attached facsimile from Steve Burgess to Harold McLean was faxed to Marty Deterding by staff counsel on August 7, 2003, and should be placed in the docket file.

RRJ/jb

cc: Division of Economic Regulation (Willis)

E:\010503\010503m1.rj

- US
AF
MP
OM
STR
ECR
3CL
DPC
MMS
SEC
OTH

DOCUMENT NUMBER-DATE

11524 NOV 17 8

FPSC-COMMISSION CLERK



JACK SHREVE
PUBLIC COUNSEL

STATE OF FLORIDA
OFFICE OF THE PUBLIC COUNSEL

c/o The Florida Legislature
111 West Madison St.
Room 812
Tallahassee, Florida 32399-1400
850-488-9330

FAX COVER SHEET

DATE 8-5-03 TIME _____

TO: Harold McLean

FROM: Steve Burgess

TOTAL NUMBER OF PAGES (INCLUDING COVER) 6

SPECIAL INSTRUCTIONS _____

WE ARE TRANSMITTING FROM FAX NUMBER 850-488-4491. IF YOU ENCOUNTER PROBLEMS RECEIVING THIS FAX, PLEASE CALL 850-488-9330.



JACK SHREVE
PUBLIC COUNSEL

STATE OF FLORIDA
OFFICE OF THE PUBLIC COUNSEL

c/o The Florida Legislature
111 West Madison St.
Room 812
Tallahassee, Florida 32399-1400
850-488-9330

August 5, 2003

Harold McLean
General Counsel
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

RE: Aloha Utilities

Dear Harold:

We believe the Aloha rate order (No. 0593) did not grant the customers the full amount of interim refund to which they are entitled. An interim increase of 15.67% was granted, but ultimately no rate increase was granted. It seems axiomatic that the 15.67% should be returned in its entirety, rather than the 4.87% refund granted in Order 0593. I am attaching an explanation of how we think Order 0593 erred.

Thank you for your concerns.

Sincerely,

A handwritten signature in cursive script, appearing to read "Steve", written over a horizontal line.

Stephen C. Burgess
Deputy Public Counsel

cc: Marty Deterding, Esquire

We believe there is a fundamental flaw in the method for calculating the amount of interim refunds.

The calculation was:

\$2,009,292

The original interim revenue requirement as calculated on November, 2001 for the historic interim test period of July 1, 2000 to June 30, 2001 (See page 90 of Order 0593)

- 1,914,375

The revenue requirement calculated for the period during which the interim rates were collected. (November, 2001 through May, 2002, annualized) (P. 91)

= Interim refund as a percentage of the rates collected

Our conceptual disagreement with this method is the mismatch created by shifting test periods. Using actual data, a subsequent year almost always reflects a greater revenue requirement than its prior year. This is because both growth and inflation increase investment and expenses.

In its refund calculation, the PSC Order subtracts a later year's revenue requirement from an earlier year's revenue requirement (it is actually almost 1 1/2 years earlier). The growth and inflation were inherent in the later year.

Therefore, the calculation of the interim refund was automatically reduced by the effect of 1 1/2 year's growth and inflation.

This method contains a mismatch that should be corrected. Any refund should be based on the simple equation of:

$$\begin{array}{l}
 \text{(What was actually)} \\
 \text{(collected in a period)}
 \end{array}
 \quad \text{minus} \quad
 \begin{array}{l}
 \text{(What should have been)} \\
 \text{(collected in the same)} \\
 \text{(period)}
 \end{array}
 = \text{Refund}$$

In our case, the period in question is the period during which Aloha collected the interim rates (called "the interim collection period"). In determining the amount that Aloha **SHOULD HAVE** collected during the interim collection period, the PSC Order properly used the revenue requirement from that interim collection period (the Order used all six months of data that was available at the time of the order). In determining the amount that Aloha **ACTUALLY** collected during the interim collection period, however, the PSC Order did not use the interim collection period at all. Rather, the Order used the revenue requirement from an earlier period (2000/2001 split year). It is this error that reduced the interim refund from 15.67% to 4.87%.

ORDER NO. PSC-02-0593-FOF-WU
 DOCKET NO. 010503-WU
 PAGE 90

of general circulation in its service area within 10 days of our 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.

X. INTERIM REFUNDS

By Order No. PSC-01-2199-FOF-WU, issued November 13, 2001, we approved interim rates subject to refund with interest. Rates were increased by 15.95%, pursuant to Section 367.082, Florida Statutes. The approved interim revenue from these rates is shown below:

	Test Year	\$	Revenue	%
	<u>Revenues</u>	<u>Increase</u>	<u>Requirement</u>	<u>Increase</u>
Water	\$1,737,086	\$272,206	\$2,009,292	15.67%

According to Section 367.082(4), Florida Statutes, any refund must be calculated to reduce the rate of return of the utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in the rate case test period that do not relate to the period interim rates are in effect should be removed.

In this proceeding, the test period for establishment of interim rates was the twelve months ended June 30, 2001. The test year for final rates purposes was the projected year ended December 31, 2001. The approved interim rates did not include any provisions or consideration of pro forma adjustments in operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs, and the floor of the last authorized range for equity earnings. Included in the interim test year were three months of expenses for purchased water from Pasco County.

To establish the proper refund amount, we calculated a revised interim revenue requirement utilizing the same data used to establish final rates. Rate case expense was excluded, because it was not an actual expense during the interim collection period. Aloha did not purchase water from Pasco County during the interim collection period. The interim collection period is from

ORDER NO. PSC-02-0593-FOF-WU
DOCKET NO. 010503-WU
PAGE 91

November 13, 2001 to the date that Aloha implements the final rates approved.

Using the principles discussed above, we calculated the interim revenue requirement from rates for the interim collection period to be \$1,914,375. This revenue level is less than the interim revenue of \$2,009,292, which was granted in Order No. PSC-01-2199-FOF-WU. This results in a 4.87% refund of interim rates, after miscellaneous revenues have been removed.

Accordingly, we find that the utility shall refund 4.87% of water revenues collected under interim rates. The refund shall be made with interest in accordance with Rule 25-30.360(4), Florida Administrative Code. The utility shall submit proper refund reports pursuant to Rule 25-30.360(7), Florida Administrative Code. The utility shall treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), Florida Administrative Code.

XI. FOUR-YEAR RATE REDUCTION

Section 367.0816, Florida Statutes, requires that rates be reduced by the amount of the rate case expense previously included in the rates immediately following the expiration of the four-year period. The reduction will reflect the removal of \$53,720 of revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees. The reduction in revenues will result in the monthly rate reduction shown on Schedule No. 5.

The utility shall file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The utility shall also file a proposed customer notice setting forth the lower rates and the reason for the reduction.

If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

Based on the foregoing, it is