

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for approval ) DOCKET NO. 950615-SU  
of Reuse Project Plan and ) ORDER NO. PSC-95-1605-FOF-SU  
increase in wastewater rates in ) ISSUED: December 28, 1995  
Pasco County by Aloha Utilities, )  
Inc. )  
\_\_\_\_\_ )

The following Commissioners participated in the disposition of this matter:

SUSAN F. CLARK, CHAIRMAN  
J. TERRY DEASON  
JOE GARCIA  
JULIA L. JOHNSON  
DIANE K. KIESLING

NOTICE OF PROPOSED AGENCY ACTION  
ORDER DENYING APPLICATION FOR APPROVAL OF REUSE  
PROJECT PLAN AND GRANTING IN PART APPLICATION  
FOR LIMITED PROCEEDING RATE INCREASE  
AND  
ORDER AUTHORIZING TEMPORARY RATES SUBJECT TO REFUND  
IN THE EVENT OF PROTEST

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein, except the granting of temporary rates in the event of protest, 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.

Background

Aloha Utilities, Inc. (Aloha or utility), is a class A water and wastewater utility located in Pasco County. The utility consists of two distinct service areas -- Aloha Gardens and Seven Springs. These service areas are physically divided by U.S. Highway 19, the major north/south highway through Pinellas and Pasco Counties. According to Aloha's 1994 annual report, the utility's total annual water revenue was \$1,585,267 and its total annual expenses were \$1,578,694, resulting in a net operating income of \$6,573. The utility's total annual wastewater revenue was \$2,147,817 and its total annual expenses were \$2,132,270, resulting in a net operating income of \$15,547. The last rate cases for this utility were in 1976 for the Seven Springs service area and 1992 for the Aloha Gardens service area.

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FPSC-RECORDS/REPORTING

Aloha serves approximately 7,000 water customers and 6,800 wastewater customers in its Seven Springs service area. The utility purchases approximately 80% of its total water supply for resale to its Seven Springs customers. Currently, wastewater is treated by a 1.2 million gallons per day (mgd) extended aeration plant that discharges to a number of percolation/evaporation ponds.

The Aloha service area is located within the Northern Tampa Bay Water Use Caution Area as designated by the Southwest Florida Water Management District (SWFWMD). Critical water supply concerns have been identified by SWFWMD within this area.

#### Quality of Service

A customer meeting was held in this case on August 9, 1995, at the Board of Realtors of West Pasco, 5409 Sunset Road, New Port Richey, Florida. Approximately 200 customers attended, and, of that number, 18 spoke. Also, Florida State Representative Mike Fasano, Jay Yingling (a representative of SWFWMD), and an attorney for the utility spoke. Of the customers who spoke, eight offered complaints of poor water quality. These complaints included low water pressure, odor, discoloration, corrosive water, and water so hard that it can destroy clothes unless a softener is added. In addition, some customers complained that the utility wasted water by prolonged flushing of the lines. However, the customers at the meeting did not present complaints about the quality of service of the wastewater system.

A review of the Commission complaint files shows that from January, 1994 to October 29, 1995, over 90 complaints were listed. Many of these complaints duplicated those heard at the customer meeting. In addition, there were complaints about poor utility management, excessive chlorine, mineral buildup, and the water causing stains in clothes that won't come out, or the water leaving black or orange marks.

Since the DEP has the jurisdictional responsibility for the oversight of utilities in the provision of quality of service, our staff contacted the local DEP officials responsible for drinking water and domestic wastewater. According to the DEP, the utility had some rather serious problems in 1993, and as a condition of an ensuing Consent Agreement, the utility was fined \$6,900. This fine was levied because the utility failed to submit certain test results in a timely manner.

Prior to that action, it was noted that some customers complained of discourteous treatment when calling the utility with service related problems. Following the Consent Agreement, the

utility has hired an individual whose specific duties are to accept all customer calls, and to expedite any repairs, or follow through with any customer complaint to its successful conclusion.

Also, the DEP officials who had the compliance responsibility over this utility, and who had personal knowledge of the utility (one DEP official actually lives in the Aloha service area) through inspections and monitoring actions, indicated that, since 1993, though there are some marginal areas, no customer complaint investigated by the DEP has proven to be a utility problem. This does not include the occasional outage (or low pressure) situation where the company had to isolate an area and cut the water off to allow a tie-in service or to repair a line that was broken by a non-utility worker. Continued growth is prevalent in the area, so each time the line is interrupted for the provision of additional service, or when heavy equipment causes interruptions, outages will cause some degree of inconvenience and displeasure to some customers. When service is restored, the sudden surge of water in the lines may cause a short term discoloration due to the release of some residue from the walls of the pipes.

According to the DEP, the utility has not failed a single residual or bacterial test since 1993. The primary reason the utility was fined and the Consent Agreement Order issued in August 1993, was that the utility did not produce their lab results in a timely manner.

No wastewater complaints were heard at the August 9, 1995, customer meeting. Our Consumer Affairs complaint file shows only two cases which address possible wastewater problems. One complaint states that the lift station at Lessen Avenue and Seven Springs Boulevard requires numerous service calls. This is not a customer service, but a routine utility function, and may have various causes. Frequent service problems, if not initially caused by an engineering error, are usually caused by customers putting into the collection system items not intended to be passed by these lift stations. Rarely is frequent service of lift stations necessary, otherwise. The second complaint appears to address the storm water removal system and not the wastewater system.

The need to find a different method of effluent disposal appears to stem from the fact that the wastewater plant was not operating in the required manner. The percolation ponds were not accepting the treated wastewater and were overflowing. Secondly, a part of the consent order required the utility to comply with the requirement that certain ground water monitoring reports be

received by the DEP in a timely manner. With these deficiencies, the utility could not be considered as delivering an acceptable quality of wastewater service prior to August 1993.

Our Division of Consumer Affairs received and reviewed 49 total complaints in 1993, and 24 total complaints in 1994, including billing and service complaints. Of the 73 complaints received and reviewed over this two-year period, only 14 complaints have been proven to be justified. Fourteen justified complaints over a two-year period for a utility with over 7,200 customers is not considered to be an excessive number of complaints per customer. This computes to less than a .1% annual justified complaint rate.

Since August 1993, the utility has been operating in compliance with the DEP Consent Order. With the installation of this effluent disposal system in progress and the DEP expressing satisfaction with the utility's current operations, we find that the utility's quality of service is satisfactory.

#### Circumstances Leading to Consent Final Judgement

Effluent from Aloha's Seven Springs 1.2 mgd wastewater treatment facility is currently being disposed to ground water by three percolation ponds located adjacent to the plant. The DEP first became concerned about the operational condition of these ponds in 1989. According to the DEP, the pond effluent levels were continuously near the top of the berms. The DEP also believed that the ponds were leaching effluent into adjacent drainage ditches and then to surface waters.

Because the percolation ponds did not appear to be operating properly, the DEP attempted to persuade Aloha to enter into a Consent Order to construct additional effluent disposal capacity. Since Aloha believed that the percolation ponds were functioning properly, they initially refused to enter into a Consent Order with the DEP. In 1993, the DEP filed suit against Aloha alleging that the utility's Seven Springs wastewater treatment plant had effluent discharges into nearby surface waters which, if occurring, was in violation of the plant's operating permit.

On March 25, 1994, the DEP and Aloha entered into a Consent Final Judgement wherein Aloha agreed to add 400,000 gpd in additional effluent disposal capacity before December 31, 1994 and pay a \$19,500 fine. The Consent Final Judgement also limited the number of new connections to 200 until 400,000 gpd of additional effluent disposal capacity is placed into service. Thereafter,

additional connections may be made at a rate of one for each 432 gpd beyond which the new effluent disposal capacity exceeds 400,000 gpd.

#### Aloha's Plan To Comply With Consent Final Judgment

As a means of complying with the Consent Final Judgment, the utility has proposed a project for the disposal of wastewater which will be constructed in three phases over a period of 24 months. The stated goal of the project plan is to ultimately dispose of all effluent from the Seven Springs plant via reuse.

During Phase I, the existing wastewater treatment plant will be modified to provide an increased level of treatment to produce irrigation quality water suitable for human contact. In addition, a force main and other site facilities will be constructed and extended to the disposal site. Disposal will be accomplished by slow rate land application on nearby property and will have an initial capacity of 400,000 gpd. The estimated construction cost for Phase I is approximately \$3,147,000, with an estimated completion date of December, 1995.

The utility has entered into what is designated a reuse agreement with James W. Mitchell, the owner of agricultural land (the Mitchell property) nearby which is suitable as a disposal site. This agreement gives Aloha access to approximately 400 acres of property and provides for at least 1.2 mgd of disposal capacity. The term of the agreement is five years, with no specific charge outlined for the receipt of the effluent. A portion of the effluent will replace irrigation water pumped from wells throughout the property.

Phase II of the project is expected to begin immediately upon completion of Phase I and will last approximately seven months. In this phase, the plan is for the effluent disposal site facilities to be expanded on the Mitchell property to provide for disposal of an additional 500,000 gpd of effluent. The estimated cost for Phase II is approximately \$471,000, with an estimated date of completion of July, 1996.

Phase III construction is planned to start immediately upon completion of Phase II. The utility plans to extend the effluent force main and complete additional disposal site facilities to increase disposal capacity by an additional 300,000 gpd. With the completion of Phase III, the utility would have approximately 1.2 mgd of disposal capacity, which would match the capacity of the treatment plant. In addition, the force main would be extended to a point where reuse customers could accept treated irrigation

water, further increasing the disposal capacity of the system. The estimated cost for Phase III is approximately \$1,225,000, with an estimated date of completion of May, 1997.

#### Aloha's Filing

On June 1, 1995, Aloha applied for approval of what it designated as a reuse project plan and an increase in rates for wastewater service to its Seven Springs customers purportedly pursuant to Section 367.0817, Florida Statutes. However, because of deficiencies in the application, the official filing date was established as July 13, 1995, the date on which the utility corrected the deficiencies.

Although Aloha filed this plan purportedly pursuant to the provisions of Section 367.0817 (entitled "Reuse Projects"), Florida Statutes, our review of the plan shows that, at least in the initial phases, it is not in fact a reuse plan but just a new plan for disposing of effluent. Therefore, instead of reviewing the plan under the provisions of Section 367.0817, Florida Statutes, we will review the filing as if it was made under Section 367.0822 (entitled "Limited proceedings"), Florida Statutes.

Aloha is proposing that all of the costs of this project be borne initially by the wastewater customers. The utility is proposing that rates be phased in upon the completion of each construction phase discussed above. The resulting percentage increase in rates based on the utility's proposed costs are a 59% increase over current rates at the end of Phase I, a 69% increase over current rates at the end of Phase II, and an 83% increase over current rates at the completion of Phase III.

At such time as the utility has identified customers with known reuse demands who are willing to pay for the service, Aloha proposes to apply for a specific reuse rate and a reconfiguration of wastewater rates for its monthly service customers. The utility has identified a number of potential reuse customers which may be served at some indeterminable time after completion of Phase III. These include proposed residential subdivisions as well as a proposed school and hospital site. Another customer that has been identified and with which the utility has entered into a reuse agreement is Rexbo Realty, Inc.

#### Analysis of Aloha's Plan

It appears that Aloha had the following five alternatives available for increasing their effluent disposal capacity and satisfying DEP's concerns: 1) upgrade the plant to advanced

treatment with a surface water discharge; 2) acquire land for more percolation ponds; 3) acquire land for a sprayfield; 4) interconnect with Pasco County's wastewater treatment system; or 5) construct an effluent disposal system with the possibility of obtaining reuse customers in the future.

In response to a request made by our staff, Aloha stated that in 1989 the cost to expand the plant to 2.4 mgd and convert the treatment process to advanced treatment with a surface water discharge was estimated to be \$6,198,000 (at least \$7 million in 1995 dollars). Aloha added that since the Anclote River has been designated as an Outstanding Florida Water, it is doubtful if DEP would even issue a permit at this time to discharge treated effluent into the river. Therefore, surface water discharge does not appear to be a viable option for increasing effluent disposal capacity.

According to the utility, approximately 56 acres of land would be required for additional percolation ponds to adequately increase effluent disposal capacity. Aloha claims that since property values in this area are very high (approximately \$131,000/acre), the cost to acquire land and construct additional percolation ponds could be over \$7,336,000. Aloha indicated that this is a rough estimate and that they do not believe any land suitable for percolation ponds is available near the treatment plant. Therefore, additional percolation ponds do not appear to be a viable option to increase effluent disposal capacity.

Since much more land is required for a sprayfield than for percolation ponds, acquiring land for a sprayfield is also cost prohibitive. However, as part of its effluent disposal plan, Aloha entered into a five year agreement to dispose of at least 1.2 mgd of highly treated effluent at sprayfields located on the Mitchell property. Aloha will construct and operate these sprayfields. After five years, Aloha anticipates that the sprayfields at the Mitchell property will not be needed since there will be sufficient demand for the reclaimed water through a reuse system.

While the DEP has required Aloha to develop additional wastewater disposal facilities and capacity to reduce the demands on the percolation ponds, it did not mandate that this be accomplished through a reuse system. However, our staff did receive a letter from Dr. David York, Reuse Coordinator with the DEP, supporting the implementation of reuse in this case. In his letter, Dr. York states that both Sections 403.064 and 373.250, Florida Statutes, establish the encouragement and promotion of reuse of reclaimed water as State objectives and, therefore, in the public interest. He further explains that when a utility located

within a water resource caution area determines that reuse is feasible, Subsection 403.064, Florida Statutes, requires the utility to implement the reuse system. According to Dr. York, the fact that Aloha submitted a permit application for the reuse system obviously reflects the utility's determination that reuse is feasible. However, according to that statute, the permit applicant, and not the DEP, is charged with making the final determination of the feasibility of reuse. Dr. York concludes that implementation of a reuse system by Aloha is consistent with this State's objectives and the statutory requirements related to reuse, and he encourages this Commission to allow the utility to recover the full, prudently incurred cost of the reuse facilities.

At the customer meeting held in New Port Richey on August 9, 1995, Florida State Representative Mike Fasano and several customers commented that while they were aware of the water supply concerns in the area, they did not understand the necessity for Aloha to build its own reuse distribution system when it could interconnect with the existing Pasco County reuse facilities. Based on these comments, our staff attempted to determine whether interconnection with the County's reuse system would be a feasible option in this case.

Pasco County appears to promote reuse and has two different pricing schemes for its reuse customers: 1) a flat rate of \$5.70 per month for single family residential homes; and 2) a rate of \$.60 per 1,000 gallons for all other users. Based on these rates, it would appear that Aloha's effluent, especially if treated to reuse standards, would have some value for which the county might be willing to pay. Also, Pasco County's western reuse distribution system will be in close proximity to the utility's line at the end of Phase I construction.

Aloha did not attempt to negotiate an interconnection with the Pasco County wastewater treatment system, since the rate charged by the county is much higher than what the Seven Springs wastewater customers are currently paying. Pasco County charges \$4.15 per 1,000 gallons for purchased sewage treatment and the current rate for the Aloha Seven Springs customers is a monthly flat rate of \$13.45. If Aloha had to pay the county for treatment, a customer using 6,000 gallons of water would pay \$24.90 just for the purchased sewage treatment portion of the wastewater service. Further, we do not have sufficient information to estimate the interconnection costs with the County's wastewater treatment system.



Although the reuse lines would be in close proximity, Aloha had not, as of October 23, 1995, met with Pasco County regarding an interconnection of their respective reuse systems. Subsequent to that date, Aloha did talk to Pasco County but no agreement was reached.

By letter dated November 15, 1995 (a letter dated November 14, 1995, from Douglas Bramlett, Assistant Pasco County Administrator was attached), the utility advised our staff that the County was not willing to commit as to whether it would even accept Aloha's effluent, and, if it did, the County would probably charge somewhere between \$1.50 and \$2.00 per 1,000 gallons to take it. The letter also states that an interconnection to the County's system would require a two-mile force main at a cost approximately equal to all of the forcemain facilities constructed under Phase I. Aloha apparently believes this correspondence corroborates its assertions that its proposed "reuse plan" is the best alternative.

It appears that based on this letter, an interconnection with the Pasco County reuse system may not be a realistic alternative for Aloha. However, we note that there has apparently been only one meeting to discuss a project of great impact to both the utility and its customers. This meeting was between the utility's manager and the assistant county administrator to discuss the interconnection on a conceptual level. Additional, more technical meetings might resolve some of the problems and questions raised in the utility's letter.

Also, although the county does charge the City of New Port Richey (City) for the County's acceptance of the City's effluent, it appears that this charge is for a pro rata share of the cost of the County's capital improvements, including storage facilities, pumping equipment, force mains and operating costs. Since Aloha has some of its own facilities in place, perhaps there is room for negotiation on this point. In addition, Mr. Bramlett refers to "numerous other issues" with regard to a possible interconnection.

Therefore, we find that Aloha has not thoroughly explored all possible options and that further negotiations with the county are warranted. This is especially true when considering that Aloha proposes to spend (and recover in the rates of its wastewater customers) over \$4.8 million to construct a reuse system. This capital expenditure is more than double its current annual wastewater revenue.

Additionally, according to the utility's latest letter, it is now receiving inquiries from potential reuse customers. This statement seems to indicate that the utility's earlier contention

that it must build the reuse system before it can identify customers may be unsupported. Even if this Commission accepts the utility's assertion that it is not feasible to interconnect with the County's reuse system, there is still a question of whether it is reasonable to recover all of the costs of Phases II and III from the wastewater customers.

It seems apparent that there are potential reuse customers in the foreseeable future. As we stated above, we do not believe it is reasonable to expect Aloha's wastewater customers to initially bear the total cost (and risk) of the reuse project in the hope that at some point in the future their rates would be reduced to account for the reuse revenue. If interconnection with the County's system proves not to be feasible, we find that the utility should actively seek reuse customers, obtain clarification from SWFWMD of the water credits that may be obtained by the water utility, and file a new case when it has data on the reuse customers and their projected usage.

Approval in Part and Denial in Part of Aloha's Plan

As discussed in the Background, the utility's proposed project is to be constructed in three phases over a period of 24 months. Phase I construction involves modifying the existing wastewater treatment plant to provide an increased level of treatment, as well as installation of a force main and other site facilities extended to the disposal site (the Mitchell property). This construction was necessary to satisfy the conditions of the Consent Final Judgment. Due to the location of the County's closest reuse line, the minimum facilities necessary to connect to the County's system would be constructed in Phase I. Accordingly, we find that Phase I construction shall be approved.

However, we lack the information necessary to make a finding regarding the prudence of Phases II and III construction at this time. By letter dated October 12, 1995, the utility stated that:

. . . the Utility is unable to meaningfully negotiate with customers for reuse service until: (1) reuse effluent is "available" to the property so that developers may be required to accept it pursuant to terms of developer agreements; (2) the nature and configuration of the development planned for these areas is established; (3) a reasonable quantity which justifies the cost of line extensions can be established; and, (4) the cost to the developers and/or end use

customers is established. . . . However, until the nature and configuration of the development planned by the various landowners/potential customers is better known, the Utility can't be certain about the identity of such customers and the nature of their use.

Furthermore, in a follow-up letter dated October 18, 1995, the utility reiterated the fact that--". . . there are no reuse customers currently on line or anticipated in the very near future . . .".

Based on its responses, it is evident that the utility believes there are no potential reuse customers at the present time, and is uncertain whether and when there will be future reuse customers. The potential reuse customer base directly affects the prudence of Phases II and III and underlines the fact that as the plan now stands, it is not a reuse plan. The utility has stated that it must build the reuse system before it will know which customers may be willing to accept reuse. We find that to install a reuse system of this magnitude without knowing if there will even be any reuse customers is imprudent at this time.

A correlative factor to be considered is the reuse rate charged to any eventual reuse customers. By its letter dated October 12, 1995, Aloha replied in part:

. . . In order for both the wastewater disposal system and the reuse system to work, and to benefit wastewater customers (by reuse water sales which the Utility is able to negotiate), the cost of reuse water must be not only below the cost of potable water, but below the other reasonable alternatives for on-site extraction of groundwater or surface water available to the reuse customers. Therefore, the cost of reuse water must remain quite low. . . .

Aloha is proposing that the costs of all three phases of the reuse system be recovered initially from the wastewater customers. At the time that the utility finds prospective reuse customers and negotiates a rate, Aloha proposes to come back to the Commission to set the reuse rate(s) and reconfigure the wastewater rates to account for expected reuse revenues. In effect, Aloha is asking that its wastewater customers bear the total cost (and risk) of the reuse project, and if, at some indeterminable time in the future it

is able to negotiate a reuse rate with end users, their wastewater rates may be reduced to account for the reuse revenue. We do not find this to be a reasonable proposal.

As mentioned previously, Pasco County has a reuse system and charges a flat rate of \$5.70 per month for single family residential homes and a rate of \$.60 per 1,000 gallons for all other users. It is curious that Aloha apparently believes it must charge significantly less than the County for reuse, if it can find any takers at all. The lack of uncertainty about the possibility of reuse customers available to Aloha and what, if anything, the utility could charge for the service, leads us to conclude that the construction of Phases II and III would not be prudent at this time. It would be premature and inappropriate for this Commission to approve the ratemaking scheme proposed by the utility which requires that current wastewater customers bear the entire cost of Phases II and III of the "reuse project".

Another aspect of the case which requires further investigation is how reuse will affect the utility's water allocations on its consumptive use permit (CUP) which is issued by the SWFWMD. Under current water management procedures, a potable water utility gets certain "credits" and receives favorable treatment in terms of obtaining CUP renewals and expansions if its wastewater utility implements a reuse system within its service area. If Aloha were to interconnect its reuse system with Pasco County, it is unclear whether Aloha would still receive the favorable recognition from the water management district with regard to water use permitting. We direct our staff to work with both Aloha and the SWFWMD to ensure that the utility receives the appropriate recognition on its CUP resulting from reuse.

Section 367.0817(1), Florida Statutes, states that the prudent costs of the reuse system should be recovered from the utility's water, wastewater and reuse customers as deemed appropriate by this Commission. If the water utility receives favorable credits from the water management district, we find that it would be appropriate for some of the revenue increase attributable to the reuse system be shifted to the water utility customers.

Therefore, for the reasons discussed above, we believe that Phase I is the most prudent option for adding effluent disposal capacity and is hereby approved. Besides costing less than the other options which are available, this will put Aloha in the position to provide reuse quality water, whether it be to the county or to other reuse customers. This is consistent with our State's objectives of conserving water within a water resource caution area.

However, due to the uncertainties discussed above, we find that it is premature to make a prudency determination on Phases II and III of the plan until interconnection with the county's reuse system is fully investigated, and the utility has had an opportunity to further explore the specifics of its proposed plan, including identification of its future reuse customers and an appropriate reuse rate and corresponding revenues. Further, any subsequent filing made to recover additional costs associated with Aloha's reuse project shall address the issue of rate structure for its water and wastewater customers, and how those additional costs should be spread among Aloha's water, wastewater and reuse customers.

Further, we find that the plan as it now exists is not a reuse plan, but merely a plan for effluent disposal. Therefore, instead of approving this plan under Section 367.0817, Florida Statutes, we have approved it pursuant to Section 367.0822 (Limited proceeding), Florida Statutes. This section requires the utility to pay a filing fee as set forth in that Statute and in Section 367.145, Florida Statutes. Prior to implementing any rates approved in this order, Aloha shall pay the filing fee required by this section.

#### Rate Base

The schedule of wastewater rate base is shown on Schedule No. 1 appended to and made a part of this order. The adjustments of \$95,224 (capitalized interest) and \$77,097 (accumulated depreciation) are discussed below.

The projected construction cost for the completion of the Phase I portion of the project is approximately \$3,146,653. The Phase I cost breakdown is as follows:

Treatment plant reuse refit	\$1,572,000
Sales tax on plant refit	36,000
Effluent force main	720,000
Disposal site facilities	390,000
Monitoring Wells	40,000
Sales tax on force main, site facilities & monitoring wells	40,000
Capitalized interest	95,224
Pre-1995 engineering	234,312
Post-1995 engineering	<u>19,117</u>
TOTAL - PHASE I	\$3,146,653

Included in the Phase I portion of the project is the cost for modifying the utility's existing wastewater treatment plant from its current secondary treatment process to a new high level treatment of its effluent. This modification is required to meet the higher standards imposed on effluent being used in a reuse system. The modifications consist of installing the following equipment:

- Tertiary Filter Equipment
- Vertical Turbine Pumps and Drives
- Chlorination Equipment & Flow Meters
- Power Distribution Equipment
- Raft Mounted Submersible Pumps
- Intermediate Pumping Station Structure
- Chlorine Contact Chamber
- Mud Well and Tertiary Filter Slab

Also, included in the Phase I project is the installation of spray fields and approximately 10,660 linear feet of 24-inch Polyvinyl Chloride Pipe (PVC) force main. The force main will be used to transport the highly treated effluent from the plant to spray fields on the Mitchell property. With the completion of the Phase I portion of the project, Aloha's capacity for effluent treatment and disposal is estimated to be 400,000 gpd and would satisfy its obligation under the Consent Final Judgement with DEP.

The utility included \$95,224 in capitalized interest costs for Phase I. It has been our practice to only allow utilities to earn an allowance for funds used during construction (AFUDC), not capitalized interest costs. (See recent decision in Docket No. 941151-WS, Orange-Osceola Utilities, Inc., Order No. PSC-95-1325-FOF-WS, October 31, 1995.) However, according to Rule 25-30.116 (1), Florida Administrative Code, only construction work in progress (CWIP) that is not included in rate base may accrue AFUDC. Based on this, we have removed the capitalized interest of \$95,224. Based on the above, we find that the appropriate plant-related cost associated with Phase I construction in this docket is \$3,051,429.

The utility's application did not include an adjustment to reduce rate base for accumulated depreciation. However, it did include a provision for depreciation expense. In a Florida Cities Water Company rate case for its North Fort Myers plant, we recognized that this approach would cause rate base to be overstated. Order No. 16818, issued on November 6, 1986, stated:

In previous water and sewer cases, accumulated depreciation was not adjusted until the utility had recovered the expense from the

rate payers. However, use of this methodology tends to overstate the rate base after the first month. To avoid this overstatement, one-half of the annual depreciation expense should be added to accumulated depreciation.

Since the issuance of the above order, it has been our policy to increase the depreciation reserve for projected plant when the annual expense is recognized in the revenue requirement. Based on the above, we have included accumulated depreciation in the amount of \$77,097, which is equal to one half of the utility's request for depreciation expense.

Based on the above, the rate base for Phase I of Aloha's plant shall be \$2,974,332.

#### Capital Structure

Our calculation of the appropriate cost of capital is depicted on Schedule No. 2. The utility has included in its application \$3,146,653 in long term debt with a cost rate of 12 percent. The long-term debt consists of a related party loan from Lynnda Speer, the president of Aloha, to the utility. This loan is evidenced by a promissory note between Aloha and Lynnda Speer which indicates a cost rate of 12 percent. The note states that the interest rate will accrue at prime plus 3 percent and adjust semi-annually.

By their very nature, related party transactions require full scrutiny by this Commission. Just because the transaction is between related parties does not mean the transaction is unreasonable. However, in order to support the cost of debt in a related party transaction, the utility must show that it cannot obtain a lower cost rate than the one requested. Aloha has not shown this. Therefore, we find that Aloha has not supported its requested cost of debt.

In the absence of support for Aloha's requested rate, we find that the appropriate cost rate for related party debt transactions is the prime rate of interest plus 2 percent. At the time the promissory note was entered into and signed by the utility on July 24, 1995, the prime rate of interest was 8.75 percent. Therefore, the long term debt shall be included in the utility's capital structure at a cost rate of 10.75 percent.

Further, as mentioned previously, in its application the utility included \$3,146,653 in long term debt. This amount includes \$95,224 in capitalized interest costs. Based on our

decision to remove capitalized interest, we find that the capitalized interest portion shall also be removed from long term debt.

Using the current leverage formula approved in Order No. PSC-95-0982-FOF-WS, issued on August 10, 1995, in Docket No. 950006-WS, the appropriate return on equity is 11.88 percent, with a range from 10.88 percent to 12.88 percent.

In its filing, the utility calculated its rate of return by only including the cost rate for long term debt. The utility argues that pursuant to Section 367.0817, Florida Statutes, it is inappropriate to use the overall capital structure in establishing the cost rate for what it calls a reuse project. Without reaching this argument, we note that we have decided that we are treating this application as a limited proceeding pursuant to Section 367.0822, Florida Statutes, and not a reuse project pursuant to Section 367.0817, Florida Statutes.

It has been our long-standing practice to include the utility's overall capital structure when determining a revenue requirement, since it is impossible to trace sources of funds. When the utility files its next rate proceeding, all capital structure components will be combined to determine the overall rate of return. This rate of return will be applied to the entire wastewater rate base, and this limited proceeding will not be kept separate for ratemaking purposes.

We find that our treatment of the utility's debt associated with this project is consistent with the statute. Therefore, the utility's overall cost of capital shall be used. Based on the information provided by the utility and our adjustments, the appropriate overall cost of capital shall be 10.49 percent, with a range of 10.33 percent to 10.64 percent.

#### Net Operating Income

Aloha submitted the projected operation and maintenance cost for all three phases of the reuse project totalling approximately \$476,188. The projected Phase I operation and maintenance cost is approximately \$114,024, broken down as follows:



Salaries and wages	\$ 32,100
Employee benefits	5,658
Purchased power	17,699
Chemicals	3,468
Laboratory testing	19,102
Equipment maintenance	4,000
Transportation	2,123
Regulatory Commission expense	29,250
Miscellaneous expense	<u>624</u>
TOTAL - PHASE I	\$114,024

We have reviewed the projected operation and maintenance costs submitted by Aloha. We find that these costs are reasonable. Accordingly, the costs shall be allowed.

The utility's application included \$117,000 in regulatory commission expense amortized over four years to yield an annual expense of \$29,250. However, the utility's current regulatory expense and estimate to complete this Proposed Agency Action (PAA) proceeding has been revised to \$101,296. This revised amount is reasonable and prudent.

When this \$101,296 in regulatory commission expense is amortized over four years, the annual expense is \$25,324. This results in a \$15,704 decrease to the utility's original request and an annual reduction of \$3,926. The components that make up regulatory commission expense are as follows:

	<u>Utility's Petition</u>	<u>Utility's Revised Amount</u>	<u>Commission Adjustments</u>
Legal Fees	\$ 40,000	\$ 49,634	\$ 9,634
Accounting Fees	40,000	35,990	(4,010)
Engineering Fees	25,000	7,172	(17,828)
In-house Fees	<u>12,000</u>	<u>8,500</u>	<u>(3,500)</u>
Total	<u>\$117,000</u>	<u>\$101,296</u>	<u>(\$15,704)</u>

In its application, the utility requested an allowance of \$68,226 for property taxes, based on its requested rate base of \$3,146,653. However, we have reduced rate base by \$172,321. Consequently, the property tax expense is reduced by \$5,406. Based on this, the appropriate amount of property tax expense is \$62,818.

In its application, the utility failed to include an allowance for income tax expense consistent with its argument that this was a reuse project and that the rate of return for this reuse project

should only include the associated cost for long term debt. However, as discussed above, we did not consider this a reuse project, and have used the utility's overall cost of capital in this case. Because the overall capital structure includes a return on equity, we find we must recognize the related income tax effect. Based on the level of revenues and expenses recognized in this docket, the appropriate provision for income tax is \$62,539.

#### Revenue Requirement

Our calculation of the revenue requirement is depicted on Schedule No. 3. The annual revenue required for Phase I is \$737,951. This will allow the utility the opportunity to recover its allowed level of expenses and earn a 10.49% return on our approved level of its Phase I investment. The Schedule of Wastewater Operations is appended to this Order as Schedule No. 3-A, with our adjustments to the Operating Statement shown on Schedule No. 3-B.

#### Revenue Allocation

Traditionally, the allocation of a revenue requirement for a water or wastewater system has not been a contentious issue. Costs associated with the provision of water service were allocated to the water customers, and those associated with the provision of wastewater service were allocated to the wastewater customers. However, with the evolution of reuse of reclaimed water as a method of effluent disposal, aquifer recharge and water conservation, we are seeing a shift in this paradigm. In recognition that water customers benefit from the conservation facilitated by reuse, it is appropriate to consider whether a portion of the wastewater or reuse costs should be shared by the water customers.

However, for this case, as stated previously, we do not believe that, at this stage, the utility is engaged in a valid reuse project. Rather, the utility, as a requirement of the Consent Final Judgment, has merely devised a plan to dispose of its wastewater effluent. Therefore, we find that the revenue requirement for Phase I shall be allocated only to the Seven Springs wastewater customers.

#### Reuse Rate

As stated earlier in this Order, the utility has entered into a "reuse agreement" with James W. Mitchell, the owner of agricultural land nearby which is suitable as a disposal site. This agreement gives Aloha access to approximately 400 acres of property and provides for at least 1.2 mgd of disposal capacity.

The term of the agreement is five years, with no specific charge outlined for the receipt of the effluent. A small portion of the effluent will replace irrigation water pumped from wells throughout the property.

Aloha has not requested that a reuse rate be established for the provision of this effluent to the Mitchell property. In a letter dated August 2, 1995, the utility stated that the owners of the Mitchell property were not willing to pay for effluent under any circumstances, and were not willing to take effluent if there was a charge associated with it. Mitchell has agreed to allow the utility use of his property for disposal of the excess effluent not otherwise sold. Mitchell's CUP provides for sufficient withdrawals for his anticipated use. Since the property owner has another alternative for irrigation and is willing to accept this effluent over and above that needed for his property, we find it appropriate that the charge for the effluent to the Mitchell property be set at zero at this time.

On February 28, 1994, Aloha entered into a Reclaimed Water Reuse Agreement with Rexbo Realty, Inc., a Massachusetts corporation. The agreement is to serve the Fox Hollow Golf Course (golf course or FHGC). This agreement gives the utility access to the 18-hole golf course, which desires approximately 427,000 gpd of treated effluent to supplement its wells. According to the agreement there is no specific charge outlined for the receipt of reuse for the first four years. Thereafter, the golf course would pay whatever rate is in effect and approved by this Commission.

According to the utility, reuse service to FHGC would not begin until the completion of Phase III construction. Consistent with our decision that only costs associated with Phase I be approved at this time, we find that it is premature to address whether or not there should be a specific charge to the golf course. The approval of this contract shall be addressed if and when we find it prudent for the utility to construct Phases II and III of its plan.

#### Rates

During 1994, Aloha provided wastewater service to approximately 6,952 flat rate residential customers, and 104 general service metered customers in its Seven Springs service area. The utility's test year in this case is 1995, based on projected customer growth. Aloha projected growth using a beginning and year-end 1994 average. The utility included in its growth projection a factor for completion based on approval of all three phases. Based on a regression analysis of the utility's

growth over the last five years for residential and three years for commercial customers, the utility's beginning and year-end averages appear to be appropriate. Since we are approving only Phase I costs, the factor for completion of all three phases was not included in the growth projection calculation, and the growth factors are determined to be 1.0562 and 1.0194 for calculating the billing determinants for the residential and general service classes, respectively.

The utility currently employs a flat rate structure for the residential wastewater customers of Seven Springs. The rate structure for the Seven Springs general service wastewater customers includes a minimum charge based on meter size and a minimum water usage by meter size. For all consumption over the minimum allowed, there is a standard gallonage charge. For the utility's Seven Springs water customers, the rate structure for the residential and general service classes contains a minimum charge with minimum consumption by meter size, and a standard gallonage charge for all usage over the minimum allowed. This rate structure has been in effect for this utility since its last rate case in 1976.

This type of rate structure is not consistent our practice, which is a base facility/gallonage charge rate structure for both water and wastewater service. A rate structure which includes minimum usage in the base (or minimum) charge sends the wrong signal with respect to water conservation, particularly if the utility is located in a water resource caution area, as is the Aloha service area. However, in this limited proceeding case, we do not have sufficient billing determinants and other information with which to change the rate structure of the water customers. If the minimums in the water rate structure are not eliminated, it is not appropriate to change the wastewater rate structure. Accordingly, rates are based on the utility's current rate structure.

The utility, however, shall be put on notice that any future filing made to recover additional costs associated with a reuse project (either due to interconnection with the Pasco County reuse system or through its own reuse distribution system), should address the issues of rate structure for the water and wastewater customers, and whether any of the costs associated with the additional reuse facilities should be borne by the water customers.

The utility's current and proposed rates and our approved rates are as follows. The utility's proposed rates reflect the recent index approved for this utility effective July 25, 1995, which was approved subsequent to the utility's filing.

RESIDENTIAL WASTEWATER RATES  
PHASE I

<u>Monthly Flat Charge</u>	<u>Current</u>	<u>Proposed</u>	<u>Approved</u>
Residential	\$ 13.60	\$ 21.55	\$ 21.37
Residential - Vacation	\$ 6.80	\$ 10.78	\$ 10.69

GENERAL SERVICE WASTEWATER RATES  
PHASE I

Monthly Metered Rates

<u>Base Facility Charge</u> <u>Meter Size</u>	<u>Current</u>	<u>Proposed</u>	<u>Approved</u>
5/8"x3/4" ( 3m gals. min.)	\$ 13.60	\$ 21.55	\$ 21.37
1" ( 8m gals. min.)	36.21	57.37	56.93
1-1/2" ( 15m gals. min.)	67.97	107.70	106.82
2" ( 24m gals. min.)	108.75	172.31	170.91
6" (150m gals. min.)	679.65	1,076.89	1,068.15
 Gallonage Charge Per 1,000 gallons	 \$ 1.75	 \$ 2.77	 \$ 2.76

In accordance with Rule 25-30.475, Florida Administrative Code, the rates shall be effective for service rendered as of the stamped approval date on the tariff sheets provided the customers have received notice. The tariff sheets will be approved upon our staff's verification that the tariffs are consistent with our decision, and that the customer notice is adequate. The utility shall provide proof of the date notice was given within 10 days after the date of the notice. Also, Aloha shall not begin charging the above rates until it has paid the filing fee required by Section 367.082, Florida Statutes.

Statutory Four Year Reduction

Section 367.0816, Florida Statutes requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the

gross-up for regulatory assessment fees which is \$26,697 for wastewater. The reduction in revenues will result in the rates depicted on Schedule No. 4.

The utility shall file revised tariffs no later than one month prior to the actual date of the required rate reduction. The utility also shall 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 for the reduction in the rates due to the amortized rate case expense.

#### Temporary Rates in Event of Protest

In the event of a protest by a party other than the utility, Aloha may place the approved rates into effect on a temporary basis, subject to refund and subject to the following conditions.

The utility shall be authorized to collect the temporary rates after our staff's approval of: the security for the potential refund; a copy of the proposed customer notice; and the revised tariff sheets. Also, we find that Aloha's financial ratios do not meet the criteria for approval of a corporate undertaking sufficient to secure the amount of the potential refund. Therefore, the security shall be in the form of a bond or letter of credit in the amount of \$511,236, or the utility may establish an escrow agreement with an independent financial institution.

If the utility chooses a bond as security, the bond shall contain wording to the effect that it will be terminated only under the following conditions:

- 1) The Commission approved the rate increase, or
- 2) If the Commission denies the increase, the utility shall refund the amount collected that is attributable to the increase.

If the utility chooses a letter of credit as security, it shall contain the following conditions:

- 1) The letter of credit is irrevocable for the period it is in effect.

- 2) The letter of credit will be in effect until a final Commission order is rendered, either approving or denying the rate increase.

If the security is provided through an escrow agreement, the following conditions shall be part of the agreement:

- 1) No refunds in the escrow account may be withdrawn by the utility without the express approval of the Commission.
- 2) The escrow account shall be an interest bearing account.
- 3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers.
- 4) If a refund to the customers is not required, all interest earned by the escrow account shall revert to the utility.
- 5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times.
- 6) The amount of revenue, subject to refund, shall be deposited in the escrow account within seven days of receipt.
- 7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments.
- 8) The Director of Records and Reporting must be signatory to the escrow agreement.

In no instance shall the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and shall be borne by, the utility. Irrespective of the form of security chosen by the utility, an account of all monies received as a result of the rate increase shall be maintained by the utility. This account must specify by whom and on whose behalf such monies are paid. If a refund is ultimately required, it shall be paid with interest calculated pursuant to Rule 25-30.360(4), Florida Administrative Code.

The utility shall maintain a record of the amount of bond or letter of credit, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, the utility shall file reports with the Division of Water and Wastewater no later than 20 days after each monthly billing. These reports shall indicate the amount of revenue collected under the increased rates.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the application of Aloha Utilities, Inc., for approval of reuse project plan and increase in wastewater rates in Pasco County is hereby denied in part and approved in part as set forth in the body of this Order. 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 by reference incorporated herein. It is further

ORDERED that the request for approval of Phase I construction is hereby approved. It is further

ORDERED that the plan of Aloha Utilities, Inc. to implement Phase I is approved pursuant to the provisions for a limited proceeding set forth in Section 367.0822, Florida Statutes, and not as a reuse plan pursuant to Section 367.0817, Florida Statutes. It is further

ORDERED that the request for approval of construction for Phases II and III is hereby denied at this time. It is further

ORDERED that Aloha Utilities, Inc., is authorized to charge the new rates and charges as set forth in the body of this Order. It is further

ORDERED that the appropriate reuse rate for the Mitchell property is zero. It is further

ORDERED that the rates and charges approved herein shall be effective for service rendered on or after the stamped approval date on the revised tariff sheets, pursuant to Rule 25-30.475, Florida Administrative Code, provided the customers have received notice. It is further



ORDERED that Aloha Utilities, Inc., shall provide proof that the customers have received notice within 10 days of the date of notice. It is further

ORDERED that prior to its implementation of the rates and charges approved herein, Aloha Utilities, Inc., shall submit and have approved a proposed customer notice to its customers of the increased rates and charges and reasons therefor. The notice shall be approved upon staff's verification that it is consistent with our decision herein. It is further

ORDERED that prior to its implementation of the rates and charges approved herein, Aloha Utilities, Inc., shall submit and have approved revised tariff pages. The revised tariff pages will be approved upon staff's verification that the pages are consistent with our decision herein, that the protest period has expired, and that the proposed customer notice is adequate. It is further

ORDERED that Aloha Utilities, Inc. shall file a tariff sheet reflecting the approved reuse rate of zero. This tariff sheet shall be filed with the other reused tariff sheets discussed herein. It is further

ORDERED that Aloha Utilities, Inc., shall pay the filing fee as required by Sections 367.082 and 367.145, Florida Statutes, prior to implementing the approved rates. It is further

ORDERED that the rates shall be reduced at the end of the four-year rate case expense amortization period, consistent with our decision herein. The utility shall file revised tariff sheets no later than one month prior to the actual date of the reduction and shall file a customer notice. It is further

ORDERED that all provisions of this Order, except for the provision for temporary rates, are issued as proposed agency action and shall become final, unless an appropriate petition in the form provided by Rule 25-22.029, Florida Administrative Code, is received by the Director of the Division of Records and Reporting at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the date set forth in the Notice of Further Proceedings Below. It is further

ORDERED that in the event of a protest of the proposed agency action portion of this order, by someone other than the utility, Aloha Utilities, Inc., may implement the temporary rates subject to refund as set out in the body of this order. It is further

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ORDERED that if Aloha Utilities, Inc., does choose to implement the temporary rates authorized in the paragraph above, it shall submit a bond, letter of credit, or escrow account as required in the body of this order. It is further

ORDERED that as part of any subsequent filing made to recover additional costs associated with the reuse project, Aloha Utilities, Inc. shall address the issue of rate structure for its water and wastewater customers, and how the costs associated with the additional reuse facilities should be spread among Aloha's water, wastewater and reuse customers. It is further

ORDERED that this docket shall be closed if no timely protest is received from a substantially affected person, and upon the utility's filing and staff's approval of revised tariff sheets and a customer notice.

By ORDER of the Florida Public Service Commission, this 28th day of December, 1995.

BLANCA S. BAYÓ, Director  
Division of Records and Reporting

by: Kay Ferguson  
Chief, Bureau of Records

( S E A L )

RRJ

Dissent: Chairman Susan F. Clark agreed that Phase I should be approved, but would have approved it as a reuse project plan pursuant to Section 367.0817, Florida Statutes.

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, 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 or judicial review will be granted or result in the relief sought.

As identified in the body of this order, our actions, other than the approval of temporary rates subject to refund in event of protest, are preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative 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 January 18, 1996. In the absence of such a petition, this order shall become effective on the day subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

If the relevant portion of this order becomes final and effective on the date described above, any party substantially affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

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For the approval of the temporary rates, any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water and/or wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900 (a), Florida Rules of Appellate Procedure.

ALOHA UTILITIES, INC.		SCHEDULE NO. 1			
SCHEDULE OF WASTEWATER RATE BASE		DOCKET NO. 950615-SU			
COMPONENT	PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED
1 UTILITY PLANT IN SERVICE	\$ 3,148,853	\$ 0	\$ 3,148,853	(\$ 85,224)	3,051,429
2 LAND	0	0	0	0	0
3 NON-USED & USEFUL COMPONENTS	0	0	0	0	0
4 ACCUMULATED DEPRECIATION	0	0	0	(77,097)	(77,097)
5 CIAC	0	0	0	0	0
6 AMORTIZATION OF CIAC	0	0	0	0	0
7 ACQUISITION ADJUSTMENTS - NET	0	0	0	0	0
8 ADVANCES FOR CONSTRUCTION	0	0	0	0	0
9 DEFERRED TAXES	0	0	0	0	0
10 WORKING CAPITAL ALLOWANCE	0	0	0	0	0
<b>RATE BASE</b>	<b>\$ 3,148,853</b>	<b>\$ 0</b>	<b>\$ 3,148,853</b>	<b>(\$ 172,321)</b>	<b>2,974,332</b>

**ALOHA UTILITIES, INC.  
CAPITAL STRUCTURE**

**SCHEDULE NO. 2  
DOCKET NO. 950615-SU**

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DESCRIPTION	TOTAL CAPITAL	SPECIFIC ADJUSTMENTS (EXPLAIN)	PRO RATA ADJUSTMENTS	CAPITAL RECONCILED TO RATE BASE	RATIO	COST RATE	WEIGHTED COST
<b>PER UTILITY</b>							
1 LONG TERM DEBT	\$ 3,146,653	\$ 0	\$ 0	3,146,653	100.00%	12.00%	12.00%
2 SHORT-TERM DEBT	0	0	0	0	0.00%	0.00%	0.00%
3 PREFERRED STOCK	0	0	0	0	0.00%	0.00%	0.00%
4 COMMON EQUITY	0	0	0	0	0.00%	0.00%	0.00%
5 CUSTOMER DEPOSITS	0	0	0	0	0.00%	0.00%	0.00%
6 DEFERRED ITC'S-ZERO COST	0	0	0	0	0.00%	0.00%	0.00%
7 DEFERRED ITC'S-WTD COST	0	0	0	0	0.00%	0.00%	0.00%
8 DEFERRED INCOME TAXES	0	0	0	0	0.00%	0.00%	0.00%
9 TOTAL CAPITAL	\$ <u>3,146,653</u>	\$ 0	\$ 0	<u>3,146,653</u>	<u>100.00%</u>		<u>12.00%</u>
<b>PER COMMISSION</b>							
10 LONG TERM DEBT	\$ 3,146,653	(\$ 95,224)	(\$ 1,146,562)	1,904,867	64.04%	10.75%	6.88%
11 SHORT-TERM DEBT	87,175	0	(32,756)	54,419	1.83%	0.00%	0.00%
12 PREFERRED STOCK	600,000	0	(225,448)	374,552	12.59%	11.88%	1.50%
13 COMMON EQUITY	743,096	0	(279,215)	463,881	15.60%	11.88%	1.85%
14 CUSTOMER DEPOSITS	202,701	0	(76,164)	126,537	4.25%	6.00%	0.26%
15 DEFERRED ITC'S-ZERO COST	0	0	0	0	0.00%	0.00%	0.00%
15 DEFERRED ITC'S-WTD COST	0	0	0	0	0.00%	0.00%	0.00%
16 DEFERRED INCOME TAXES	80,217	0	(30,141)	50,076	1.68%	0.00%	0.00%
17 TOTAL CAPITAL	\$ <u>4,859,842</u>	(\$ <u>95,224</u> )	(\$ <u>1,790,289</u> )	<u>2,974,332</u>	<u>100.00%</u>		<u>10.49%</u>
<b>RANGE OF REASONABLENESS</b>					<b>LOW</b>	<b>HIGH</b>	
<b>RETURN ON EQUITY (ROE)</b>					<u>10.88%</u>	<u>12.88%</u>	
<b>OVERALL RATE OF RETURN</b>					<u>10.33%</u>	<u>10.64%</u>	

ALOHA UTILITIES, INC. STATEMENT OF WASTEWATER OPERATIONS		SCHEDULE NO. 3-A DOCKET NO. 950615-SU					
DESCRIPTION	PER UTILITY'S APPLICATION	ADJUSTMENTS	UTILITY ADJUSTED	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$ 750,979	0 \$	750,979 \$	(750,979)\$	0 \$	737,951 \$	737,951
-----							
OPERATING EXPENSES							
2 OPERATION AND MAINTENANCE	\$ 114,024	0 \$	114,024 \$	(3,926)\$	110,098 \$	\$	110,098
3 DEPRECIATION	154,193	0	154,193	0	154,193		154,193
4 AMORTIZATION	0	0	0	0	0		0
5 TAXES OTHER THAN INCOME	105,164	0	105,164	(39,202)	65,962	33,208	99,170
6 INCOME TAXES	0	0	0	(209,315)	(209,315)	271,855	62,539
-----							
7 TOTAL OPERATING EXPENSES	\$ 373,381 \$	0 \$	373,381 \$	(252,443)\$	120,938 \$	305,082 \$	426,000
-----							
8 OPERATING INCOME	\$ 377,598 \$	0 \$	377,598 \$	(498,536)\$	(120,938)\$	432,888 \$	311,950
-----							
9 RATE BASE	\$ 3,146,853		\$ 3,146,853		\$ 2,974,332		\$ 2,974,332
-----							
RATE OF RETURN	12.00%		12.00%		-4.07%		10.49%
-----							

**ALOHA UTILITIES, INC.  
ADJUSTMENTS TO OPERATING STATEMENTS**

**SCHEDULE NO. 3-B  
DOCKET NO. 950615-SU**

EXPLANATION	WASTEWATER
(1) <b>OPERATING REVENUES</b> a) To reverse the utility's proposed revenue increase.	\$ <u>(750,979)</u>
(2) <b>OPERATION AND MAINTENANCE EXPENSES</b> Adjustment to correct regulatory commission expense	\$ <u>(3,926)</u>
(5) <b>TAXES OTHER THAN INCOME</b> a) Adjustment to correct property taxes. b) Adjustment of RAFs to coincide with COMMISSION's adjusted revenues.	(5,408) <u>(33,794)</u> \$ <u>(39,202)</u>
(6) <b>INCOME TAXES</b> a) Adjustment to include allowance	\$ <u>(209,315)</u>
(7) <b>OPERATING REVENUES</b> a) To reflect recommended revenue increase.	\$ <u>737,951</u>
(8) <b>TAXES OTHER THAN INCOME</b> a) To reflect taxes other than income pertaining to recommended revenues.	\$ <u>33,208</u>
(9) <b>INCOME TAXES</b> a) Income taxes related to adjusted revenues	\$ <u>271,855</u>



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**APPROVED RATE REDUCTION SCHEDULE**

ALOHA UTILITIES INC.  
 ADJUSTMENTS TO OPERATING INCOME  
 MONTHLY WASTEWATER RATES

SCHEDULE NO. - 4  
 DOCKET NO. 950615-WS

**CALCULATION OF RATE REDUCTION AMOUNT  
 AFTER RECOVERY OF RATE CASE EXPENSE AMORTIZATION PERIOD OF FOUR YEARS**

**APPROVED MONTHLY RATES**      **APPROVED RATE REDUCTION**  
**RESIDENTIAL AND GENERAL SERVICE**

**BASE FACILITY CHARGE:**

Meter Size:

5/8"X3/4"	\$	21.37	\$	0.77
1"		56.93		2.05
1-1/2"		106.82		3.84
2"		170.91		6.14
6"		1,068.15		38.38

**COMMERCIAL GALLONAGE CHARGE  
 PER 1,000 GALLONS**

\$ 2.76      \$ 0.10

**RESIDENTIAL VACATION RATE**

10.69      0.38