BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for increase in wastewater rates in Seven Springs System in Pasco County by Aloha Utilities, Inc.	DOCKET NO. 991643-SU ORDER NO. PSC-01-0326-FOF-SU ISSUED: February 6, 2001

The following Commissioners participated in the disposition of this matter:

E. LEON JACOBS, JR., Chairman
LILA A. JABER
BRAULIO L. BAEZ

APPEARANCES:

F. MARSHALL DETERDING and JOHN WHARTON, ESQUIRES, Rose, Sundstrom & Bentley, LLP, 2548 Blairstone Pines Drive, Tallahassee, Florida 32301
On behalf of Aloha Utilities, Inc.

JACK SHREVE, Public Counsel, and STEPHEN C. BURGESS, ESQUIRES, Associate Public Counsel, Office of Public Counsel, 111 West Madison Street, Room 812, Tallahassee, Florida 32399-1400
On behalf of the Citizens of the State of Florida.

RALPH R. JAEGER and JASON FUDGE, ESQUIRES, Florida Public Service Commission, Division of Legal Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850
On behalf of the Commission Staff.

FINAL ORDER APPROVING RATES AND CHARGES, REQUIRING REFUNDS, REQUIRING REPORTS ON REUSE CUSTOMERS, AND IMPOSING FINE

BY THE COMMISSION:

TABLE OF CONTENTS

BACKGROUND

Aloha Utilities, Inc. (Aloha or utility), is a Class A water and wastewater utility 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. The utility's service area is located within the Northern Tampa Bay Water Use Caution Area as designed by the Southwest Florida Water Management District (SWFWMD). Critical water supply concerns have been identified by SWFWMD within this area. The following was obtained from Aloha's 1999 annual report for the Seven Springs systems:

	Number of Customers	Operating Revenues
Water	9,242	$1,726,029
Wastewater	8,866	$2,493,675

Rate base was last established for Aloha's Seven Springs wastewater system by Order No. PSC-99-1917-PAA-WS, issued September 28, 1999, in Dockets Nos. 970536-WS and 980245-WS. That Order was consummated by Order No. PSC-99-2083-CO-WS, issued October 21, 1999.

On February 9, 2000, Aloha filed an application for an increase in rates for its Seven Springs wastewater system. The utility was notified by our staff of several deficiencies in the minimum filing requirements (MFRs). Those deficiencies were corrected and the official filing date was established as April 4, 2000, pursuant to Section 367.083, Florida Statutes.

Aloha's requested test year for interim purposes is the historical year ended September 30, 1999. The utility's requested test year for the setting of final rates is the projected year ended September 30, 2001. The utility requested that this application be directly set for hearing.

In its MFRs, the utility requested annual interim revenues of $2,568,801. This represented a revenue increase of $48,532 (or 1.92%). For final consideration, the utility requested total revenues of $4,374,495. This represents a revenue increase of $1,593,501 (or 57.29%). The final revenues are based on the utility's request for an overall rate of return of 9.24%.

On May 3, 2000, an Order Establishing Procedure, Order No. PSC-00-0872-PCO-SU, was issued in this docket. That Order set the dates for the filing of testimony and other documents and the procedures to be followed in this case. That Order initially required intervenors and our staff to prefile their testimony on July 17, 2000 and August 14, 2000, respectively.

By Order No. PSC-00-1065-PCO-SU, issued June 5, 2000, we denied interim rates and suspended the utility's proposed rates.

On June 27, 2000, the Office of Public Counsel (OPC) filed its Notice of Intervention. By Order No. PSC-00-1175-PCO-SU, issued June 29, 2000, we acknowledged OPC's intervention.

Because of a discovery dispute, both OPC and our staff requested a two-week extension in which to prefile their testimony. By Order No. PSC-00-1288-PCO-SU, issued July 17, 2000, the Prehearing Officer granted those requests for extension of time. However, upon reconsideration, we vacated that Order and issued Order No. PSC-00-1636-PCO-SU on September 13, 2000, which Order still allowed OPC and our staff a two-week extension of time to prefile their testimony.

OPC timely filed its testimony on July 31, 2000, and our staff timely filed its testimony on August 28, 2000. OPC and our staff also timely filed their prehearing statements on September 5, 2000. However, by Order No. PSC-00-1609-PCO-SU, issued September 8, 2000, the Prehearing Officer granted Aloha an extension of time to file its prehearing statement, which it did on September 8, 2000.

OPC timely filed the rebuttal testimony of Mr. Ted L. Biddy on September 11, 2000. By Order No. PSC-00-1642-PCO-SU, issued September 14, 2000, the Prehearing Officer granted Aloha's Motion for Extension of Time to prefile rebuttal testimony until September 17, 2000.

On September 18, 2000, Aloha filed its Motion to Strike "Rebuttal" Testimony of OPC witness Biddy. On September 25, 2000, OPC timely filed its Response to Aloha's Motion to Strike Rebuttal Testimony. By Order No. PSC-00-1779-PCO-SU, issued September 29, 2000, the Prehearing Officer granted Aloha's motion.

On September 14, 2000, Aloha filed a Motion to Allow Filing of Supplemental Direct Testimony with the Supplemental Direct Testimony of Stephen G. Watford attached as Attachment A with Exhibit SGW-1. This testimony addressed the issue of a new office building that was not originally included in Aloha's MFRs and on which neither the utility, OPC nor our staff had filed direct testimony.

The Prehearing Conference was held on September 18, 2000. The Prehearing Order and Order Revising Order Establishing Procedure, Order No. PSC-00-1747-PHO-SU, was issued on September 26, 2000. That Order granted Aloha's Motion to Allow Filing of Supplemental Direct Testimony with the Supplemental Direct Testimony of Mr. Watford attached as Attachment A with Exhibit SGW-1 and allowed the

addition of a new issue stated as follows: Should the Commission consider the new office building cost for the utility in this rate proceeding. The Order also allowed the Executed Contract for Sale of New Office Building submitted on September 15, 2000, to be identified as Exhibit SGW-2.

Moreover, the Order struck the rebuttal testimony of Mr. Stephen G. Watford, concerning the new office building, beginning at page 2, line 20, and going through page 6, line 15. Our staff was allowed to file supplemental direct testimony on this issue on October 18, 2000, and Aloha was allowed to file supplemental rebuttal testimony on this issue on October 23, 2000. November 2, 2000 was set aside for formal hearing on this issue.

The formal hearing on all of the other issues was held on October 2 and 3, 2000, at the Spartan Manor in New Port Richey, Florida. However, because we were unable to conclude the hearing on those issues, a third day of hearing was held in Tallahassee on November 2, 2000. The hearing on all of the issues, including the issue of the new office building, was concluded on that date.

The eight-month deadline for the suspension of the requested rates expired on December 4, 2000. The twelve-month deadline for this Commission to take final action in this docket expires on April 4, 2001. On December 1, 2000, Aloha filed a notice of intent to implement its final proposed rates. By Order No. PSC-01-0130-FOF-SU, issued January 17, 2001, we acknowledged the utility's implementation of rates, subject to refund.

We have jurisdiction pursuant to Sections 367.011(2) and 367.081, Florida Statutes.

ABBREVIATIONS AND TECHNICAL TERMS

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

Company and Party Names:

Aloha or utility	Aloha Utilities, Inc.
OPC	Office of Public Counsel

Technical Terms:

AADF	Annual Average Daily Flow
AFUDC	Allowance for Funds Used During Construction
ARCFJ	Amended and Restated Consent Final Judgement
CIAC	Contribution in Aid of Construction
CTs	Contributed Taxes
DEP	Department of Environmental Protection
DTAs	Deferred Tax Assets
DTLs	Deferred Tax Liabilities
ERCs	Equivalent Residential Connections
GPD	Gallons per Day
GPM	Gallons per Minute
I&I	Infiltration and Inflow
MFRs	Minimum Filing Requirements
MGD	Million Gallons per Day
NARUC	National Association of Regulatory Utility Commissioners
SWFMD	Southwest Florida Water Management District
NOI	Net Operating Income
ROE	Return on Equity
TY	Test Year
U&U	Used and Useful
USOA	Uniform System of Accounts
WWTP	Wastewater Treatment Plant

STIPULATIONS

At the hearing, we found that the stipulations reached by the parties and supported by our staff were reasonable, and we accepted the stipulated matters. They are set forth below.

Category One Stipulations

Those stipulations which the utility and OPC agreed upon and which our staff supported, are set forth below:

1. David MacColeman's prefiled testimony shall be inserted into the record as though read, and he will be excused from attending the hearing and being subject to cross-examination.

2. For the wastewater treatment plant expansion from 1999 to 2000, plant-in-service shall be reduced by

$122,524 which reflects the appropriate allowance for funds used during construction rate of 9.08%. Corresponding adjustments shall be made to reduce accumulated depreciation by $8,159 and depreciation expense by $5,903.

3. For items that were erroneously expensed during the historical September 30, 1999 base year, Account 720 - Materials and Supplies, shall be reduced by $13,072. This adjustment is consistent with our staff Audit Exception No. 3, and also reflects removal of the company's escalation of the expense. Thus, the Seven Springs wastewater system's plant shall be increased by $11,616. Corresponding adjustments shall also be made to increase accumulated depreciation and depreciation expense.

4. Based on our approved equity ratio, the rate of return on equity shall be calculated using the current leverage formula at the time of our vote on this matter. However, the appropriate equity ratio is subject to the resolution of other issues.

5. Utility charges recorded as transportation expenses in the amount of $280 shall be disallowed. As such, transportation expenses shall be reduced by $280. The escalation for inflation that was applied to this account shall also be removed.

6. Expenses related to errors resulting from Aloha's computer system conversion shall be allocated to all of the utility's systems. Consistent with staff Audit Disclosure No. 5, Account 718 -- Chemicals, and Account 720 -- Materials and Supplies, for the Seven Springs wastewater system shall both be reduced by $1,087. The escalation factors for growth and inflation that were applied to these accounts of $136 shall also be removed for a total adjustment of $1,223.

7. Certain loan costs were expensed that should have been capitalized and amortized. Consistent with

staff Audit Disclosure No. 9, Account 732 - Contractual Services - Legal, shall be reduced by $2,581.

8. Seven Springs wastewater land shall be reduced by $12,120 and Aloha Gardens wastewater land shall be increased by $12,120.

9. Income tax deposits shall be removed from the working capital calculation because the utility does not anticipate paying any income tax.

10. In 1999, the utility expensed above-the-line $31,401 of rate case expense over and above what we allowed in Order No. PSC-97-0280-FOF-WS, issued March 12, 1997, in Dockets Nos. 970536-WS and 980245-WS. This amount shall be expensed below-the-line.

11. Accounts payable on Construction-Work-in-Progress (CWIP) provide a 30-day cost-free source of capital, and plant-in-service shall be reduced by $20,124. Also, accumulated depreciation and depreciation expense shall be reduced by $568.

12. The Allowance for Funds Used During Construction (AFUDC) shall be calculated based on the overall cost of capital approved in this rate case. The effective date will be October 1, 2001, and the monthly discount rate will be calculated in accordance with the appropriate rule.

13. Retained earnings shall be reduced by $172,806 because of an overstatement of the 13-month average balanced by the utility. In addition, the final projected September 30, 2001, customer deposits balance shall be $438,412 resulting in a $345,117 reduction in retained earnings.

14. The appropriate mileage rate to project tangible personal property taxes is 1.990754 percent or 19.90754 mils.

Category Two Stipulations

Those stipulations which the utility offered and our staff supported, but upon which OPC took no position, are set forth below:

15. None of the revenue requirement associated with reuse and approved in this docket shall be allocated to the utility's water customers as allowed by Section 367.0817(3), Florida Statutes. This is consistent with Order No. PSC-97-0280-FOF-WS.
16. The extension of the Mitchell agreement dated March 19, 1999 shall be approved. However, any further extension of the contract after this current term expires shall be approved by this Commission before such an extension is executed.

17. For the base year ended September 30, 1999, the depreciation rate for computer equipment shall be 16.67 percent. Adjustments shall be made to correct the base, intermediate and projected test year accumulated depreciation and depreciation expense.

RULINGS ON MOTIONS

I. OPC's Motion for Reconsideration of Order Striking OPC Witness Biddy's Rebuttal Testimony

At the hearing on October 2, 2000, OPC made an ore tenus Motion for Reconsideration of that portion of Order No. PSC-00-1779-PCO-SU, which struck OPC witness Biddy's rebuttal testimony concerning the existence of excessive I&I. After hearing argument of counsel, we found that there was no mistake of fact or law contained in Order No. PSC-00-1779-PCO-SU. Therefore, we denied OPC's Motion.

II. OPC's Motion to Strike Portions of Supplemental Rebuttal Testimony of Exhibits and Utility Witnesses Nixon and Watford

At the hearing on November 2, 2000, OPC made an ore tenus motion for us to strike major portions of the supplemental rebuttal testimony and exhibits of utility witnesses Nixon and Watford. Specifically, OPC moved to strike the supplemental rebuttal testimony of utility witness Watford as follows: from page 4, line 20 through page 22, line 5; from page 22, line 17 through page 24, line 11; from page 25, line 13 through page 28, line 3; from page 28, line 22 through page 29, line 3; from page 29, line 7 through page 29, line 13; from page 30, line 3 through page 30, line 5; from page 32, line 22 through page 36, line 8; from page 36, line 22 through page 37, line 11; and from page 40, line 25 through page 41, line 17. Moreover, OPC moved to strike Exhibits Nos. SGW-SR2 through SGW-SR7 which were attached to utility witness Watford's supplemental rebuttal testimony.

Similarly, OPC moved to strike all of utility witness Nixon's supplemental rebuttal testimony except the testimony beginning at page 1, line 23 through page 3, line 5. OPC also requested that Exhibits Nos. RCN-18 through RCN-20, which were attached to utility witness Nixon's supplemental rebuttal testimony, be stricken.

In moving to strike the above-noted testimony and exhibits, OPC argued that the utility should be held to the same standard to which OPC was held when, by Order No. PSC-00-1779-PCO-SU, we struck OPC witness Biddy's rebuttal testimony. In that Order, the Prehearing Officer found that the rebuttal testimony filed by Mr. Biddy was "direct testimony that OPC could have or should have filed in its direct testimony." Moreover, the Order noted that the issues had been identified, and should have been addressed in OPC's direct testimony. OPC argues that a great deal of evidence that the utility provided in response to the listing of perceived deficiencies by staff witness Merchant could have or should have been included in the utility's direct testimony and was not proper rebuttal testimony. In responding to the perceived deficiencies, OPC stated that the utility should have done one of two things: (a) it could have said "yes we did provide those things that you are looking for;" or (b) "we didn't provide those things, but we didn't need to because our justification lies elsewhere." Instead, OPC argues that Aloha merely filed additional evidence seeking to

bolster its case, which evidence should have been submitted in the utility's direct testimony.

Aloha stated that the Order striking OPC witness Biddy's rebuttal testimony was based, at least in part, on the fact that Mr. Biddy was attempting to say what staff witness MacColeman meant to say or was attempting to put words in his mouth and that this was improper rebuttal. Aloha argued that its response to witness Merchant's criticisms is different from Mr. Biddy's rebuttal testimony. According to Aloha, its supplemental rebuttal testimony shows that it did the analysis and instructed the realtor on the requirements for a building, which witness Merchant stated was not evident in the utility's supplemental direct testimony.

Upon consideration of the above, we found it appropriate to grant in its entirety the ore tenus motion of OPC to strike certain rebuttal testimony and exhibits of Aloha witnesses Watford and Nixon, and such testimony and exhibits, as indicated by OPC, were stricken from the record. We noted that OPC did not move to strike all such testimony and that the utility proffered the prefiled supplemental rebuttal testimony and exhibits to the extent that they were stricken.

III. Motion of Aloha to Strike Supplemental Direct Testimony of Witness Merchant

At the hearing on November 2, 2000, Aloha stipulated that the supplemental direct testimony of staff witness Merchant could be inserted into the record as though read, and after cross-examination, Ms. Merchant was excused. Nevertheless, subsequent to our ruling granting OPC's motion to strike major portions of Aloha's supplemental rebuttal testimony and exhibits, Aloha made an ore tenus motion to strike all of the supplemental direct testimony of Ms. Merchant. Aloha argued that Ms. Merchant failed to take a position on the prudency of the purchase of the office building and that her testimony was therefore irrelevant and immaterial.

OPC argued that because the utility had already stipulated that the testimony could be entered, it was past the phase during which an objection could be entered.

Staff counsel noted that this testimony was not rebuttal and that the rationale supporting the striking of rebuttal testimony did not apply in this instance. Moreover, staff counsel noted that it was for this Commission to decide whether the testimony of Ms. Merchant would aid us in making a decision on the appropriateness of including the cost of the new building in calculating the appropriate rates for the utility. After hearing argument of counsel, we denied Aloha's motion.

IV. Aloha's Motion for Reconsideration of Our Decision to Strike Portions of the Utility's Supplemental Rebuttal Testimony

On November 15, 2000, Aloha filed a Motion for Reconsideration of our ruling granting the ore tenus motion of OPC to strike portions of the supplemental rebuttal testimony and exhibits of Aloha witnesses Robert C. Nixon and Stephen G. Watford. A timely response to the Motion was filed by OPC on November 29, 2000. By Order No. PSC-00-2534-PCO-SU, issued December 28, 2000, we found that neither Rule 25-22.060 nor Rule 25-22.0376, Florida Administrative Code, was applicable at that time and that the Motion for Reconsideration was premature. Consequently, we denied Aloha's Motion for Reconsideration without prejudice to refile, in accordance with Rule 25-22.060, Florida Administrative Code, after rendition of this Final Order memorializing our ruling.

V. OPC's Motion for Extension of Time to File Brief

On November 16, 2000, OPC filed a Motion for Extension of Time to File Brief. The Motion was granted by Order No. PSC-00-2191-PCO-SU, issued November 17, 2000, which made all briefs due on November 29, 2000.

QUALITY OF SERVICE

Quality of Service provided by the utility is an issue which we consider in every rate case.

Rule 25-30.433(1) Florida Administrative Code, states that:

> The Commission in every rate case shall make a determination of the quality of service provided by the utility. This shall be derived from an evaluation of

> three separate components of water and wastewater utility operations: quality of the utility's product (water and wastewater); operational conditions of the utility's plant and facilities; and the utility's attempt to address customer satisfaction. Sanitary surveys, outstanding citations, violations and consent orders on file with the Department of Environmental Protection (DEP) and county health departments (HRS) or lack thereof over the preceding 3-year period shall also be considered. DEP and HRS officials' testimony concerning quality of service as well as the complaints or testimony of utility's customers shall be considered.

Our analysis below addresses each of these three components.

This case concerns only the Seven Springs Wastewater Treatment Plant. Its current wastewater plant is permitted by DEP at 1.2 MGD based upon AADF. Aloha is currently operating under an ARCFJ with DEP which requires Aloha to expand the wastewater treatment plant and provide Class I Reliability so that the effluent can be reused and applied to areas accessible to the public.

Quality of Utility's Product

Aloha is not meeting the requirements specified by DEP for wastewater treatment at this time. The utility is currently operating under an ARCFJ in which DEP has ordered Aloha to increase the size of its plant; implement an I&I reduction program; and produce a reusable effluent suitable for public access application. The surface water effluent now produced by the treatment plant is a major subject of the ARCFJ. According to staff witness MacColeman, an employee of DEP, Aloha is currently on schedule for meeting the demands of the ARCFJ. The interim, 1.6 MGD plant now under construction is designed to bring Aloha into compliance with DEP rules and regulations. Consequently, we find that the quality of the utility's product is satisfactory.

Operational Conditions of the Utility's Plant and Facilities

According to staff witness MacColeman, Aloha has appropriate permits and is on schedule for meeting the demands of the ARCFJ, which require the plant capacity to be increased from 1.2 MGD to

1.6 MGD (interim) and eventually to 2.4 MGD with Class I reliability. Therefore, we find that the operational conditions of the utility's plant and facilities is satisfactory.

Customer Satisfaction

Customer satisfaction was addressed at the hearing on October 2, 2000. The Presiding Officer explained that we were seeking customer comments and testimony concerning wastewater service and wastewater issues and not issues related to water quality. However, the Presiding Officer noted that the responsiveness of the company as a whole is a quality of service issue. A total of 39 customers spoke at the morning and evening sessions, 15 of whom addressed only water quality complaints. Eight customers complained about the proposed rate increase and the cost of their utilities. One customer complained about the proposed rate increase but also testified that the utility personnel were "pretty good people". Several customers asked about irrigation meters or the availability of treated effluent to reduce their water bills. Five customers spoke despite the fact that they did not live in the Seven Springs area and were not affected by the proposed wastewater treatment upgrade. Mr. Cifelli voiced concern over the size of his water bills in the past and inquired about getting his meter checked and/or replaced. While this was actually a water complaint, our staff arranged for the utility to replace Mr. Cifelli's meter shortly after the completion of the hearing. One customer stated that he had contempt for Aloha and even more contempt for the Commission, while another customer expressed frustration with the progress made by the Commission. The utility has no record of either of these customers ever registering a complaint about wastewater service. Mr. LaMaire, a resident of Trinity Oaks, complained about the ability of Aloha to maintain its wastewater system, citing odor problems with lift stations in his neighborhood. He further testified that the utility responded to complaints and put a cap over the end of a pipe. Aloha responded that a complaint had been received from another customer and that the utility responded and implemented odor control measures and capped the pipe. No complaint was ever received from Mr. LaMaire and no other complaints were received from any customer after the odor control measures were implemented.

It should be pointed out that complaints related to water quality and service are currently being addressed in a separate docket, Docket No. 960545-WS, and are being thoroughly investigated by this Commission. Each of the specific customer complaints concerning Seven Springs wastewater were addressed by the utility in Exhibit No. 2.

OPC has taken the position that the quality of service is unsatisfactory. OPC refers to the testimony of Ms. Doris Boyce, who stated that she went to the Aloha offices to lodge a complaint and to discuss the matter with Mr. Stephen Watford. When she attempted to speak with Mr. Watford, the utility had Ms. Boyce physically removed by the police. OPC states that such heavy-handed treatment of a captive customer is altogether inappropriate. OPC further states that it is clear that Aloha does not put forth sufficient effort to treat its customers' concerns properly. OPC argues that Aloha's authorized ROE should be reduced to reflect this improper treatment.

The utility responds that there was absolutely no evidence in this proceeding that Aloha has failed to appropriately respond to any customer's concern which even arguably relates to the provision of wastewater service. Additionally, there was absolutely no prefiled testimony in this case which even suggested or implied that the quality of Aloha's wastewater service is less than satisfactory or that Aloha is not in full compliance with the requirements of the ARCFJ. Ms. Boyce complained about a water bill which she received several years ago. Hers was not a wastewater complaint. Moreover, she is not a customer of the Seven Springs system since she lives in Holiday, Florida. OPC admits that Ms. Boyce lives in Aloha Gardens (and is therefore not a customer of the Seven Springs wastewater system). Neither OPC nor the utility questioned Ms. Boyce. Consequently, there is nothing in the record explaining this incident other than the fact that it was a water matter which happened several years ago with respect to a different Aloha system.

Conclusion

We find that the quality of the utility's wastewater product and the operational condition of Aloha's wastewater plant and facilities are both satisfactory. The utility is under an ARCFJ

with DEP which ordered Aloha to expand its wastewater treatment facility and provide effluent capable of being applied to areas accessible to the public. While 39 total customers spoke at the hearing, five were not customers of the Seven Springs area and 15 addressed only water related complaints. The only complaint referred to by OPC in its brief was several years old by a person who was not a customer of the Seven Springs system. All applicable customer complaints and comments were addressed by the utility in its late filed Exhibit No. 2. Upon consideration of all of the evidence in the record, we find that the quality of service provided by Aloha at its Seven Springs Wastewater Treatment Plant is satisfactory.

RATE BASE

Capital Additions

In accordance with the ARCFJ, Aloha is expanding the Seven Springs wastewater treatment plant from 1.2 MGD to 1.6 MGD with full Class I Reliability in order for the effluent to be used for public access reuse.

OPC witness Biddy agreed that DEP had instructed Aloha to upgrade the treatment plant for effluent reuse and that this type of reuse required Class I Reliability. Mr. Biddy also agreed that all of the components of Aloha's application were required by DEP by virtue of the fact that DEP granted the permit. No OPC witness offered testimony that the modifications and expansion of the treatment plant were imprudent or unjustified.

Utility witness Porter stated that DEP required all the modifications to the treatment plant prior to allowing effluent reuse. Mr. Porter further stated that every process unit at the treatment plant is sized to provide Class I Reliability, as required by DEP.

The ARCFJ required Aloha to comply with the requirements of the permit. Based on the ARCFJ, the DEP permit, the testimony of utility witness Porter and the fact that OPC does not take issue with the proposed modifications and expansion, we conclude that the proposed modifications and expansion of the Aloha Seven Springs wastewater treatment plant are prudent and justified.

Infiltration and Inflow Reduction Program

The ARCFJ requires Aloha to have an I&I program designed to reduce the collection system infiltration and inflows to the treatment plant. This program is to run until the compliance date described in the ARCFJ. The compliance date is 365 days after the completion date. The completion date is 18 months after the March 9, 1999 date of the ARCFJ or the completion of construction, whichever comes first. As a consequence of this program, Aloha receives additional capacity at the treatment plant for the reduction of I&I flows.

OPC did not produce any witnesses who questioned the prudency of the costs of the I&I program. OPC's case of nonprudency is derived from its brief, in which OPC argues that utility witness Porter testified that the I&I program will result in no further I&I reductions beyond the 140,000 GPD already achieved. OPC argues that it is the pinnacle of imprudent spending to spend $15,000 per month on a program to reduce I&I that will not reduce I&I.

OPC also argues in its brief that if Aloha was convinced that there would be no further I&I reductions resulting from the I&I reduction program, it should have ceased the $15,000 monthly expenditures immediately, and the customers should not bear such wasteful expenditures. If, however, we include this expenditure in rates, OPC states that we should impute further I&I reduction. Moreover, OPC argues that we should either adjust the U&U, the electric expense and the chemical expense to reflect the reduced I&I, or remove the program expenditures.

The utility states that the costs of the I&I reduction program are prudent and that the program was required by the DEP through the ARCFJ. Utility witness Porter testified that there was an additional 30,000 GPD of I&I still in the system.

In the opinion of Mr. Porter, this agreement with DEP was prudent on the part of Aloha, not only because it allowed Aloha to more efficiently provide service to new wastewater customers without constructing new treatment facilities, but also because I&I analysis and reduction is a normal, necessary and prudent part of operating a wastewater collection system. This is why Aloha has a program to inspect and repair wastewater line and manhole defects

on an ongoing basis, as do all properly managed wastewater utility systems.

We find that it is unclear why OPC has stated that Mr. Porter testified that the program will result in no further I&I reductions beyond the 140,000 GPD already achieved, when he clearly testified that an additional 30,000 GPD still exists in the system.

Utility witness Porter based his statement of an additional 30,000 GPD of I&I in the system on total system flow isolation studies. OPC witness Biddy stated that he assumed that there was another 140,000 GPD of excessive I&I in the collection system. Because Mr. Porter's testimony is based on actual studies and Mr. Biddy's testimony is based on an assumption, we find that the 30,000 GPD figure is more reliable. The 30,000 GPD of I&I is a relatively negligible amount and is not a justification for reducing operation and maintenance costs.

We agree with the utility witness that a properly managed wastewater utility system will have an ongoing program to inspect and repair wastewater line and manhole defects. As the system ages, it is more likely that I&I will occur, and it is more likely that the I&I will increase over time without a program. Consequently, a properly managed utility will have a continuing I&I program and an expense built in so that it can inspect the system to determine if repairs will need to be made to reduce the I&I. This, coupled with the requirement for an I&I reduction program in the ARCFJ, leads us to conclude that the costs of the I&I reduction program are prudent.

Capitalization of Previously Expensed Invoices

As indicated in Audit Exception No. 1 of the audit report for this rate case, in 1997, the utility made an adjustment to capitalize certain transactions which were originally classified as O&M expense between the years 1980 and 1991. The effect of this adjustment was to add $232,262 to plant accounts, $68,671 to accumulated depreciation and to increase the 1997 depreciation by $9,961. Aloha's Seven Springs wastewater system accounted for $127,232 of the total items capitalized. By Proposed Agency Action (PAA) Order No. PSC-99-1917-PAA-WS, issued September 28, 1999, in Dockets Nos. 970536-WS and 980245-WS, we disallowed the utility's

capitalization of the items that were expensed prior to the 1997 test year. In the PAA Order, we found that the utility shall be allowed to fully contest or litigate its objections to our decision in its next rate case. According to the audit report for this rate case, the utility did not make any adjustment to remove these items from rate base.

Staff witness McPherson testified that the utility has already recovered the costs of these items expensed prior to the test year. Mr. McPherson stated that it is the utility's responsibility to file an application if it is underearning and that retroactive ratemaking prohibits an earnings investigation for prior years. Mr. McPherson testified that on numerous occasions we have allowed the capitalization of items that were expensed during the test year, but that he did not believe we had approved such accounting on numerous occasions in years prior to the test year.

Staff witness Stambaugh pointed out that in Order No. PSC-99-1917-PAA-WS, we found the following:

> Pursuant to Rule 25-30.110(5)(d), Florida Administrative Code, the utility certified that its annual reports from 1980 to 1991 fairly presented the financial condition and results of operations for each of those years. We believe that it is inappropriate to capitalize these amounts several years after the fact. We have relied on these reports for purposes of monitoring the utility's earnings level and are precluded by the prohibition against retroactive ratemaking from going back and looking at those prior years to determine if overearnings existed. Therefore, the utility shall be precluded from taking previously expensed items from prior years and changing its accounting treatment.

Mr. Stambaugh testified that the effect of expensing these items in previous years was a reduction of the utility's NOI in those years. Mr. Stambaugh also testified that, if the utility is permitted to recover the depreciation expense related to this capitalization of previous years expenses, the utility will in a sense be recovering these costs twice, using depreciation expense as the recovery vehicle this time, as compared to O&M expense used in previous years. Further, Mr. Stambaugh argued that allowing the

capitalization of these items would be giving a green light for any utility to manipulate its annual reports in years that it is over earning and then capitalizing such items in future years.

Mr. Stambaugh stated that our staff often correct accounting errors in plant additions, but it is not our staff's practice to restate prior years earnings. Mr. Stambaugh explained that during audit field work, Commission auditors analyze plant additions since the most recent audit of rate base to verify the accuracy of the additions; however, expenses for the test year only are analyzed to verify the accuracy of the O&M expenses as a component of NOI for the test year.

OPC witness Larkin agreed with Mr. Stambaugh and Mr. McPherson that the utility has already recovered the costs of the items expensed prior to the test year. Mr. Larkin further agreed with Mr. Stambaugh and Mr. McPherson that we cannot open an earnings investigation for prior years due to the prohibition against retroactive ratemaking.

Utility witness Nixon explained that the utility's capitalization of items expensed prior to the historical test year was a correction of an error. Mr. Nixon argued that if these items had originally been capitalized in prior years, the earnings would not have pushed Aloha outside the range of its authorized rate of return. Mr. Nixon testified that in Orders Nos. PSC-95-0363-FOF-WS, issued March 14, 1995 in Docket No. 940768-WS; Order No. 10285, issued September 9, 1981, in Docket No. 790789-WS; and Order No. 22150, issued November 6, 1989, in Docket No. 890233-WS, we allowed the capitalization of items expensed prior to the test year on at least three occasions. In its brief, the utility stated that in Order No. 24733, issued July 1, 1991, in Docket No. 900521-WS, in the last general rate increase for FFEC-Six Limited, a Class B utility with an average of over $300,000 in annual revenues each for its water and wastewater systems, adjustments to capitalize previously expensed items were clearly made without any regard to prior year earnings or the other issues addressed by Mr. McPherson or Mr. Stambaugh. Through cross-examination by the utility, Mr. McPherson testified that he was not aware of any rule or Commission order that called for differential treatment by making this type of adjustment based on the size of the utility.

Through cross-examination, Mr. Larkin testified that the accounting systems and record keeping of Class C utilities are less sophisticated than Class A or B utilities. Mr. Larkin further testified that Class A or B utilities are more likely to retain accounting consultants than Class C utilities. In fact, he concluded that Class A or B utilities would have a higher level of compliance with the NARUC USOA than Class C utilities.

Based on arguments of witnesses McPherson, Stambaugh, and Larkin, we find that the utility has already recovered the costs of the items expensed prior to the test year and that it would result in double recovery if these items were allowed to be capitalized. This position is supported by Westwood Lake, Inc. v. Metropolitan Dade County Water and Sewer Board, 203 So. 2d 363, 367 (Fla. 3d DCA 1967), in which the court noted that:

> Ordinarily, a utility may not capitalize and include in its rate base items which have been accounted for and charged off as operating expenses. This is true because expensed items have been paid for and their costs recovered and the utilities are estopped therefore to capitalize those items which they have already expensed. See Re Mondovi Telephone Company, PUR 1933 D 142 (Wisc.Pub.Serv.Com.1932); RE Los Angeles Gas & Electric Corp., PUR 1931 A 132 (Cal.R.R.Com.1930); Horton v. Badger State Teleph. & Teleg. Co., 1 PUR (NS) 409 (Wisc.Pub.Serv.Com.1933).

Further, as indicated on utility witness Nixon's rebuttal Exhibit No. RCN-5, Aloha had a positive return in those prior years when the items were expensed. In fact, witness McPherson indicated that, for three of the years in question, the utility may have overearned, assuming a 10% authorized rate of return, which further supports our finding.

Rule 25-30.115, Florida Administrative Code, states: "Water and wastewater utilities shall, effective January 1, 1998, maintain their accounts and records in conformity with the 1996 NARUC USOA adopted by the National Association of Regulatory Utility Commissioners." We agree with Mr. Larkin that Class A or B utilities would have a higher level of compliance with the NARUC USOA than Class C utilities. For example, in the Indian Springs

Utilities, Inc.'s (ISUI) 1990 staff-assisted rate case, we found the following: "The utility does not maintain its books and records in conformity with 1984 NARUC Uniform System of Accounts. This resulted in our making numerous adjustments to each account." Order No. 24211, issued March 11, 1991, in Docket No. 900604-WS. Further, in that Order, we ordered ISUI to comply with Rule 25-30.115, Florida Administrative Code, but did not fine this utility for its non-compliance with the NARUC USOA.

In ISUI's 1992 staff-assisted rate case, we once again found that ISUI did not maintain its books in conformance with the NARUC USOA during the test year. See Order No. PSC-93-1823-FOF-WS, issued December 23, 1993, in Docket No. 920767-WS. Specifically in Order No. PSC-93-1823-FOF-WS, we found the following:

> The utility is relatively small, serving less than 100 customers per system. Although the utility has failed to comply with the previous Commission order regarding its compliance with the USOA, the utility has stated that it now employs a bookkeeper with the expertise necessary to convert and maintain the utility's records in conformity with the above-referenced rule. Based on the foregoing, we hereby admonish the utility for failing to comply with the previous Commission Order regarding USOA, ...

Based on our reading of Section 367.0814, Florida Statutes, we believe the legislative intent of this statute was to provide more regulatory assistance to Class C utilities. Subsection 1 of this statute states that "the commission may establish rules by which a water or wastewater utility whose gross annual revenues are $150,000 or less may request and obtain staff assistance for the purpose of changing its rates and charges." Rule 25-30.115, Florida Administrative Code, defines a Class C utility to be a water or wastewater utility having annual water or wastewater revenues of less than $200,000. Based on the above, we find that by statute and through our practice, Class C utilities are given differential treatment due to their size and level of regulatory sophistication.

With regard to the three orders referenced by utility witness Nixon's Exhibit No. RCN-10, we find that we did capitalize items that were expensed prior to the test year in those proceedings.

However, we note that these three orders involved Class C utilities. Although it was not discussed in these three orders, as stated above, we give differential treatment to Class C utilities due to their size and level of regulatory sophistication. As such, we find it was appropriate to make those adjustments because they are Class C utilities.

In reviewing those Orders, we note that the first order involved a staff-assisted rate case by Fisherman's Cove of Stuart, Inc. (FCOSI) in Marion County. In that docket, FCOSI reported test year-end water rate base of $205,658 and a test year-end wastewater rate base of $190,652. Further, we noted that FCOSI only had total water revenues of $94,842, with an operating income of $3,985, and total wastewater revenues of $132,860, with an operating income of $942 for the test year. See Order No. PSC-95-0363-FOF-WS, issued March 14, 1995, in Docket No. 940768-WS.

The second order involved a rate case by Gulf Coast Utility Company, Inc. (GCUCI) in Hernando County. In this docket, GCUCI reported a test year-end water rate base of $46,163 and a test year-end wastewater rate base of $29,355. Further, we noted that for the water and wastewater systems combined, GCUCI was operating at a loss of $22,156 which reflects that GCUCI was not recovering all of its expenses. See Order No. 10285, issued September 9, 1981, in Docket No. 790789-WS.

The third order involved a transfer of certificate case by Point O' Woods Utilities, Inc. (POW) in Citrus County. In this docket, POW reported a test year-end water rate base of $144,146 and a test year-end wastewater rate base of $200,377. POW was serving only 312 water customers and 74 wastewater customers. See Order No. 22150, issued November 6, 1989, in Docket No. 890233-WS.

As stated earlier, the utility argued that we allowed the capitalization of expensed items prior to the test year in the last general rate increase for FFEC-Six Limited, a Class B utility with average revenue of over $300,000 in annual revenues each for its water and wastewater systems. According to Order No. 24733, FFEC-Six Limited reported a test year-end water rate base of $1,093,793 and reported a test year-end wastewater rate base of $1,606,752. Based on the forgoing, the total water and wastewater rate base reported by FCOSI, GCUCI, and POW is $816,351. Given the size of

FFEC-Six Limited, it should have been held to a higher standard than FCOSI, GCUCI, and POW with regard to the capitalization of the items expensed prior to the test year. As a result, that adjustment should not have been allowed.

Based on the above, we find that the capitalization of these previously expensed items would constitute double recovery and they shall therefore be disallowed. See Westwood Lake, Inc., 203 So. 2d at 367. Thus, the Seven Springs wastewater system's plant shall be reduced by $127,232 and accumulated depreciation shall be reduced by $73,211. Depreciation expense shall also be reduced by $6,675.

Office Building

In its MFRs, the utility requested recovery of rental expense of its office building from a related party. By Order No. PSC-00-1747-PHO-SU, the Prehearing Officer granted Aloha's Motion to Allow Filing of Supplemental Direct Testimony with the Supplemental Direct Testimony of Stephen G. Watford attached as Attachment A with Exhibit No. SGW-1. The Order also allowed the Executed Contract for Sale of New Office Building submitted on September 15, 2000, to be identified as Exhibit No. SGW-2. The Order struck the rebuttal testimony of Stephen G. Watford, concerning the new office building, beginning at page 2, line 20, and going through page 6, line 15.

In his supplemental direct testimony, Mr. Watford explained the reasons why Aloha needed to change office location, including: 1) its related party from whom Aloha was renting the old office building informed the utility in June, 2000 that it would not be renewing Aloha's lease at the end of the December 31, 2000 calendar year; 2) an American Disabilities Act lawsuit had been filed against the utility stating that the current building did not comply with the Act and which Aloha asserts was not modifiable to comply with the Act; and 3) Aloha was short of space needed to house its current staff and its expected future employee needs. Mr. Watford provided an executed contract for the purchase of the building and estimated the costs of real estate taxes, insurance, and maintenance expenses associated with the purchase.

In her supplemental direct testimony, staff witness Merchant stated that she could not support a position on the prudence of the

purchase of the building or whether the utility's requested costs represent the most cost effective alternative. Ms. Merchant explained that her basis for this was as follows: 1) no information or costs related to the new building were in its MFRs; 2) in Aloha's response to staff Interrogatory No. 10(a), Aloha informed our staff, three months after the official filing of this docket, that the utility was going to relocate its office and stated that the estimated costs for the relocation of its building would be substantially greater than its current rent expense; and 3) the utility only suggested that the Commission should consider the new building in this rate case, but Aloha made no formal request for such recovery. Ms. Merchant noted that in staff Interrogatory No. 10(a), the utility listed several different areas where property was available for either lease or purchase. However, she was unable to determine the cost of all of the properties and why the utility determined that these locations were not suitable for the utility.

Ms. Merchant stated that, on October 5, 2000, staff propounded Interrogatory No. 58 and Request for Production of Documents No. 13, which asked if the utility had performed any cost benefit analysis to determine whether it should purchase or lease a building. She noted that the utility's initial response through its attorney, by letter dated October 9, 2000, stated that no such cost benefit has been performed by the utility in writing and that the utility's review did not rise to the level of a cost benefit analysis. In the utility's formal response to staff's Interrogatory No. 58 and Request for Production of Documents No. 13, Ms. Merchant noted that Aloha stated that an analysis was performed at the request of the utility's president. She stated that this analysis compared its incremental cost of the purchased building to the old lease cost with its related party. Further, Ms. Merchant stated that this analysis also compared the incremental cost of the purchased building to an average cost to lease comparable space, but the utility did not provide any actual comparisons of property that were available for lease or purchase. As a result, she concluded that there was no reasonable basis on which to determine whether the utility made a prudent and cost effective choice in deciding to buy this building.

Ms. Merchant testified that she does not believe it was prudent for the utility to purchase a building without performing

a cost benefit analysis. She believed that Aloha should have documented the minimum requirements for its new office location. Further, Ms. Merchant stated that examples of the minimum requirements were as follows: 1) size, location, availability, cost and whether the property was available for purchase or lease; 2) research and compile a list of all the available properties that fit the minimum criteria established; 3) compare each of the alternatives and document the advantages and disadvantages of each property; 4) any found to be unsatisfactory should have been documented and removed from the list; and 5) all the attributes of the acceptable locations should have been detailed and documented so that an appropriate decision could have been made based on these facts.

Ms. Merchant expressed additional concerns that the costs in the utility's response to staff's Production of Documents Request No. 13 were in excess of those costs in the supplemental direct testimony of utility witness Watford. She also testified that the utility's additional requested costs associated with the building for improvements, new furniture, relocation of its phone system, maintenance, real estate taxes, and insurance were not supported. Lastly, with regard to the utility's value of land associated with this building in its calculation of the revenue impact, Ms. Merchant disagreed with Aloha's estimation of land using the prior property tax assessed value escalated by 25%. She noted that Aloha did not provide the reason why it used this methodology, nor did it provide a copy of the prior property tax bill. Ms. Merchant stated that this method is not a reliable method for determining the current market value of the land and that the appraisal of the land that is required for financing the property would support the amount the utility paid for the land and the building.

In his supplemental rebuttal testimony, utility witness Watford noted that the letter from the utility's attorney initially responding to our staff's discovery regarding a cost benefit analysis was a courtesy letter attempting to help our staff with as much information as quickly as possible. He further noted that, in an attempt to provide the best information, he instructed that a subsequent cost analysis be performed. In their supplemental testimony, utility witnesses Nixon and Watford noted that the utility's detailed cost analysis supports the purchase of the building.

Through cross-examination by the utility, Ms. Merchant stated that a cost benefit analysis is not required, but that if the utility wants a major item in its rate case, then the utility should submit documentation to show that the steps the utility undertook and its final actions were prudent.

We agree that the utility has to relocate its office due the non-renewal of its lease. However, it is the utility's burden to prove that its costs are reasonable. See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982). We are persuaded by Ms. Merchant's testimony that the utility has not taken advantage of the opportunity it was provided in this case to show that the costs incurred for the new building were prudent. There is insufficient evidence to determine that the purchase of the building was the most cost effective alternative. As such, we find that the utility has not presented sufficient evidence in this case to show that these costs are prudent. Therefore, none of the requested costs associated with the purchase of the building shall not be considered in this rate proceeding.

Infiltration and Inflow

OPC witness Biddy testified that it is not unreasonable to assume that another 140,000 GPD of I&I exists in the Aloha system beyond the 140,000 GPD already found. He further assumed that after the system was repaired and the total 280,000 GPD of excessive I&I had been removed, an allowable I&I of 56,000 GPD would remain in the system. Mr. Biddy's calculation of the allowable I&I in the system was based on the standard in the Ten State Standards document which stated the allowable I&I was 200 GPD per inch of diameter per mile of pipe. Mr. Biddy stated that this standard is enforced by DEP for both new construction and rehabilitated systems.

Utility witness Porter testified that 140,000 GPD of I&I had been identified in the system by flow isolation studies and removed. He further stated that the flow isolation studies indicated that a maximum of 30,000 GPD may remain in the system.

DEP witness MacColeman stated that DEP has no opinion as to whether or not the I&I in the Aloha system was excessive.

We note that Mr. Biddy's testimony concerning excessive I&I is admittedly a simple doubling of the known 140,000 GPD figure and the addition of the calculated 56,000 GPD amount. None of these figures or assumptions is supported by field study. Mr. Porter's testimony showing 140,000 GPD of I&I removed from the system, and an additional 30,000 GPD of I&I remaining in the system is supported by field study.

DEP witness MacColeman, when asked about excessive I&I in the Aloha system, did not refer to the Ten State Standards which Mr. Biddy stated was enforced by DEP as the applied standard in this case. Under cross-examination, Mr. Biddy testified that the section of the Ten State Standards that he was applying to the Aloha system was entitled Design of Sewers. In Order No. PSC-96-1320-FOF-WS, Mr. Biddy was reported to have stated that the Ten State Standards guideline is a more appropriate guideline for new systems. These facts and testimony lead us to believe that the Ten State Standards document is not the standard for excessive I&I enforced by DEP in this case.

We find that the 30,000 GPD of I&I remaining in the system documented by Mr. Porter's field studies is the most reliable figure presented in the testimony. For a collection system the size of Aloha's, this is a negligible figure and does not even violate the calculated standard for new systems (56,000 GPD) shown in the Ten State Standards. Therefore, we find that there is no indication of excessive I&I in the Aloha collection system.

Used and Useful

Section 367.081(2)(a)1., Florida Statutes, requires that:

> The commission shall, either upon request or upon its own motion, fix rates which are just, reasonable, compensatory, and not unfairly discriminatory. In every such proceeding, the commission shall consider . . . operating expenses incurred in the operation of all property used and useful in the public service; and a fair return on the investment of the utility in property used and useful in the public service.

Further, Section 367.081 (2)(a)2.c. states that:

> Notwithstanding the provisions of this paragraph, the commission shall approve rates for service which allow a utility to recover from customers the full amount of environmental compliance costs. Such rates may not include charges for allowances for funds prudently invested or similar charges. For purposes of this requirement, the term "environmental compliance costs" includes all reasonable expenses and fair return on any prudent investment incurred by a utility in complying with the requirements or conditions contained in any permitting, enforcement, or similar decisions of the United States Environmental Protection Agency, the Department of Environmental Protection, a water management district, or any other governmental entity with similar regulatory jurisdiction.

Wastewater Treatment Plant

Aloha's existing 1.2 MGD wastewater treatment system was not capable of handling the existing customer load. Consequently, Aloha was not in compliance with its permit. Aloha was ordered by DEP through the ARCFJ to build a wastewater treatment plant providing Class I Reliability and effluent capable of reuse in areas accessible to the public. The utility submitted plans, which DEP approved, to build an interim plant with 1.6 MGD capacity to replace the existing 1.2 MGD plant. Eventually, this interim plant will be expanded to 2.4 MGD under the requirements of the ARCFJ.

Pursuant to Section 367.081, Florida Statues, this Commission shall consider the utility's investment in property U&U in the public service, and shall approve rates designed to allow the recovery of all prudent investment by the utility. We find that the construction of the new wastewater treatment plant with Class I Reliability and capable of providing effluent reusable in areas accessible to the public was ordered by DEP. The Environmental Protection Agency's document EPA-430-99-74-001, Design Criteria for Mechanical, Electric, and Fluid System and Component Reliability, page 15, states that a Wastewater Treatment System includes all components from and including the bar screen and wastewater pumps to and including the works outfall. Pages 19-24 detail the specific requirements for Class I Reliability. Summarizing the EPA

document, Class I Reliability essentially requires 100% backup for all primary components in the treatment chain.

OPC argues that the equalization tanks and the new headworks are two new plant components that were designed for the ultimate capacity of 2.4 MGD, which it argues is more than twice the capacity that will be needed even five years after the projected test year. OPC recommends a U&U percentage of 48.65 for those two components. OPC also argues that the treatment plant is sized to serve customers who will come on-line after the five-year growth required by statute; and that, therefore, the plant should be considered 72.97% U&U. OPC witness Biddy testified that, in his opinion, anything regarding this project that is designed and implemented but will not be used until after the five-year horizon is automatically imprudent. Mr. Biddy bases much of his U&U argument on the claim that the utility has excessive I&I. Based on these arguments, OPC claims that adjustments in operating expenses and U&U percentages for the treatment plant are required.

Aloha states in its brief that there is no credible evidence in this proceeding that a U&U adjustment for either the wastewater treatment plant or the wastewater collection system is appropriate or justified. The utility's position, as stated by utility witness Porter, is that each and every process unit provided at the wastewater treatment plant was sized to provide Class I Reliability as required by DEP rules. In addition, these process units are also considered part of a reuse system and therefore were 100% U&U under Section 367.0817(3), Florida Statutes, which states: "All prudent costs of a reuse project shall be recovered in rates."

When asked if the (existing 1.2 MGD) wastewater collection, treatment and disposal facilities were adequate to serve present customers based upon permitted capacities, staff witness MacColeman stated that the interim (1.6 MGD) wastewater plant improvements which are being constructed will increase the plant capacity to meet current flows from the present customers. In other words, the existing 1.2 MGD plant could not meet existing demand, and the new, interim, 1.6 MGD plant ordered under the ARCFJ would meet existing demands.

From the evidence in the record, it is obvious that DEP ordered Aloha to build a new plant with Class I Reliability, capable of providing effluent which could be reused in areas

accessible to the public. Aloha submitted plans, which DEP approved and permitted, for an interim 1.6 MGD plant. In accordance with Section 367.081(2)(a)2.c, Florida Statutes, these improvements shall be considered 100% U&U because they were environmental compliance costs mandated by DEP. Because the improvements were made to provide reuse, these improvements would also be considered 100% U&U under Section 367.0817(3), Florida Statutes. Therefore, because this system is properly sized and prudent, it shall be considered 100% U&U.

Wastewater Collection System

The majority of the wastewater collection system was contributed by the developers of the individual subdivisions to the utility. It is our practice to consider contributed lines to be 100% U&U. In addition, we generally consider the lift stations and force mains which carry the wastewater from each subdivision back to the treatment plant to be 100% U&U because they are required to serve an established development or subdivision and are sized according to DEP requirements in order to support the contributed lines. (See Order No. PSC-97-0847-FOF-WS, Docket No. 960329-WS, Issued July 15, 1997.)

OPC witness Biddy argues that we should apply the ratio of "currently connected" lots to total available lots that can be served by existing lines. According to OPC, the collection system should be 78.7% U&U.

Utility witness Porter gave considerable explanation on rebuttal concerning the fact that the vast majority of the collection system is contributed and therefore 100% U&U. Utility witness Porter further explains that it would be imprudent to attempt to build sewer lines for anything less than the total expected number of customers. The marginal cost of increasing the size of the line is small, whereas the cost of adding a parallel sewer line to the first line would be very large. Aloha states that the collection system is essentially 100% contributed and therefore 100% U&U.

Conclusion

Because the collection system is either contributed or consists of force mains back to the treatment plant, no lot count or ERC to ERC ratio is required. Contrary to the position of OPC, use of the ratio of "currently connected" lots to total available lots that can be served by existing lines to calculate U&U is neither necessary nor appropriate.

Moreover, from the evidence presented, Aloha has shown that the utility has installed a 1.6 MGD interim plant which meets Class I Reliability requirements and provides high quality, reusable effluent in accordance with DEP orders and the ARCFJ. The utility has shown that both the improvements and expansion were required pursuant to the ARCFJ and that they are for the provision of reuse. Moreover, the utility has shown that the plant was prudent and properly sized and approved and permitted by DEP. Therefore, pursuant to the requirements of Sections 367.081(2)(a)2.c. and 367.0817(2), Florida Statutes, we find that the wastewater treatment plant is 100% U&U. The collection system is essentially contributed, and is, therefore, also 100% U&U.

Reuse Facilities

We agree with OPC and the utility that no adjustments should be made to the reuse facilities. Pursuant to Section 367.0817(3), Florida Statutes, "[a]ll prudent costs of a reuse project shall be recovered in rates."

Section 403.064(10), Florida Statutes, states:

> Pursuant to Chapter 367, the . . . Commission shall allow entities under its jurisdiction which . . . implement reuse projects, including . . . facilities used for reliability purposes for a reclaimed water reuse system, to recover the full, prudently incurred cost of such . . . facilities through their rate structure.

No party proposes a U&U adjustment to the reuse facilities in this rate case. We, therefore, find it appropriate to make no U&U adjustment to Aloha's reuse facilities.

Contributions-in-Aid-of-Construction

The utility projected its CIAC through the September 30, 2000 intermediate test year and the September 30, 2001 final test year, based on its current approved plant capacity charge and estimated growth of 370 ERCs for the intermediate period and 349 ERCs for the final test period. The growth in the ERCs was based on the utility's regression analysis, which yielded a customer growth factor of 1.04812. As discussed below, the appropriate growth factor is 1.03486, which represents 316 ERCs for the intermediate period and 368 ERCs for the final test year. As a result, CIAC shall be reduced by $7,387 and accumulated amortization of CIAC shall be reduced by $273.

Contributed Taxes (CTs) and Accumulated Deferred Income Taxes

The utility grossed-up CIAC to pay tax on CIAC from 1987 to 1996 for its Seven Springs water and wastewater systems. As indicated in Audit Disclosure No. 7 of this rate case, the utility included the $475,501 of deferred tax liabilities in its capital structure for the 13-month average year-end September 30, 1999, but the utility did not include the deferred tax assets (DTAs) or CIAC that was grossed up for income taxes in either its capital structure or rate base schedules.

Staff witness McPherson pointed out that Rule 25-30.433(3), Florida Administrative Code, states in pertinent part:

> Used and useful debit deferred taxes shall be offset against used and useful credit deferred taxes in the capital structure. Any resulting net debit deferred taxes shall be included as a separate line item in the rate base calculation. Any resulting net credit deferred taxes shall be included in the capital structure calculation. . . .

Under the heading Accounting/Regulatory Treatment With Gross-Up of Order 23541, issued October 1, 1990, in Docket No. 860814-PU, Mr. McPherson pointed out that the Order states that all witnesses who testified agreed that normalization accounting should be followed when a utility does gross-up. Under the same heading, Mr. McPherson noted that the Order states in part the following:

> [W]e still believe that full normalization accounting should be utilized. This would result in consistent

> treatment between utilities that are not grossing-up and those that are. In addition, those utilities that switch from grossing-up to not grossing-up will maintain the same normalization methodology.
>
> As discussed above, normalization involves offsetting debit deferred taxes against credit deferred taxes in the capital structure with any net debit deferred balance included in rate base.

Mr. McPherson also noted that Order No. 11487, issued January 5, 1983, in Docket No. 820014-WS, states in part the following:

> . . . the utility has also reduced CIAC by the amount of income taxes paid on connection fees, which were included as income for tax purposes. We believe that connection and tap fees should be considered CIAC, not revenue. Therefore, we have increased CIAC for the water system by $26,690 and $26,199 for the sewer system.

Mr. McPherson stated that the USOA for Class A utilities describes the amounts that should be recorded in Account 271 for CIAC. Specifically, item 4 of the USOA's description of CIAC states in part the following:

> Any amount of money received by a utility, any portion of which is provided at no cost to the utility, which represents an addition or transfer to the capital of the utility and which is utilized to offset the federal, state or local income tax effect of taxable contributions in aid of construction . . . shall be reflected in a sub-account of this account.

Mr. McPherson testified that the utility did not include the gross-up portion of CIAC with the other CIAC in its MFRs rate base schedule and did not net DTAs (debits) against deferred tax liabilities (DTLs) (credits) in its capital structure as required by the USOA and Commission orders. Mr. McPherson believes all CIAC, whether grossed-up for tax or not, should be treated consistently, which means it should be included in rate base. In addition, he believes Aloha's DTAs should be offset against its DTLs in the utility's capital structure with any net debit balance

included in rate base. Using the percentage of the Seven Springs water system CTs and the Seven Springs wastewater system CTs to total CTs, Mr. McPherson allocated the net DTAs. Based on the above, Mr. McPherson recommended that the September 30, 1999 13-month average balance of Aloha's Seven Springs wastewater system should be adjusted as follows: CIAC should be increased by $1,544,865, accumulated amortization of CIAC should be increased by $171,681, and the net DTAs of 1,003,170 should be included in rate base.

Utility witness Nixon argued that Order No. 16971, issued December 18, 1986, in Docket No. 860184-PU, states in part "The amount of CIAC Tax Impact collected by a utility shall not be treated as CIAC for ratemaking." He stated that Order No. 23541 is silent on the issue of CTs on CIAC for ratemaking. Mr. Nixon asserted that Mr. McPherson's reliance on Order No. 11487 is misplaced support of his position because meter fees have always been taxable forms of CIAC and that Aloha has never reduced any form of CIAC for taxes paid, as was done by the utility in that Order.

In light of our finding in Order No. 16971 that contributed tax is not CIAC for ratemaking, Mr. Nixon testified that Rule 25-30.433(3), Florida Administrative Code, should be modified in the interest of customer fairness. Mr. Nixon asserted that the DTAs created by the taxation of CIAC should not be included as a separate rate base item or used to reduce DTLs because a full gross-up company does not have any basis in these DTAs. Mr. Nixon stated that Order No. 23541 states that: "Under the full gross-up method, the debit-deferred taxes would be fully offset by the contributed taxes." He contended that this language eliminates any DTAs which were paid for with CTs from the ratemaking equation. Further, Mr. Nixon testified that Order No. 23541 requires that the benefits of tax depreciation on CIAC should be passed back to the ratepayers and that the mechanism by which these benefits are passed back is through DTLs in the capital structure.

Mr. Nixon testified that the utility's CTs do not offset the DTAs created by the taxation of CIAC because the utility did not begin amortization of CTs until Aloha received an Order from this Commission as to the appropriate amount of the refund pursuant to Order No. 23541. He asserted that if the amortization of CTs had begun in the year received, without waiting for a Commission order,

then the amounts in the two accounts would virtually offset each other. In addition, Mr. Nixon argued that since this is a wastewater rate case only, DTAs on meter fees should be ignored.

In its brief, the utility pointed out that Mr. McPherson agreed that he was not involved in the docket or hearings that led up to the issuance of Order No. 23541, that he did not review the records of those proceedings other than the orders themselves, and that the wording in Order No. 16971 was directly contrary to his proposal. The utility further argued that its tariffs approved during the period of time Aloha was authorized to gross-up and after the issuance of Order No. 23541 contained the language in Order No. 16971 barring treatment of CTs as CIAC for ratemaking purposes.

On redirect examination, witness McPherson testified that he thought Order No. 23541 superseded Order No. 16971 and that Order No. 23541 is the binding order regarding the accounting and regulatory treatment for utilities that grossed-up CIAC. Mr. McPherson stated that the issuance of Order No. 16971 was expedited because the tax law was set to take effect January 1st of the following year. In fact, Mr. McPherson noted that we stated in Order No. 16971 that "[t]his docket shall remain open to handle any generic problems that arise in accounting for the CIAC." In addition, Mr. McPherson pointed out that Order No. 21266, issued May 22, 1989, specifically states "[s]ince Order 16971 was issued on an expedited, emergency basis, we instructed the staff of this Commission to continue to investigate the necessity and appropriateness of the gross-up."

In addition to his direct testimony, Mr. McPherson pointed out three additional findings in Order No. 23541 that he believed bolsters his recommended treatment. First, he noted that the Order states that "in order to identify the different contributions and to properly normalize, utilities will have to, and we find it appropriate to require them to, record the gross-up in a separate subaccount." Mr. McPherson contended that if CTs were required to be in the same account as other contributions, that implies, at least, that they should be treated the same as other contributions. Second, he noted that the Order also stated that "in a rate proceeding, all CIAC will be considered in the reduction of the utility's rate base." Mr. McPherson argued that it did not provide for any exception for grossed-up CIAC. Finally, he noted that

"[u]nder the full gross-up method, the debit-deferred taxes would be fully offset by the contributed taxes." Mr. McPherson contended that the only place the CTs can offset deferred taxes is in rate base, which means that the CTs have to be included in rate base.

Based on our review of Orders Nos. 16971, 21266, and 23541 and the arguments presented by Mr. McPherson, we agree that his proposed treatment is appropriate. Further, since Mr. McPherson's adjustments are reflected for the historical September 30, 1999 13-month average balances, any adjustments shall be based on the September 30, 2001 13-month average balances because that is the test year upon which final rates will be set. We agree with Mr. Nixon that the effect of the full gross-up method should result in no ratemaking impact because the CTs included as CIAC in rate base would be virtually offset by the debit-DTAs related to the CTs included in rate base.

However, for this utility, we note that the primary reason why the debit-DTAs related to grossed-up CIAC and CTs do not offset is because the utility did not begin amortizing its CTs in the year they were received. With regard to Mr. Nixon's argument that Aloha was waiting to receive an order from this Commission as to the appropriate amount of the refund pursuant to Order No. 23541, we note that there is no directive in that Order requiring a utility to wait for a refund order before amortizing CTs. Further, the utility amortized its CTs at a 2.5% rate, instead of 3.06%. This resulted in a lesser annual amortization amount than the ratepayers were entitled to receive. Both of these actions are contrary to our directive in Order No. 23541 that the benefits of CTs shall be passed back to the ratepayers over the lives of the related assets.

With regard to Mr. Nixon's proposed exclusion of DTAs on meter fees because this is a wastewater rate case only, we agree in part. However, we are unable to remove these DTAs because the record does not reflect what the corresponding DTLs associated with the DTAs on meter fees are. Moreover, we find that it would be more appropriate to determine any net debit or credit deferred tax balance for the Seven Springs wastewater system, using only the deferred tax associated with this system. Further, Exhibit No. 24 is the utility's breakdown of deferred tax assets and deferred liabilities for each of Aloha's divisions. Using Exhibit No. 24, we are able to determine any net debit or credit deferred tax

balance specifically associated with the Seven Springs wastewater system.

Based on the above and consistent with our findings below, the September 30, 2001 13-month average test year shall be adjusted as follows: 1) CTs of $1,544,865 for the Seven Springs wastewater system shall be reflected as CIAC and included in rate base; 2) the amortization of these CTs of $295,878 shall be reflected as accumulated amortization of CIAC and also included in rate base; 3) the Seven Springs wastewater system's U&U debit deferred income taxes of $1,084,985 shall be offset with its U&U credit deferred income taxes of $578,619; and 4) the net debit balance of $506,367 shall be included as an additional item to rate base for the Seven Springs wastewater system. Schedules Nos. 5-A and 5-B illustrate our adjustments. Further, the utility prorated its total company deferred tax credits of $770,040 to the Seven Springs wastewater system's rate base. As such, consistent with the above, credit deferred income taxes of $770,040 shall be removed from the capital structure. This adjustment is depicted on Schedules 2-A and 2-B.

Cash Operating Account Balance

The utility used the balance sheet approach to calculate working capital. In its MFRs, the utility reflected a total cash balance of $557,243 for the projected September 30, 2001 test year. The utility included this $557,243 cash balance in its working capital calculation. The interest income on the utility's cash balance was included in above-the-line revenues.

OPC witness Larkin testified that consistent with our decision in the utility's last rate proceeding, Aloha's cash operating account balance should be excluded from the working capital allowance. Mr. Larkin further testified that the utility has failed to put forward any proof of the need or prudence of maintaining a half-million dollar cash balance. Mr. Larkin stated that unless the utility can demonstrate that providing services to ratepayers requires the maintenance of a bank account with a $500,000 balance, it should not be included as working capital. Mr. Larkin argued that regardless of whether the interest associated with this account is included in revenues, the customers would still be subsidizing the balance because the interest return is less than the rate of return of rate base.

In his rebuttal testimony, utility witness Nixon noted that the removal of the cash operating account balance from working capital was made in Aloha's last rate proceeding because the utility had recorded the interest income below-the-line. Mr. Nixon pointed out that, in this rate case, the interest income was recorded above-the-line, which effectively makes cash a cost-free current asset. Further, Mr. Nixon testified that the return on cash operating account is not a subsidization, but a generally recognized cost of providing service, pursuant to Section 367.081(2)(a), Florida Statutes.

Mr. Nixon explained that the utility entered into a sweep arrangement with its bank whereby the bank utilizes the cash in the account to make overnight investments. Mr. Nixon noted that during the historical test year, bank charges totaled $19,289, while interest earnings totaled $26,588 and that, of these amounts, $6,944 of bank charges and $9,572 of interest income were allocated to the Seven Springs wastewater division. Mr. Nixon argued that the arrangement benefits Aloha's customers since the interest earnings help offset the charges from the bank.

Mr. Nixon testified that, in assessing working capital, one should review the total net working capital to determine its sufficiency or reasonableness, instead of one component, such as the cash operating account. Mr. Nixon noted that to merely look at one component is misleading. Mr. Nixon argued the sufficiency or reasonableness of the utility's requested working capital should be determined by: 1) a comparison of utility's current ratio to a lender's benchmark; and 2) a comparison of Aloha's requested working capital and the average test-year monthly O&M expense, plus accrued taxes. Mr. Nixon stated that lenders view a current ratio of 2 times as the generally acceptable benchmark for a healthy company and that Aloha's current ratio in this case is 1.96 times. Mr. Nixon pointed out that, according to Schedules Nos. B-6(A) and A-17(A), the average monthly O&M expenses are $181,314 ($2,175,762/12) and accrued taxes are $268,823, totaling $450,137 and that the working capital requested before adjusting for current rate case expense is $347,100.

Based on the above, Mr. Nixon concluded that the utility's cash balance was sufficient and reasonable to include in the working capital calculation. Lastly, in its brief, the utility argued that Mr. Larkin provided no support for his statement that the cash balance maintained by the utility is excessive.

It is a utility's burden to prove that its costs are reasonable. Florida Power Corporation v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982). We find that both of Mr. Nixon's comparison approaches are reasonable to evaluate working capital. In fact, we find that Mr. Nixon's comparison of Aloha's requested working capital and the average test-year monthly O&M expense, plus accrued taxes is conservative because Mr. Nixon only recognized the O&M expenses for the Seven Springs wastewater system, instead of the total O&M expenses of the total company which is significantly greater. We agree with the utility that Mr. Larkin did not provide any support that the cash balance maintained by the utility is excessive.

It is our practice to either exclude interest bearing accounts from working capital or to include them provided that the interest income is included in the above-the-line revenues. See Orders Nos. PSC-99-1917-PAA-WS, issued September 28, 1999, in Dockets Nos. 970536-WS and 980245-WS (consummated by PSC-99-2083-CO-WS, issued October 21, 1999); PSC-97-1487-FOF-EI, issued November 24, 1997, in Docket No. 971228-EI; PSC-93-1637-FOF-TL, issued November 8, 1993, in Docket No. 920196-TL; PSC-96-1404-FOF-GU, issued November 20, 1996, in Docket No. 960502-GU; and PSC-97-1225-FOF-WU, issued October 10, 1997, in Docket No. 970164-WU. Based on our past practice and arguments presented by Mr. Nixon, we find that the utility has met its burden of proof that the inclusion of cash in working capital is appropriate. Therefore, the cash operating account balance shall be included in the working capital calculation.

Working Capital Allowance for Rate Case Expense

Working capital shall be adjusted to reflect the average unamortized balance of approved rate case expense. Our prior practice regarding rate case expense in the working capital calculation was to include the average unamortized balance of the total allowed rate case expense as a debit. In its MFRs, the utility added the average balance of the current rate case expense to the working capital allowance in accordance with our practice. No parties in this proceeding filed testimony disagreeing with this treatment.

Based on the approved amount of rate case expense and following our practice and the utility's treatment, working capital shall include $213,338 ($426,676/2) for the average unamortized balance of rate case expense.

Working Capital Allowance

The utility used the balance sheet approach to calculate working capital. According to its MFRs, the utility calculated its total company balance sheet working capital and allocated it to each of the utility's systems based on their pro rata share of Aloha's total O&M expenses. To determine the Seven Springs wastewater system's total working capital allowance, the utility added the average balance of Aloha's estimated costs of this rate case. Based on the utility's calculation, the total company balance sheet working capital is $726,402.

The utility projected its intermediate September 30, 2000 13-month average test year balances of cash, accounts receivable, and accounts payable by multiplying the historical September 30, 1999 13-month average balances of these accounts by the utility's 1.04812 customer growth factor. Further, the utility projected its final September 30, 2001 13-month average test year balances of cash, accounts receivable, and accounts payable by multiplying the intermediate September 30, 2000 13-month average balances of these accounts by the utility's 1.04812 customer growth factor. According to its MFRs, the utility indicated that its projected September 30, 2000 and September 30, 2001 balances for accounts payable are slightly understated due to typographical errors.

Rule 25-30.115, Florida Administrative Code, defines a Class A utility as a water or wastewater utility having annual water or wastewater revenues of $1,000,000 or more. According to its MFRs, the projected September 30, 2001 year-end revenues for Seven Springs wastewater is $2,780,994. Therefore, Aloha is a Class A utility system. Rule 25-30.433(2), Florida Administrative Code, states in part that "Working capital for Class A utilities shall be calculated using the balance sheet approach." No testimony was presented to dispute the use of the balance sheet approach. As such, we find that the record supports the use of the balance sheet approach.

As discussed below, the appropriate customer growth factor is 1.03486. Using the 1.03486 customer growth factor and being consistent with the utility's projection method, we have calculated final September 30, 2001 13-month average test year balances of cash, accounts receivable, and accounts payable. In addition, because the balances were recalculated, we were able to correct the typographical errors indicated by the utility for the accounts payable account. As a result, the following adjustments to the final September 30, 2001 13-month average test year balances of cash, accounts receivable, and accounts payable shall be made.

Account	Per Sch. A-17 Utility's Final Projected Balance	Commission Final Projected Balance	Commission Adjustment
Cash	$557,243	$549,620	($7,623)
Accounts Receivable	$706,239	$696,991	($9,248)
Accounts Payable	$410,482	$407,287	($3,195)

Based on these adjustments and our other adjustments, the appropriate working capital allowance for the utility's Seven Springs wastewater system is $546,232. Our working capital calculation is illustrated on Schedule No. 6.

Projected Rate Base

Based upon the 13-month average test year balances and our adjustments, the appropriate projected rate base for the 13-month average is $9,549,093. Schedule 1-A depicts our rate base calculation. Our proposed adjustments to rate base are depicted on Schedule No. 1-B.

COST OF CAPITAL

Weighted Average Cost of Capital for the Projected Test Year Ending September 30, 2001

Based on Stipulations Nos. 4 and 13, and the approved adjustments discussed above, the weighted average cost of capital shall be 9.71%. Schedule 2-A No. depicts our cost of capital

calculation. Our adjustments to cost of capital are depicted on Schedule No. 2-B.

Allowance for Funds Used During Construction Rate

The calculation and the effective date of the AFUDC rate were stipulated to as discussed above in Stipulation No. 12. The actual AFUDC rate shall be approved based on the approved cost of capital. Based on the approved capital structure, we approve an AFUDC rate of 9.92% and a monthly discounted rate of 0.826185%.

NET OPERATING INCOME

Method of Projecting Customers and Consumption

Utility witness Nixon sponsored Schedule No. F-10, pages 1-4, which calculates the projected growth factors used to escalate bills, gallons and selected O&M accounts from 1999 to 2001. Pages 3 and 4 contain the ERC forecast that is based on total customers, while pages 1 and 2 contain the revised ERC forecast based on single family residential customers. The utility believes the regression analysis under either the single family or total customer ERC approach are virtually identical. Therefore, the utility used the original growth predicted on page 4 of Schedule No. F-10 as a basis of projection.

Staff witness Stallcup testified on the results of an analysis he conducted on the ERC forecasts to determine if the forecasts are identical and which forecast should be used. The utility's arguments, testifying staff's arguments and our analysis follow.

Utility's Calculation of Projection Factors

The projections on pages 3 and 4 of Schedule No. F-10 contain total ERCs, both residential and commercial, converted to ERCs based on meter size. Utility witness Nixon testified that these ERCs are more representative of the additional revenue and additional billing determinants, and that, therefore, they should be used to calculate the projected factors used to escalate bills, gallons and selected O&M accounts from 1999 to 2001.

In the utility's original filing, the ERC forecast was based on total customer ERCs. Also, the utility used calendar year 1999 data instead of historical base year data as required by the MFRs. This forecast is contained on pages 3 and 4 of Schedule No. F-10. In response to our staff's request to correct this MFR deficiency, the utility revised its forecast to one based on historical base year residential ERCs as required by the MFRs. This forecast is presented on pages 1 and 2 of Schedule No. F-10.

Mr. Nixon testified that pages 1 and 2 containing the revised ERC forecast were filed to meet the MFRs, but that those pages did not present an accurate count of the total ERCs that will be billed. Therefore, he concluded that the projections, as originally filed, are appropriate to use in this case.

In particular, the utility's 1.08535 projection factor represents the escalation of 1999 bills and gallons to 2001 values. This factor was calculated by multiplying the growth in ERCs, as predicted by the five-year historic linear regression as originally filed, by 12 months to derive the total additional number of bills. This result was then divided by the total historic residential test year bills to arrive at the projection factor. Mr. Nixon then restated the 1.08535 projection factor as an annual projection factor of 1.041801.

Mr. Nixon testified that the projection factor to escalate selected O&M expenses to account for the effects of ERC growth was derived by taking the percentage growth rate shown on page 133 of the MFRs, which is a rounded value of 4.812. Generally, that growth factor was applied to the historic O&M expenses to yield the expenses in the intermediate year. The same 4.812 factor was used again to project expenses for 2001. Mr. Nixon also used an inflation factor, with specific adjustments.

In his rebuttal testimony, Mr. Nixon admitted that he had no expertise in mathematics or statistics, and was therefore unable to test the validity of Mr. Stallcup's models. Therefore, Mr. Nixon confined his testimony to "practical matters." Mr. Nixon testified that the original projection predicts an additional total increase of 718 ERCs by the end of the projected test year, while the revised forecast predicts an additional 684 ERCs by the end of the projected test year. This is a difference of 34 ERCs, and, "from

a practical basis," Mr. Nixon does not see any difference in the two projections presented in the MFRs.

Mr. Nixon further testified that it appeared to him that Mr. Stallcup was recommending use of an annual projection factor of 1.03486 because Mr. Stallcup believes that the growth rate should be based on the three years ending September 30, 2001, as opposed to the historic five-year average growth rate. Mr. Nixon believes that Mr. Stallcup has deviated from using the historic five-year average which Mr. Nixon argues is incorporated as a rule on Schedule No. F-10 of the MFRs. Mr. Nixon concluded by stating on rebuttal that he thought "the Commission has always believed that [use of historic five-year average] . . . was a better approach than simply using one or two years, much less actual and two projected years." Moreover, Mr. Nixon expressed his concern "that utility companies filing projected test year rate cases will need to hire a statistician in order to mathematically evaluate the various models which may exist," and that this would drive up the cost of rate case expense.

Staff Witness Stallcup's Calculation of Projection Factors

Mr. Stallcup, an expert in the fields of statistics and econometrics, analyzed the ERC forecasts submitted by the utility for its Seven Springs system. To test the utility's belief that its original and revised forecasts are virtually identical, and to determine which of the forecasts should be used, Mr. Stallcup conducted two evaluations of the forecasts. The first evaluation tested the utility's belief that the two forecasts are virtually identical. The second evaluation tested the utility's two forecasts against an independent projection of test year ERCs to determine which forecast would be likely to yield a more accurate result. Based on these analyses, Mr. Stallcup concluded that the two forecasts are not virtually identical, and that the revised forecast yields a more reliable test year ERC forecast.

In order to conclude that the two test year forecasts were not virtually identical, Mr. Stallcup used statistical techniques to determine if the projected test year ERCs produced by the two forecasts were sufficiently close to each other to deem the difference to be insignificant. Mr. Stallcup compared the difference between the forecasts "to each forecast model's inherent

ability to explain ERC growth." If the difference had been less than the models' inherent accuracy, Mr. Stallcup testified that:

> [O]ne would conclude that one forecast is just as accurate as the other, or, in other words, that they produce virtually identical results. On the other hand, if the size of this difference is greater than the models' inherent range of accuracy, one would conclude that the two forecasts are not virtually identical.

However, Mr. Stallcup found "that the difference between the revised forecast of 10,330 ERCs in test year 2001 is significantly different from the originally filed forecast of 9,774.5 ERCs." That is, the difference between the forecasts cannot be attributed simply to normal forecasting error. Therefore, he "concluded that the two forecasts are not virtually identical."

Mr. Stallcup also noted that the utility relied on a time trend to forecast ERC growth, and that:

> Forecasts derived from time trends incorporate within them the intrinsic assumption that the level of change in the future will be equal to the level of change observed in the historical data. This assumption ignores any other causal factors that may influence growth such as changes in economic and/or demographic conditions and forces the forecasts to grow at the same level as that observed in the historical data.

Because the utility had relied on a time trend to forecast ERC growth, and because a time trend has no sensitivity to changing conditions, Mr. Stallcup constructed a separate econometric model of ERC growth. Mr. Stallcup testified that unlike a time trend model, and econometric model "incorporates changes in economic and/or demographic conditions to explain growth," and thus, his econometric model tends "to produce more reliable forecasts over a wider range of conditions."

Mr. Stallcup's constructed model explains ERC growth using the rate of growth in the number of households in Pasco County as measured by the University of Florida's Bureau of Economic and Business Research and provides "a benchmark projection that can be

used to test the reasonableness of the utility's ERC forecasts." Pursuant to his calculations, he states that:

> [T]he econometric model produced a Test Year Total ERC forecast of 10,229 compared to a revised Utility forecast of 10,330. This difference of 101 ERCs does not represent a statistically significant difference. The utility's original forecast of 9,775 ERCs, on the other hand, did differ significantly from the econometric model's projection. These results led me to conclude that the utility's revised ERC forecast should be more reflective of the conditions expected to exist in the test year than the originally filed forecast.

There are two projected growth factors that are affected if the utility's revised forecast is used instead of its originally filed forecast. The first is the projected growth factor used in MFR Schedule No. E-13(A) to escalate base year bills and gallons up to test year levels. The utility's originally filed projection factor is 1.08535. The same factor, based on the revised forecast, is 1.07093. The second affected projected growth factor occurs in the MFR schedules used to account for the impact of forecasted ERC growth on selected O&M accounts. The utility used a factor of 1.04812 to escalate these accounts from the base year of 1999 to 2000, and then again from 2000 to 2001. This factor was calculated by averaging the observed percentage change in ERCs over the historical period from 1994 to 1999. Mr. Stallcup's recommended factor, based on the percentage growth of projected ERCs from 1999 to 2000 using the revised forecast is 1.03486.

Analysis and Conclusion

As discussed above, there are several areas of disagreement between utility witness Nixon and staff witness Stallcup. The first area of disagreement is whether the original and revised forecasts are virtually identical. While Mr. Stallcup presented a statistical analysis which indicated that the two forecasts are not identical, Mr. Nixon admitted that he is neither a mathematician nor a statistician, and that he is therefore unable to rebut much of Mr. Stallcup's testimony. He also stated that he cannot comment credibly on the statistical analysis used, and that he is not qualified to present a detailed response as it relates to the

statistical and econometric models referred to in Mr. Stallcup's testimony. Mr. Nixon specifically states: "I have no expertise in mathematics or statistics and I am unable to test the validity of his models."

Because Mr. Nixon has admitted that he cannot comment credibly on the statistical analysis used by Mr. Stallcup, we find that it is not possible for Mr. Nixon to credibly rebut what we believe to be a statistically valid analysis presented by Mr. Stallcup. Therefore, we find that the two forecasts are not virtually identical.

The second area of disagreement is whether the original or revised forecast provides a more reliable test year ERC forecast. As testified to by Mr. Stallcup, we find that:

> "[I]t is important to verify that the ERC growth forecasts submitted by the utility are a proper reflection of the expected economic and demographic conditions in which the utility will be operating. This can be achieved by comparing the ERC forecasts produced by the time trend method to those produced by an econometric model. If the two approaches produce similar forecasts, the Commission can have additional assurance that the Company's projections are reasonable. If the two differ significantly, however, the Commission may take this as a signal that the trended forecasts called for by the MFRs may need to be adjusted.

According to Mr. Nixon, because a comparison of the two forecasts yields a difference of 34 ERCs, from a practical basis, there is no difference in the two projections presented in the MFRs. Mr. Stallcup conducted a more technical analysis by constructing an econometric model which explains ERC growth, and involves testing the utility's two forecasts against his model to determine which forecast would be likely to yield a more accurate result. Based on these analyses, Mr. Stallcup concluded that the two forecasts are not virtually identical, and that the revised forecast yields a more reliable test year ERC forecast.

Mr. Nixon admitted that he has not read Mr. Stallcup's testimony, and is unable to provide credible rebuttal to the mathematical or statistical analysis. Based on Mr. Nixon's

admitted inability to rebut what we find to be the credible testimony of Mr. Stallcup, we find that the revised forecast yields a more reliable test year ERC forecast.

The third area of disagreement focuses on the appropriate application of our preferred linear regression methodology. Mr. Nixon believes that our preferred method of applying a simple regression analysis has been to use the percentage increase represented by the slope over the entire five-year historic period as the growth percentage in projected years. In particular, he believes that Mr. Stallcup has inappropriately used only the historic test year and then the two projected test years, which changes the percentage represented by the historic five-year regression line.

However, Mr. Stallcup testified that his linear regression is based on five years of historical data, which produces the trend line to carry forward the number of ERCs to 2001. The years 2000 and 2001 are entirely derived from the five years of data. His growth factor was derived by calculating the actual change from 1999 to 2001. Furthermore, based on Mr. Stallcup's participation in countless projected test year cases based on linear regression, the methodology that he proposes is the only methodology that we have adopted. The appropriate application of linear regression is not dependent upon a particular industry.

Once again Mr. Nixon is unable to credibly rebut Mr. Stallcup. He has admitted that he does not understand the significance of a slope in a linear regression equation. In fact, he further admits that "[a]ll [he] knows how to do is plug the data into a linear regression formula in the computer and get a result." Therefore, based on Mr. Nixon's admitted lack of understanding of the subject matter, as well as the credible expert testimony of Mr. Stallcup in this matter, we find that the revised forecast yields a more reliable test year ERC forecast.

The fourth area of disagreement is with regard to escalation factors before the application of an inflation factor. Although both rates of growth are attributable to the same ERC growth data, the utility is using a different escalation factor methodology for revenues than for expenses. The utility used the forecasted increase in customers to project revenues, but for the expenses,

the utility used the percentage growth represented by the slope of the regression line over the historic five-year period. This results in selected O&M accounts being escalated roughly 9.8%, before inflation, over two years. However, the corresponding escalation for bills and gallons was only 8.5% over the same two year period.

Mr. Stallcup believes that the methodology utilized to calculate the growth factor for bills and gallons should be the same for increased expenses. "One of the benefits of my methodology is, it applies the same growth rates to both revenues and expenses, which gives me comfort that if we carry our 1999 values forward to the test year of 2001, we will be growing them at the same rate and, therefore, have a more reliable estimate of what revenue requirements are required to be."

We agree with Mr. Stallcup. The utility has provided no credible evidence to support using a different escalation factor methodology. Therefore, we find it appropriate to use the same methodology and resulting escalation factor for bills, gallons and expenses.

A final area of disagreement concerns the use of statistical and econometric analysis in the evaluation of utility rate case filings. Mr. Nixon testified that "utility companies filing projected test year rate cases will need to hire a statistician in order to mathematically evaluate the various forecasting models which may exist," resulting in an increase in rate case expense.

We disagree. It is true that the utility has the burden to file whatever additional information it believes necessary to meet its burden of proof regarding its requested rate increase. However, neither Chapter 367, Florida Statutes, nor Chapter 25-30, Florida Administrative Code, require that all possible variations of methodologies be examined by the utility prior to its filing. While it is important to verify that the ERC growth forecasts submitted by the utility are a proper reflection of the expected economic and demographic conditions in which the utility will be operating, it is this Commission's responsibility to verify and evaluate the utility's filing.

There is one area of partial agreement between witnesses Nixon and Stallcup. Mr. Nixon believes that "[w]hat is important is the

projected increase in ERCs from the end of the historic test year to the end of the projected test year. These projected additional ERCs are those which will generate additional projected revenues and expenses." He reiterates that it is the increase between those two ERC values from 1999 to 2001 that is important. Mr. Stallcup utilized the projected increase in ERCs from the end of the historic test year to the end of the projected test year to calculate his projection factors.

We agree with witnesses Nixon and Stallcup that the projected increase in ERCs from the end of the historic test year to the end of the projected test year is important. However, we disagree with Mr. Nixon regarding both the level of projected additional ERCs and the growth factors which will yield the appropriate results. As discussed earlier, we find that the revised forecast yields a more reliable test year ERC forecast. The growth factors of Mr. Stallcup are the only factors which will yield the desired projected ERCs, as shown in the table below, further validating Mr. Stallcup's analysis.

ERC PROOF -- REVISED FORECAST

Base Year 1999 ERCs (Revised Forecast)	9,646
x Two-Year Projection Factor	1.07093
= Projected ERCs at 9/30/01	10,330
Base Year 1999 ERCs (Revised Forecast)	9,646
x Annual Projection Factor	1.03486
= Intermediate Year ERCs	9,982
x Annual Projection Factor	1.03486
= Projected ERCs at 9/30/01	10,330

Mr. Nixon has failed to rebut the testimony of Mr. Stallcup. Moreover, we find that the testimony of Mr. Stallcup is credible, reasonable and consistent with our practice. Based on the foregoing, the appropriate method of projecting customers and consumption for the projected year ending September 30, 2001 is based on the utility's revised forecast as presented in Exhibit No. 5, MFRs Vol. 1, Schedule No. F-10, pages 1 and 2. There are two projected growth factors that are affected by our approved projection methodology. The projected growth factor used to escalate base year bills and gallons up to test year levels shall be 1.07093. The projected growth factor used to account for the impact of forecasted ERC growth on selected O&M accounts shall be 1.03486.

Adjustments to Projected Test Year Revenues and Expenses

The utility calculated $2,780,994 of projected test year revenues at Aloha's current rates, which includes miscellaneous service revenues, interest income, and reuse revenues. This $2,780,994 amount also includes $2,711,628 of projected revenues for residential and general service customers, which were calculated based on the utility's projection factor of 1.08535. In addition, the utility projected Sludge Removal, Purchased Power, Chemicals, Materials & Supplies, Contractual Services - Other, Rental of Equipment, and Miscellaneous Expense by its calculated projection factor of 1.04812.

As discussed above, the projection factor 1.07093 shall be used to project bills and consumption, instead of the utility's

projection factor of 1.08535. In order to reflect projected test year revenues at the utility's current rates, we first removed Aloha's requested increase in revenues calculated at the utility's requested rates. This results in a decrease in revenues of $1,593,501 returning to the Aloha's projected test year revenues of $2,780,994 before any residential and general service rate adjustment. Since the approved projection factor is less than the utility's projection factor, the utility's test year revenues before any rate adjustment shall be further reduced by $36,194. This $36,194 amount represents the residual of Aloha's projected revenues for residential and general service and our projected revenues.

Schedule No. 7 illustrates our calculation of the appropriate projected bills and consumption for residential service customers and general service customers for the test year ending September 30, 2001, as well as the resulting adjustment to the utility's test year revenues before any rate adjustment.

As discussed above, the projection factor of 1.03486 shall be used to project customers, instead of the utility's projection factor of 1.04812. As stated earlier, the utility projected Sludge Removal, Purchased Power, Chemicals, Materials & Supplies, Contractual Services - Other, Rental of Equipment, and Miscellaneous Expense by its calculated projection factor of 1.04812. With regard to the Chemicals and Materials & Supplies accounts, there are stipulated adjustments that have already been adjusted for the utility's 1.04812 customer growth factor. We shall make certain adjustments to the Materials & Supplies and Miscellaneous expense accounts in which we will also adjust for the utility's 1.04812 customer growth factor. Therefore, to calculate the remaining adjustment for the Chemicals, Materials & Supplies, and Miscellaneous expense accounts, we removed the historical September 30, 1999 base year amounts of the stipulations and other adjustments.

Based on the above, we find that the utility's projected O&M expenses shall be reduced by $32,883 to reflect the appropriate growth rate. The following table shows our adjustments by account.

Account	Commission Adjustments
Sludge Removal	($16,880)
Purchased Power	($3,303)
Chemicals	($787)
Materials & Supplies	($4,846)
Contractual Services - Other	($2,978)
Rental of Equipment	($15)
Miscellaneous Expense	($4,073)
Total	($32,883)

Reuse Revenue

The utility projected annual reuse consumption of 189,436,000 and annual revenues of $47,359. Exhibit No. 15 shows the utility's breakdown of its estimated reuse consumption by GPD and annual consumption for each customer. As indicated by utility witness Watford, the total GPD of 1,219,000 reflected on Exhibit No. 15 is a typographical error. We note that the correct amount is 519,000 GPD.

Further, based on our review, the utility had more typographical errors on Exhibit No. 15. First, we find that the Pasco Middle and High Schools' annual consumption should be 21,900,000 (60,000 GPD multiplied by 365 days). Also, the total 189,436,000 gallon annual consumption is incorrect and overstated by 1,000 gallons. Using the correct total GPD, the total annual consumption is 189,435,000 (519,000 GPD multiplied by 365 days) gallons. Consistent with our findings below (using a reuse rate of $0.29 per thousand gallons and no charge for reuse water to the Mitchell Property and the Fox Hollow Golf Course), we find that the appropriate amount of reuse revenue to include in the September 30, 2001 projected test year is $28,474, which results in a $18,885 reduction to test year revenues. Schedule No. 8 illustrates our calculation of the appropriate amount of reuse revenue and reduction to test year revenues.

Vice-President's Salary

As indicated in Audit Disclosure No. 4, the president's salary is $122,595 for 100% of his time in this capacity, and the vice-president's salary is $68,250 for 20 percent of her time in this capacity. By Order No. PSC-99-1917-PAA-WS, issued September 28, 1999, we found it appropriate to limit the maximum threshold of the vice-president's salary to 20% of the president's salary. In that Order, we allowed the utility to fully contest or litigate its objections to our decision in the next rate case. According to the audit report, the utility did not make any adjustment to limit the vice-president's salary to 20% of the president's salary.

Staff witness Stambaugh testified that "expanding the vice-president's salary to 100% [of her time in this capacity] equates to an annual rate of pay of $341,250." Mr. Stambaugh pointed out that in Order No. PSC-99-1917-PAA-WS, issued September 28, 1999, we found the following: "we do not believe that Aloha's vice-president warrants a greater annualized salary than the president." Mr. Stambaugh testified that the vice-president's salary should be capped at 20% of the president's salary because she still only spends 20% of her time in this capacity. As a result, Mr. Stambaugh concluded that the vice-president's salary should be reduced by $43,731. Since this amount relates to the entire utility, Mr. Stambaugh used the utility's allocation of 35.46% in its MFRs which resulted in an adjustment of $15,507 for the Seven Springs wastewater system. By comparing the salary adjustment to total salaries and applying the result to benefits and payroll taxes, Mr. Stambaugh testified that benefits should be reduced by $5,319 and payroll taxes should be reduced by $1,392.

Further, staff witness McPherson agrees with Mr. Stambaugh's adjustment. On redirect examination, Mr. McPherson testified that the duties of the vice-president had not significantly changed since the utility's last rate proceeding.

OPC witness Larkin testified that he agreed with Mr. Stambaugh's recommended adjustment to the vice-president's salary. In its brief, OPC argued that the obvious intuitive conclusion is that a vice-president's salary should be significantly below the president's. OPC also posed the following question: "How many corporations pay the vice-president equal to the president?" OPC argued that, conventionally, the president is paid substantially

more than the vice-president. Lastly, OPC argued that by allowing Aloha's vice-president's annualized salary to be equal to the president's, we would be giving the utility the benefit of the doubt.

On rebuttal, utility witness Nixon stated that he thought Mr. Stambaugh's adjustment rests on the theory that all employees are of equal worth. The utility argued in its brief that there is no support for this basis or contention. Mr. Nixon claimed that Mr. Stambaugh ignored traditional tests contained in our Audit Manual. Specifically, Mr. Nixon stated that this Manual lists seven different factors that should be considered and that the audit finding sponsored by Mr. Stambaugh did not consider any of them. Mr. Nixon noted that the "Vice-President is a successful, respected, and experienced business person whose time would command a higher salary than the President's on an annual basis."

Mr. Nixon noted that the duties of the vice-president include being on call 24 hours a day, seven days a week, to provide advice and consultation to the utility with little or no notice. He also noted that because of the arrangement with the vice-president for part time services, Aloha does not have to provide her with administrative support or a separate office. Finally, Mr. Nixon noted that the total officers' compensation for Aloha is less than that for similarly sized utilities, and that the alternative to the part time vice-president is a full time vice-president at a substantially higher cost.

On rebuttal, utility witness Watford testified that the vice-president has a bachelor's degree in accounting with a major in finance and that her time devoted to the utility often exceeds the 20% the utility has indicated that she spends in this capacity. Further, on cross-examination by Aloha, Mr. Stambaugh testified that he did not undertake any analysis of the educational background and experience of the vice-president during the period of audit field work or after he drafted his testimony. However, Mr. Stambaugh did review it afterwards, and he did not change his recommendation.

Based on arguments of witnesses Stambaugh, McPherson, and Larkin, we find it appropriate to limit the vice-president's salary to 20% of the president's salary. With regard to Mr. Nixon's argument that Mr. Stambaugh ignored traditional tests contained in

our Audit Manual, we disagree. According to Mr. Nixon's rebuttal testimony, one of the tests is to review the description of duties and responsibilities. In the last rate proceeding, we reviewed the duties and responsibilities of the vice-president and other officers. See Order No. PSC-99-1917-PAA-WS, issued September 28, 1999. As stated earlier, Mr. McPherson testified that the duties of the vice-president had not significantly changed since the utility's last rate proceeding.

As noted by Mr. Watford, the vice-president has a bachelor's degree in accounting with a major in finance. We believe that the educational background of the vice-president is beneficial to the utility. However, based on our review of Exhibit No. 32, which provides the duties and responsibilities of the utility's officers, we note that the president's duties and responsibilities are greater than those of the vice-president. Section 367.081(3), Florida Statutes, states in part that "[t]he commission, in fixing rates, may determine the prudent cost of providing service . . . ." We conclude that a comparison of the president's salary and the time spent in that capacity in relation to the vice-president's salary and the time spent in that capacity is a reasonable test to determine a prudent level of salary for the vice-president. Based on the above, Salary & Wages -- Officers and Employee Benefits accounts for the Seven Springs wastewater system shall be reduced by $15,507 and $5,319, respectively. Payroll taxes shall also be reduced by $1,392.

Administrative Employee Expenses

Aloha hired a new administrative employee in late 1999 and included the annualized salary in the projected test year expenses. The utility's explanation in the MFR's was that this employee was "required to meet DEP staffing requirements."

OPC witness Larkin testified that the ARCFJ did not require any additional administrative employees be added to the Company's employment rolls. Mr. Larkin further testified that, "I am removing from the projected salaries the administrative person that the Company has added under the purported justification that it was a requirement of the DEP."

Utility witness Nixon testified that although the position was not specifically required by the ARCFJ, "the decision to add this

position was made in connection with management's assessment of staffing requirements set forth in the Consent Order." Further, Aloha has provided evidence of the substantial increase in reporting requirements resulting from the ARCFJ. In addition, Mr. Watford noted that this Commission's management audit team had informed them that they were recommending not only the need for this new administrative employee, but the possible need for three more administrative employees to handle the current workload at the utility. He further noted that the additional administrative employee was needed to handle other duties that were due to customer growth and demand.

We agree that the additional reporting requirements levied by the ARCFJ and the additional workload due to customer growth and demand justify the new administrative position, even though that position is not specifically called for in the ARCFJ. Moreover, we find that this administrative position is justified by the increased workload caused by the ARCFJ and DEP. Therefore, we find it appropriate to make no adjustment to remove the expenses associated with that position.

Annual Financial Audit

The utility executed a loan with Bank of America for the construction financing of the Seven Springs wastewater system. According to the loan covenants, all of the utility's systems are required to be audited annually. The annual cost of auditing all the utility's systems is $24,000, and was recorded in the Contractual Services - Accounting account. All of Aloha's systems revenues are guaranteed for this loan.

OPC witness Larkin testified that Aloha allocated a portion of this loan to the utility's other operating divisions, through the pro rata allocation of the total company capital structure components to the rate base of the Seven Springs wastewater system. As a result, Mr. Larkin stated that because the benefit of the loan is being allocated in part to the utility's other systems, these other systems should bear part of the cost of the annual audit. Mr. Larkin noted that the portion of the loan that is allocated to Aloha's other divisions is 14.35%. Mr. Nixon testified that the $24,000 annual audit fee should be allocated in the same proportion as the debt, which would result in a reduction to Contractual Services - Accounting account of $3,444.

Utility witness Nixon testified that virtually all the utility's long-term debt, except for a minor amount of debt for transportation equipment, was incurred for the Seven Springs wastewater system. Mr. Nixon stated that the audit is required specifically for the loan to expand and modify the Seven Springs wastewater plant. Mr. Nixon also stated that "[t]he receipt of CIAC, Accumulated Depreciation, and CIAC Amortization cause the rate base [of the Seven Springs wastewater system] to differ from Capital Structure, requiring pro rata reconciliation." Further, Mr. Nixon testified that the reconciliation of rate base is simply a mechanical adjustment and is totally unrelated to an expense specifically identified and matched with the utility's Seven Springs wastewater system.

According to Schedule No. D-5(A) of its MFRs, the utility's total 13-month average balance of long-term debt for the projected test year ended September 30, 2001 is as follows:

Description	13-month Average Balance
Bank of America (15 years)	$5,064,090
Vehicle Notes (4.9%, 3 years)	24,926
Vehicle Note (9.25%, 3 years)	7,386
L.L. Speer - LOC (P+2, 30 years)	2,976,688
L.L. Speer - DOT (P+2, 30 years)	541,672
Total Long-term Debt	$8,614,742

Both of the L.L. Speer debt issues are associated with Aloha's 1995 reuse project for its Seven Springs wastewater system. See Order No. PSC-97-0280-FOF-WS, issued March 12, 1997, in Dockets Nos. 950615-SU and 960545-WS. As stated earlier, the loan with Bank of America was for the construction financing for the Seven Springs wastewater system. Thus, we agree with Mr. Nixon that virtually all the utility's long-term debt was incurred for the Seven Springs wastewater system and that the reconciliation of rate base is simply a mechanical adjustment and is totally unrelated to an expense specifically identified with the Seven Springs wastewater system. Based on the above, we find that the cost causer of this

annual audit fee is the Seven Springs wastewater system. Therefore, we will make no adjustment.

Contractual Services - Accounting

Non-Recurring Costs

As indicated in Audit Disclosure No. 9 of the audit report for our earnings investigation, the utility replaced its general ledger and billing software systems in July of 1999 with a new accounting software system. The utility's accounting firm assisted Aloha with the implementation of the new system by reviewing system output, balancing accounts, and testing accuracy.

Staff witness McPherson testified that the replacement of billing and accounting systems is an infrequent event and expenses related to this event are non-recurring. Mr. McPherson pointed out that Rule 25-30.433(8), Florida Administrative Code, requires that non-recurring expenses be amortized over a 5-year period. As a result, Mr. McPherson testified that the accounting expenses for the Seven Springs wastewater system should be reduced by $1,113.

On rebuttal, utility witness Nixon testified that these charges for services simply took the place of the accounting firm's ordinary charges for its semi-annual review of the company's financial statements. Mr. Nixon explained that the accounting firm's semi-annual review is simply an overview of the general ledger, financial statements and journal entries. Mr. Nixon stated that a review of quarterly financial statements is required in Aloha's financing agreement with Bank of America, and that the estimated cost of those services will equal or exceed the amount of Mr. McPherson's proposed adjustment.

On cross-examination, Mr. Nixon testified that "the change over in software prevented us from doing our semi-annual review. Instead, we were working with the client to produce financial statements on a general ledger." However, as indicated by Mr. Nixon, the accounting firm's semi-annual review is simply an overview of the general ledger, financial statements and journal entries. As such, we find that these charges were in addition to the normal semi-annual review.

Regarding Mr. Nixon's testimony that the estimated cost of a review of quarterly financial statements required by the loan with Bank of America will equal or exceed the amount of Mr. McPherson's proposed adjustment, we find that the record is unclear as to whether the cost of these quarterly reviews is included in the utility's requested $24,000 annual fee for a financial audit which is also required by the loan with Bank of America. If it is included in the $24,000 annual fee, then there is provision for its recovery. If it is not included, it is the utility's burden to prove that its costs are reasonable. Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982). Further, if it is not included, then the utility should have requested and provided supporting documentation for these costs. Regardless, the cost of reviews of quarterly financial statements is separate and apart from these one-time costs for replacement of billing and accounting systems. Therefore, the accounting expenses for the Seven Springs wastewater system shall be reduced by $1,113 to remove non-recurring fees associated with the implementation of the new accounting software system.

New Comptroller

The utility hired a new comptroller in June of 2000. OPC witness Larkin testified that "[t]he addition of the new comptroller should result in productivity gains related to keeping the Company's books and records." Mr. Larkin stated that the utility "will not have to rely as extensively as they have in the past on outside accounting services to maintain the books and records. . . ." As a result, Mr. Larkin further testified that the new comptroller's allocated salary for the Seven Springs wastewater system should be reduced for an estimated 50% productivity gain, which results in a reduction of Contractual Services - Accounting of $7,449.

On cross-examination, Mr. Larkin stated that the old comptroller had approximately 18 years of experience with Aloha. Further, Mr. Larkin stated that the new comptroller had experience in accounting since 1973 and had been an assistant comptroller of Ryans Home, Inc. for 10 years and comptroller for one year with the same company. Utility witness Nixon noted that the new comptroller does not have an accounting degree and has no experience in the utility industry. Due to the inexperience of the new comptroller, Mr. Nixon asserted that Mr. Larkin should have logically concluded

that, in the short-term, the outside accounting firm might have to assist the utility's new comptroller to a greater extent than the experienced former comptroller. In its brief, the utility argued that Mr. Larkin provided no basis for the 50% productivity gain and that Mr. Larkin's adjustment is neither appropriate nor supported by the record.

Based upon the evidence of record, we agree with the utility. In so finding, we note that "it is the [Commission's] prerogative to evaluate the testimony of competing experts and accord whatever weight to the conflicting opinions it deems necessary." Gulf Power Co. v. FPSC, 453 So. 2d 799, 805 (Fla. 1984). Accordingly, we find that no adjustment is necessary.

DEP Enforcement Action

On March 9, 1999, the utility executed an ARCFJ with DEP in which the utility was required to pay $18,400 in settlement of alleged violations. The $18,400 amount was recorded as Miscellaneous Expenses during the historical September 30, 1999 test year. According to Audit Disclosure No. 6, the utility incurred $27,400 in legal fees related to DEP's enforcement action during the historical September 30, 1999 test year.

OPC witness Larkin testified that stockholders should have borne the $27,400 in legal expenses associated with DEP's enforcement action because ratepayers have no influence over the utility's operation of the plant or discharge of effluent, which caused the conflict with the DEP. Mr. Larkin asserted that "ratepayers should not be held responsible for violations, either alleged or otherwise, associated with the operation of the plant." Further, Mr. Larkin noted that to allow the recovery of these legal fees and the payment for alleged violations would be to move the responsibility of plant operations in conformance with DEP regulation, from the utility's management to the utility's ratepayers.

OPC noted that page seven of the ARCFJ states: "[F]ollowing compliance with all the terms of this judgement, including the payment of any stipulated penalties due to the requirements of this judgement shall be deemed satisfied." OPC also pointed out that page 10 of the ARCFJ states: "Within 10 days of the execution of this judgement Aloha shall pay the department $18,400 in settlement

of alleged violations." Further, OPC argued that one need only ask two questions: "1) If there is no 'stipulated penalty' [in the ARCFJ], then why would that term be included in the ARCFJ at all?, . . . and 2) What is the purpose of the $18,400 payment to DEP, if it is not a penalty." As a result, Mr. Larkin believes that legal expenses should be reduced by $27,400 and miscellaneous expense should be reduced by $20,244, which represents the $18,400 amount plus $1,844 attributed to the utility's escalation of these expenses by its customer growth factor.

In its response to this audit disclosure, utility witness Nixon asserted that Aloha had submitted invoices which indicated that $9,875 of the $27,400 in legal expenses were for routine matters not associated with the ARCFJ. Further, Mr. Nixon pointed out that in Order No. PSC-97-0618-FOF-WS, issued May 30, 1997, in Docket No. 960451-WS, we found the following:

> Although we find that fines associated with violations of DEP and EPA should be borne by the shareholders of the utility, we believe it is reasonable for UWF to recover the costs of defending such fines. As the Commission previously concluded, the legal expenses incurred for defending fines from DEP and EPA could facilitate avoided or a reduced amount of fines. Therefore, we find that no such adjustments are necessary to test year expenses.

Mr. Nixon testified that this is not a fine and pointed out that our staff audit report stated that the $27,400 in legal expenses and the $18,400 payment appear to be legitimate utility expenses because in the ARCFJ there was no finding of wrong doing by the utility. As a result, Mr. Nixon asserted that these expenses should be amortized over 5 years and that the appropriate amount of annual amortization to include is $7,185 (($27,400 less $9,875 plus $18,400)/5 years).

Based on his review of the legal invoices submitted by the utility, staff witness Stambaugh agreed with Mr. Nixon that $9,875 of the $27,400 in legal expenses were not related to the ARCFJ, but were normal, recurring expenses. Mr. Stambaugh also agreed with Mr. Nixon that the remaining legal expenses of $17,525 associated with the DEP enforcement action and the $18,400 for the utility's payment of DEP's legal expenses should be amortized over 5 years

and that the appropriate amount of annual amortization to include is $7,185.

Based on our review of the legal invoices submitted by the utility, we agree that $9,875 of the $27,400 in legal expenses were not related to the ARCFJ. Also, the legal expenses associated with the ARCFJ are non-recurring in nature. Rule 25-30.433(8), Florida Administrative Code, states that "[n]on-recurring expenses shall be amortized over a 5-year period unless a shorter or longer period of time can be justified." According to Schedule No. G-1, page 139 of Volume I of its MFRs, the utility did not escalate legal expenses by customer growth or inflation. As such, we agree with Mr. Nixon and Mr. Stambaugh and find it appropriate to amortize the $17,525 in legal expenses in connection with the ARCFJ over 5 years. This results in a reduction to legal expenses of $14,020 (($17,525 less ($17,525 divided by 5 years)).

Based on the arguments of OPC and our review of the ARCFJ, we find that the payment of $18,400 for alleged violations is a stipulated penalty or fine. As pointed out by Mr. Nixon, our practice is that fines associated with violations of DEP and EPA should be borne by the shareholders of the utility. See Order No. PSC-97-0618-FOF-WS, issued May 30, 1997, in Docket No. 960451-WS. Accordingly, the $18,400 payment shall be borne by the utility's shareholders. As stated earlier, the payment was recorded as Miscellaneous Expenses. According to Schedule No. G-1, page 139 of Volume I of its MFRs, the utility escalated miscellaneous expenses by customer growth and inflation. As such, the utility's escalation of this amount shall be removed. As a result, we find that Miscellaneous Expenses shall be reduced by $20,706. The following table illustrates our adjustments.

	Intermediate Projected Amount	Final Projected Test Year Amount
Historical TY Amount	$18,400	$19,519
Aloha's Growth Factor	X 1.04812	X 1.04812
	$19,285	$20,458
Inflation Factor	X 1.0121	X 1.0121

	$19,519	$20,706

Chemicals and Purchased Power Expense

Based on our finding that the Aloha collection system did not have excessive I&I, and because it is our practice not to adjust O&M expenses in these cases unless there is excessive I&I (See Order No. PSC-96-1320-FOF-WS, issued October 30, 1996, in Docket No. 950495-WS and Order No. PSC-00-1163-PAA-SU, issued June 26, 2000, in Docket No. 990937-SU), no adjustments to chemicals and purchased power shall be made.

Account 720 - Materials & Supplies

The utility's year-end December 31, 1998 balance for Materials & Supplies was $48,406, and its year-end September 30, 1999 balance was $78,582. OPC witness Larkin testified that the Materials & Supplies account had increased approximately 62% from December 31, 1998 year-end to the test year ended September 30, 1999. After removing audit adjustments of $12,703 which have been stipulated, Mr. Larkin stated that the balance still increased by approximately 36% and that the utility had not accounted for this dramatic increase. As a result, Mr. Larkin proposed that the appropriate balance for September 30, 1999 should be equal to the 1998 calendar year-end balance escalated by customer growth and inflation for nine months, which results in a reduction of $15,266. Lastly, OPC noted in its brief that Exhibit No. 23 still does not show that the utility's historical base year Materials & Supplies are normal and expected to continue at that level in the future.

In its MFRs, the utility stated that the increase to Materials & Supplies was a result of increased routine maintenance of the treatment plant. On rebuttal, utility witness Nixon stated that he had reviewed the Materials & Supplies account, and based on this review, he provided an exhibit which listed the specific increases from the 1998 calendar year-end to the September 30, 1999 historical base year. In its brief, the utility argued that Mr. Nixon's rebuttal Exhibit No. RCN-3 and Exhibit No. 23 fully explain the increase of the historical base year Materials & Supplies.

Exhibit No. 23 shows an itemized breakdown of the Materials & Supplies for the 1998 calendar year-end and the historical

September 30, 1999 historical base year. In its brief, OPC stated that it does not doubt that the money was spent. However, on cross-examination by the utility, staff witness Stambaugh testified that, other than Audit Exception No. 3, no other adjustments to the Materials & Supplies account were recommended in the audit report. We agree with the utility that the increase of the historical base year Materials & Supplies has been fully explained. Therefore, no adjustment shall be made.

Contractual Services - Other

Aloha and OPC agree that the 1.6 MGD wastewater treatment facility is basically a new plant and as such, the equipment comes with a manufacturer's warranty or guarantee on that new equipment for the first year. However, Aloha and OPC disagree as to what maintenance expenses remain and which expenses should be allowed under Account 736 - Contractual Services - Other. The utility estimated $175,000 in preventative maintenance expense for the test year.

OPC witness Biddy, when asked whether Aloha would encounter $175,000 of preventative maintenance for the new plant, responded:

> No, it wouldn't be nowhere close to $175,000 simply because it's brand new equipment. The only maintenance you will be doing will be preventative maintenance that the operator will do as he goes about his normal duties, and most of those are lubrication-type things. If there is a breakdown, it's covered by the warranties, so it would be a very small percentage of that 175.

Utility witness Porter testified that his estimate, representing 5% of the value of the new equipment, was a figure that he had used in previous rate cases and was based on his experience. He also recalled that the 5% was initially used by EPA in published documents related to O&M costs that would be associated with facilities built under the 201 program. Utility witness Nixon thought that OPC's witnesses had confused the manufacturer's warranty on equipment failure with the cost of routine maintenance necessary for the proper functioning of the equipment. Mr. Nixon considered it incredible that OPC's witnesses were assuming a manufacturer would pay for all maintenance just because the equipment is guaranteed for one year. Mr. Porter

specifically noted that the system must be 100% reliable under DEP Rule 62-610, Florida Administrative Code, and that the system required a great deal of preventative maintenance to maintain that 100% reliability.

OPC does not argue that there will be no maintenance expense. It merely argues that the maintenance expense will not be near the 5% or $175,000 figure. OPC believes that it is Aloha's burden to bring forward an accurate figure that is applicable to the first few years of plant life. Mr. Porter, on the other hand, countered that the 5% projected maintenance expense was "certainly fair and reasonable and, if anything, it is understated."

Conclusion

In reviewing this issue of the appropriate maintenance expense, we note that this is a projection and that no one can state what the exact expenses will be for the next year. OPC gave no estimates of its own; it only stated that the utility should produce an accurate figure. From the testimony presented by utility witnesses Porter and Nixon, it seems evident that the utility used appropriate guidelines (EPA publications) and 25 years' experience in arriving at the 5% estimate. On cross-examination, OPC witness Biddy acknowledged that he had no experience in the startup or ongoing O&M of such a wastewater treatment plant.

We find that the projected maintenance costs comply with EPA's guidelines and are justified. Therefore, no adjustment shall be made to Account 775, Contractual Services - Other, to remove the projected maintenance expense for the new plant.

Miscellaneous Expenses

The utility's year-end December 31, 1998 balance for Miscellaneous Expenses was $21,406, and its adjusted year-end September 30, 1999 balance was $57,861. OPC witness Larkin testified that the utility has incurred approximately $24,000 in Miscellaneous Expenses based on its average calendar year-end levels from 1996-1998. After removing the utility's $18,400 payment to DEP resulting from the ARCFJ, Mr. Larkin stated that the balance still increased by approximately 67% and that the utility has not explained this dramatic increase. As a result, Mr. Larkin

proposed that the appropriate balance for September 30, 1999 should be equal to the average 1996-1998 calendar year-end balance escalated by customer growth and inflation for nine months.

In its MFRs, the utility stated that the increase to Miscellaneous Expenses was a result of additional advertising costs for new employees and miscellaneous operating costs for DEP compliance. On rebuttal, utility witness Nixon stated that he had reviewed all of the Miscellaneous Expense account, and based on this review, he provided an exhibit which listed the specific increases from the 1998 calendar year-end to the September 30, 1999 historical base year. In its brief, the utility argued that Mr. Nixon's rebuttal Exhibit No. RCN-4 fully explains the increase of the historical base year Miscellaneous Expense.

As stated earlier, on March 9, 1999, the utility executed an ARCFJ with DEP. Both OPC witness Larkin and utility witness Nixon testified that the expense items listed as advertising expenses on Mr. Nixon's rebuttal Exhibit No. RCN-4 are for the new employees required by the ARCFJ. The execution of a ARCFJ with DEP is not likely to occur every year. As such, the advertising expenses resulting from the ARCFJ are non-recurring expenses. We note that utility witness Nixon testified that the legal expenses associated with the ARCFJ were non-recurring and should be amortized over 5 years. Rule 25-30.433(8), Florida Administrative Code, states that "[n]on-recurring expenses shall be amortized over a 5-year period unless a shorter or longer period of time can be justified." As such, we find that the total advertising expenses of $8,206 that is listed on Mr. Nixon's rebuttal Exhibit No. RCN-4 shall be amortized over 5 years.

In addition, Mr. Nixon's rebuttal Exhibit No. RCN-4 indicated that an insurance premium payment of $1,296 was misclassified by the utility as a Miscellaneous Expense and that it should have been recorded in Account 757, Insurance - General Liability. According to Schedule G-1, pages 139-140 of Volume I of its MFRs, the utility escalated Miscellaneous Expenses by customer growth and inflation, but did not escalate Account 757, Insurance - General Liability. Thus, we find it appropriate to recognize one year's amortization of the total advertising expenses of $8,206. However, the utility's escalation of the $8,206 for customer growth and inflation shall be removed because it is a non-recurring expense. Further, Account 757, Insurance - General Liability shall be

increased by $1,296 and Miscellaneous Expenses shall be decreased by that amount plus the amount for the utility's escalation of the $1,296 for customer growth and inflation.

Based on the above, we agree with the utility that the increase of the historical base year Miscellaneous Expenses has been fully explained; however, Miscellaneous Expenses shall be reduced by $7,593 for non-recurring advertising expenses and by $162 for a misclassification error by the utility, which represents a total reduction of $7,755. The following table illustrates our adjustments.

Advertising Expense Adjustment

	Intermediate Projected Amount	Final Projected Test Year Amount
Historical TY Amount	$8,206	$8,705
Aloha's Growth Factor	X 1.04812	X 1.04812
	$8,601	$9,124
Inflation Factor	X 1.0121	X 1.0121
Total	$8,705	$9,234

Final Projected TY Amount - Advertising Expense	$9,234
Less: Historical Teat Year Amount	8,206
Customer Growth and Inflation Adjustment	$1,028
Total Amount of Non-recurring Advertising Exp.	($8,206)
Plus: One Year's Amortization ($8,206/5 years)	1,641
Less: Customer Growth and Inflation Adjustment	(1,028)
Total Adjustment for Non-recurring Advert. Exp.	($7,593)

Misclassification Adjustment

	Intermediate Projected Amount	Final Projected Test Year Amount
Historical TY Amount	$1,296	$1,374
Aloha's Growth Factor	X1.04812	X 1.04812
	$1,358	$1,440
Inflation Factor	X 1.0121	X 1.0121
	$1,374	$1,458

Final Projected TY Amount - Advertising Expense	$1,458
Less: Historical Teat Year Amount	$1,296
Customer Growth and Inflation Adjustment	$162

Rate Case Expense

In its revised MFRs, the utility requested an estimated rate case expense of $300,000 for this case. Aloha originally requested $275,000 in rate case expense, but increased that amount to $300,000 after filing revised MFRs. According to utility witness Nixon, rate case expense was increased by $25,000 in order to cover the costs of preparing additional new information requested by our staff.

In Exhibit No. 22, Aloha updated its actual rate case expense figures as of October 6, 2000, with a revised estimate to complete. That exhibit indicates total rate case expense (actual expenses and estimates to complete) to be $472,815 for the current rate

proceeding. The components of total rate case expense are summarized as follows:

	PER MFRs	PER EX 22
Cronin, Jackson, Nixon, and Wilson, CPAs	$125,000	$185,879
Rose, Sundstrom, and Bentley	110,000	229,031
David Porter, PE	50,000	33,220
In House	15,000	24,685
Total	$300,000	$472,815

Section 367.081(7), Florida Statutes, states that "[t]he commission shall determine the reasonableness of rate case expenses and shall disallow all rate case expenses determined to be unreasonable. No rate case expense determined to be unreasonable shall be paid by a consumer."

There are five adjustments that are addressed below concerning rate case expense for this proceeding. The adjustments are as follows: (1) legal expenses associated with filing the emergency variance or waiver; (2)costs associated with filing revisions to the MFRs; (3) filing fee that was double charged; (4) accounting and legal expenses associated with supplemental rebuttal testimony disallowed; and (5) legal and engineering fees that were estimated for reconsideration.

Emergency Variance

In addressing legal expenses associated with the emergency variance, staff witness Merchant testified that if the utility had addressed this need early on during the test year approval process, the utility could have determined whether it could comply with the rule on a timely basis, thereby avoiding the cost of any rule waiver, whether emergency or not. She further stated that if the utility had looked at its circumstances in October 1999, "they could have spent seven to ten to 21 days getting information to comply with the MFRs and wouldn't have needed a waiver at all."

Ms. Merchant testified that after the utility saw our staff's recommendation on the emergency variance, it completed the requirement within a week and withdrew its emergency request for variance. In her experience in dealing with waivers, Ms. Merchant

testified that when we have disallowed the waiver, the rate case costs associated with that waiver have also been disallowed. Concerning the emergency request for waiver filed by the utility, there was no decision made due to the fact that the utility withdrew its request. Ms. Merchant proposed removing $10,014 from rate case expense for legal fees related to filing the emergency request for variance.

On rebuttal, utility witness Deterding testified that prior to filing its Application on February 9, 2000, the utility had planned to copy all of its hundreds of maps and provide them to our staff. Mr. Deterding testified that the facts did not come to light concerning the specifics of this issue until shortly before the date of the rate case filing.

Approximately one to two weeks before the Application was filed, the utility contacted Mr. Crouch, our chief staff engineer. They discussed the issue of what maps were needed to comply with our MFRs as contained in Rule 25-30.436(6), Florida Administrative Code. According to Mr. Deterding's testimony, Mr. Crouch agreed that if the utility's facilities were contributed, he did not need maps of the systems at all and that a waiver would be appropriate. In his testimony, Mr. Deterding stated that the utility simply "called the person for whom the information was requested, who would utilize the information, who would determine whether or not it was appropriate to waive the rule requirement, and inquired of them whether they thought it was appropriate under these circumstances for the utility to seek a waiver."

Mr. Deterding testified that the actions of the utility were an attempt to spend the least amount of money complying with the rule. Once it became apparent that action on the waiver or variance would, at a minimum, be delayed, if not rejected altogether, plus additional legal time in addressing the waiver issue, the utility decided that the cheapest alternative was to try and come up with something that would comply with the rule as interpreted by our staff engineer. Mr. Deterding sponsored an exhibit with his testimony that detailed the portion of the February 2000 bill related to the rule waiver. According to Exhibit No. 30, FMD-2, the amount is $6,205.

We agree with Ms. Merchant's testimony. Given the time frame in which the utility provided maps after reading the

recommendation, we find that the filing of the emergency request for variance was imprudent. Because the utility chose not to proceed with its waiver request and no waiver was ever obtained, the costs associated with that waiver request shall be disallowed. Since Mr. Deterding provided a detailed exhibit of the actual cost associated with the rule waiver, we find it appropriate to reduce rate case expense by the amount that Mr. Deterding sponsored in his exhibit, which was $6,205.

In its updated rate case expense, utility witness Watford included the cost of the maps. Since the utility did provide the maps, we find that the cost of the maps shall be included in rate case expense.

MFR Deficiencies

In addressing the issue of costs associated with filing revisions to the MFRs, staff witness Merchant testified that "rate case expense associated with fixing MFR deficiencies should be disallowed to the extent the costs duplicated or corrected information that was previously filed in the MFRs." Ms. Merchant testified that one of the deficiencies that our staff identified was the lack of support for projection methodologies. Rule 25-30.437(3), Florida Administrative Code, states in part that "[a] schedule shall also be included which describes in detail all methods and bases of projection, explaining the justification for each method or basis employed." She continued to explain that our staff has interpreted this rule to mean that all items and accounts projected in a projected test year rate base should be explained fully so that this Commission and parties can take an historical balance reflected in the MFRs and calculate both the intermediate and projected test year amounts. She further stated that this does not mean the utility should provide all specific calculations, but that the user should be able to follow the utility's logic and get similar projected results.

Ms. Merchant testified that, especially for a projected test year, as one comes up with assumptions for the projections, they should write down the assumptions as they are developed (or decided on) before one forgets them. "If you are writing them down, you might as well design a document that can be submitted with the minimum filing requirements . . . ." Ms. Merchant further stated that one has to think through things when planning a projected

year. Every single account needs to be looked at to determine whether it is going to be projected or not. Ms. Merchant stated that what she has seen in a lot of different cases is that the notes concerning projections are created as they go along. She stated that a utility has the responsibility to provide the necessary information to this Commission so that the filing can be processed within the statutory deadline. Ms. Merchant proposed removing a total of $21,725 from rate case expense for accounting fees of $18,669 and legal fees of $3,056 associated with the deficiencies.

On rebuttal, utility witness Nixon stated that our staff required additional information and treated the lack of this information as a deficiency. Therefore, the utility had to reproduce its work papers to show how each account was projected. Mr. Nixon testified that the calculation of the specific amounts by month could have been verified by Commission auditors.

Concerning the time to develop the schedule, Mr. Nixon states that it would have been incurred whether the schedule was created with the original filing or after the deficiency letter was issued. The utility considers the deficiencies as additional information for the filing and also argues that this is not duplication or a correction due to the fact the information did not exist.

Concerning errors identified, Mr. Nixon stated that he believed no more than 8 to 10 hours of work was required to correct the items that he identified as errors. He testified that he wrote off and discounted fees totaling $6,237 of rate case expense to reflect the correction of errors.

We note that disagreement exists as to whether the items identified as deficiencies were actually deficiencies. During his testimony, Mr. Nixon admitted that there were specific items that may not have been completely explained in the MFRs, but he considered these items minor points or items that the Commission auditors could have calculated. Ms. Merchant testified that she did not believe it was an audit function to obtain information that should be filed in the MFRs. Pursuant to Rule 25-30.437(3), Florida Administrative Code, a utility must provide a schedule which describes in detail all methods and bases of projections.

We agree with Ms. Merchant. Although Ms. Merchant has not prepared MFRs, she has been involved in reviewing and analyzing filed MFRs for over 15 years. In considering a projected test year, one would logically think that some kind of workpapers were developed as the MFRs were developed to determine what projection methodology would be applied and how the projection methodology would be applied.

Consequently, we are disallowing the rate case expense related to the MFR deficiencies. As stated earlier, Mr. Nixon testified that he wrote off and discounted fees totaling $6,237 of rate case expense to reflect the correction of errors. Further, rate case expense shall be reduced by the amount of $18,669 for accounting fees associated with the MFR deficiencies after Mr. Nixon's adjustment for errors/corrections. Rate case expense shall also be reduced by $3,056 for legal fees associated with the MFR deficiencies. Therefore, we hereby reduce rate case expense by a total of $21,725 for costs related to MFR deficiencies. The following table illustrates our adjustment for MFR deficiencies.

	Amounts
Total Cost for MFR Deficiencies (Per EX 22, RCN-9)	$24,909
Write-Offs/Discount by Nixon	(6,237)
Net Accounting Bill to Revise MFRs	$18,669
Legal Cost for MFR Deficiencies	3,056
Total Adjustment for MFR Deficiencies	$21,725

Filing Fee

In the invoices filed to support rate case expense, the utility included the filing fee of $4,500 as an in-house cost and as a legal expense. Mr. Nixon acknowledged that to the extent the fee is included twice, the duplication should be removed. Therefore, rate case expense shall be reduced by $4,500.

Supplemental Rebuttal Testimony

As previously discussed herein, the utility filed supplemental rebuttal testimony, much of which was ultimately disallowed as

improper rebuttal. Because much of the testimony was disallowed as improper, we find that rate case expense shall be reduced for the accounting and legal fees associated with filing the stricken supplemental rebuttal testimony. Because the rate case expense was updated with actual expenditures through October 6, 2000 and estimates to complete, our staff did not have an actual amount to make an adjustment for the disallowed testimony which was filed October 23, 2000.

The calculations supporting our adjustment are described below:

A = (B/C)*(D*((F/G)*E))

where A is the adjustment amount
B is the number of lines of Nixon's supplemental rebuttal testimony disallowed
C is the total number of lines of Nixon's supplemental rebuttal testimony
D is the hourly rate charged by Mr. Nixon
E is the number of pages of Nixon's supplemental rebuttal testimony filed
F is the number of hours charged by Mr. Nixon for his rebuttal testimony
G is the number of pages of Nixon's rebuttal testimony

Numerically, the adjustment is as follows:

144.36 = (100/133)*(160*((14/70)*6))

We used the rebuttal testimony filed to approximate the number of hours per page Mr. Nixon used for his supplemental rebuttal testimony. We also made an adjustment for the exhibits that Mr. Nixon filed with his supplemental rebuttal testimony. Again, we did not have an actual amount associated with the exhibit. After analyzing the complexity of the information contained in the exhibit, we made a conservative estimate that Mr. Nixon spent approximately 10 hours preparing the exhibit. This results in an adjustment of $1,744 ($144 + ($160*10)) for Mr. Nixon's disallowed supplemental rebuttal testimony.

To be consistent, we also reduced legal fees associated with filing the supplemental rebuttal testimony. We used the rebuttal

testimony filed to approximate the number of hours per page Mr. Deterding used for the review of the supplemental rebuttal testimony. We made an adjustment as described below:

A = (B/C)*(D*((F/G)*E))

where A is the adjustment amount
B is the number of lines of Nixon's supplemental rebuttal testimony disallowed
C is the total number of lines of Nixon's supplemental rebuttal testimony
D is the hourly rate charged by Mr. Deterding
E is the number of pages of Nixon's supplemental rebuttal testimony filed
F is the number of hours charged by Mr. Deterding for his review of the rebuttal testimony for Porter, Nixon, Deterding, and Watford
G is the total number of pages of rebuttal testimony for Porter, Nixon, Deterding, and Watford

Numerically, the adjustment is as follows:

45.11 = (100/133)*(200*((6.42/117)*6))

Therefore, rate case expense shall be decreased by a total of $1,794 for accounting and legal costs related to the filing of the disallowed supplemental rebuttal testimony and exhibits.

Reconsideration

As discussed earlier, in Exhibit No. 22, Aloha updated its actual rate case expense figures as of October 6, 2000, with a revised estimate to complete. As part of the estimate to complete, legal fees of $10,500 and engineering fees of $1,600 were included for reconsideration. Because it is not known whether the utility will request reconsideration of this Order, we find that it would be premature to include this cost in rate case expense. It has been our practice not to include the allowance of cost estimates for reconsideration or appeals in rate case expense. See Orders Nos. 22226, issued November 27, 1989, in Docket No. 880882-WU; PSC-97-0280-FOF-WS, issued March 12, 1997, in Docket Nos. 950615-SU and 960545-WS; and PSC-93-0295-FOF-WS, issued February 24, 1993, in Docket No. 910637-WS. Because reconsideration is considered a

possibility, not a certainty, rate case expense shall be reduced by $12,100. If a motion for reconsideration is filed, a determination will be made at a later time, upon request, as to the reasonableness of the amounts requested and whether inclusion of those amounts are appropriate.

Summary

After a thorough evaluation of the record, and our adjustments set forth above, we find it appropriate to allow current rate case expense of $426,676. This results in an increase of $126,676 above the revised estimate in the MFRs and a decrease of $46,139 to the updated rate case expense per Exhibit No. 22. We calculate the appropriate rate case expense to be as shown on the following table:

	PER MFR ESTIMATED	PER EX 22 UTILITY REVISED ACTUAL	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED BALANCE
Cronin, Jackson, Nixon & Wilson, CPAs	$125,000	$185,879	($20,413)	$165,466
Rose, Sundstrom, and Bentley	$110,000	$229,031	($24,126)	$204,905
David Porter, PE	$50,000	$33,220	($1,600)	$31,620
In House	$15,000	$24,685	$0	$24,685
Total	$300,000	$472,815	($46,139)	$426,676

Amortization Period and Amount of Contributed Taxes

In its MFRs, the utility stated that Aloha uses a 2.5% rate to amortize CTs for its Seven Springs water and wastewater systems. OPC witness Larkin testified that, consistent with our staff audit workpapers, the CTs for the Seven Springs wastewater system should be amortized over 26.9 years or a 3.2% rate, which is the composite rate for Aloha's CIAC assets for the calendar year-end 1998.

On rebuttal, utility witness Nixon agreed that its 2.5% amortization rate should be changed and asserted that the appropriate amortization rate is 3.06%, which represents the composite CIAC amortization rate for CIAC assets acquired for Aloha's Seven Springs wastewater system during the period of 1987 to 1996, when CIAC was taxable. Mr. Nixon stated that to use the

current rate distorts the true depreciable life of these assets because of the addition of significant amounts of assets with shorter lives after 1996.

Consistent with the theory of normalization, we have determined that the benefits of CTs shall be passed back to the ratepayers over the lives of the related assets. See Order No. 23541, issued October 1, 1990, in Docket No. 860184-PU. We find that Mr. Nixon's recommended 3.06% composite amortization rate complies with our directive in Order No. 23541 that the utility pass back the benefits of CTs to ratepayers over the lives of related assets. According to Schedule No. G-6, page 160 of Volume I of its MFRs, the annual amortization of CTs for its Seven Springs wastewater system was $38,622. The 3.06% amortization rate yields an annual amortization of $47,273. Therefore, the utility's annual amortization amount shall be increased by $8,651 ($47,273 less $38,622).

TEST YEAR OPERATING INCOME

The test year operating income before any provision for increased revenues is $123,545 for wastewater. The schedule for wastewater operating income is attached as Schedule No. 3-A and the adjustments are shown on Schedule No. 3-B.

REVENUE REQUIREMENT

The computation of the revenue requirement is shown on Schedule No. 3-A and is $4,075,088, which represents an increase of $1,349,173 or 49.49%.

RATES

The final rates requested by the utility are designed to produce revenues of $4,374,495 for its Seven Springs wastewater system. The requested revenues represent an increase of $1,593,501 or 57.29%.

Consistent with our findings above, the final rates approved for the utility's Seven Springs wastewater system shall be designed to produce annual revenues of $4,024,894 for its Seven Springs wastewater system. This increase excludes miscellaneous service

revenues, interest income on its cash operating account, and reuse revenues.

The utility shall file revised tariff sheets and a proposed customer notice to reflect the appropriate rates pursuant to Rule 25-22.0407(10), Florida Administrative Code. The approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the customers have received notice. The rates shall not be implemented until proper notice has been received by the customers. The utility shall provide proof of the date notice was given within 10 days after the date of the notice.

The utility's present rates, Aloha's requested rates, and our approved final rates are shown on Schedule No. 4.

Reuse Rate

The utility currently charges the Mitchell Property a zero rate and all others a $0.25 rate per thousand gallons. In Aloha's 1995 reuse proceeding, we agreed with the utility that the reuse rate should be market-based to encourage new customers. Because Pasco County was the nearest utility that provided reuse service and had a rate of $0.28 per thousand gallons, we agreed that the utility's proposed rate of $0.25 per thousand gallons was market-based. Further, we stated that this rate was just, fair and reasonable for the inception of the reuse system, with the knowledge that the rate is subject to increase in subsequent proceedings. See Order No. PSC-97-0280-FOF-WS, issued March 12, 1997, in Dockets Nos. 950615-SU and 960545-WS. Consequently, we required Aloha's next rate filing to contain information sufficient to enable this Commission to address reuse rates for all reuse customers.

Staff witness Merchant stated that "Aloha did not provide information in its application, that I have found, supporting any reuse determination." Aloha used the current $.25 rate, but did not provide any support as to whether the current or any other reuse rate was appropriate.

Moreover, on direct examination, Ms. Merchant agreed with our decision in the 1995 reuse proceeding to establish market-based

reuse rates. Because we used the reuse rate for Pasco County as a benchmark, Ms. Merchant believed that it was appropriate to review the County's reuse rate in determining whether Aloha's reuse rate should be changed. Ms. Merchant stated that according to the DEP's 1999 Reuse Inventory Report, Appendix H, the Central Pasco County Reuse System has a non-residential reuse gallonage charge of $0.32 per thousand gallons, which represents a $0.04 per thousand gallon increase from the 1995 reuse proceeding. As a result, Ms. Merchant believes that Aloha's rate should be increased. However, Ms. Merchant testified that Aloha's rate should be equal to Pasco County's rate because the two providers are not in competition.

On cross-examination, utility witness Watford, the utility's president, testified that the goal of Aloha's reuse system should be to get the system utilized and that successful reuse systems initially provide the service at no charge or set a $0.05 per thousand gallon rate. Mr. Watford noted that Pasco County's reuse system is in a much different situation than Aloha, in that the County's system runs dry during certain periods of the year. Therefore, the County has already built up a clientele with sufficient demand to take all the effluent the County's system can generate. Mr. Watford asserted that increasing the rate is counterproductive to the ultimate purpose of effluent disposal and secondly to encourage participation in the system. In its brief, the utility argued that the reuse rate should be lowered, rather than increased for the short-term.

As stated above, in its initial filing, the utility did not provide any information to support a change in the current reuse rate. However, for the first time on rebuttal, utility witness Porter testified that the utility's MFRs were in error in assuming that revenue will be derived from the Fox Hollow Golf Course because this customer is not required to pay for reuse water until four years after it begins receiving reuse. Mr. Watford noted that the utility had to give concessions to Rexbo Reality, Inc., the owner of the Fox Hollow Golf Course and Aloha's largest anticipated reuse user. Mr. Watford explained that the concessions were that it would not pay for reuse for the first four years; otherwise, the golf course would have been lost to Pasco County and Aloha would not have had a place for its effluent. Mr. Watford stated that, in its prior case (over three years ago), Mr. Bramlett from Pasco County testified that the vast majority of the County's effluent is

given away to golf courses. Lastly, Mr. Watford testified that Pasco County has the ability to distribute reuse county-wide.

We note that the utility did not include in its MFRs a request for a zero rate for the Fox Hollow Golf Course. However, based on the arguments presented by Mr. Watford, we find that the utility's decision to offer the concession of a zero rate for the first four years to the Fox Hollow Golf Course was appropriate.

Based upon a review of the record, we agree with Ms. Merchant to the extent that it appears that competition does not exist at this time between the utility and the County with respect to the provision of reuse service to Aloha's customers. The concessions agreed to by the utility, which amount to the utility not charging the Fox Hollow Golf Course for reuse service for the first four years of service, provides assurance to the utility that it has secured this reuse customer, at least for the time being. Moreover, there is no evidence in the record to suggest that the utility and the County are competing for any other reuse customer(s) at this time.

Nevertheless, Mr. Watford testified that the County could have provided reuse to the Fox Hollow Golf Course and that the County has the ability to distribute reuse on a County-wide basis. Additionally, we note that we have found that a utility's wastewater certificate does not carry with it any exclusive right to provide reuse within that territory and that Chapter 367, Florida Statutes, does not address certification for separate reuse service territory. See Order No. PSC-98-0391-FOF-SU, issued March 16, 1998, in Docket No. 960288-SU (In re: Application for approval of reuse project plan in Seminole County by Alafaya Utilities, Inc.) That Order stated:

> A utility's water territory might be, and often is, different than its wastewater territory. The same can and will be true of wastewater service and reuse service. Potential reuse customers can be located within a utility's wastewater territory, its water territory, or in some other utility's territory which might be unable to provide reuse to the customer.

Id. At 26. We also found that "[a]s more utilities enter the reuse arena or seek to expand their existing reuse customer base, it will

be increasingly important that the issue of reuse territory be addressed." Id. For the foregoing reasons, we find that competition does or will exist between the utility and the County for future reuse customers, although the extent of such competition cannot be determined from the evidence of record.

As stated above, the utility's service area is located within the Northern Tampa Bay Water Use Caution Area as designated by SWFWMD. Critical water supply concerns have been identified by SWFWMD within this area. Moreover, the Legislature has recognized the benefit of reuse to the State, as evidenced by Sections 367.0817(3), 403.064(1), and 373.250(1), Florida Statutes. For these reasons, we find it appropriate to set a reuse rate in this case that will attract reuse buyers.

As stated earlier, Ms. Merchant recommended a reuse rate of $0.32 per thousand gallons for all reuse customers with the exception of the Mitchell property, and Mr. Watford suggested no charge or a reuse rate of $0.05 per thousand gallons for all reuse customers. Consistent with our decision in the utility's last reuse proceeding to set Aloha's rate three cents lower than Pasco County's rate, we find that a reuse gallonage charge of $0.29 per thousand gallons for the reuse customers is appropriate. Thus, the utility's current reuse rate of $0.25 per thousand gallons for all reuse customers, except the Mitchell property and the Fox Hollow Golf Course, shall be increased to $0.29 per thousand gallons. We note that this increase represents a $0.04 per thousand gallon increase, which corresponds to the level of increase experienced by the County's reuse customers. In so finding, we again note that "it is the [Commission's] prerogative to evaluate the testimony of competing experts and accord whatever weight to the conflicting opinions it deems necessary." Gulf Power, 453 So. 2d at 805. We also note that not charging the Fox Hollow Golf Course for reuse service for four years results in differing rates being charged among reuse customers. Given that the Legislature has recognized the benefit of reuse to the state and that we encourage reuse, we find that charging differing reuse rates among reuse customers is not unfairly discriminatory. See 367.081(2)(a)1., Florida Statutes (2000).

For the foregoing reasons, we find that the Fox Hollow Golf Course shall not be charged for reuse from the date it begins receiving reuse service from Aloha to exactly four years from that

date, at which time, the utility shall begin charging the approved charge for all other reuse customers. In the future, the utility shall file an application for new reuse rates or changes in reuse rates, pursuant to Section 367.091, Florida Statutes.

The utility shall file revised tariff sheets and a proposed customer notice to reflect the appropriate rates pursuant to Rule 25-22.0407(10), Florida Administrative Code. The approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the customers have received notice. The rates shall not be implemented until proper notice has been received by the customers. The utility shall provide proof of the date notice was given within 10 days after the date of the notice.

Refund of Proposed Final Rates Implemented Pursuant to Section 367.081(6), Florida Statutes

By Order No. PSC-01-0130-FOF-SU, issued January 17, 2001, we acknowledged Aloha's implementation of its proposed final rates, pursuant to Section 367.081(6), Florida Statutes. The increased revenues from Aloha's implementation of its proposed final rates were held subject to refund. The final rates requested by the utility are designed to produce revenues of $4,374,495 for its Seven Springs wastewater system. The requested revenues represent an increase of $1,593,501 or 57.29%. The final rates we approved for the utility's Seven Springs wastewater system are designed to produce annual revenues of $4,075,088 for the Seven Springs wastewater system, which is an increase of $1,349,173 or 49.49%. The result is a revenue level that is less than the utility's final proposed revenue requirement. However, because the utility's requested reuse rate is less than our approved rate of $0.29 per thousand gallons and because there were no projected changes in the historical balances of miscellaneous service revenues or interest income on the cash operating account, the only comparison for refund purposes is the utility's requested final revenues for residential and general service and our approved final revenues for residential and general service.

Consequently, the utility shall refund the percentage of the difference of the utility's proposed final revenue requirement for residential and general service and our approved final revenue

requirement for residential and general service divided by Aloha's proposed final revenue requirement for residential and general service, during the period of time Aloha collected revenues under its proposed final rates. As indicated on Schedule No. E-13(A) of the MFRs, Volume I, page 120, the utility's projected final revenue requirement for residential and general service is $4,305,036 ($3,937,227 plus $367,809). Our projected final revenue requirement for residential and general service is $4,025,224. This results in a 6.5% differential (($4,305,036 less $4,025,224) divided by $4,305,036) that shall be applied to the revenues collected under Aloha's proposed final rates for residential and general service, in order to determine the appropriate amount of refund. Further, the utility shall administer this refund pursuant to Rule 25-30.360, Florida Administrative Code.

Risk of Finding Reuse Customers

By Order No. PSC-97-0280-FOF-WS, issued March 12, 1997, in Dockets Nos. 950615-SU and 960545-WS, we found the following:

> Upon completion of the project, Aloha will have available to sell 438,000,000 gallons of annual reuse. Based upon a 25% annual growth in reuse sales, coupled with a rate of $.25 cents per thousand gallons, we have projected reuse revenue of $27,375, $54,750, $82,125 and $109,500 for the initial four years of the operation of the reuse system upon completion of phase III. Based upon the above reuse revenue, we find that, after implementation of Phase III, the rates shall decrease each year based upon projected reuse revenue. . . . By considering future reuse revenue at this time, the cost of the reuse system is properly shared between the parties that benefit -- the wastewater and reuse customers -- without further action by the utility or this Commission. In this way, the risk associated with finding paying reuse customers would be borne, as it should, by the utility.

Staff witness Merchant testified that the imputed reuse revenues beyond the final September 30, 2001 projected test year is not an appropriate mechanism to reflect the risk of finding new reuse buyers. She asserted that the utility has supported its position that, for the projected test year, it will only be able to sell 189,436,000 gallons (which we have corrected to 189,435,000

gallons). Ms. Merchant contended that we should not impute revenues for the total amount of reuse disposal capacity in this proceeding. She explained that it is only appropriate to project to the extent that there will be reuse customers during the projected test year because "any imputation beyond that does not consider the increased expenses associated with transmitting the reuse to the customers premises."

Further, Ms. Merchant testified that we should monitor the utility's reuse revenue and customers by requiring Aloha to submit additional information in its annual report regarding its reuse service. She explained that "this information should include the name of each non-residential reuse customer, number of gallons of reuse sold and the revenue collected for the year." Further, Ms. Merchant stated that "[f]or residential reuse service, Aloha should provide the number of residential customers by development, the number of gallons sold and the revenue collected for the year."

Utility witness Watford testified that Aloha requires all developers along the corridor where its reuse line is located to put in pipes for reuse water in their subdivisions. Mr. Watford asserted that the burden on the utility to locate reuse customers to comply with the ARCFJ is the real issue. On rebuttal, utility witness Porter agreed with Ms. Merchant that no reuse revenue beyond the projected test year should be imputed and that it is appropriate to monitor the number of reuse customers and the revenue that it generates.

Based on the testimony of Ms. Merchant and consistent with our findings above, we find that the risk that Aloha will not find buyers for its reclaimed water shall be limited to the anticipated reuse customers for the final September 30, 2001 projected test year. Further, Aloha shall submit additional information in its annual report. This information shall include the name of each non-residential reuse customer, number of gallons of reuse sold and the revenue collected for the year. For residential reuse service, Aloha shall provide the number of residential customers by development, the numbers of gallons sold and the revenue collected for the year. Finally, Aloha shall pursue negotiations with Pasco County to sell Aloha's reuse effluent and shall advise this Commission within six months of the date of this Order of the status of those negotiations with Pasco County.

Three-Step Rate Reduction

Consistent with our findings above, we find that the three-step rate reduction required by Order No. PSC-97-0280-FOF-WS shall not be implemented.

SERVICE AVAILABILITY CHARGES

According to Aloha's MFRs, the historical September 30, 1999 balances of plant-in-service, accumulated depreciation, CIAC, and accumulated amortization of CIAC for the Seven Springs wastewater system yielded a CIAC ratio of 61.82%. Based on the utility's MFRs, the CIAC ratio for the projected final test year was 44.42%.

Rules 25-30.580(1) and (2), Florida Administrative Code, provide that:

> (1) The maximum amount of contributions-in-aid-of-construction, net of amortization, should not exceed 75% of the total original cost, net of accumulated depreciation, of the utility's facilities and plant when the facilities and plant are at their designed capacity; and
> (2) The minimum amount of contributions-in-aid-of-construction should not be less than the percentage of such facilities and plant that is represented by the water transmission and distribution and sewage collection systems.

On cross-examination, staff witness McPherson testified that it might be an option to exclude gross-up CIAC from the determination of the 75% maximum level required by Rule 25-30.580(1), Florida Administrative Code. We disagree that this is an option because this rule makes no exception for this treatment, and without such an exception, all CIAC should be taken into account to determine the CIAC ratio.

On cross-examination, utility witness Nixon agreed that the purpose of the Seven Springs wastewater system upgrade was to enable the utility to serve future customers. In addition, he agreed that if the utility's projected CIAC ratio as of September 30, 2001 is less than 75%, then it would be appropriate to revise

the utility's plant capacity charge to achieve a 75% ratio for the 1.6 MGD plant capacity.

Pursuant to Section 367.101(1), Florida Statutes, "[t]he commission shall set just and reasonable charges and conditions for service availability." Since this construction phase will increase the capacity of the plant to accommodate future growth, the current plant capacity charges shall be increased. Consistent with the plant, land, accumulated depreciation, CIAC, and accumulated amortization of CIAC adjustments in other issues, we utilized the projected calendar year-end September 30, 2001 balances to calculate plant capacity charges. We have also included CTs and the net debit-DTAs in our calculation. Based upon our decision having taken place at the January 16, 2001 Agenda Conference, we assumed that the utility would not begin charging a revised plant capacity charge until the middle of February, 2001. Thus, before proceeding with our calculation of a new charge, we adjusted the projected year-end September 30, 2001 balances to remove the additions from plant capacity charges at the utility's existing charge of $206.75 from the middle of February, 2001 to September 30, 2001.

We utilized the same composite depreciation/amortization rates that the utility used to calculate its September 30, 2001 year-end depreciation of plant, amortization of plant capacity fees, and amortization of contributed lines. For future growth, we assumed the same customer growth rate approved above. With regard to future additions of donated property, we continued to use the utility's projection of $390,527 reflected on Schedule No. G-4 of MFRs Volume I on page 153.

According to the utility's permit for its Seven Springs wastewater system, DEP permitted this system based on AADF. In determining the GPD per ERC to reflect the appropriate demand on the system, we utilized the utility's Discharge Monitoring Reports filed with DEP from September 30, 1999 to August, 31, 2000 for the Seven Springs wastewater system in Exhibit No. 3. Based on these reports, this system reported an AADF of 1,285,000 gallons. As reported on Schedule No. F-10 of MFRs Volume I on page 131, the utility reported 9,646 ERCs as of September 30, 1999. To equate the total ERCs as of August 31, 2000, we utilized the recommended growth of 316 ERCs. Specifically, we used the reported September 30, 1999 balance of 9,646 and added 11 months growth of 290 ERCs

((316 ERCs divided 12 months) multiplied by 11 months), which represents a total of 9,936 ERCs for the year ending August 31, 2000. As a result, we calculated a GPD per ERC of 129 GPD (1,285,000 ADD divided by 9,936 ERCs).

Based on the above, we find that the appropriate plant capacity charge for the utility's Seven Springs wastewater system is $1,650 per residential ERC and $12.79 ($1,650 divided by 129 GPD per ERC) per gallon for all other connections. Our analysis is depicted on Schedule No. 9 -- entitled Plant Capacity Charge Calculation. Further, the utility shall file an appropriate revised tariff sheet within 20 days of the date of this Order, and the revised tariff sheets shall be approved administratively upon our staff's verification that the tariffs are consistent with our decision. If a revised tariff sheet is filed and approved, the service availability charges shall become effective for connections made on or after the stamped approval date of the revised tariff sheet pursuant to Rule 25-30.475(2), Florida Administrative Code.

LEGAL ISSUES

Violation of Order No. PSC-97-0280-FOF-WS for Failure to File Extension of Mitchell Agreement

Order No. PSC-97-0280-FOF-WS, issued March 12, 1997, noted that the reuse rate for the Mitchell property was zero, but required any extension of the Mitchell contract to be filed with this Commission for approval. Although an extension agreement was entered into on March 19, 1999, the utility did not submit the agreement until March 10, 2000, after a request by staff.

Aloha argues in its brief that this was a mere oversight, and that the utility had no choice but to extend the Mitchell agreement to allow it to dispose of treated effluent or face being in violation of DEP and ERA requirements. OPC merely states that it agrees that a $250 fine is appropriate.

The evidence shows that Aloha violated the requirements of Order No. PSC-97-0280-FOF-WS by not timely submitting the extension of the Mitchell contract to this Commission for approval. Section 367.161(1), Florida Statutes, authorizes us to assess a penalty of not more than $5,000 for each offense, if a utility is found to have knowingly refused to comply with, or to have willfully violated any provision of Chapter 367, Florida Statutes, or any lawful rule or order of the Commission.

Utilities are charged with the knowledge of the Commission's rules, statutes, and orders. In Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL, entitled In Re: Investigation Into The Proper Application of Rule 25-14.003, F.A.C., Relating To Tax Savings Refund for 1988 and 1989 For GTE Florida, Inc., having found that the company had not intended to violate the rule, this Commission nevertheless found it appropriate to order it to show cause why it should not be fined, stating that "'willful' implies an intent to do an act, and this is distinct from an intent to violate a statute or rule." Id. at 6. Additionally, "[i]t is a common maxim, familiar to all minds that 'ignorance of the law' will not excuse any person, either civilly or criminally." Barlow v. United States, 32 U.S. 404, 411 (1833).

Therefore, pursuant to Section 367.161, Florida Statutes, we could fine the utility up to $5,000 for its failure to submit the

extension of the Mitchell contract to this Commission for approval. However, because of the exigencies of this case and the need of Aloha to enter into this extension, Aloha shall only be fined $250 for its failure to timely submit the Mitchell contract for approval as required by the Order. We hereby approve the renewed contract after the fact, but no further extension of the contract after this current term expires shall take place until Aloha has our approval. Aloha shall either obtain our approval for another extension of the Mitchell agreement, or charge the Mitchell property the approved system-wide reuse rate upon expiration of this latest extension. Further, the utility is hereby placed on notice that future non-compliance will not be tolerated, and a substantially higher fine may be assessed for future non-compliance with the statutes, rules or Orders of this Commission.

Apparent Violation of Order No. PSC-97-0280-FOF-WS for Aloha's Failure to File Sufficient Information to Enable the Commission to Address Reuse Rates for All Reuse Customers

Order No. PSC-97-0280-FOF-WS, issued March 12, 1997, directed that the next rate case filing of the utility contain information sufficient to enable us to address reuse rates for all reuse customers, and further ordered that the utility explore how much of the reuse revenue requirement should be allocated to its water customers. However, Order No. PSC-97-0280-FOF-WS specifically stated that "until the utility adequately addresses . . . water quality concerns, we do not believe it is appropriate to raise water rates by shifting a portion of reuse water costs to the water customers."

Because Docket No. 960545-WS is still open, and the utility is still addressing the water quality concerns, it is still too early to address allocating any portion of the reuse revenue requirement to the water customers. In addition, by its filing, the utility apparently believed the zero rate for the Mitchell property and the reuse rate of $.25 for all other customers was still appropriate. Therefore, the utility shall not be made to show cause or be fined for its failure to file the directed information in apparent violation of the Order.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the application by Aloha Utilities, Inc., for increased rates and charges for wastewater service for the Seven Springs wastewater system is hereby approved to the extent set forth in this Order. It is further

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

ORDERED that all matters contained herein, whether set forth in the body of this Order or in the schedules attached hereto are, by reference, expressly incorporated herein. It is further

ORDERED that Aloha Utilities, Inc., shall charge increased reuse rates as set forth in the body of this Order. It is further,

ORDERED that Aloha Utilities, Inc., shall charge the Mitchell property a zero reuse rate until the expiration of the current contract, at which time, Aloha shall either obtain our approval prior to another extension of the Mitchell agreement, or charge the Mitchell property the approved system-wide reuse rate upon expiration of this latest extension. It is further

ORDERED that Aloha Utilities, Inc., shall charge the Fox Hollow Golf Course a zero reuse rate from the date it begins receiving reuse from Aloha to exactly four years from that date, at which time, the utility shall begin charging the reuse rate that is approved for all other reuse customers. It is further

ORDERED that Aloha Utilities, Inc., shall submit additional information in its annual report reflecting its reuse customers, number of gallons of reuse sold and the revenue collected for the year as set forth in the body of this Order. It is further

ORDERED that Aloha Utilities, Inc., shall pursue negotiations with Pasco County to sell its reuse effluent and shall advise this Commission within six months of the date of this Order of the status of those negotiations with Pasco County. It is further

ORDERED that, in the future, Aloha Utilities, Inc., shall file any application for new reuse rates or changes in reuse rates, pursuant to Section 367.091, Florida Statutes. It is further

ORDERED that Aloha Utilities, Inc., shall charge the increased service availability charges as set forth in the body of this Order, and shall file an appropriate revised tariff sheet within twenty days of the date of this Order. It is further

ORDERED that the risk that Aloha Utilities, Inc., will not find buyers for its reclaimed water shall be limited to the anticipated reuse customers for the final September 30, 2001 projected test year. It is further

ORDERED that the three-step rate reduction required by Order No. PSC-97-0280-FOF-WS shall not be implemented. It is further

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

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

ORDERED that, prior to the implementation of the rates and charges approved herein, Aloha Utilities, Inc., shall submit a proposed customer notice pursuant to Rule 25-22.0407(10), Florida Administrative Code, reflecting the appropriate rates, and explaining the increased rates and charges and the reasons therefor. It is further

ORDERED that Aloha Utilities, Inc., shall provide proof of the date notice was given within 10 days after the date of the notice. It is further

ORDERED that Aloha Utilities, Inc., shall make refunds with interest pursuant to Rule 25-30.360, Florida Administrative Code, as set forth in the body of this Order. It is further

ORDERED that Aloha Utilities, Inc. shall pay the $250 fine assessed in the body of this Order. Aloha Utilities, Inc., is

hereby placed on notice that future non-compliance will not be tolerated, and a substantially higher fine may be assessed for future non-compliance with the statutes, rules or Orders of this Commission. It is further

ORDERED that this docket shall be closed after the time for filing an appeal has run, after the approval of revised tariff sheets consistent with this Order, and after our staff has verified that the required refund has been made.

By ORDER of the Florida Public Service Commission this 6th day of February, 2001.

BLANCA S. BAYÓ, Director
Division of Records and Reporting

By: Kay Flynn
Kay Flynn, Chief
Bureau of Records

(S E A L)

RRJ/JKF

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing 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.

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. - SEVEN SPRINGS SYSTEM
SCHEDULE OF WASTEWATER RATE BASE
FINAL 13-MONTH AVERAGE TEST YEAR ENDED 09/30/01

SCHEDULE NO. 1-A
DOCKET 991643-SU

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST-MENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUST-MENTS	COMMISSION ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	$22,229,056	$0	$22,229,056	($244,164)	$21,984,892
2 LAND	548,944	0	548,944	12,120	536,824
3 NON-USED & USEFUL COMPONENTS	0	0	0	0	0
4 ACCUMULATED DEPRECIATION	(4,742,735)	0	(4,742,735)	77,644	46,650,917
5 CIAC	(11,337,945)	0	(11,337,945)	(1,646,425)	(12,984,370)
6 AMORTIZATION OF CIAC	3,324,608	0	3,324,608	299,631	3,624,239
7 DEFERRED INCOME TAXES	0	0	0	506,367	506,367
8 WORKING CAPITAL ALLOWANCE	0	497,220	497,220	49,012	546,232
RATE BASE	$10,021,928	$497,220	$10,519,148	970,055)	$9,549,093

ALOHA UTILITIES, INC. - SEVEN SPRINGS SYSTEM **DOCKET NO. 991643-SU**
ADJUSTMENTS TO RATE BASE **SCHEDULE NO. 1-B**
FINAL 13-MONTH AVERAGE TEST YEAR ENDED 09/30/01

	EXPLANATION	WASTEWATER
	PLANT IN SERVICE	
1	Reduce plant for items capitalized prior to the test year.	($127,232)
2	To reduce for using incorrect AFUDC rate. (Audit Ex.2) (Stip. 2)	($122,524)
3	Reclassify items expensed that should be capitalized. (Audit Ex. 3) (Stip. 3)	$11,616
4	To recognize 30-day zero cost of accounts payables on CWIP. (Stip. 11)	($20,124)
5	To reflect the utility's capitalization of materials and supplies.	$14,100
	Total	($244,164)
	LAND	
	Correct error made in Order No. PSC-99-1917-PAA-WS. (Audit Dis. 1) (Stip 8)	($12,120)
	NON-USED AND USEFUL	
	None	$0
	ACCUMULATED DEPRECIATION	
1	Reduce plant for items capitalized prior to the test year.	$73,211
2	To reduce for using incorrect AFUDC rate. (Audit Excep. 2) (Stip. 2)	$8,159
3	Reclassify items expensed that should be capitalized. (Audit Ex. 3) (Stip. 3)	($1,291)
4	To recognize 30-day zero cost of accounts payables on CWIP. (Stip. 11)	$568
5	To reflect the appropriate depreciation rate for computer equipment. (Stip. 17)	($3,003)
	Total	$77,644
	CIAC	
1	Reflect appropriate treatment of CTs & DTAs.	($1,544,865)
2	Reduce to reflect the appropriate growth rate.	$7,387
3	To reflect increase in plant capacity charges.	($108,947)
	Total	($1,646,425)
	ACCUM. AMORT. OF CIAC	
1	Reflect appropriate treatment of CTs & DTAs.	$295,878
2	Reduce to reflect the appropriate growth rate.	($273)
3	To reflect increase in plant capacity charges.	$4,026
	Total	$299,631
	DEFERRED INCOME TAXES	
	Reflect appropriate treatment of CTs & DTAs.	$506,367
	WORKING CAPITAL	
	To reflect the appropriate working capital.	$49,012

ALOHA UTILITIES, INC. - SEVEN SPRINGS WASTEWATER SYSTEM
CAPITAL STRUCTURE
FINAL 13-MONTH AVERAGE TEST YEAR ENDED 09/30/01

SCHEDULE NO. 2-A
DOCKET NO. 991643-SU

	DESCRIPTION	TOTAL CAPITAL	SPECIFIC ADJUST-MENTS (EXPLAIN)	PRO RATA ADJUST-MENTS	CAPITAL RECONCILED TO RATE BASE	RATIO	COST RATE	WEIGHTED COST
PER UTILITY AVERAGE								
1	LONG TERM DEBT	$8,614,742	$0	($1,236,366)	$7,378,376	70.14%	9.84%	6.90%
2	SHORT-TERM DEBT	$0	$0	$0	$0	0.00%	0.00%	0.00%
3	PREFERRED STOCK	$600,000	$0	($86,005)	$513,995	4.89%	10.12%	0.49%
4	COMMON EQUITY	$2,188,637	$0	($314,069)	$1,874,568	17.82%	10.12%	1.80%
5	CUSTOMER DEPOSITS	$93,295	$0	$0	$93,295	0.89%	6.00%	0.05%
6	DEFERRED INCOME TAXES	$770,040	$0	($111,126)	$658,914	6.26%	0.00%	0.00%
7	**TOTAL CAPITAL**	$12,266,714	$0	($1,747,566)	$10,519,148	100.00%		9.25%
PER STAFF AVERAGE								
8	LONG TERM DEBT	$8,614,742	$0	($1,347,892)	$7,264,565	76.08%	9.84%	7.49%
9	SHORT-TERM DEBT	$0	$0	$0	$0	0.00%	0.00%	0.00%
10	PREFERRED STOCK	$600,000	$0	($93,878)	$505,963	5.30%	9.93%	0.53%
11	COMMON EQUITY	$2,188,637	($517,923)	($261,406)	$1,408,865	14.75%	9.93%	1.47%
12	CUSTOMER DEPOSITS	$93,295	$345,117	($68,595)	$369,700	3.87%	6.00%	0.23%
13	DEFERRED INCOME TAXES	$770,040	($770,040)	$0	$0	0.00%	0.00%	0.00%
14	**TOTAL CAPITAL**	$12,266,714	($942,846)	($1,771,772)	$9,549,093	100.00%		9.71%

	LOW	HIGH
RETURN ON EQUITY	8.93%	10.93%
OVERALL RATE OF RETURN	9.56%	9.86%

ALOHA UTILITIES, INC. - SEVEN SPRINGS WASTEWATER SYSTEM **DOCKET NO. 991643-SU**
ADJUSTMENTS TO CAPITAL STRUCTURE **SCHEDULE NO. 2-B**
FINAL 13-MONTH AVERAGE TEST YEAR ENDED 09/30/01

EXPLANATION	
COMMON EQUITY Reflect appropriate balance of retained earnings and customer deposits. (Stip. 13)	($517,923)
CUSTOMER DEPOSITS Reflect appropriate balance of retained earnings and customer deposits. (Stip. 13)	$345,117
DEFERRED INCOME TAXES Reflect appropriate treatment of CTs & DTAs.	($770,040)

ALOHA UTILITIES, INC. - SEVEN SPRINGS SYSTEM
STATEMENT OF WASTEWATER OPERATIONS
FINAL 13-MONTH AVERAGE TEST YEAR ENDED 09/30/01

SCHEDULE NO. 3-A
DOCKET NO. 991643-SU

	DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST-MENTS	ADJUSTED TEST YEAR PER UTILITY	COMM. ADJUST-MENTS	COMM. ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1	OPERATING REVENUES	$2,780,994	$1,593,501	$4,374,495	($1,648,580)	$2,725,915	$1,349,173 49.49%	$4,075,088
	OPERATING EXPENSES							
2	OPERATION & MAINTENANCE	$2,175,762	$75,000	$2,250,762	($111,995)	$2,138,767	$0	$2,138,767
3	DEPRECIATION	$383,390	$0	$383,390	($11,387)	$372,003	$0	$372,003
4	AMORTIZATION	($38,622)	$0	($38,622)	($8,651)	($47,273)	$0	($47,273)
5	TAXES OTHER THAN INCOME	$527,189	$71,707	$598,896	($89,896)	$509,000	$60,713	$569,713
6	INCOME TAXES	$208,100	$0	$208,100	($578,228)	($370,128)	$484,847	$114,720
7	TOTAL OPERATING EXPENSES	$3,255,819	$146,707	$3,402,526	($800,156)	$2,602,370	$545,560	$3,147,930
8	OPERATING INCOME	($474,825)	$1,446,794	$971,969	($848,424)	$123,545	$803,612	$927,158
9	RATE BASE	$10,021,928		$10,519,148		$9,549,093		$9,549,093
10	RATE OF RETURN	(4.74)%		9.24%		1.29%		9.71%

ALOHA UTILITIES, INC. - SEVEN SPRINGS SYSTEM **SCHEDULE. NO. 3-B**
ADJUSTMENTS TO OPERATING INCOME **DOCKET NO. 991643-SU**
FINAL 13-MONTH AVERAGE TEST YEAR ENDED 09/30/01

	EXPLANATION	WASTEWATER
	OPERATING REVENUES	
1	Remove utility requested revenue increase.	($1,593,501)
2	To reduce projected revenues at current rates based on the projection factor for bills and consumption.	($36,194)
3	To reflect the appropriate reuse revenue.	($18,885)
	Total	($1,648,580)
	OPERATION & MAINTENANCE EXPENSE	
1	Reduce expense accounts to reflect the appropriate growth rate.	($32,883)
2	Reduce vice-president's salary.	($15,507)
3	Reduce pensions & benefits associated w/ disallowed VP's salary.	($5,319)
4	To reclassify items expensed that should be capitalized. (Audit Ex. 3) (Stip. 3)	($13,072)
5	Reduce O&M that should be allocated to other systems. (Audit Dis. 5) (Stip. 6)	($2,446)
6	Reclassify legal expense as prepaid bank loan costs. (Audit Dis. 9) (Stip. 7)	($2,581)
7	To remove excess rate case expense of Doc. # 950615-SU. (Audit Ex. 4) (Stip. 10)	($31,401)
8	Reduce Contractual Services - Acctg acct. for non-recurring costs.	($1,113)
9	Reduce O&M expenses associated w/ DEP Enforcement Action.	($34,726)
10	Reduce for disallowed transportation expense. (Stip. 5)	($287)
11	Reduce Miscell. exp. for non-recurring exp.& misclassification error.	($7,755)
12	To reflect the appropriate amount of current rate expense.	$35,095
	Total	($111,995)
	DEPRECIATION EXPENSE-NET	
1	Reduce depreciation expense for disallowed plant.	($6,675)
2	To reduce for using incorrect AFUDC rate. (Audit Ex. 2) (Stip. 2)	($5,903)
3	Reclassify items expensed that should be capitalized. (Audit Ex. 3) (Stip. 3)	$645
4	To recognize 30-day zero cost of accounts payables on CWIP. (Stip. 11)	($568)
5	To reflect the appropriate depreciation rate for computer equipment. (Stip. 17)	$1,114
	Total	($11,387)
	AMORTIZATION EXPENSE	
	To reflect the appropriate amortization rate of contributed taxes.	($8,651)
	TAXES OTHER THAN INCOME	
1	RAFs on corrected test year revenues.	($74,186)
2	Reduce payroll taxes.	($1,392)
3	Reflect appropriate millage rate for tangible estate property taxes. (Stip. 14)	($14,318)
	Total	($89,896)
	INCOME TAXES	
	To adjust to test year income tax expense.	($578,228)

ALOHA UTILITIES, INC. - SEVEN SPRINGS SYSTEM **SCHEDULE NO. 4**
WASTEWATER MONTHLY SERVICE RATES **DOCKET NO. 991643-SU**
FINAL 13-MONTH AVERAGE TEST YEAR ENDED 09/30/01

	Rates As of 01/18/2000	Utility Requested Final	Comm. Final
Residential			
Base Facility Charge:			
Meter Size			
5/8"X3/4"	$8.99	$14.54	$13.99
Gallonage Charge - Per 1,000			
gallons (10,000 gallon cap)	$2.32	$3.65	$3.41
General Service			
Base Facility Charge:			
Meter Size			
5/8"X3/4"	$8.99	$14.54	$13.99
1"	$22.48	$36.35	$34.97
1 1/2"	$44.96	$72.70	$69.93
2"	$71.94	$116.32	$111.89
3"	$143.88	$218.10	$223.79
4"	$224.75	$363.50	$349.66
6"	$449.62	$727.00	$699.33
8"	$719.39	$1,163.20	$1,118.93
Gallonage Charge, per 1,000 Gallons	$2.78	4.26	$4.10
Reclaimed Water			
Mitchell Property	$0.00	$0.00	$0.00
Follow Hollow Golf Course	$0.25	$0.25	$0.00
All Others	$0.25	$0.25	$0.29
5/8" Meter Size			
3,000 Gallons	$15.95	$25.49	$24.23
5,000 Gallons	$20.59	$32.79	$31.06
10,000 Gallons	$32.19	$51.04	$48.13
(Wastewater Gallonage Cap - 10,000 Gallons)			

13-Month Average Balance of Contributed Taxes **Schedule No. 5-A**
Using Commission Approved Amortization Rate
As of September 30, 2001

	Contributed Taxes		Amortization Rate	Annual Amortization
Seven Springs Water System (SS W)	$1,175,890		3.06%	$35,982
Seven Springs Wastewater System (SS WW)	1,544,865	(1)	3.06%	47,273
	$2,720,755			$83,255

Intermediate Projected Test Year	Total Utility		SS W	SS WW
9/30/99	$ 2,325,180	**(2)**	$170,607	$224,968
10/31/99	2,318,242		173,606	228,908
11/30/99	2,311,304		176,604	232,847
12/31/99	2,304,366		179,603	236,786
01/31/00	2,297,428		182,601	240,726
02/28/00	2,290,490		185,600	244,665
03/31/00	2,283,552		188,598	248,605
04/30/00	2,276,614		191,597	252,544
5/31/00	2,269,676		194,595	256,483
6/30/00	2,262,738		197,594	260,423
7/31/00	2,255,801		200,592	264,362
08/31/00	2,248,863		203,591	268,302
9/30/00	2,241,925		206,589	272,241
13-month avg	$2,283,552		$188,598	$248,605

Final Projected Test Year	09/30/2001	SS W	SS WW
9/30/00	2,241,925	206,589	272,241
10/31/00	2,234,987	209,588	276,181
11/30/00	2,228,049	212,586	280,120
12/31/00	2,221,111	215,585	284,059
01/31/01	2,214,173	218,583	287,999
02/28/01	2,207,235	221,582	291,938
03/31/01	2,200,297	224,580	295,878
04/30/01	2,193,359	227,579	299,817
5/31/01	2,186,421	230,577	303,756
6/30/01	2,179,483	233,576	307,696
7/31/01	2,172,545	236,574	311,635
08/31/01	2,165,607	239,573	315,575
9/30/01	2,158,670	242,571	319,514
13-month avg	$2,200,297	$224,580	$295,878

Footnotes:
(1) (EX 11, JAM-2)
(2) 9/30/99 balance includes $2,340,416 amount that agrees with McPherson's 9/30/99 balance

Net Debit Deferred Taxes for the Seven Springs Wastewater System **Schedule No. 5-B**
Using Commission Approved Amortization Rate
13-Month Average Balance As of September 30, 2001

	Contributed Taxes	Amortization Rate	Annual Amortization
Seven Springs Wastewater System (SSWW)	1,544,865	3.06%	47,273

Annual amortization	$47,273
Less: Annual amortization per utility (EX 5, MFRs Vol. I, Sch. G-6, page 1)	38,622
Residual of old rate and new rate	$8,651

Note: Since we are increasing the amortization rate of contributed taxes, we shall also increase SSWW's Accumulated Amortization of DTAs by the residual effect of the Commission approved rate and old rate. Plus, we are allocating amortization evenly over each month, consistent with Stipulation No. 13.

Accumulated Amortization of DTAs for SSWW					DTLs for SSWW	
	Intermediate			Final		Final
Month	Test Year		Month	Test Year	Month	Test Year
9/30/99	$414,232	(1)	9/30/00	$489,122	9/30/00	$474,110 (2)
10/31/99	417,596		10/31/00	489,610	10/31/00	491,528
11/30/99	420,960		11/30/00	490,098	11/30/00	508,946
12/31/99	424,325		12/31/00	490,585	12/31/00	526,364
01/31/00	427,689		1/31/01	491,073	1/31/01	543,782
02/28/00	431,053		2/28/01	491,561	2/28/01	561,200
03/31/00	434,417		3/31/01	492,049	3/31/01	578,619
04/30/00	437,782		4/30/01	492,536	4/30/01	596,037
5/31/00	441,146		5/31/01	493,024	5/31/01	613,455
6/30/00	444,510		6/30/01	493,512	6/30/01	630,873
7/31/00	447,874		7/31/01	493,999	7/31/01	648,291
08/31/00	485,758		8/31/01	494,487	8/31/01	665,709
9/30/00	489,122	(1)	9/30/01	494,975	9/30/01	683,127 (2)
13-month avg	$439,728		13-month avg	$492,049	13-month avg	$578,619

Total DTAs - SSWW	$1,577,034
Less: Accumulated Amortization of DTAs - SSWW	492,049
Total U&U Unamortized DTAs - SSWW	$1,084,985
Less: DTLs - SSWW	578,619
Net U&U Debit Deferred Balance - SSWW	$506,367

Footnotes:
(1) EX 24, Schedule B, page 3
(2) EX 24, Schedule C, page 5

ALOHA UTILITIES, INC. - SEVEN SPRINGS SYSTEM — **SCHEDULE NO. 6**
WORKING CAPITAL ALLOWANCE BALANCE SHEET APPROACH — **DOCKET NO. 991643-SU**
FINAL 13-MONTH AVERAGE TEST YEAR ENDED 09/30/01

Account Title	Average Balance Per Utility	Commission Adjustments	Commission Adjusted Balance
Current Assets:			
Cash	$557,243	($7,623)	$549,620
Customer Accts Receivable	706,239	(9,248)	696,991
Accts. Rec. - Other (Income Tax Deposits) (Stip. 9)	16,294	(16,294)	0
Allowance for Bad Debts	(6,900)	0	(6,900)
Miscellaneous Current & Accrued Assets	1,154	0	1,154
Other Miscellaneous Deferred Debits	152,116	0	152,116
Total Current Assets and Deferred Debits	$1,426,146	($33,165)	$1,392,981
Current Liabilities:			
Accounts Payable - Trade	$410,482	($3,195)	$407,287
Accrued Taxes	268,823	0	268,823
Miscellaneous Current & Accrued Liabilities	20,439	0	20,439
Total Liabilities and Deferred Credits	$699,744	($3,195)	$696,549
Net Allowance for Average Working Capital	$726,402	($29,970)	$696,432

O&M EXPENSE ALLOCATION	Sch A-17(A) O&M Exp Percentage	Allocated Working Capital
Aloha Gardens Water System	6.75%	$47,009
Aloha Gardens Wastewater System	16.01%	111,499
Seven Springs Water System	29.44%	205,030
Seven Springs Wastewater System	47.80%	332,894
	100.00%	$696,432

	Amount Per Utility	Amount Per Comm.
Current Rate Case Expense	$472,817	$426,676
Average Balance of Current Rate Case Exp.	$236,409	$213,338

Allocated Working Capital based on O&M Expense	$332,894
Plus: Average balance of Current Rate Case Expense	213,338
Total Working Allowance for Seven Springs Wastewater System	$546,232

PROJECTED TEST YEAR RESIDENTIAL & GENERAL SERVICE REVENUES AT CURRENT RATES **SCHEDULE NO. 7**
FINAL 13-MONTH AVERAGE TEST YEAR ENDED 09/30/01

Line No.	Class/Meter Size	Historical Year Bills	Project Factor	Projected Test Year Bills	Test Year Consumption (000)	Project Factor	Projected TY Consumption (000)	Present Rates	Projected TY Revenue
1	Residential								
2	5/8" X 3/4"	101,095	1.07093	108,266				$8.99	$973,308
3	M Gallons				591,149	1.07093	633,079	2.32	1,468,744
4	Total Residential	101,095		108,266	591,149		633,079		$2,442,052
5	General Service								
6	5/8" X 3/4"	975	1.07093	1,044				8.99	9,387
7	M Gallons				9,544	1.07093	10,221	2.78	28,414
8	1"	255	1.07093	273				22.48	6,139
9	M Gallons				4,288	1.07093	4,592	2.78	12,766
10	1 1/2"	108	1.07093	116				44.96	5,200
11	M Gallons				4,459	1.07093	4,775	2.78	13,275
12	2"	168	1.07093	180				71.94	12,943
13	M Gallons				20,295	1.07093	21,735	2.78	60,422
14	3"	12	1.07093	13				143.88	1,849
15	M Gallons				1,335	1.07093	1,430	2.78	3,975
16	4"	24	1.07093	26				224.75	5,777
17	M Gallons				2,707	1.07093	2,899	2.78	8,059
18	6"	42	1.07093	45				449.62	20,223
19	M Gallons				15,099	1.07093	16,170	2.78	44,953
20	Total General Service	1,584		1,696	57,727		61,822		$233,382
21	Total Projected Residential and General Service Revenues								$2,675,434
22	Total Projected Residential and General Service Revenues								$2,711,628
23	Residual of Utility's Projected Revenues and Commission Projected Revenues								($36,194)

ALOHA UTILITIES, INC. **SCHEDULE NO. 8**
SCHEDULE OF PROJECTED REUSE CUSTOMERS **DOCKET NO. 991643-SU**
TEST YEAR ENDED 9/30/01

Reuse Customers	GPD	Annual Consumption
Fox Hollow Golf Course	250,000	91,250,000
Pasco Middle & High Schools	60,000	21,900,000
YMCA	13,500	4,927,500
Trinity College	8,000	2,920,000
Virgo Optics	19,500	7,117,500
Morton Plan Hospital	4,000	1,460,000
Heritage Springs Development	114,000	41,610,000
Seven Springs Elementary School	50,000	18,250,000
Total reuse consumption	519,000	189,435,000
Less: Fox Hollow Golf Course	250,000	91,250,000
Total Reuse Consumption - All Other Reuse Customers	269,000	98,185,000
Divided by 1,000		98,185
Reuse rate per 1,000 gallons - All Other reuse customers		X $0.29
Total Reuse Revenue Per Commission		$28,474
Utility's Reuse Revenue, Per Schedule E-13(A)		$47,359
Commission Adjustment to Test Year Revenues - Difference in Commission Reuse Revenue and Aloha's		($18,885)

ALOHA UTILITIES, INC. - SEVEN SPRINGS WASTEWATER SYSTEM — **DOCKET NO. 991643-SU**
Schedule of Plant Capacity Charge Calculation — **SCHEDULE NO. 9**

Plant Capacity Charge:	**$1,650**		1,285,000	ADD From 9/99 to 8/00		
			9,936	ERCs at 8/31/00		
			129	GPD per ERC		
	2001	**2002**	**2003**	**2004**	**2005**	**2006**
Capacity	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000
Demand	1,336,000	1,385,253	1,436,224	1,488,971	1,543,557	1,600,045
% Used	83.50%	86.58%	89.76%	93.06%	96.47%	100.00%
Growth	230	381	394	408	422	437
Utility Plant	$23,432,345	$23,822,872	$24,213,399	$24,603,926	$24,994,453	$25,384,980
Accumulated Depreciation	($5,052,977)	($5,888,416)	($6,737,322)	($7,599,695)	($8,475,536)	($9,359,382)
Net Plant	$18,379,368	$17,934,456	$17,476,077	$17,004,231	$16,518,917	$16,025,598
CIAC	$13,452,582	$14,471,476	$15,512,275	$16,575,742	$17,662,668	$18,726,135
Accumulated Amortization	($3,836,837)	($4,338,632)	($4,877,924)	($5,455,551)	($6,072,380)	($6,708,319)
Net CIAC	$9,615,744	$10,132,843	$10,634,350	$11,120,190	$11,590,288	$12,017,817
Net Investment	$8,763,624	$7,801,613	$6,841,727	$5,884,040	$4,928,629	$4,007,781
CIAC Ratio	52.32%	56.50%	60.85%	65.40%	70.16%	74.99%