

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Investigation of rates of Aloha Utilities, Inc. in Pasco County for possible overearnings for the Aloha Gardens water and wastewater systems and the Seven Springs water system.

DOCKET NO. 000737-WS
ORDER NO. PSC-01-1245-PAA-WS
ISSUED: June 4, 2001

The following Commissioners participated in the disposition of this matter:

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

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LIST OF ACRONYMS AND TECHNICAL TERMS

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

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

NOTICE OF PROPOSED AGENCY ACTION

ORDER REQUIRING REFUNDS AND REDUCING WATER AND WASTEWATER RATES
FOR THE ALOHA GARDENS DIVISION OF ALOHA UTILITIES, INC.

BY THE COMMISSION:

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

BACKGROUND

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

In its 1999 annual report, Aloha reported the following:

<u>System</u>	<u>Water Customers</u>	<u>Wastewater Customers</u>	<u>Water Operating Revenues</u>	<u>Wastewater Operating Revenues</u>
Aloha Gardens	3,103	2,822	\$517,032	\$1,009,285
Seven Springs	<u>9,242</u>	<u>8,866</u>	<u>\$1,726,029</u>	<u>\$2,518,899</u>
Total Company	<u>12,345</u>	<u>11,688</u>	<u>\$2,243,061</u>	<u>\$3,528,184</u>

In two combined limited proceedings, rate base was established for each of the utility's systems by Proposed Agency Action (PAA) 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. In Docket No. 991643-SU, the utility also had a more recent rate proceeding for its Seven Springs wastewater system, which is discussed further below.

On November 19, 1999, Aloha filed for an index and a pass-through rate adjustment. Upon approval, the utility implemented rate increases for all of its systems, which increases were effective on January 18, 2000. For the Aloha Gardens systems, the rate adjustments provided annual revenue increases of 1.41% and 5.53% for water and wastewater, respectively. These rate increases were held subject to refund with interest pursuant to Section 367.081(4)(d), Florida Statutes, in the event that we find that overearnings exist within 15 months of the filing of the annual report for the year 1999.

On March 21, 2000, our staff initiated an undocketed earnings investigation and commenced an audit of the utility. The purpose of this audit was to compile and audit the utility's Aloha Gardens water, Aloha Gardens wastewater, and Seven Springs water rate base, capital structure and net operating income for the 13-month average test year ended December 31, 1999.

By Order No. PSC-00-1289-FOF-WS, issued July 18, 2000, we initiated a formal investigation of the rates and charges of the Aloha Gardens water and wastewater systems and Seven Springs water system, based on a preliminary analysis of the utility's 1998 and

1999 annual reports. Further, we held the following revenues subject to refund:

<u>System</u>	<u>Test Year Revenues</u>	<u>Amount Subject To Refund</u>	<u>% Subject To Refund</u>
Aloha Gardens Water	\$519,976	\$133,977	25.77%
Aloha Gardens Wastewater	\$1,001,716	\$84,076	8.39%
Seven Springs Water	\$1,723,085	\$52,378	3.04%

On July 28, 2000, the staff audit report for the utility's Aloha Gardens water, Aloha Gardens wastewater, and Seven Springs water for the 13-month average test year ended December 31, 1999 was completed. On September 1, 2000, Aloha submitted its response to this audit report.

The utility's Seven Springs wastewater system is not included in this docket because Aloha filed an application for an increase in rates for that system. Docket No. 991643-SU was established to process that application. This Commission held a hearing in that docket and Order No. PSC-01-0326-FOF-SU (Final Order) was issued on February 6, 2001. The Office of Public Counsel (OPC) filed a Motion for Reconsideration on two issues in the Final Order on February 21, 2001. Further, on March 5, 2001, Aloha filed its response to OPC's Motion and filed a Cross Motion for Reconsideration on several different issues in the Final Order. We considered those Motions at the April 3, 2001 Agenda Conference in Docket No. 991643-SU.

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

In addition, on February 5, 2001, Aloha filed a limited proceeding for its Seven Springs water system. The utility requested an emergency, temporary, and permanent increase in rates due to a substantial increase in purchases of bulk water from the County.

We have utilized our staff's audited amounts for the 13-month average test year ended December 31, 1999, and have made annualized 13-month average pro forma plant and expense adjustments for known and measurable changes in the calendar year-end 2000, to determine the earnings posture for the utility's Aloha Gardens water and wastewater systems. We have also used our final decisions on several issues in the recent rate case for Aloha's Seven Springs wastewater system that were not subject to any Motion for Reconsideration.

However, we do not address the earnings posture of the Seven Springs water system at this time. We find that the 1999 pro forma test year is appropriate for the Aloha Gardens water and wastewater systems because those systems are built out and have no major plant improvements. However, the Seven Springs water system has realized substantial growth (which means increased revenues and CIAC). In addition, the utility informed our staff that it anticipated moderate to small plant additions in 2000, and realized material increases in purchased water expenses in 2000. As such, we find it appropriate to evaluate the earnings of the Seven Springs water system after we have had the opportunity to review the earnings for the 12-month period ending December 31, 2000. Our staff filed a recommendation for this system on May 31, 2001.

This Order addresses: 1) whether any refunds to Aloha Gardens ratepayers are appropriate; 2) the appropriate method to administer any potential refunds; 3) whether the existing rates for the utility's Aloha Gardens water and wastewater systems should be maintained; and 4) the appropriate security amount for the Seven Springs water system. We have jurisdiction pursuant to Sections 368.081 and 367.082, Florida Statutes.

RATE BASE

Capitalized Invoices Previously Expensed - According to Order No. PSC-99-1917-PAA-WS, the utility capitalized \$232,262 of invoices in 1997 that were expensed above-the-line in several previous years (1980-1991). Specifically, the utility capitalized \$3,669 and \$1,567 for its Aloha Gardens water and wastewater systems, respectively. In Audit Disclosure No. 1, our auditors stated that the utility did not make any adjustment to remove these items from the rate base of Aloha Gardens water and wastewater.

By the Final Order in Aloha's recent Seven Springs wastewater rate case, we disallowed the capitalization of these previously expensed invoices. No Motion for Reconsideration of that issue was filed. Further, we have been advised that Aloha will reflect these adjustments on its books for the year ended December 31, 2000. As such, we find it appropriate to disallow the capitalization of these previously expensed invoices for the Aloha Gardens water and wastewater systems. Therefore, plant, accumulated depreciation, and depreciation expense shall be reduced as follows:

<u>System</u>	<u>Plant</u>	<u>Accumulated Depreciation</u>	<u>Depreciation Expense</u>
Water	\$3,669	\$1,064	\$122
Wastewater	\$1,567	\$917	\$87

Capital Item Expensed During Test Year - In Audit Disclosure No. 6, our auditors noted that the utility expensed a new pump that should have been capitalized in 1999. This pump was for the Aloha Gardens wastewater system. Specifically, the utility recorded \$3,816 in Account No. 720 - Material & Supplies for this pump.

We find that in accordance with the NARUC USOA for Class A water and wastewater utilities, the utility should have recorded this pump under Account 371 - Pumping Equipment. As such, this item shall be reclassified from an expense account to a plant account. Further, in its response to the Audit Disclosure No. 6, Aloha agrees with this adjustment. Therefore, the Aloha Gardens wastewater plant balance shall be increased by \$3,816 and its O&M expenses shall be reduced by \$3,816. In addition, accumulated depreciation and depreciation expense shall be increased by \$106 for the Aloha Gardens wastewater system.

New Office Building - On July 27, 2000, Interphase, Inc., a related party of Aloha, notified the utility that it would not renew its lease that expired on December 31, 2000. On September 12, 2000, the utility purchased a new building for \$765,000. On October 9, 2000, the new building and associated land was appraised at a value of \$770,000.

We find that the utility's documentation proffered in Docket No. 991643-SU regarding the purchase of the new building contains

a thorough analysis and explanation of the utility's decision to purchase the new building. The analysis documents the minimum requirements for a new office location. Further, the analysis of the potential office locations included: 1) the size, location, availability, cost and whether the property was available for purchase or lease; and 2) a comparison of each of the alternatives with documented advantages and disadvantages of each property, including a thorough analysis of the estimated costs associated with each property.

In support of its decision to buy the building, Aloha stated that the minimum requirements for a new office location were as follows:

1. The property must be located in the Seven Springs service area because it represents 75% of the total customer base currently and 100% of current and future growth. In addition, the closer the building's location can be to the Seven Springs wastewater treatment plant the better from an operational standpoint, because this treatment plant is the center of field operations for all of the activity in the field.

2. The new office location should be approximately 6,000 to 6,500 square feet. However, the utility noted that this would be dictated by the layout of each potential office location and the configurations Aloha would require in order to accommodate its employees and customer service needs.

3. The building must be in full compliance with all of the public access requirements of the Americans With Disabilities Act. Further, the ingress and egress for customers must be convenient.

4. The office location should be professional in appearance, preferably a stand-alone building if possible, and not in a retail shopping center. Additional traffic could hinder Aloha's ability to provide safe and efficient customer service, as well as its service personnel that have to come and go from the office many times a day.

5. Aloha preferred a constructed building that could be modified within the six-month time frame for necessary building modifications.

Based on our review of the utility's analysis, we find that Aloha's purchase of the new office building was the most cost effective alternative. Because this is a material change that occurred at the end of 2000, we find that it should be included in determining the appropriate revenue requirement. Accordingly, we shall treat these costs as a pro forma plant adjustment.

The utility also completed \$11,595 of improvements to the new building before the 2000 calendar year-end. The improvements and their costs appear to be reasonable. Accordingly, we have also treated these costs as a pro forma plant adjustment.

However, based on our staff's review of the appraisal report for this building and the land on which it is located, there was no separate breakdown for the value of land. According to the on-line Pasco County Property Appraiser's database, the tax-assessed value for this land is \$64,409. Without sufficient support documentation, we have on numerous occasions utilized the tax-assessed value to determine the original cost of land. See Orders Nos. PSC-93-0301-FOF-WS, issued February 25, 1993, in Docket No. 911188-WS and PSC-98-1585-FOF-WU, issued November 25, 1998, in Docket No. 980445-WU. Without a breakdown of the value of land and consistent with our prior practice, we find it is appropriate to use the tax-assessed value of \$64,409 for this land. Accordingly, we have treated this \$64,409 land value as a pro forma plant adjustment.

In its supporting documentation, Aloha stated that, at the old office building, most of the office furnishings were the property of the landlord. Accordingly, the utility has requested recovery of the cost for new office furniture. Aloha provided a schedule of office furniture required for the new building, which totaled \$42,448. This schedule included a description of the furnishings, the quantity and purposes, and the cost for each item. Moreover, it appears that Aloha has purchased all of the above-mentioned office furnishings. Based on our staff's review, we find that the items and associated costs of these furnishings are reasonable and they shall be treated as a pro forma plant adjustment.

The utility did not purchase the building until late 2000, and as such the annual rent expense for the old building is included in 1999 O&M expenses. Because we are recognizing the costs of the new building as a pro forma adjustment, the non-recurring lease costs shall be removed. Accordingly, rental expense shall be reduced by \$2,622 for both Aloha Gardens water and wastewater.

According to a letter dated October 17, 2000, Aloha's landlord was responsible for maintenance, insurance, and property taxes at the old building. Based on our staff's review of the utility's prior lease, this appears to be true. Included with its support documentation, Aloha provided a letter dated August 24, 2000 from the former owner of the utility's new building, which indicated that the annual insurance and maintenance for the building were \$3,793 and \$3,864, respectively. These amounts appear to be reasonable. In addition, the property taxes associated with this building are \$12,167, according to the on-line Pasco County Property Appraiser's estimated tax calculation. Accordingly, these expenses shall be treated as pro forma expense adjustments.

According to the appraisal report, the new building has 8,094 square feet. In addition, this report indicates that Aloha will continue to honor the outstanding five-year lease to a third party of 2,380 square feet. In its support documentation, Aloha calculated the non-utility office space to be 28.19% resulting from the continued leased office space to the third party. However, we find that the utility's non-utility percentage is slightly understated. Based on the appraisal report, the non-utility percentage should be 29.40% (2,380 sq. ft. leased to third party divided by the total 8,094 sq. ft. of the new building). The non-utility percentage shall be applied to the cost of the building and land and the related pro forma expense adjustments associated with the new building, except for the removal of the prior rent expense and the building improvements. The building improvements relate only to the office space occupied by the utility.

Aloha allocates common costs based on the ERCs of each system. In Docket No. 991643-SU, we used the following ERC percentages: 1) 14% each for the Aloha Gardens water and wastewater systems; and 2) 36% each for the Seven Springs water and wastewater systems. We find that these percentages are reasonable and the above

percentages shall be applied in allocating the pro forma costs associated with the new building.

Based on the above, the pro forma adjustments for costs associated with the utility's new office building shall be allowed. Specifically, the following annualized adjustments shall be made for Aloha Gardens:

	<u>Water</u>	<u>Wastewater</u>
Plant	\$70,952	\$70,952
Land	\$5,876	\$5,876
Accumulated Depreciation	\$2,004	\$2,004
Depreciation Expense	\$2,172	\$2,172
Rent Expense	(\$2,622)	(\$2,622)
Maintenance & Insurance	\$757	\$757
Property Taxes	\$1,236	\$1,236

Correction of Land Balances - In Docket No. 910540-SU (the last rate case for Aloha Gardens wastewater), this Commission found that 75 percent of the land for the Aloha Gardens' wastewater treatment plant site was no longer needed to provide service and deemed that amount as non-used and useful. See Order No. PSC-92-0578-FOF-SU, issued June 29, 1991, in Docket No. 910540-SU. Due to a DEP mandated wastewater interconnection to Pasco County's system, land used for treatment and disposal purposes was no longer used and useful. Some land was still needed for a master lift station, a force main, and a warehouse. This Commission determined that this was 25 percent of the wastewater treatment plant site.

In Supplemental Audit Disclosure No. 1 of the December 31, 1997 test period audit, our auditors stated the following: "In 1987, one payment of \$12,120 was made for an appraisal of land which was never purchased. The appraisal fee, therefore, should have been classified to expense." In Dockets Nos. 970536-WS and 980245-WS (the two limited proceedings), we reduced the utility's Aloha Gardens wastewater system land balance by \$12,120. See Order No. PSC-99-1917-PAA-WS. Consistent with our decision in Docket No. 910540-SU, we removed 75% of Aloha Gardens' wastewater land balance

from rate base in Dockets Nos. 970536-WS and 980245-WS. We utilized the Aloha Gardens wastewater adjusted land balance of \$12,880 which included the erroneous \$12,120 adjustment discussed earlier. We then considered the \$9,660 (\$12,880 multiplied by 75%) as non-used and useful and allowed the utility to recover this cost as a loss on abandonment. Amortizing the \$9,660 over seven years beginning in 1998 resulted in an annual amortization of \$1,380.

In the audit for this current investigation, our auditors discovered that the \$12,120 amount was actually recorded as land for its Seven Springs wastewater system. As such, in the last rate proceeding, the reduction of the utility's Aloha Gardens wastewater system land balance by \$12,120 was an error. The reduction should have been made to Seven Springs wastewater land. In the Seven Springs wastewater rate case, Docket No. 991643-SU, all parties stipulated to the correction of this error.

Therefore, we find that adjustments are necessary to correct the land balances and amortization rate. As shown below, the land balance for the Aloha Gardens wastewater system shall be increased by \$3,030. In addition, the amortization expense for Aloha Gardens wastewater shall be increased by \$1,515. Accordingly, working capital shall be increased by \$8,333 to reflect the 13-month average balance of the unamortized cost.

Aloha Gardens Wastewater

Land Adjustment

Error in Last Rate Proceeding	\$12,120
Multiplied by Used and Useful Percentage	<u>25%</u>
Increase to Land Balance	<u>\$ 3,030</u>

Amortization Expense Adjustment

Correct Balance Before Non-Used and Useful Adj.	\$25,000
Removal for Abandoned/Non-used and Useful Land	<u>75%</u>
Loss on Abandoned Land	\$18,750
Less: Annual Amortization allowed by Prior Order	<u>1,380</u>

Net Unamortized Balance at December 31, 1998	\$17,370
Divided by Remaining Years of Amortization Period	<u>6 years</u>
Correct Annual Amortization	\$ 2,895
Amortization Previously Allowed	<u>1,380</u>
Increase to Annual Amortization	<u>\$ 1,515</u>

Used and Useful Percentages - The Aloha Gardens service area is essentially built out with no growth anticipated. This is an old system in which the wastewater service is 100% purchased. Aloha Gardens has no wastewater treatment plant and a very small water treatment plant. Approximately 80% of Aloha Gardens' water is purchased. The original water distribution and wastewater collection lines were contributed for the most part with utility investment in transmission lines, meter installation and distribution and collection line replacement and repair. Therefore, the entire Aloha Gardens water treatment, and the wastewater collection and water distribution systems shall be considered 100% used and useful.

Accumulated Depreciation - Aloha capitalized new computer equipment and system software purchased in 1998 and 1999. It classified these costs as Office Furniture using a 15-year depreciable life. The allocated additions as of December 31, 1999 were \$13,918 and \$8,574 for Aloha Gardens water and wastewater, respectively.

In accordance with Rule 25-30.140, Florida Administrative Code, computer equipment shall be depreciated over six years instead of fifteen. Consistent with the above rule, the depreciation rate for the computer equipment shall be corrected for the December 31, 1999 test year. Based on the above, the accumulated depreciation and depreciation expense shall be increased as follows:

<u>System</u>	<u>Accumulated Depreciation</u>	<u>Depreciation Expense</u>
Water	\$484	\$968
Wastewater	\$217	\$433

Working Capital Allowance - Rule 25-30.433(2), Florida Administrative Code, requires that working capital for Class A utilities be calculated using the balance sheet approach. In a staff audit workpaper, our auditors compiled the 13-month average balances of current assets and liabilities, based on Aloha's general ledger account balances. Using the utility's general ledger account balances and consistent with the approved working capital in Docket No. 991643-SU, the appropriate working capital allowance is \$38,056 for Aloha Gardens water and \$90,263 for Aloha Gardens wastewater. See Order No. PSC-01-0326-FOF-WS, issued February 6, 2001, in Docket No. 991643-SU. The following schedule illustrates our calculation of the working capital.

WORKING CAPITAL ALLOWANCE-BALANCE SHEET APPROACH
 THIRTEEN-MONTH AVERAGE TEST YEAR ENDED 12/31/99

Account Title	Average Balance Per Utility @12/31/99	Commn. Adjustments	Commn Adjusted Balance @12/31/99
<u>Current Assets:</u>			
Cash	\$650,267	\$0	\$650,267
Customer Accts Receivable	718,663	0	718,663
Accts. Rec. - Other (Income Tax Deposits)	18,456	(18,456)	0
Allowance for Bad Debts	(6,900)	0	(6,900)
Deferred Rate Case Expense	0	14,507	14,507
Other Miscellaneous Deferred Debits	137,161	8,333	145,494
Total Current Assets and Deferred Debits	<u>\$1,517,647</u>	<u>\$4,383</u>	<u>\$1,522,030</u>
<u>Current Liabilities:</u>			
Accounts Payable - Trade	\$594,121	\$0	\$594,121
Accrued Taxes	339,203	0	339,203
Miscellaneous Current & Accrued Liabilities	24,913	0	24,913
Total Liabilities and Deferred Credits	<u>\$958,237</u>	<u>\$0</u>	<u>\$958,237</u>
Net Allowance for Average Working Capital	<u>\$559,410</u>	<u>\$4,383</u>	<u>\$563,793</u>
	<u>SYSTEMS</u>	O&M Expense Percentage (1)	Working Capital
	Aloha Gardens Water	6.75%	\$38,056
	Aloha Gardens Wastewater	16.01%	90,263
	Seven Springs Water	29.44%	165,981
	Seven Springs Wastewater	47.80%	269,493
		<u>100.00%</u>	<u>\$563,793</u>

Footnote: (1) Used same percentage allocation to determine rates in Docket No. 991643-SU. See Order No. PSC-01-0326-FOF-SU, issued February 6, 2001.

Total Rate Base - Based on the 13-month average test year balances and our adjustments, we calculate the appropriate rate bases for the Aloha Gardens water and wastewater systems to be \$83,830 and \$539,102, respectively. This represents an increase from the utility's 13-month average water and wastewater rate base balances of \$56,433 and \$46,750, respectively. Schedules Nos. 1-A and 1-B depict our rate base calculation for Aloha Gardens water and wastewater, respectively. Our adjustments to rate base are depicted on Schedule No. 1-C.

COST OF CAPITAL

Long-Term Debt - The following is our analysis of long-term debt pro forma adjustments.

Mortgage for New Building

Aloha executed a mortgage with Bank of America in the amount of \$612,000 for the new building on October 30, 2000. The cost rate for this debt was 9.00%. We find it appropriate to recognize the annualized 13-month average increase to long-term debt associated with this mortgage. Because we have included pro forma building costs in rate base, the long-term debt shall be increased by \$564,923 (\$612,000 multiplied by twelve (12 months) divided by thirteen).

Construction Loan for Seven Springs Wastewater System

Docket No. 991643-SU was established to process the utility's application for its Seven Springs wastewater system. Aloha expanded the Seven Springs wastewater treatment plant from 1.2 MGD to 1.6 MGD and upgraded it to Class I Reliability in order for the effluent to be used for public access reuse. On July 30, 1999, the utility closed on a construction loan with Bank of America in the amount of \$5,200,000.

As of December 31, 1999, the utility had only drawn \$224,828 on this construction loan, which represented an \$86,472 13-month average balance for the calendar year 1999. According to a schedule provided by the utility in Docket No. 991643-SU, Aloha anticipated a draw of \$5,067,120 as of December 31, 2000. In that docket, we approved Aloha's projections for the long-term debt

draws. This construction loan is a material change to the utility's cost of capital and we find it appropriate to incorporate it in the calculation of the revenue requirement. As such, we find it is appropriate to recognize the 13-month average increase to long-term debt associated with this construction loan for the 2000 calendar year. Thus, using the balances from December 1999 to December 2000, discussed above, long-term debt shall be increased by \$3,430,657. The cost rate for this debt was 9.18%.

Conclusion

Based on the above, the long-term debt shall be increased by \$3,995,580 (\$564,923 plus \$3,430,657). Accordingly, the appropriate long-term cost rate shall be 10.17%.

Return on Equity (ROE) - The last authorized ROE for Aloha Gardens water and wastewater was 10.12%. This cost rate was set by this Commission in Dockets Nos. 970536-WS and 980245-WS. Moreover, this Commission has established Aloha's preferred stock cost rate to be equal to that of common equity. See Order No. PSC-99-1917-PAA-WS.

By Order No. PSC-00-1162-PAA-WS, issued June 26, 2000, in Docket No. 000006-WS, we approved our current leverage formula used to establish the authorized ROE for water and wastewater utilities. That Order was consummated by Order No. PSC-00-1299-CO-WS, issued July 18, 2000. Based on Aloha's adjusted capital structure, the current leverage formula yields a cost of equity of 9.93%. Therefore, we find that the appropriate ROE to determine the overall cost of capital is 9.93% with a range of reasonableness of 8.93% to 10.93%, on a prospective basis.

Overall Cost of Capital - In Docket No. 991643-SU, the utility prorated all sources of capital. See Order No. PSC-01-0326-FOF-SU. However, in that docket, we specifically identified the deferred income taxes for each system. We find that it is appropriate to do the same in this case. We note that the Aloha Gardens water and wastewater systems do not have any gross-up CIAC.

Further, Rule 25-30.433(3), Florida Administrative Code, states:

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.

In the utility's response to our staff's Interrogatory No. 13 propounded in this docket, Aloha provided a breakdown of deferred income taxes for each of the utility's systems for the year-end December 31, 1999. Based on the utility's breakdown, the 13-month average reflects a \$3,394 net credit balance of deferred income taxes for Aloha Gardens. Consistent with our decision in Docket No. 991643-SU, no pro rata adjustment shall be made for deferred income taxes.

The overall cost of capital is derived from the rate base and our findings on the cost of capital. Based on the above, the weighted average cost of capital shall be 9.93% for Aloha Gardens water and wastewater. Schedule No. 2-A depicts our calculation of the overall cost of capital for Aloha Gardens water and wastewater. Our adjustments to cost of capital are depicted on Schedule No. 2-B.

NET OPERATING INCOME

Operating Revenues - On November 19, 2000, Aloha filed for 1999 price index and pass-through rate adjustments for all four of its systems. These rate increases were approved with an effective date of January 18, 2000, pursuant to Section 367.081(4), Florida Statutes. The price index and pass-through rate adjustments for Aloha Gardens resulted in increases in revenue of \$6,828 for water and \$53,687 for wastewater.

Because we are utilizing a 1999 test year with known and measurable changes for 2000, we find that it is appropriate to recognize any rate changes that occurred after the historical test year to calculate the revenue requirement for rate setting purposes. Thus, the annualized revenues associated with the 1999 index and pass-through shall be added as pro forma adjustments. Accordingly, operating revenues shall be increased by \$6,828 for Aloha Gardens water and \$53,687 for Aloha Gardens wastewater.

Vice-President's Salary - By Order No. PSC-01-0326-FOF-SU, we limited the vice-president's salary to 20% of the president's salary. The utility allocates the vice-president's salary based on the ERC allocation percentages discussed earlier. Based on the above, Salary & Wages - Officers, Employee Benefits, and Payroll Tax accounts shall be reduced as follows:

<u>System</u>	<u>Salary & Wages</u> <u>- Officers</u>	<u>Employee</u> <u>Benefits</u>	<u>Payroll</u> <u>Tax</u>
Water	\$6,292	\$2,551	\$537
Wastewater	\$6,292	\$2,671	\$497

Further, based on a conversation with the utility's accounting consultant, Aloha will adjust its books for the year ended December 31, 2000 to reflect this adjustment.

Salaries and Wages - Employees - By letter dated December 15, 2000, the utility requested that we recognize in this earnings investigation the increase in salaries from the 1999 test year. The utility stated that Ms. Pam Yacobelli, a secretary, was hired in the fall of 1999. Further, Aloha asserted that it was in the process of interviewing for a new receptionist position, which it planned to fill in January of 2001. In addition, the utility stated that it planned to hire an additional billing clerk and customer service representative.

In the December 15, 2000 letter, Aloha stated that the annual salary for Ms. Yacobelli was \$18,720. However, in the utility's MFRs filed in Docket No. 991643-SU, the utility used an annual salary of \$17,680 for Ms. Yacobelli in its projected September 30, 2001 test year. Also, according to the MFRs, Ms. Yacobelli was hired on November 12, 1999. Based on the record in Docket No. 991643-SU, Ms. Yacobelli was hired to meet DEP staffing requirements and to handle other duties due to customer growth and demand. See Order No. PSC-01-0326-FOF-SU.

By letter dated April 27, 2001, the utility explained that Ms. Yacobelli had completed her 90-day probationary period in early 2000 and that her 2000 salary level was \$18,720. Aloha further explained that in Docket No. 991643-SU, it projected Ms.

Yacobelli's probationary salary of \$17,680 for simplicity. Based on the above, we find that the inclusion of Ms. Yacobelli's salary at the 2000 level of \$18,720 is reasonable. Therefore, we have increased the Salaries and Wages - Employees expense by this \$18,720 annual salary less the actual portion expensed from November 12, 1999 to December 31, 1999. Based on the above, Salaries and Wages - Employees shall be increased by \$2,372 for Aloha Gardens water and \$2,171 for Aloha Gardens wastewater. In addition, Pensions and Benefits shall be increased by \$813 for Aloha Gardens water and \$745 for Aloha Gardens wastewater. Further, payroll taxes shall be increased by \$181 for Aloha Gardens water and \$166 for Aloha Gardens wastewater.

Moreover, Aloha states that it filled the receptionist position in early 2001. We have used the audited amounts for the 13-month average test year ended December 31, 1999, and have made pro forma plant and expense adjustments for specific known and measurable changes in the calendar year-end 2000. Our analysis does not include the effect of 2000 depreciation expense or any plant retirements in 2000 and does not represent a projected test year. To be consistent with our pro forma test year, we find it appropriate not to consider any additional salary changes beyond 2000 because those amounts are outside of our pro forma test year determination.

Purchased Water and Wastewater Treatment Expenses - There appear to be three issues regarding whether the Aloha Gardens purchased water and wastewater treatment expenses should be adjusted. They are: 1) correction for a misclassification; 2) a pass-through increase and normalization adjustment for a faulty meter; and 3) a possible retirement of a well. Each are discussed below.

Correction for a Misclassification

In Audit Disclosure No. 4, our auditors stated that the utility recorded expenses for water purchased from the County incorrectly in November and December of 1999. The utility receives one monthly bill from the County for purchased water. On the bill, there are generally two meters that reflect the prior month's water consumption. One meter is for Aloha Gardens, and the other is for Seven Springs. Aloha mistakenly recorded Aloha Garden's November and December consumption as a Seven Springs expense and vice-versa.

In order to correct this, the purchased water expense shall be reduced by \$15,227 for the Aloha Gardens water system and increased by \$15,227 for the Seven Springs water system. Pursuant to its audit response, the utility agrees with this adjustment.

Pass-Through Increase and Normalization Adjustment for Faulty Meter

By letter dated August 30, 1999, the County notified its bulk water and wastewater customers that rates would be increased as follows:

<u>Fiscal Year</u>	<u>Effective Date</u>	<u>Water Charge per 1,000 Gallons</u>	<u>Wastewater Charge per 1,000 Gallons</u>
2000	10/1/99	\$2.12	\$3.58
2001	10/1/00	\$2.20	\$3.65

Upon application by Aloha, this Commission approved a 1999 pass-through for the Aloha Gardens water and wastewater systems effective January 18, 2000.

In its 1999 annual report, Aloha stated that the County's meter measuring gallons delivered to Aloha Gardens began running slow in early 1999. This resulted in more gallons sold than were purchased. The County fixed this meter in October 2000 and has advised our staff that it does not plan to back-bill Aloha for this under billing.

In its response to our staff's Interrogatory No. 12, Aloha provided an analysis of annual gallons of water sold to estimate the correct annual purchased water expense for Aloha Gardens. The utility's initial response reflected an increase of \$76,387. This adjustment, however, did not take into consideration the erroneous \$15,227 adjustment for the Seven Springs water system. Once this is corrected, the appropriate adjustment to annualize purchased water for the Aloha Gardens water system is an increase of \$91,614. By letter dated April 27, 2001, the utility agrees that an increase of \$91,614 is appropriate.

Using the County's bulk wastewater rate of \$3.65 as of October 1, 2000, and the actual gallons of sewage treatment in 1999, the annualized purchased sewage treatment expense is calculated to be \$621,423 for Aloha Gardens. According to the utility's 1999 annual report, the actual purchased sewage treatment expense for this system was \$561,835. This results in an increase of \$59,588 in the 1999 purchased sewage treatment expense. Because this is a significant increase in expenses, we find that it is appropriate to treat the \$59,588 amount as a pro forma expense adjustment.

Based on the above, the Aloha Gardens purchased water and sewage treatment expenses shall be increased by \$91,614 and \$59,588, respectively. Because we are including the purchased treatment expenses using the County's rates as of October 1, 2000, the utility shall be precluded from filing for an additional pass-through on these bulk rate increases because it would constitute double recovery of those expenses.

Possible Retirement of a Well

By letter dated December 15, 2000, the utility asserted that a well in the Aloha Gardens water system became unusable in mid-2000, and must be retired. As a result, Aloha stated that it would shift all demands previously met by that well to purchased water from the County. Further, the utility stated that it had not yet identified the revenue impact of this required change, though it was effective immediately.

Our staff has been advised by DEP and SWFWMD that Aloha has not notified those agencies of any problems with the wells. However, based on pumping reports submitted to DEP, we note that two wells reflected zero gallons at the end of the 2000 calendar year. We note that we opened this earnings investigation on July 18, 2000. If the well became unusable in mid-2000, Aloha should have been able to calculate the revenue impact for the retirement of the well by the 2000 calendar year-end. Based on the above, we have made no adjustment.

Summary

Based on the above, Aloha Gardens' purchased water expense shall be increased by a net \$76,387, and purchased sewage treatment

shall be increased by \$59,588. The utility shall also be precluded from filing a pass-through based on purchased water and wastewater rates that became effective on October 1, 2000.

Miscellaneous Expenses - In Audit Disclosure No. 8, our auditors stated that the utility replaced its general ledger software system in July 1999 with a new general ledger software system. Further, the utility stated that during the mid-year conversion of accounts payable, differences arose between the detail and the general ledger. The utility assumed these differences were related to the Seven Springs water and wastewater systems and a journal entry was made to increase chemical and material and supplies expense accounts for Seven Springs by \$15,526.

When an expense cannot be specifically identified and charged directly to the appropriate division of the utility, Aloha's policy is to allocate these expenses based on ERCs. Our auditors believe the \$15,526 adjustment should have been allocated to all systems instead of only to Seven Springs. In its audit response, the utility agrees with this treatment. Based on the above, miscellaneous expenses for Aloha Gardens water and wastewater systems shall be increased by \$2,174 each.

Contractual Services - Accounting - The utility replaced its general ledger software system in July of 1999. In Audit Disclosure No. 9, our auditors stated that the utility's accounting firm assisted the utility with the implementation of the new system by reviewing system output, balancing accounts, and testing accuracy. Our auditors recommended that the replacement of billing and accounting systems is an infrequent event and expenses related to this event are non-recurring. In Docket No. 991643-SU, this Commission amortized the expenses allocated to the utility's Seven Springs wastewater system over five years. See Order No. PSC-01-0326-FOF-SU. Consistent with our decision in Docket No. 991643-SU, Contractual Services - Accounting expense shall be reduced by \$1,251 each for Aloha Gardens water and wastewater.

Other Pro Forma Expenses - In addition to the adjustments to O&M expenses set forth above, the following two additional O&M expense adjustments shall be made: 1) an inflationary adjustment for 2000 Calendar Year-End and 2) a pro forma billing cost adjustment. These adjustments are discussed below.

Inflationary Adjustment for the 2000 Calendar Year-End

According to the utility's response to our staff's Interrogatory No. 12, Aloha suggested that O&M expenses other than purchased water and wastewater treatment, purchased power, and regulatory commission expense, should be increased for inflation for the 2000 calendar year-end. Specifically, the utility calculated an increase of \$2,616 for Aloha Gardens water and \$2,726 for Aloha Gardens wastewater. This suggested increase appears reasonable in order to recognize inflation in the 2000 calendar year. As such, O&M expenses shall be increased by \$2,616 for Aloha Gardens water and by \$2,726 for Aloha Gardens wastewater.

Pro forma Billing Costs

By Order No. PSC-99-1917-PAA-WS, this Commission ordered the utility to convert from postcard to envelope billing. According to the utility's response to our staff's Interrogatory No. 12, Aloha suggested that O&M expenses be increased by \$4,543 for Aloha Gardens water and by \$4,064 for Aloha Gardens wastewater. Upon review, we find that these amounts represent the annualized billing cost for the 2000 calendar year-end and appear reasonable. As such, O&M expenses shall be increased by \$4,543 for Aloha Gardens water and by \$4,064 for Aloha Gardens wastewater.

Based on the above two adjustments, O&M expenses shall be increased by \$7,159 for Aloha Gardens water and by \$6,790 for Aloha Gardens wastewater.

Rate Case Expense - We find that the reasonable costs incurred by the utility in responding to audit and other data requests to determine prospective rates should be considered rate case expense. 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." Further, Section 367.0816, Florida Statutes, states that rate case expense is to be amortized over four years.

On April 27, 2001, the utility submitted invoices and estimates for its total rate case expense of \$29,011 for this earnings investigation docket. However, Aloha allocated this

expense equally among Aloha Gardens water, Aloha Gardens wastewater, and Seven Springs water. Based on our review of Aloha's support documentation, the amount appears reasonable. However, in the past, the utility has allocated common costs based on the ERCs of each system and this method has been approved by this Commission. Consistent with this methodology, the rate case expense shall be allocated based on ERCs of the utility's Aloha Gardens water and wastewater systems and the Seven Springs water system. Based on the above and the ERCs reflected in the utility's 1999 annual report, rate case expense of \$5,966 and \$5,445 shall be allowed for the Aloha Gardens water and wastewater systems, respectively. To reflect the four-year amortization, the O&M expenses of Aloha Gardens water and wastewater shall be increased by \$1,491 and \$1,361, respectively.

Total Net Operating Income - Based on our adjustments above, the test year operating income before calculation for an increase or decrease is \$25,794 for Aloha Gardens water and \$93,831 for Aloha Gardens wastewater. Schedules Nos. 3-A and 3-B depict our net operating income calculation for Aloha Gardens water and wastewater, respectively. Schedule No. 3-C depicts our adjustments to the net operating income calculation for Aloha Gardens water and wastewater.

REVENUE REQUIREMENT

The revenue requirement is a summation of our calculation of the appropriate rate base, cost of capital, and operating income. Based upon those calculations, we find the following to be the revenue requirements for Aloha Gardens:

<u>System</u>	<u>Total</u>	<u>\$ Increase</u>	<u>% Increase</u>
Water	\$494,535	(\$29,325)	(5.60)%
Wastewater	\$995,348	(\$67,624)	(6.36)%

Our calculations of the appropriate revenue requirements for Aloha Gardens water and wastewater systems are set forth on Schedules Nos. 3-A and 3-B, respectively.

REFUNDS, RATES AND REFUND SECURITY

Refunds - On January 18, 2000, the utility implemented increased rates for the 1999 index and pass-through rate adjustments. Based on our analysis of the utility's application and the tariffs implemented, we have calculated annual revenue increases of 1.41% and 5.53% for the Aloha Gardens water and wastewater systems, respectively. Pursuant to Section 367.081(4)(d), Florida Statutes, the revenues for the index and pass-through are held subject to refund for 15 months after the utility files its annual report in the year that the increase was implemented if this Commission finds that the utility exceeded its authorized rate of return on equity.

In addition, by Order No. PSC-00-1289-FOF-WS, issued July 18, 2000, we held the following revenues subject to refund, pursuant to Section 367.082, Florida Statutes: 1) 25.77% for Aloha Gardens water; and 8.39% for Aloha Gardens wastewater.

Pursuant to Section 367.082(4), Florida Statutes, any refund shall be calculated to reduce the rate of return of the utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return that is found reasonable on a prospective basis. However, the refund shall not be in excess of the amount held subject to refund. In interpreting this statute, we remove adjustments in the test year that do not relate to the period in which interim rates were in effect. Examples of these adjustments would be an attrition allowance or rate case expense, which are recovered only after final rates are established. See Order No. PSC-99-1912-FOF-SU, issued September 27, 1999, in Docket No. 971065-SU.

In this proceeding, the test period for establishment of prospective rates was the 13-month average December 31, 1999 with pro forma adjustments for known and measurable changes in 2000. Our analysis does not include any items which were not incurred during the time interim rates were in effect. Having found that the utility's Aloha Gardens water and wastewater systems had excessive earnings of \$29,325 and \$67,624, respectively, we have divided those overearning amounts by our adjusted revenues, net of miscellaneous service revenues and above-the-line interest income, in order to determine the refund percentage. This results in a

refund percentage of 5.70% for Aloha Gardens water and 6.42% for Aloha Gardens wastewater.

Based on the above, for Aloha Gardens, the utility shall refund 1.41% for water and 5.53% for wastewater from January 18, 2000 until June 28, 2000 related to the index and pass-through rate adjustments. The index and pass-through adjustments are less than the amount required to be refunded on an annual basis. Thus, pursuant to 367.081(4)(d), Florida Statutes, the refund is limited to the revenues collected for those rate adjustments.

Moreover, refunds of 5.70% and 6.42% for water and wastewater, respectively, shall be required from June 29, 2000 until the effective date of the new final rates. These amounts are less than the amounts held subject to refund by Order No. PSC-00-1289-FOF-WS. June 29, 2000 is the date of our vote to hold revenues subject to refund in this docket under the interim statute.

Pursuant to Rule 25-30.360(3), Florida Administrative Code, the refunds shall be made to the customers of record as of the date the PAA Order is final and made on the basis of usage. The refunds shall be made with interest in accordance with Rule 25-30.360(4), Florida Administrative Code. In no instance shall maintenance and administrative costs associated with any refund be borne by the customers; the costs are the responsibility of, and shall be borne by, the utility. The utility shall provide refund reports pursuant to Rule 25-30.360(7), Florida Administrative Code. The utility shall treat any unclaimed refunds as CIAC in accordance with Rule 25-30.360(8), Florida Administrative Code.

Rates - As set forth above, we have found that Aloha Gardens had excessive earnings of \$29,325 (5.60%) for water and \$67,624 (6.36%) for wastewater, respectively. The prospective rates shall be designed to produce annual revenues of \$494,535 and \$995,348 for water and wastewater, respectively. After removing miscellaneous service revenues and above-the-line interest income, we find that Aloha shall reduce its rates for its Aloha Gardens division across-the-board by 5.70% and 6.42% for water and wastewater, respectively. A comparison of Aloha Gardens' water and wastewater present rates and our approved rates are shown on Schedules Nos. 4-A and 4-B, respectively. Aloha shall charge the approved rates as shown on these schedules.

The utility shall file revised tariff sheets and a proposed customer notice reflecting the appropriate rates and the reason for the reduction within 20 days of the date that this Order becomes final. 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. 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 Security - By Order No. PSC-00-1289-FOF-WS, we held the following revenues subject to refund:

<u>System</u>	<u>Test Year Revenues</u>	<u>Amount Subject To Refund</u>	<u>% Subject To Refund</u>
Aloha Gardens Water		\$133,977	25.77%
	\$519,976		
Aloha Gardens Wastewater		\$84,076	8.39%
	\$1,001,716		
Seven Springs Water		\$52,378	3.04%
	\$1,723,085		

In that Order, we also secured \$161,140 through a corporate undertaking for any potential refunds of these systems. By Order No. PSC-01-0101-PCO-WS, we increased the corporate undertaking approved in Order PSC-00-1289-FOF-WS by \$70,910, resulting in total secured revenues of \$232,050 as a guarantee of any potential refund of water and wastewater revenues collected under the interim conditions.

Assuming that our staff will file a recommendation for the Seven Springs water system on May 31, 2001 and using a 90-day refund period from the last day of the protest period, the potential refund amount is \$65,472 for this system. The interest component associated with this refund amount is \$2,916. As such, we calculate that the appropriate amount to secure possible refunds for the Seven Springs water system is \$68,388.

Using the excessive earnings calculated in this Order and a 90-day refund period from the last day of the protest period, we

calculate that the refunds with interest for Aloha Gardens water and wastewater are \$109,739. Based on the above, the total estimated amount of potential refunds for all three systems is \$178,127 (\$68,388 plus \$109,739). Therefore, \$53,923 of the \$232,050 previously approved corporate undertaking shall be released. Upon our staff's verification that the refunds for the Aloha Gardens water and wastewater systems have been completed, an additional \$109,739 of the corporate undertaking shall be released.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Aloha Utilities, Inc., for its Aloha Gardens division, shall refund 1.41% for water and 5.53% for wastewater from January 18, 2000 until June 28, 2000 related to the index and pass-through rate adjustments. It is further

ORDERED that Aloha Utilities, Inc., for its Aloha Gardens division, shall refund 5.70% and 6.42% for the rates collected for water and wastewater, respectively, from June 29, 2000 through the effective date of final rates approved in this Order. It is further

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

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

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

ORDERED that pursuant to Rule 25-30.360(3), Florida Administrative Code, the refunds shall be made to the customers of record as of the date this Order becomes final and made on the basis of usage. It is further

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ORDERED that the above-noted refunds shall be made with interest in accordance with Rule 25-30.360(4), Florida Administrative Code. It is further

ORDERED that in no instance shall maintenance and administrative costs associated with any refund be borne by the customers; the costs are the responsibility of, and shall be borne by, Aloha Utilities, Inc. It is further

ORDERED that Aloha Utilities, Inc. shall provide refund reports pursuant to Rule 25-30.360(7), Florida Administrative Code. It is further

ORDERED that Aloha Utilities, Inc. shall treat any unclaimed refunds as contributions-in-aid-of-construction in accordance with Rule 25-30.360(8), Florida Administrative Code. It is further

ORDERED that Aloha Utilities, Inc. shall charge the approved rates as shown on Schedules Nos. 4-A and 4-B. It is further

ORDERED that Aloha Utilities, Inc. shall file revised tariff sheets and a proposed customer notice reflecting the appropriate rates and the reason for the reduction within 20 days of the date this Order becomes final. 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. It is further

ORDERED that the rates shall not be implemented until proper notice has been received by the customers. Aloha Utilities, Inc. shall provide proof of the date notice was given within 10 days after the date of the notice. It is further

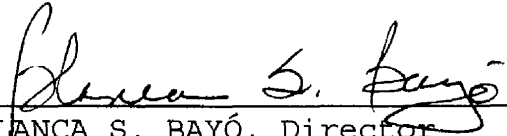
ORDERED that, provided this Order becomes final, the required security for any refunds shall be reduced as set forth in the body of this Order. It is further

ORDERED that Aloha Utilities, Inc. shall be precluded from filing for or implementing a pass-through increase for its Aloha Gardens system based on bulk purchased water and wastewater rates that became effective on October 1, 2000. It is further

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ORDERED that this docket shall remain open pending the completion of our investigation of the earnings for the Seven Springs water system of Aloha Utilities, Inc.

By ORDER of the Florida Public Service Commission this 4th day of June, 2001.



BLANCA S. BAYÓ, Director
Division of Records and Reporting

(S E A L)

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing that is available under Section 120.57, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of

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Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on June 25, 2001.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

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

ALOHA UTILITIES, INC. - ALOHA GARDENS SYSTEM

SCHEDULE NO. 1-A

**SCHEDULE OF WATER RATE BASE
 THIRTEEN MONTH AVERAGE TEST YEAR ENDED 12/31/99**

DOCKET NO. 000737-WS

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	COMMN ADJUST- MENTS	COMMN ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$884,016	\$0	\$884,016	\$67,283	\$951,299
2 LAND & LAND RIGHTS	5,000	0	5,000	5,876	10,876
3 NON-USED & USEFUL COMPONENTS	0	0	0	0	0
4 ACCUMULATED DEPRECIATION	(765,896)	0	(765,896)	(1,425)	(767,321)
5 CIAC	(438,245)	0	(438,245)	0	(438,245)
6 AMORTIZATION OF CIAC	289,164	0	289,164	0	289,164
7 DEFERRED INCOME TAXES	0	0	0	0	0
8 WORKING CAPITAL ALLOWANCE	<u>53,358</u>	<u>0</u>	<u>53,358</u>	<u>(15,302)</u>	<u>38,056</u>
RATE BASE	<u>\$27,397</u>	<u>\$0</u>	<u>\$27,397</u>	<u>\$56,433</u>	<u>\$83,830</u>

ALOHA UTILITIES, INC. - ALOHA GARDENS SYSTEM

SCHEDULE NO. 1-B

**SCHEDULE OF WASTEWATER RATE BASE
 THIRTEEN MONTH AVERAGE TEST YEAR ENDED 12/31/99**

DOCKET NO. 000737-WS

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	COMMN ADJUST- MENTS	COMMN ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$1,344,321	\$0	\$1,344,321	\$73,201	\$1,417,522
2 LAND	3,220	0	3,220	8,906	12,126
3 NON-USED & USEFUL COMPONENTS	0	0	0	0	0
4 ACCUMULATED DEPRECIATION	(829,967)	0	(829,967)	(1,411)	(831,378)
5 CIAC	(324,586)	0	(324,586)	0	(324,586)
6 AMORTIZATION OF CIAC	175,154	0	175,154	0	175,154
7 DEFERRED INCOME TAXES	0	0	0	0	0
8 WORKING CAPITAL ALLOWANCE	<u>124,210</u>	<u>0</u>	<u>124,210</u>	<u>(33,947)</u>	<u>90,263</u>
RATE BASE	<u>\$492,352</u>	<u>\$0</u>	<u>\$492,352</u>	<u>\$46,750</u>	<u>\$539,102</u>

**ALOHA UTILITIES, INC. - ALOHA GARDENS SYSTEM
ADJUSTMENTS TO RATE BASE
THIRTEEN MONTH AVERAGE TEST YEAR ENDED 12/31/99**

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

EXPLANATION	WATER	WASTEWATER
<u>PLANT IN SERVICE</u>		
1 Issue 1: Reduce plant per Order No. PSC-99-1917-PAA-WS.	(\$3,669)	(\$1,567)
2 Issue 2: To capitalize items that were expensed during test year.	0	3,816
Issue 3:	0	
3 Pro forma cost of new building and improvements.	65,414	65,414
4 Pro forma cost of new furniture.	<u>5,538</u>	<u>5,538</u>
Total	<u>\$67,283</u>	<u>\$73,201</u>
<u>LAND</u>		
1 Issue 3: To reflect the land associated with the new building.	5,876	5,876
2 Issue 4: To correct error in Order No. PSC-99-1917-PAA-WS.	<u>0</u>	<u>3,030</u>
Total	<u>\$5,876</u>	<u>\$8,906</u>
<u>NON-USED AND USEFUL</u>		
None	<u>\$0</u>	<u>\$0</u>
<u>ACCUMULATED DEPRECIATION</u>		
1 Issue 1: Reduce accumulated depreciation per Order No. PSC-99-1917-PAA-WS.	\$1,064	\$917
2 Issue 2: To reflect depr. exp. of capitalize items expensed during test year.	0	(\$106)
Issue 3:		
3 To reflect depreciation on the new building and improvements.	(1,635)	(\$1,635)
4 To reflect depreciation on the new office furniture.	(369)	(369)
5 Issue 6: To reflect the correct depreciation rate for computer equipment.	<u>(484)</u>	<u>(217)</u>
Total	<u>(\$1,425)</u>	<u>(\$1,411)</u>
<u>WORKING CAPITAL</u>		
Issue 7: To reflect the appropriate working capital.	<u>(\$15,302)</u>	<u>(\$33,947)</u>

ALOHA UTILITIES, INC. - ALOHA GARDENS WATER AND WASTEWATER SYSTEMS
CAPITAL STRUCTURE
THIRTEEN MONTH AVERAGE TEST YEAR ENDED 12/31/99

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

DESCRIPTION	TOTAL CAPITAL	SPECIFIC ADJUSTMENTS (EXPLAIN)	PRO RATA ADJUSTMENTS	RECONCILE CAPITAL TO RATE BASE	RATIO	COST RATE	WEIGHTED COST
PER UTILITY AVERAGE 1999							
1 LONG TERM DEBT	\$3,755,039	\$0	(\$3,473,812)	\$281,227	54.11%	11.07%	5.99%
2 SHORT-TERM DEBT	0	\$0	0	0	0.00%	0.00%	0.00%
3 PREFERRED STOCK	600,000	\$0	(555,064)	44,936	8.65%	10.12%	0.87%
4 COMMON EQUITY	1,737,873	\$0	(1,607,718)	130,155	25.04%	10.12%	2.53%
5 CUSTOMER DEPOSITS	323,565 (1)	\$0	(299,332)	24,233	4.66%	6.00%	0.28%
6 DEFERRED INCOME TAXES	523,394	\$0	(484,195)	39,199	7.54%	0.00%	0.00%
7 DEFERRED ITC'S-ZERO COST	0	\$0	0	0	0.00%	0.00%	0.00%
8 DEFERRED ITC'S-WTD. COST	0	\$0	0	0	0.00%	0.00%	0.00%
9 OTHER	0	\$0	0	0	0.00%	0.00%	0.00%
10 TOTAL CAPITAL	<u>\$6,939,871</u>	<u>\$0</u>	<u>(\$6,420,122)</u>	<u>\$519,749</u>	<u>100.00%</u>		<u>9.68%</u>
PER AVERAGE 1999							
11 LONG TERM DEBT	\$3,755,039	\$3,995,580	(\$7,289,442)	\$461,177	74.03%	10.17%	7.53%
12 SHORT-TERM DEBT	0	0	0	0	0.00%	0.00%	0.00%
13 PREFERRED STOCK	600,000	0	(564,299)	35,701	5.73%	9.93%	0.57%
14 COMMON EQUITY	1,737,873	0	(1,634,466)	103,407	16.60%	9.93%	1.65%
15 CUSTOMER DEPOSITS	323,565	0	(304,312)	19,253	3.09%	6.00%	0.19%
16 DEFERRED INCOME TAXES	523,394	(520,001)	0	3,393	0.55%	0.00%	0.00%
17 DEFERRED ITC'S-ZERO COST	0	0	0	0	0.00%	0.00%	0.00%
18 DEFERRED ITC'S-WTD. COST	0	0	0	0	0.00%	0.00%	0.00%
19 OTHER	0	0	0	0	0.00%	0.00%	0.00%
20 TOTAL CAPITAL	<u>\$6,939,871</u>	<u>\$3,475,580</u>	<u>(\$9,792,520)</u>	<u>\$622,931</u>	<u>100.00%</u>		<u>9.93%</u>
					LOW	HIGH	
					<u>8.93%</u>	<u>10.93%</u>	
					<u>9.77%</u>	<u>10.10%</u>	
Footnote:							
(1) The source is the utility's response to a staff Interrogatory No. 37 provided in Docket No. 991643-SU.							

ALOHA UTILITIES, INC. - ALOHA GARDENS WATER AND WASTEWATER SYSTEMS
ADJUSTMENTS TO COST OF CAPITAL
THIRTEEN MONTH AVERAGE TEST YEAR ENDED 12/31/99

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

EXPLANATION	
<u>LONG-TERM DEBT</u>	
Issue 9: To reflect appropriate pro forma adjustments.	<u>\$3,995,580</u>
<u>DEFERRED INCOME TAXES</u>	
Issue 11: Reflect appropriate treatment of deferred income taxes.	<u>(\$520,001)</u>

**ALOHA UTILITIES, INC. - ALOHA GARDENS SYSTEM
 STATEMENT OF WATER OPERATIONS
 THIRTEEN MONTH AVERAGE TEST YEAR ENDED 12/31/99**

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

	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	COMMN ADJUST- MENTS	COMMN ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	<u>\$517,032</u>	<u>\$0</u>	<u>\$517,032</u>	<u>\$6,828</u>	<u>\$523,860</u>	<u>(\$29,325)</u> -5.60%	<u>\$494,535</u>
OPERATING EXPENSES:							
2 OPERATION & MAINTENANCE	<u>\$355,549</u>	<u>\$0</u>	<u>\$355,549</u>	<u>\$78,438</u>	<u>\$433,987</u>		<u>\$433,987</u>
3 DEPRECIATION	<u>12,157</u>	<u>0</u>	<u>12,157</u>	<u>3,017</u>	<u>15,174</u>		<u>15,174</u>
4 AMORTIZATION	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>		<u>0</u>
5 TAXES OTHER THAN INCOME	<u>36,364</u>	<u>0</u>	<u>36,364</u>	<u>881</u>	<u>37,245</u>	<u>(1,320)</u>	<u>35,925</u>
6 INCOME TAXES	<u>4,345</u>	<u>0</u>	<u>4,345</u>	<u>7,315</u>	<u>11,660</u>	<u>(10,539)</u>	<u>1,122</u>
7 TOTAL OPERATING EXPENSES	<u>\$408,415</u>	<u>\$0</u>	<u>\$408,415</u>	<u>\$89,651</u>	<u>\$498,066</u>	<u>(\$11,858)</u>	<u>\$486,208</u>
8 OPERATING INCOME	<u>\$108,617</u>	<u>\$0</u>	<u>\$108,617</u>	<u>(\$82,823)</u>	<u>\$25,794</u>	<u>(\$17,467)</u>	<u>\$8,327</u>
9 RATE BASE	<u>\$27,397</u>		<u>\$27,397</u>		<u>\$83,830</u>		<u>\$83,830</u>
10 RATE OF RETURN	<u>396.46%</u>		<u>396.46%</u>		<u>30.77%</u>		<u>9.93%</u>

**ALOHA UTILITIES, INC. - ALOHA GARDENS
 SYSTEM
 STATEMENT OF WASTEWATER OPERATIONS
 THIRTEEN MONTH AVERAGE TEST YEAR ENDED 12/31/99**

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

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	COMMN ADJUST- MENTS	COMMN ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	<u>\$1,009,285</u>	<u>\$0</u>	<u>\$1,009,285</u>	<u>\$53,687</u>	<u>\$1,062,972</u>	<u>(\$67,624)</u> -6.36%	<u>\$995,348</u>
OPERATING EXPENSES							
2 OPERATION & MAINTENANCE	<u>\$784,101</u>	<u>\$0</u>	<u>\$784,101</u>	<u>\$56,935</u>	<u>\$841,036</u>	<u>\$0</u>	<u>\$841,036</u>
3 DEPRECIATION	<u>31,016</u>	<u>0</u>	<u>31,016</u>	<u>2,624</u>	<u>33,640</u>	<u>0</u>	<u>33,640</u>
4 AMORTIZATION	<u>1,380</u>	<u>0</u>	<u>1,380</u>	<u>1,515</u>	<u>2,895</u>	<u>0</u>	<u>2,895</u>
5 TAXES OTHER THAN INCOME	<u>59,151</u>	<u>0</u>	<u>59,151</u>	<u>905</u>	<u>60,056</u>	<u>(3,043)</u>	<u>57,013</u>
6 INCOME TAXES	<u>2,118</u>	<u>0</u>	<u>2,118</u>	<u>29,396</u>	<u>31,514</u>	<u>(24,302)</u>	<u>7,213</u>
7 TOTAL OPERATING EXPENSES	<u>\$877,766</u>	<u>\$0</u>	<u>\$877,766</u>	<u>\$91,375</u>	<u>\$969,141</u>	<u>(\$27,345)</u>	<u>\$941,796</u>
8 OPERATING INCOME	<u>\$131,519</u>	<u>\$0</u>	<u>\$131,519</u>	<u>(\$37,688)</u>	<u>\$93,831</u>	<u>(\$40,279)</u>	<u>\$53,552</u>
9 RATE BASE	<u>\$492,352</u>		<u>\$492,352</u>		<u>\$539,102</u>		<u>\$539,102</u>
10 RATE OF RETURN	<u>26.71%</u>		<u>26.71%</u>		<u>17.41%</u>		<u>9.93%</u>

ALOHA UTILITIES, INC. - ALOHA GARDENS SYSTEM
ADJUSTMENTS TO OPERATING INCOME
THIRTEEN MONTH AVERAGE TEST YEAR ENDED 12/31/99

SCHEDULE NO. 3-C
DOCKET NO. 000737-WS
PAGE 1 OF 2

EXPLANATION	WATER	WASTEWATER
<u>OPERATING REVENUES</u>		
Issue 12: Reflect revenue increase from pass-through and index.	<u>\$6,828</u>	<u>\$53,687</u>
<u>OPERATION & MAINTENANCE EXPENSE</u>		
1 Issue 2: To capitalize items that were expensed during test year. Issue 3:	\$0	(\$3,816)
2 To remove rent expense from old building.	(2,622)	(2,622)
3 To reflect maintenance and insurance expense on new building. Issue 13:	757	757
4 Reduce officers salaries.	(6,292)	(6,292)
5 Reduce benefits. Issue 14:	(2,551)	(2,671)
6 Pro forma employee salary.	2,240	2,051
7 Pro forma benefits. Issue 15:	768	703
8 Reallocation of purchased water expense.	(15,227)	0
9 To reflect appropriate purchased water and sewer from Pasco County.	91,614	59,588
10 Issue 16: To correct error from computer system conversion.	2,174	2,174
11 Issue 17: To reflect certain accounting expenses as non-recurring.	(1,251)	(1,251)
12 Issue 18: Reflect additional appropriate pro forma 2000 year-end O&M expenses.	7,159	6,790
13 Issue 19: To reflect the appropriate regulatory commission expense.	<u>1,491</u>	<u>1,361</u>
Total	<u>\$78,438</u>	<u>\$56,935</u>
<u>DEPRECIATION EXPENSE-NET</u>		
1 Issue 1: Reduce depreciation expense for disallowed invoices.	(\$122)	(\$87)
2 Issue 2: To increase depr. exp. of capitalize items expensed during test year. Issue 3:	0	106
3 To reflect depreciation associated with the new building.	1,772	1,772
4 To reflect depreciation associated with new office furniture.	400	400
5 Issue 6: To reflect the correct depreciation rate for computer equipment.	<u>968</u>	<u>433</u>
Total	<u>\$3,017</u>	<u>\$2,624</u>
<u>AMORTIZATION EXPENSE</u>		
Issue 4: To reflect appropriate amortization of land used for prior WWTP.	<u>\$0</u>	<u>\$1,515</u>
Total		

ALOHA UTILITIES, INC. - ALOHA GARDENS SYSTEM
ADJUSTMENTS TO OPERATING INCOME
THIRTEEN MONTH AVERAGE TEST YEAR ENDED 12/31/99

SCHEDULE NO. 3-C
DOCKET NO. 000737-WS
PAGE 2 OF 2

EXPLANATION	WATER	WASTEWATER
<u>TAXES OTHER THAN INCOME</u>		
1 Issue 3: To reflect property tax on new building	\$1,236	\$1,236
2 Issue 13: Reduce payroll taxes associated with salary reduction.	(537)	(497)
3 Issue 14: Reflect payroll taxes associated pro forma salary adjustment.	<u>181</u>	<u>166</u>
Total	<u>\$881</u>	<u>\$905</u>
<u>INCOME TAXES</u>		
To adjust to test year income tax expense.	<u>\$7,315</u>	<u>\$29,396</u>

ALOHA UTILITIES, INC. - ALOHA GARDENS SYSTEM

SCHEDULE NO. 4-A

**WATER MONTHLY SERVICE RATES
 THIRTEEN MONTH AVERAGE TEST YEAR ENDED 12/31/99**

DOCKET NO. 000737-WS

	Utility Present Rates	Commn Approved Rates
<u>Residential</u>		
Base Facility Charge:		
Meter Size		
5/8"X3/4"	\$2.61	\$2.46
1"	\$6.54	\$6.17
1 1/2"	\$13.08	\$12.34
2"	\$20.92	\$19.73
3"	\$40.62	\$38.31
4"	\$65.29	\$61.57
6"	\$130.70	\$123.26
8"	\$209.12	\$197.21
Gallonage Charge - Per 1,000 gallons	\$2.69	\$2.54
<u>General Service</u>		
Base Facility Charge:		
Meter Size		
5/8"X3/4"	\$2.61	\$2.46
1"	\$6.54	\$6.17
1 1/2"	\$13.08	\$12.34
2"	\$20.92	\$19.73
3"	\$40.62	\$38.31
4"	\$65.29	\$61.57
6"	\$130.70	\$123.26
8"	\$209.12	\$197.21
Gallonage Charge, per 1,000 Gallons	\$2.69	\$2.54
5/8" x 3/4" Meter Size		
3,000 Gallons	\$10.68	\$10.07
5,000 Gallons	\$16.06	\$15.15
10,000 Gallons	\$29.51	\$27.83

ALOHA UTILITIES, INC. - ALOHA GARDENS SYSTEM

SCHEDULE NO. 4-B

**WASTEWATER MONTHLY SERVICE RATES
 THIRTEEN MONTH AVERAGE TEST YEAR ENDED 12/31/99**

DOCKET NO. 000737-WS

	Utility Present Rates	Commn. Approved Rates
<u>Residential</u>		
Base Facility Charge: All meter sizes	\$11.05	\$10.34
Gallorage Charge - Per 1,000 gallons (10,000 gallon cap)	\$4.85	\$4.54
<u>General Service</u>		
Base Facility Charge: Meter Size		
5/8" x 3/4"	\$11.05	\$10.34
1"	\$27.64	\$25.87
1-1/2"	\$55.27	\$51.73
2"	\$88.43	\$82.76
3"	\$176.85	\$165.51
4"	\$276.33	\$258.61
6"	\$552.66	\$517.23
8"	\$884.24	\$827.55
Gallorage Charge, per 1,000 Gallons	\$5.75	\$5.38
5/8" x 3/4" Meter Size		
3,000 Gallons	\$25.60	\$23.96
5,000 Gallons	\$35.30	\$33.04
10,000 Gallons	\$59.55	\$55.73