

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for approval ) DOCKET NO. 950615-SU  
of Reuse Project Plan and )  
increase in wastewater rates in )  
Pasco County by Aloha Utilities, )  
Inc. )  
\_\_\_\_\_)  
In Re: Investigation of utility ) DOCKET NO. 960545-WS  
rates of Aloha Utilities, Inc. ) ORDER NO. PSC-97-0280-FOF-WS  
in Pasco County. ) ISSUED: March 12, 1997  
\_\_\_\_\_)

The following Commissioners participated in the disposition of this matter:

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DOCUMENT NUMBER-DATE

02631 MAR 12 8

FPSC-RECORDS/REPORTING

TABLE OF CONTENTS

I.	BACKGROUND . . . . .	5
II.	EFFECT OF PASCO COUNTY'S REDUCED RATES FOR BULK WATER . . .	7
III.	INVESTIGATION OF RATES . . . . .	7
IV.	ADEQUACY OF SERVICE AVAILABILITY FEES . . . . .	8
V.	COST SHARE FUNDING FOR REUSE PROJECT . . . . .	8
VI.	QUALITY OF SERVICE . . . . .	10
1.	Quality of the Utility's Product . . . . .	10
a.	Water . . . . .	10
b.	Wastewater . . . . .	11
2.	Operational Condition of the Facilities . . . . .	12
a.	Water . . . . .	12
b.	Wastewater . . . . .	12
3.	Customer Satisfaction . . . . .	13
4.	Conclusion . . . . .	14
VII.	PRUDENCY OF REUSE OPTION . . . . .	16
VIII.	APPROVAL OF REUSE PLAN . . . . .	17
IX.	PLANT RELATED COST ASSOCIATED WITH REUSE . . . . .	19
1.	Investment in Sprayfields . . . . .	20
2.	Related Party General Contractor . . . . .	21
3.	Capitalized Interest . . . . .	22
X.	ACCUMULATED DEPRECIATION . . . . .	23
XI.	INCLUSION OF CIAC IN THE RATE BASE FOR THE REUSE PROJECT	25
XII.	USED AND USEFUL NATURE OF PERCOLATION PONDS . . . . .	26
XIII.	RATE BASE FOR THE THREE PHASES OF THE REUSE PROJECT . . .	26
XIV.	AMOUNT AND COST RATE FOR LONG-TERM DEBT . . . . .	26
XV.	EQUITY COMPONENT IN THE CAPITAL STRUCTURE . . . . .	27
XVI.	OVERALL COST OF CAPITAL . . . . .	28
XVII.	RISK OF FINDING BUYERS FOR ALOHA'S RECLAIMED WATER . . .	28

XVIII. IMPUTATION OF REUSE WATER REVENUE TO ALOHA . . . . .	29
XIX. REVENUE PROJECTIONS FOR EACH PHASE OF THE PROJECT . . . . .	31
XX. OPERATION AND MAINTENANCE EXPENSES ASSOCIATED WITH THE PROVISION OF REUSE . . . . .	32
XXI. APPROPRIATE AMOUNT OF REGULATORY COMMISSION EXPENSE/RATE CASE EXPENSE AND AMORTIZATION PERIOD . . . . .	33
XXII. PROPERTY TAX EXPENSE . . . . .	36
XXIII. INCOME TAX EXPENSE . . . . .	37
XXIV. ALLOCATION OF THE REVENUE INCREASE TO EACH PHASE . . . . .	37
XXV. REVENUE REQUIREMENT OF THE REUSE PROJECT . . . . .	38
XXVI. REFUND OF TEMPORARY RATES APPROVED BY ORDER NO. PSC-95-1605- FOF-SU . . . . .	38
XXVII. ALLOCATION OF REVENUE REQUIREMENT . . . . .	39
XXVIII. DETERMINATION OF REUSE RATE . . . . .	40
XXIX. RATE STRUCTURE AND RATES FOR THE WATER AND WASTEWATER SYSTEMS . . . . .	41
1. Rate Structure . . . . .	41
a. Water Rate Restructuring . . . . .	41
b. Wastewater Rate Restructuring . . . . .	42
2. Rate Level . . . . .	42
XXX. AUTOMATIC REDUCTION OF RATES TO REFLECT REMOVAL OF RATE CASE EXPENSE . . . . .	43
XXXI. LIMITED PROCEEDING VERSUS REUSE STATUTE . . . . .	43
XXXII. CLOSING OF DOCKET . . . . .	45

SCHEDULES

<u>SCHEDULE No.</u>	<u>DESCRIPTION</u>	
Schedule 1	Rate Base - Phase I . . . . .	50
Schedule 2	Capital Structure - Phase I . . . . .	51
Schedule 3-A	Operating Statement - Phase I . . . . .	52

Schedule 3-B	Adjustments to Operating Statement - Phase I . . . . .	53
Schedule 1	Rate Base - Phase II . . . . .	54
Schedule 2	Capital Structure - Phase II . . . . .	55
Schedule 3-A	Operating Statement - Phase II . . . . .	56
Schedule 3-B	Adjustments to Operating Statement - Phase II . . . . .	57
Schedule 1	Rate Base - Phase III . . . . .	58
Schedule 2	Capital Structure - Phase III . . . . .	59
Schedule 3-A	Operating Statement - Phase III . . . . .	60
Schedule 3-B	Adjustments to Operating Statement - Phase III . . . . .	61
Schedule 4	Schedule of Rates - All Phases . . . . .	62
Schedule 5	Schedule of Rate Reduction . . . . .	63

FINAL ORDER APPROVING REUSE PROJECT, SETTING RATES AND CHARGES,  
REQUIRING APPLICATIONS FOR FUNDING, REQUIRING REPORTS,  
AND  
REQUIRING REFUNDS

BY THE COMMISSION:

I. BACKGROUND

Aloha Utilities, Inc. (Aloha or utility), is a class A water and wastewater utility located in Pasco County. The utility consists of two distinct service areas -- Aloha Gardens and Seven Springs. These service areas are physically divided by U.S. Highway 19, the major north/south highway through Pinellas and Pasco Counties. According to Aloha's 1995 annual report, the utility's total annual water revenue for both service areas was \$1,755,387 and the total annual expenses were \$1,670,281, resulting in a net operating income of \$85,106. The utility's total annual wastewater revenue was \$2,236,585 and its total annual expenses were \$2,229,827, resulting in a net operating income of \$6,758. The last rate cases for this utility were in 1976 for the Seven Springs service area and 1992 for the Aloha Gardens service area.

The two dockets addressed in this Order relate only to the Seven Springs service area of Aloha. There are approximately 7,000 water customers and 6,800 wastewater customers in the Seven Springs area. The utility purchases a portion of its total water supply for resale to its Seven Springs customers. Currently, wastewater in Seven Springs is treated by a 1.2 million gallons per day (mgd) extended aeration plant that discharges to a number of percolation/evaporation ponds.

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

On June 1, 1995, Aloha filed a reuse project plan and application for increase in rates for wastewater service to its Seven Springs customers pursuant to Section 367.0817, Florida Statutes. This statute, which was created in 1994, sets forth guidelines for Commission approval of water reuse projects.

In its application, the utility states that its reuse project was undertaken and required pursuant to Section 403.064, Florida Statutes. Further, the utility states that this reuse project was required pursuant to a Consent Final Judgment entered into on March 25, 1994. Staff found deficiencies in the application which delayed the official filing date until July 13, 1995, the date on

which the information correcting the deficiencies was filed by the utility.

On December 28, 1995, we issued Proposed Agency Action (PAA) Order No. PSC-95-1605-FOF-SU authorizing recognition of only Phase I of the project in rate setting. Also, this PAA order determined that Phase I of the project should be approved using the limited proceeding process pursuant to Section 367.0822, Florida Statutes, and ordered Aloha to pay a filing fee as required by that section. Aloha paid the filing fee on January 30, 1996. On January 10, 1996, Representative Mike Fasano, a customer of the utility, filed a protest to the PAA order and requested an administrative hearing on the reuse project plan.

In the PAA Order, we allowed the utility to implement the approved wastewater rates on a temporary basis subject to refund in the event of a protest. Therefore, as a result of the protest, Aloha established an escrow account as security in the event a refund is necessary, and implemented the approved rates effective February 12, 1996.

On April 30, 1996, Mr. James Goldberg, President of the Wyndtree Master Community Association, filed a petition signed by 262 customers within Aloha's Seven Springs service area requesting the Commission investigate utility rates and water quality of Aloha. The Commission assigned Docket No. 960545-WS to this request. On May 17, 1996, Aloha filed a motion to consolidate Dockets Nos. 960545-WS and 950615-SU for the purpose of hearing. This motion for consolidation was granted by Order No. PSC-96-0791-FOF-WS, issued on June 18, 1996. Order No. PSC-96-0772-PCO-WS was issued on June 17, 1996, establishing procedure for the consolidated dockets. On July 18, 1996, the Office of Public Counsel (OPC) filed its Notice of Intervention in this proceeding. By Order No. PSC-96-0956-PCO-SU, issued July 24, 1996, OPC's intervention was acknowledged.

By Order No. PSC-96-1095-PCO-SU, issued on August 27, 1996, the Prehearing Officer denied Aloha's motions to strike all the testimony of Ms. Dismukes and part of the testimony of Representative Fasano. The Prehearing Conference was held on August 29, 1996. Pursuant to the decisions reached at the Prehearing Conference, Prehearing Order No. PSC-96-1125-PHO, listing the issues to be determined at hearing, was issued on September 5, 1996. In that Order, the parties stipulated that the Commission could take official notice of all Commission orders.

On September 6, 1996, Aloha petitioned for the full panel to reconsider Order No. PSC-96-1095-PCO-SU. The panel considered and denied the petition for reconsideration on the first day of the hearing.

The hearing was held on September 9-10, 1996 in New Port Richey and concluded on October 28, 1996 in Tallahassee. Briefs were filed by the parties on December 17, 1996.

Having considered the evidence presented, the briefs of the parties, and the recommendations of staff, we hereby enter our findings of fact, law, and policy in both the reuse and investigation dockets.

## II. EFFECT OF PASCO COUNTY'S REDUCED RATES FOR BULK WATER

Representative Fasano testified that we should not entertain any application from Aloha for increased wastewater rates without taking into consideration the reduced bulk water rates. However, he did not quantify how that reduction would affect the water rates. On November 26, 1996, we established Docket No. 961419-WS to address Pasco County's bulk water rate decrease. Therefore, we find that this issue shall be addressed in Docket No. 961419-WS, and there is no need to consider any adjustment to water rates in this docket.

## III. INVESTIGATION OF RATES ASSOCIATED WITH ALOHA'S PROVISION OF WATER SERVICE

OPC witness Dismukes testified that it appeared from the utility's 1995 annual report to the Commission that Aloha's water operations were earning in excess of an appropriate rate of return. She recommended that we investigate Aloha's water rates. According to her testimony, once Pasco County's bulk water rate reduction is recognized, the utility would earn in excess of 24% on its investment. She also testified that assuming a 10.49% cost of capital that the water rates should be reduced by over \$100,000. She did not, however, provide any supporting calculations or analysis as to how she derived the 24% rate of return.

Utility witness Nixon testified that for the year ended December 31, 1995, Aloha earned a rate of return of 5.45% on its Aloha Gardens water system and 10.07% on its Seven Springs water system, for an overall achieved water return of 9.91%. He contends that earnings for both systems were well below or within the range of the utility's authorized return of 10.00%. Further, in 1995 Aloha was putting two new wells into production; therefore, water purchases from the County were much greater than normal. During 1996, Mr. Nixon stated that water purchases went back to the historic low levels.

The record contains only the testimony discussed above. Neither Ms. Dismukes nor Mr. Nixon provided any supporting documentation. We believe that, in order to make a determination of overearnings, a full, thorough analysis of the test-year books

and records is necessary. The issue of whether any refunds or rate reductions are necessary for the purchased water rate reduction will be addressed in Docket No. 961419-WS. Further, as done with each utility annually, we will analyze Aloha's 1996 annual report when it is filed with the Commission to make a determination of any possible overearnings for 1996. Finally, we are keeping Docket No. 960545-WS open to investigate quality of service and whether a change in water rates will ultimately be required. Based on the above, we do not find that any change in the water rates is required at this time.

#### IV. ADEQUACY OF SERVICE AVAILABILITY FEES

Representative Fasano testified that Aloha's service availability charges are below those of neighboring utilities. He also testified that the average water and sewer impact fee for 14 counties in the area surrounding Pasco is \$2,717; while Aloha charges \$350 per equivalent residential connection. Representative Fasano alleges that had Aloha sought authority from the Commission to charge compensatory service availability charges, it would not have to charge all of its customers for the plant upgrades, since the contributions in aid of construction (CIAC) would have been a significant offset to the need for higher recurring rates.

Utility witness Nixon testified that Aloha is currently at a 96% contribution level, which is in excess of the maximum guideline established by Rule 25-30.580, Florida Administrative Code. Rule 25-30.580(1)(a), Florida Administrative Code, provides that the maximum amount of CIAC, 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. Representative Fasano admitted during cross-examination that he was not aware of the basis the Commission uses to determine appropriate service availability charges.

Although the addition of the plant related to this reuse project will reduce the level of CIAC to some degree, the 96% contribution level makes it unlikely that it would result in a need for additional service availability charges. Therefore, based on the record in this case, it appears that the current service availability charges are adequate.

#### V. COST SHARE FUNDING FOR REUSE PROJECT

SWFWMD has funds available to both private and public utilities which may be used for reuse projects. These funds are administered through the District's New Water Sources Initiative or its cooperative funding programs. However, treatment plant upgrades are not eligible for funding under the Cooperative Funding Program.

Prior to 1995, funds under these programs were not available to private utilities. However, due to statutory changes, this funding source was made available to private utilities in 1995. Aloha, stating that it was not aware the programs had been made available to private utilities, did not apply for this funding for its reuse project. The utility further argues the reuse project was initiated in 1993, prior to funds being available.

The record clearly shows the SWFWMD's 1995 Annual Reuse Report provides no information indicating that funds are available to private utilities. However, this report is not intended to inform utilities of funding availability. As noted by SWFWMD witness Yingling, Southern States Utilities, Inc., has applied for and received funding from the District, and information on the availability of funding could have been obtained through a phone call to the District. On the other hand, witness Yingling was unsure to what extent, if any, the District had advertised the availability of funds to private utilities.

The fact remains that, with minimal effort Aloha could have learned of available funding. However, even hindsight does not create a perfect scenario. There is no assurance that had Aloha applied it would have been approved for funds, or, if approved, what that amount would have been. However, Aloha is now aware that future funding may be available. While the record shows funding is not available through the New Water Sources Initiative program for 1997, funds may be available through the Cooperative Funding Program. Additional piping and associated cost will be incurred to construct distribution lines to reach most of the potential reuse customers. Existing developer agreements do not detail cost responsibility for these extensions. Therefore, based upon the need to dispose of effluent, the utility may bear the cost of these lines. With the potential of additional reuse investment in addition to the three phases included within this docket, and since Phases II and III have yet to be constructed, Aloha shall immediately investigate the availability of funding under both programs. The record indicates that funding under the New Water Sources Program is closed for fiscal year 1997, but funding may be available under the Cooperative Funding Program. Additionally, 1998 funding will become available in October 1997, the start of the 1998 fiscal year. The utility needs to explore this funding option, since any funds received from the District would be recorded as CIAC and benefit customers through a reduction in rate base.

Aloha shall immediately investigate the availability of funding under both programs and provide the Commission with its findings within 30 days of the date of this Order. When funding is available to Aloha, they shall apply and provide the Commission with copies of such applications.

## VI. QUALITY OF SERVICE

In accordance with Rule 25-30.431(1), Florida Administrative Code, the overall quality of service provided by Aloha is determined from the evaluation of three separate components of the water and wastewater operations: (1) quality of the utility's product; (2) operational condition of the utility's plant and facilities; and (3) attempts to address customer satisfaction.

### Quality of the Utility's Product

#### Water

Department of Environmental Protection (DEP) witness Screnock, an inspector with DEP's Southwest District Office, testified that although Aloha has exceeded the action level for copper (from water samples drawn at the customers' cold water tap), it is in compliance with DEP's rules since it has implemented a corrosion control program. Witness Screnock testified that Aloha is in compliance with Federal and State drinking water standards for the other primary, secondary, and organic contaminants. At the time that it was determined that Aloha exceeded the action level for copper, DEP did not have jurisdiction over lead and copper testing and referred Aloha to the Environmental Protection Agency (EPA) for enforcement.

The utility's corrosion control program consists of the addition of a corrosion inhibitor and an ongoing and aggressive flushing program. Witness Screnock testified that Aloha's corrosion program is one of the standard treatments to control copper levels. He further stated that Aloha is not in violation of the lead and copper rules since these rules allow the utility two years to address the copper problem and that, at this time, DEP has no enforcement tool or authority to require Aloha to do anything before December 1997.

In January 1996, the DEP started receiving complaints about black water from Aloha's customers in the Chelsea subdivision. These did not appear to be average complaints and the DEP met with the homeowners association to find out more about the problem. Since the customers did not appear to trust Aloha, DEP tested the black water. Mr. Screnock collected samples of the black water and state laboratory analysis determined that the black residue was copper sulfide.

Utility witness Porter testified that the copper sulfide is forming within the customers' homes and is not found in Aloha's source of supply. Mr. Porter believes that the copper sulfide problem is concentrated in a small area of Aloha's territory. Mr. Porter testified that Aloha's source water does not contain copper,

a statement which is corroborated by the test results which were provided in response to a document request. Mr. Porter added that copper does not exist anywhere in Aloha's distribution system, and that it is bleaching from the copper piping within the customers' homes.

Mr. Porter explained that the sulfide in the water is reacting with the copper plumbing within the customer's homes and forming the copper sulfide. Sulfides are present in Aloha's source wells and are treated by the addition of chlorine which converts the sulfides into a less offensive sulfate or sulfur. Unfortunately, sulfur reducing bacteria which are present within customers homes (usually the water heater) can convert the sulfates back into a sulfide. As discussed later, many customers provided testimony about the objectionable tastes, odors, and color which result when sulfides are present.

Mr. Porter testified that many of Aloha's customers have home treatment units which might be acting as a barrier to the corrosion inhibitor and that the corrosion inhibitor might not be effective for these customers. The home treatment units can also remove the chlorine which is needed to control the growth of the sulfur reducing bacteria, resulting in more sulfates being converted into the offensive sulfide. Some of the treatment units may also strip the minerals from the water, making the water even more corrosive to copper piping. The EPA has recognized the problems which home treatment units can cause and does not require that utilities draw lead and copper samples from homes which have a treatment unit.

In response to a letter from Representative Fasano, Dr. Garrity (Director of DEP's Southwest District Office) reiterated the DEP's position that the utility is currently in compliance with all water quality standards except for copper. Dr. Garrity's letter then states that there is no indication of a health risk associated with the discoloration (black water); however, it is aesthetically unpleasant. The utility has initiated a corrosion program and is considered to be in compliance with standards even though the effectiveness of the corrosion program is unproven at this time.

#### Wastewater

DEP witness MacColeman testified that, except for the problems with the percolation ponds, Aloha is meeting DEP's standards for treatment of the wastewater. Mr. MacColeman testified that the utility does not have a current operating permit and is operating its wastewater facility under the Consent Final Judgment. The initial Consent Final Judgment required that Aloha place into service an additional 400,000 gallons per day of effluent disposal capacity before December 31, 1994. The Consent Final Judgment was

amended on November 20, 1995 and the deadline for construction of the additional capacity was extended until May 31, 1996. Mr. Porter testified Aloha was negotiating with DEP to obtain another extension of the deadline until November of 1996.

Operational Condition of the Facilities

Water

Mr. Screnock testified that Aloha is maintaining the required minimum pressure of 20 pounds per square inch (psi) within its distribution system. Mr. Screnock stated that Aloha is also maintaining the required chlorine residual and has an adequate auxiliary source of power. The water plants are operated by certified operators and a cross-connection control program has been established.

In response to low pressure complaints in the Wyndtree service area, a study of the pressure was prepared. This report concluded that the utility was maintaining the required minimum pressure in this area which is located on the periphery of Aloha's service territory. The utility has also modeled its transmission and distribution system and determined that the system can maintain a minimum pressure in excess of 30 psi.

Currently, the only water treatment which Aloha provides is chlorination followed by the addition of a corrosion inhibitor. The addition of chlorine converts the sulfide which is present in the groundwater into a sulfate. Sulfate, however, is a building block which, under the right conditions, can be converted back into the sulfide which many of the customers throughout Aloha's service area have complained about.

Wastewater

As indicated in the Consent Final Judgment, DEP determined that Aloha's percolation ponds were not functioning properly and an alternative means of effluent disposal was required. Aloha is complying with this DEP requirement through the construction of the reuse system.

DEP witness MacColeman testified that the wastewater treatment plant is operated by certified operators and the collection system meets DEP requirements with respect to location, reliability, and safety. Mr. MacColeman also testified that the flowmeter at the wastewater treatment plant is not functioning properly.

Customer Satisfaction

Fifty-seven customers presented testimony about Aloha's quality of service. Several of the customers who testified represented various customer groups and spoke for a number of people. It is obvious that the customers are dissatisfied with the quality of water which Aloha is providing, have been unhappy with the water for many years, and do not trust the utility. OPC's brief provides an excellent summary of the 217 pages of customer testimony about Aloha's quality of service.

The quality of service complaints can be separated into several categories. Many customers provided testimony about problems with low pressure. Many customers testified about the water's offensive taste and odor. Several customers testified about the damage which Aloha's corrosive water has done to the plumbing inside their homes. Two customers testified that there had been water outages.

Customers also described the poor attitude of Aloha's employees. They believe that Aloha is not interested in improving the water quality and that Aloha is not giving enough attention and is not sincere in responding to their repeated complaints. Customers also testified that Aloha's representatives acted like they were the only ones who were complaining about water quality problems.

The customers also provided many black-colored water samples which effectively demonstrated the poor quality of water which is coming out of their faucets. Mr. Screnock verified that these water samples were representative of the black water which he observed when he was collecting samples for DEP's testing program.

Although not a part of the official record, we note that there were numerous complaints regarding quality of service at the customer meetings. Further, Aloha's customers have written the Commission over 250 letters which have been placed in the correspondence side of the docket file concerning this utility. At least 200 of these letters described the same water quality problems which were discussed at the September hearing: low pressure, offensive odors, bad taste, damage to the copper piping within the homes, and discolored water.

Even so, the utility argues that, since only 57 people out of 7,000 connected customers testified, the water quality problem is not widespread. The record reflects that a significant percentage of Aloha's customers are dissatisfied with the water quality. The customers appear to distrust the utility, and also believe that the regulatory agencies have failed to force Aloha to improve its water quality.

Conclusion

Section 367.111(2), Florida Statutes, states that the utility shall provide to each person reasonably entitled thereto such safe, efficient, and sufficient service as is prescribed by Part VI of Chapter 403, F.S, and parts I and II of Chapter 373, Florida Statutes, or rules adopted thereto, but that such service shall not be less safe, less efficient, or less sufficient than is consistent with the approved engineering design of the system and the reasonable and proper operation of the utility in the public interest. That section also provides that if a utility has failed to meet the standards promulgated by DEP or the water management districts, that we may reduce the utility's return on equity.

Although the DEP witness testified that the utility's water was in compliance with DEP standards, we find that Aloha's quality of water service is unsatisfactory. Even though Aloha is technically in compliance with State and Federal drinking water standards, customers from many areas within Aloha's service territory either testified or wrote letters to the Commission stating that their water is aesthetically objectionable. It smells bad, tastes bad, and in some cases it reacts with copper plumbing, turning the water black. The water is also corrosive to copper plumbing and is damaging the plumbing within many of the customer's homes.

Also, the utility has a very poor relationship with its customers. Aloha has also failed to maintain adequate records of its customers' complaints about poor water quality. Many of the customers do not appear to trust Aloha and believe that the utility is not interested in improving the water quality. Therefore, not only is the quality of the utility's water unsatisfactory, but also its attempts to address customer satisfaction and its responses to customer complaints are unsatisfactory. These management practices of Aloha concern us, and will be further addressed in Docket No. 960545-WS, which is to be kept open.

Aloha appears to have been operating under the assumption that the water quality problems are not as serious as the customers make out. This is reflected in Aloha's responses to the customer's complaints and its brief. For example, in its brief Aloha states that the question of the quality of the utility service was raised primarily by Mr. Fasano and several customers who testified at the hearing. Aloha also states that the utility is not providing water which has an excessive odor and that, to the extent an odor problem exists, it appears to be primarily related to the use of home treatment systems and the removal of chlorine which results in an increase in hydrogen sulfide in the homes. Aloha has also not had any of its consultants analyze or prepare a report about the water quality problems during the past five years. Currently, Aloha only

has long-term plans to make improvements to its water system. These long-term plans need to be changed into a short-term requirement.

The customers believe that we should not approve any rate increase for Aloha's reuse project until the water quality problems have been resolved. However, we find that the rate increase for the reuse project shall not be delayed because of the unsatisfactory water quality. The reuse project was required by the DEP and its purpose is to meet the effluent disposal needs of Aloha's current wastewater customers. We realize that the customers are frustrated with Aloha's persistent water quality problems, but do not believe that it is appropriate to deny a rate increase which is needed to rectify one problem (with effluent disposal) because of another quality of service problem.

Although we could reduce Aloha's return on equity to the minimum of the authorized range (see Order No. PSC-96-1320-FOF-WS in Docket No. 950495-WS), we believe that the better action, at this time, is to order Aloha to take aggressive action to correct the problems. If such action is not done as required by our order, then a show cause proceeding and possibly imposition of a fine in accordance with Section 367.161(2), Florida Statutes, would be the best course of action. Therefore, Aloha shall evaluate treatment alternatives for the removal of hydrogen sulfide from the supply wells. The water quality complaints which we have are not confined to black water (copper sulfide).

Although Mr. Porter is very confident that Aloha's corrosion control program will improve the copper sulfide problem (for those customers which do not have home treatment units), it does not appear that it will resolve the many other water quality problems which are being caused by the hydrogen sulfide. As is the case for much of Florida's groundwater supply, hydrogen sulfide is present in Aloha's groundwater supply wells. Currently, Aloha is only treating the hydrogen sulfide by chlorinating the water. The chlorine converts the sulfides into another form of sulfur. Unfortunately, this minimal level of treatment does not necessarily prevent the sulfides from reforming within either the customer's homes or possibly Aloha's distribution system. The simple addition of chlorine has been, for some utility's under our jurisdiction, an effective treatment for hydrogen sulfide. This minimal level of treatment, however, is clearly not working satisfactorily at Aloha's Seven Springs system.

Removing the hydrogen sulfide from the groundwater supply should also improve the water quality for customers who have invested in a home treatment unit. As discussed earlier, many of Aloha's customers, in response to Aloha's poor water quality, have purchased expensive home treatment units. The addition of hydrogen

sulfide treatment should also stop the formation of copper sulfide in these homes. The customers who have home treatment units should understand, however, that they could continue to have corrosion problems since the home treatment units might act as a barrier to the corrosion inhibitor which the utility is adding.

We realize that there is a cost associated with providing additional treatment facilities to remove the hydrogen sulfide and that treatment for removal of the hydrogen sulfide will present many technical challenges. The utility's seven supply wells are scattered throughout its service territory. Also, the EPA is still drafting rules which may affect the utility and require even more treatment modifications in the future. The customers, however, have clearly expressed their opinion that improvements are needed immediately. We agree.

The utility shall evaluate the best available treatment technologies for removal of hydrogen sulfide. The utility shall evaluate, as a minimum, the following types of treatment: tray aeration, packed tower aeration, ion exchange and reverse osmosis. This list is not meant to preclude Aloha from considering other treatments. For each treatment option which is analyzed the utility shall, at a minimum, calculate the expected hydrogen sulfide removal efficiency of the process, estimate the capital costs, estimate any additional annual operation and maintenance expenses, estimate the impact on customers' rates, and provide a schedule for installation of the treatment. Aloha shall also provide the capital costs and expected annual operation and maintenance expenses which have been incurred for the corrosion control program which it has already implemented. Aloha shall also indicate which treatment option it recommends. This report shall be filed with the Commission within three months of the issuance of this Order. Mr. Porter stated he could prepare an engineering report within two months, but we shall allow an extra month to provide for the requested financial information.

After the report is filed, our staff will solicit input from the DEP and the customers and then prepare a recommendation for our consideration. At that time, we should have enough information to determine how to improve Aloha's water quality.

#### VII. PRUDENCY OF REUSE OPTION

Effluent from Aloha's Seven Springs 1.2 mgd wastewater treatment facility is currently being disposed to ground water by three percolation ponds located adjacent to the plant. In 1993, the DEP notified Aloha that it was potentially in violation of its operating permit based upon the DEP's contention that the percolation ponds operated by Aloha were not functioning as

required. DEP alleged that the effluent from the ponds was leaching into adjacent drainage ditches.

Utility witness Watford described the four options which were available for the disposal of effluent: percolation/evaporation ponds; reuse by spray irrigation; surface water discharge; and deep-well injection. Mr. Watford explained that the options of deep-well injection and surface water discharge were eliminated because of the high costs and the expected permitting difficulties associated with choosing one of these options. Mr. Watford stated that constructing additional percolation ponds would have required the purchase of more land at a substantial cost. The final option of reuse by spray irrigation was the one which the DEP clearly favored and which was considered economically feasible by the utility.

Utility witness Porter agreed that the most cost-effective and environmentally sound method of reducing the flows to the percolation ponds was to develop an effluent-reuse program for disposal of effluent from the wastewater treatment plant. Mr. Porter testified that not only will such a system help to recharge the aquifer, it will also satisfy irrigation water needs for which potable water would otherwise be used. Also, the revenues that Aloha expects to generate from the sale of reuse will help to offset the cost of operating the wastewater system. Mr. Porter adds that this reuse project will not increase Aloha's treatment capacity and is needed to dispose of the effluent generated by current customers.

Based on the above, we find that reuse is the most prudent option available for the disposal of effluent from Aloha's wastewater treatment plant.

#### VIII. APPROVAL OF REUSE PLAN

Now that we have determined that construction of a reuse system is Aloha's most prudent option for effluent disposal, we must now determine whether to approve all or a portion of Aloha's proposed three-phase reuse system. Although the entire project was approved as a single project by DEP, Aloha has filed for approval of its proposed reuse system to be constructed in three phases.

Phase I of the project includes wastewater treatment plant upgrades needed to provide reuse and extension of a reuse main to the Mitchell property. Phase II will expand disposal facilities on the Mitchell property. Only through the Phase III main extension will the utility be able to reach paying reuse customers. If Aloha were to interconnect to Pasco County's (the County) reuse system, only Phase I need be constructed to reach the area of the County's reuse main.

Prior to hearing, our staff's initial position on this issue was that only Phase I should be approved based upon uncertainties surrounding potential reuse customers and Aloha's failure to fully investigate an interconnection with the Pasco County reuse system. However, the County has testified that it can only accept effluent at certain times of the year. Further, the County would charge Aloha for taking the effluent at a rate which would be determined by an audit conducted one year after the interconnection. Additionally, the utility provided a cost analysis, which shows the cost of the interconnection would exceed the cost of Aloha's reuse system. While the utility is entering the reuse business through this project, its primary goal is effluent disposal. The reuse system is needed to replace existing disposal capacity and expand the plants in the future. Based upon the testimony provided by the County, we do not believe it would be prudent or cost effective for Aloha to enter into any interconnection arrangement wherein there would be no continuity in the quantity of effluent accepted by the county and where the initial and continuing cost of such interconnection is unknown. Also, this option would preclude Aloha from receiving any future revenue for the sale of reclaimed water. Therefore, we believe such interconnection is not a viable option for Aloha.

Without the Pasco County option, Aloha's immediate goal is to obtain firm reuse customers to dispose of effluent equal to its present plant capacity of 1.2 mgd. Initially, in Phases I and II, Aloha will dispose of effluent on the Mitchell property. The five-year agreement with Mr. Mitchell, initiated in May of 1994, allows Aloha to dispose of effluent on the property at no cost to either party while the utility extends Phase III to position itself to negotiate with paying reuse customers. Although the utility believes the contract can be extended or an easement condemned to provide for future use, they hope within five years to be off the Mitchell property and providing reuse to paying customers.

The utility has testified that there exists a great demand for reuse at the end of Phase III. Presently, Aloha has a reuse agreement with the Fox Hollow Golf Course as well as developer agreements with five additional properties. Each of these entities is under a contractual obligation to accept reuse when available from Aloha. The Mitchell agreement expires in mid-1999. Aloha believes that at most a one or two year extension could be needed before it is selling all of its reuse.

As stated above, we have determined that reuse is the most prudent and cost-effective disposal option. The record further indicates that interconnection with Pasco County is not viable, and that paying reuse customers can only be realized upon completion of all three phases. Therefore, all three phases of Aloha's reuse plan shall be approved.

IX. PLANT-RELATED COSTS ASSOCIATED WITH THE PROVISION OF REUSE

Aloha projects the cost of the three phases of its reuse project to be \$4,842,471. However, we have determined that the following adjustments to the projected plant-related costs of the reuse project shall be made: removal of the cost of the Phase III sprayfield; removal of the engineering contingency allowance; and reductions to the utility's proposed capitalized interest costs and an adjustment for the amount of the Allowance for Funds Used During Construction (AFUDC) which will be included in rate base.

The projected construction cost for Phase I of the project is \$3,146,653. A breakdown of the Phase I capital costs follows:

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

Included in the Phase I portion of the project is the cost for modifying the utility's existing wastewater treatment plant from the current secondary treatment process to a new high-level treatment of its effluent which is needed to produce irrigation quality water which is suitable for human contact. The following treatment equipment is being installed to ensure that the effluent meets reuse standards:

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

As part of Phase I, the utility is also constructing a sprayfield on the Mitchell property and is laying a 24-inch force main which will transport the effluent from the treatment plant site to the sprayfield. Originally, Phase I had a projected completion date of December, 1995. Mr. Porter testified, however, that Phase I will not be completed until probably November, 1996. Upon completion of

Phase I of the project, Aloha would be able to dispose of 400,000 gallons per day (gpd) of effluent at the Mitchell site.

Phase II consists of the construction of additional sprayfields on the Mitchell property. Mr. Porter testified that Phase II would begin immediately upon completion of Phase I and the application indicates that it will take seven months to complete this phase of the project. With the completion of the Phase II sprayfields, the utility's disposal capacity will increase from 400,000 to 900,000 gpd. The Phase II construction cost is estimated to be \$471,259.

Phase III of the project includes an extension of the 24-inch PVC force main and the construction of more sprayfields on the Mitchell property. Mr. Porter testified that Phase III would begin once Phase II is completed. Aloha's application indicates that it will take 10 months to construct Phase III. The estimated cost of the force-main extension is \$864,395 and the Phase III sprayfield is estimated to cost \$310,588. Construction of the Phase III sprayfields would increase the total effluent disposal capacity on the Mitchell property from 900,000 to 1,200,000 gpd. Aloha states that it will be able to start connecting reuse customers after the Phase III effluent force main is completed.

#### Investment in Sprayfields

We are concerned about the capital investment which Aloha is making for the sprayfields on the Mitchell property in Phase III. Currently, the utility only has a five-year lease for disposal of the effluent on the property. Once the lease period has expired the utility may not be able to continue to use the sprayfields and the utility's investment in those sprayfields will no longer benefit the customers. As the demand for reuse increases, we believe that the utility will not need to maintain 1.2 mgd of effluent disposal capacity on the Mitchell property. Since the utility will have other sources available for disposal of the reuse once the Phase III effluent force main is complete and the utility's sprayfields on the Mitchell property may not be available after the five-year lease expires, we find that the proposed investment, \$310,588, in the Phase III sprayfield should be removed.

Elimination of the investment in the Phase I sprayfields is not required because this investment is clearly needed to comply with the Consent Final Judgment issued by DEP. Also, eliminating the investment in the Phase II sprayfields is not appropriate because these facilities will provide additional effluent disposal capacity while the Phase III effluent force main is being extended and the expected reuse customers are connected. Even though the Consent Final Judgment does not mandate the immediate construction

of effluent disposal capacity beyond the 400,000 gpd which was constructed in Phase I, the Consent Final Judgment specifically states that DEP believes the percolation ponds are not functioning properly and an alternate effluent disposal method is needed. We believe that the Phase II sprayfields will provide the utility a timely additional disposal capacity which will significantly reduce the amount of effluent currently being discharged into the percolation ponds.

#### Related Party General Contractor

We are also concerned about the use of a related party general contractor and how the contract was negotiated. Utility witness Watford testified that Aloha contracted with All Forms Maintenance (AFM) to be the general contractor for construction of the reuse system. Mr. Watford also testified that AFM and Aloha are related parties. Mr. Watford admitted that he had disclosed the engineer's estimate to AFM and that the contract price was based upon this estimate. According to witness Watford, Aloha did not go through the process of bidding for a general contractor, and then after securing a general contractor, bidding all of the subcontractors because of the time constraints of the Consent Final Judgment. Since completion of Phase I of this project has been delayed by at least 11 months, we are not convinced that the tight deadlines imposed by the Consent Final Judgment was a justifiable reason for not bidding out this project.

By their very nature, related party transactions require closer scrutiny. Although a transaction between related parties is not per se unreasonable, 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). This burden is even greater when the transaction is between related parties. In GTE Florida, Inc. v. Deason, 642 So. 2d 545 (Fla. 1994), the Court established that the standard to use in evaluating affiliate transactions is whether those transactions exceed the going market rate or are otherwise inherently unfair.

The utility's decision to choose a related party contractor and then base the contract cost on the engineer's estimate, makes it difficult to verify that either the contracted cost or the engineer's estimate are fair and reasonable. We believe that soliciting additional bids would not have adversely affected the utility's schedule and would have allowed anyone reviewing the application to easily verify that the projected costs were reasonable. We are also concerned about Aloha's failure to protect itself with a performance bond. The utility and its customers would have been better served if the utility had bid the project and then used the costs from the bid responses as a basis for the contract price with the general contractor instead of relying

solely upon the engineering estimate to determine the contract cost.

The engineering estimate included a contingency allowance of 10% for the project cost. We find that the contingency costs (totaling \$335,623) should be removed from the estimated project cost. This adjustment recognizes that the utility failed to bid out the project, and then compounded this problem by providing the engineer's estimate to the related party general contractor.

### Capitalized Interest

In addition to the above, the utility also included \$95,224 in capitalized interest costs for Phase I, \$14,302 for Phase II and \$52,810 for Phase III. Utility witness Nixon testified that the cost of money during the construction period for each phase of the reuse project was a necessary cost which should be capitalized under Generally Accepted Accounting Principles and Internal Revenue Service regulations. According to his testimony, the utility used the discounted monthly interest rate of the loan, since it represented the actual cost of money attributable to these projects. Mr. Nixon argues that it is essential that capitalized interest on construction work in progress (CWIP) be included as part of the total reuse project costs. According to witness Nixon, failure to include such costs would deprive Aloha of the only opportunity available to be made whole for interest incurred during the construction period.

OPC witness Dismukes testified that it is Commission practice to allow utilities to earn Allowance for Funds Used During Construction (AFUDC), not capitalized interest. Furthermore, AFUDC is only earned on CWIP not already included in rate base. Therefore, since the cost of the proposed reuse project is already included in rate base and the customers are paying for it, she testified that the utility should not be allowed to accrue AFUDC or interest costs.

In his rebuttal testimony, Mr. Nixon disagreed with the conclusion reached by Ms. Dismukes. He argued that this adjustment is appropriate only when CWIP is included in rate base and the resulting rates are in effect at the start of the construction. He contends that since construction on Phase I began May 1, 1995 and the PAA rates did not go into effect until January of 1996, the debt incurred during this time was never recovered.

We agree with Ms. Dismukes that the utility should not be allowed capitalized interest or AFUDC on CWIP that is also included in rate base. However, since the utility's construction on Phase I began on May 1, 1995 and the Phase I rates were not effective until January 1996, the utility has not recovered its capital costs

for this period. If some capitalized costs are appropriate, those costs should be consistent with the overall cost of capital. The overall cost of capital for reuse purposes, using 100% debt, is 11%. As such, it is appropriate in this case to capitalize interest instead of AFUDC.

Based on the above, the utility shall be allowed capitalized interest for Phase I from May through December of 1995. Applying the discounted monthly interest rate of .91620484%, and using the 11.00% cost of debt, to the average monthly CWIP balance as filed in Exhibit 39, capitalized interest for Phase I should be reduced by \$57,491.

Also, the utility shall be allowed to capitalize interest for Phase II, since the rates will not be effective until construction is complete. However, the amount of interest shall be recalculated because we have reduced the utility's cost of debt. Based on the 11.00% cost of debt, the discounted monthly interest rate is .91620484%. Applying this rate to the utility's average CWIP balances as depicted in Exhibit 15 results in a reduction of \$734 to the utility's amount.

For its calculation of Phase III plant in service, the utility included \$52,810 in capitalized interest. The utility shall be allowed to capitalized interest for Phase III because, again, the rates will not be effective until construction is complete. Applying the discounted monthly interest rate of .91620484%, to the utility's average monthly CWIP balance, with a reduction of \$310,588 for the sprayfield costs as discussed above, results in a reduction of \$18,663.

Based on the above, we find that the plant-related costs are \$2,850,231 for Phase I, \$436,553 for Phase II, and \$832,589 for Phase III, for a total cost of the proposed reuse system of \$4,119,373. The utility's requested plant shall be reduced by \$296,422 for Phase I, \$331,128 for Phase II and \$723,098 for Phase III, accordingly. Based on these adjustments, depreciation expense shall also be reduced by \$14,254 for Phase I, by an additional \$16,385 for Phase II, and by an additional \$34,358 for Phase III.

#### X. ACCUMULATED DEPRECIATION

In its application, the utility did not adjust Phase I rate base for accumulated depreciation. However, it did include a provision for depreciation expense.

OPC witness Dismukes testified that it is Commission policy to increase the depreciation reserve for projected plant when the annual expense is recognized in the revenue requirement. She

stated that accumulated depreciation equal to one-half of the depreciation expense should be included in rate base.

Aloha argues in its brief that until such time as depreciation expense can be recovered through rates, imputation of accumulated depreciation of any kind is inappropriate. We do not agree with this argument. We have consistently used the test year concept in determining rate base. Further, pursuant to the rates calculated in PAA Order No. PSC-95-1605-FOF-SU, issued on December 28, 1995, Aloha was allowed recovery of depreciation expense on Phase I plant. Consequently, the utility has recovered a full year of depreciation expense. Therefore, to be consistent, an adjustment should be made to increase accumulated depreciation for a full year of depreciation expense for Phase I. Based on the foregoing and the plant adjustments above, Phase I accumulated depreciation shall be increased by \$139,661.

The utility calculated accumulated depreciation for Phase II by estimating the number of months Phase I would have been in operation at the completion of Phase II and multiplying it by the monthly depreciation expense. The utility's Phase III accumulated depreciation was calculated by estimating the number of months Phases I and II were estimated to have been in operation at the completion of Phase III. The utility's calculations are as follows:

Phase II

Average Monthly Depreciation Expense for Phase I	\$ 12,849
Multiplied by 7 months	<u>X 7</u>
Accumulated Depreciation for Phase II	<u>\$ 89,941</u>

Phase III

Average Monthly Depreciation Expense for Phase I	\$ 12,849
Multiplied by 17 months	<u>X 17</u>
Accumulated Depreciation	<u>\$218,491</u>

Average Monthly Depreciation Expense for Phase II	\$ 2,182
Multiplied by 10 months	<u>X 10</u>
Accumulated Depreciation	<u>\$ 21,826</u>

Accumulated Depreciation for Phase III	<u>\$240,317</u>
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Phase I completion was originally estimated to take seven months, with actual construction beginning on May 1, 1995.

However, as of September 9, 1996, Phase I was still incomplete. Further, utility witness Porter testified that it was likely that construction would be extended until at least November, 1996. Accordingly, the utility's original time estimate for Phase I was materially incorrect, and it is also likely that the time estimates for Phases II and III will also be incorrect. As such, we find that Ms. Dismukes' test year methodology is more reasonable to use as the basis for calculating accumulated depreciation and it is also consistent with how depreciation expense was calculated. Therefore, we have assumed that each new phase will take a full year of time as opposed to the incremental time estimated by Aloha, and during the year of each additional phase, half of the depreciation expense will be added to accumulated depreciation.

Accordingly, Phase II accumulated depreciation shall be determined by taking a full year of depreciation of Phase I and a half year of the depreciation additions of Phase II. Accumulated Depreciation for Phase III shall be equal to two and one-half times the annual depreciation expense for Phase I, one and one-half times the depreciation expense for Phase II, and one-half of the annual depreciation expense for Phase III. Based on the above, and our adjustments to depreciation expense, we find that the appropriate amount of accumulated depreciation is \$139,661 for Phase I, \$220,384 for Phase II, and \$401,520 for Phase III. This results in an increase to accumulated depreciation of \$139,661 for Phase I, \$130,443 for Phase II, and \$161,203 for Phase III.

#### XI. INCLUSION OF CIAC IN THE RATE BASE FOR THE REUSE PROJECT

OPC witness Dismukes proposed an adjustment to impute CIAC during the construction period. She estimated this amount by multiplying the utility's current service availability charge by the number of new customers. She projected the utility will have received \$150,274 in CIAC at the end of Phase I, \$205,639 in CIAC at the end of Phase II, and \$284,731 in CIAC by the end of Phase III. According to Ms. Dismukes, since the utility will receive the CIAC during the project and the project is assumed to be 100% used and useful, the Commission should reduce rate base by CIAC.

In response to Ms. Dismukes' adjustment, Aloha witness Nixon testified that such an imputation is contrary to the reuse project. He explains that the existing service availability charges that Ms. Dismukes used to calculate CIAC have been in effect since 1976 and do not provide for any recovery of reuse capital costs. He contends that CIAC is not associated with the reuse project. Further, service availability charges have not been implemented or approved for the reuse project.

The record does not support that the service availability charges specifically relate to this project as opposed to all other

utility plant. Further, we agree with Mr. Nixon that we have not previously approved, nor did we address specific service availability charges on reuse facilities. As such, Ms. Dismukes' proposal to impute CIAC for the reuse project is rejected.

XII. USED AND USEFUL NATURE OF THE PERCOLATION PONDS

All parties agree that no used and useful adjustment should be made on the percolation ponds. The ponds are handling effluent during the implementation of the reuse system. Further, the ponds will continue to be used after the construction of the reuse system for reject or overflow capacity. Therefore, we find no used and useful adjustments are appropriate.

XIII. RATE BASE FOR THE THREE PHASES OF THE REUSE PROJECT

Based on the reuse plant projections and our adjustments, we find that the rate base is \$2,710,570 for Phase I, \$3,066,400 for Phase II, and \$3,717,853 for Phase III. The rate base and adjustment schedules for each phase are attached as Schedules Nos. 1-A and 1-B.

XIV. AMOUNT AND COST RATE FOR LONG-TERM DEBT

Utility witness Nixon testified that the debt incurred to fund the reuse project was obtained from Ms. Lynda Speer, an officer of Aloha. The utility used a 12% cost rate, which was based on a 9% prime rate of interest, plus three percent. Mr. Nixon testified that he believes the rate is fair and, in hindsight, probably too low, since it does not truly reflect the risk of the loan to the lender. Further, no funds to repay the loans or interest have been made available to the utility and probably will not be until the proceeding is concluded. He contends that this is a risk that no bank would take and the 12% rate recognizes some portion of that risk.

The utility applied for financing with Nations Bank, Barnett Bank and First Union National Bank. In the offering letters the utility stated that the stockholders would not provide any personal guarantee of payment. All the banks turned down the offers based on the terms and conditions. Barnett and First Union stated that the main reason for denial was the lack of a personal guarantee.

On cross-examination, Mr. Nixon admitted that a secured loan is less of a risk to a lending institution than a non-secured loan. When questioned about the interest rates generally charged by banking institutions where personal guarantees are provided, Mr. Nixon answered that in his experience he had seen as much as 2.00% to 2.50% above prime.

By their very nature, related party transactions require closer scrutiny. Although a transaction between related parties is not per se unreasonable, 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). This burden is even greater when the transaction is between related parties. In GTE Florida, Inc. v. Deason, 642 So. 2d 545 (Fla. 1994), the Florida Supreme Court established that the standard to use in evaluating affiliate transactions is whether those transactions exceed the going market rate or are otherwise inherently unfair.

It is apparent from the banks' responses to Aloha that the stockholder's unwillingness to personally guarantee the loan was the main reason for the loan denials. Mr. Nixon admits that with a personal guarantee, interest rates on bank loans would be 50 to 100 basis points less than the interest rate on the related party loan. The record is silent as to why the utility refused to guarantee the debt. Further, while both transactions contain some level of risk, the utility has offered no explanation as to whether a default on shareholder debt versus a default on shareholder guaranteed debt is more risky to the shareholder. As such, the utility has essentially failed to prove the prudence of the higher interest rate. Therefore, a rate of prime plus two percent shall be used. Accordingly, we calculate the cost of debt to be 11.00%.

#### XV. EQUITY COMPONENT IN THE CAPITAL STRUCTURE

In its filing, the utility's rate of return incorporated only a debt component. OPC witness Dismukes calculated a rate of return using both debt and equity. However, she provided no testimony to support her calculation. OPC argues in its brief that the utility's use of the cost of debt is not appropriate and that it deviates from the Commission's long-standing policy that funds cannot be traced to one particular asset.

Utility witness Nixon testified that the provisions of Section 367.0817, Florida Statutes, limit eligible cost recovery to those costs solely related to reuse projects. According to Mr. Nixon, the utility did not have any debt prior to the reuse project; therefore, the source and cost of debt related to the reuse can be specifically identified. On cross-examination he stated that he believed the rate of return as referenced in the reuse statute refers to the cost of money.

We find that the utility has sufficiently documented that the reuse project will be funded completely from debt. Section 367.0817(1)(e), Florida Statutes, defines "costs" associated with a reuse project as "all capital investments, including a rate of return, any applicable taxes, and all expenses related to or resulting from the reuse project which were not considered in the

utility's last rate proceeding." Although using only the specific debt associated with the reuse project, i.e., a specific tracing of funds, is different from our handling of a rate case, we believe that a proper interpretation of Section 367.0817, Florida Statutes, requires the specific identification of capital costs used to fund the project. Further, the utility has shown that the project will be funded entirely by debt. Based on the above, the rate of return shall include only a cost of debt component.

XVI. OVERALL COST OF CAPITAL

Based on the above, we find that the appropriate overall cost of capital for the reuse plant is 11.00%. However, as agreed to by utility witness Nixon, this rate of return is only established for the reuse project and should not be used for any future rate proceedings. The cost-of-capital schedules for each phase are attached as Schedule No. 2.

XVII. RISK OF FINDING BUYERS FOR ALOHA'S RECLAIMED WATER

As stated in its brief, the utility's basic position is that the reuse system is being constructed for the purpose of providing a permittable effluent disposal method for existing wastewater customers, and, even if effluent is given away, the benefits to existing customers justify the construction of the system. The utility believes all three phases of the reuse system are required by DEP and, pursuant to the reuse statute, Section 367.0817, Florida Statutes, all costs of the reuse system should be recognized. Additionally, the utility asserts that, since the project represents replacement of existing effluent disposal capacity, these costs should be borne by existing wastewater customers.

In its brief, OPC argues that DEP is presently requiring that only .4 mgd of existing effluent flows be diverted to alternate disposal, and that no requirement or timeframe now exists for diverting the additional .8 mgd of flows currently going to the percolation ponds. Since Aloha proposes a three-phase reuse system which will handle the entire 1.2 mgd of present flows and partially justifies the need for all phases based upon assurances that there is a ready market for the sale of effluent upon completion of Phase III, OPC argues that these future reuse revenues should be considered at this time so as not to burden wastewater customers with the entire cost of the reuse system.

Regardless of whether Phases II and III of the system were mandated by DEP, the utility has undertaken a three-phase project consistent with what it believes to be the long-term intent of DEP, as expressed in the Amended Consent Order, that all of its percolation ponds be taken off line. We have already found that a

reuse system represents the most prudent effluent disposal option. Further, all potential paying reuse customers are located in areas adjacent to Phase III. Therefore, to dispose of its present effluent capacity and to reach potential paying customers, all three phases must be constructed.

Also, later in this Order, we have determined that all costs associated with the reuse system will be recovered from either the wastewater or reuse customers, and not from the water customers. Absent any revenue from reuse customers, the entire cost of the reuse system would be borne by the wastewater customers. If revenue is realized from reuse customers, less revenue would need to be recovered from wastewater customers. This scenario balances the fact that while the reuse system will replace existing effluent disposal capacity, it has the potential of producing additional revenue in the near future.

OPC's concern is that only \$8,714 of potential reuse revenue, attributable to a hospital and middle school, is included in this case. By imputing revenue associated with future reuse customers in this docket, Aloha would have an additional incentive to find paying reuse customers and work with the District toward that goal. While the utility states it is willing to adjust wastewater rates downward once firm quantities of sales are known, it provides no information regarding when and how such adjustment would be accomplished or the associated costs.

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. The future reuse revenue and OPC's proposed methodology to place the risk on the utility through the imputation of future reuse revenues is discussed below.

#### XVIII. IMPUTATION OF REUSE WATER REVENUE TO ALOHA

OPC witness Dismukes proposed a methodology to impute the present value of future reuse revenue in this proceeding. First, Ms. Dismukes developed a reuse rate of \$.84 per thousand gallons which she annually indexes by 3% over a thirty-year period. These rates are applied to annual reuse gallons sold, which are estimated to be zero for the initial four years of operation increasing annually by 20% until all reuse is sold in years 9 through 30. This revenue stream is then discounted at a rate of 10.49% to determine present value, which, when levelized, equates to an annual revenue of \$292,816. The \$292,816 attributable to reuse customers is then deducted from the additional revenue requirement

of all three phases which would be borne by the wastewater customers.

The above scenario represents OPC's proposed methodology of sharing the cost and risk of the reuse system between the wastewater and reuse customers. We agree that it is appropriate to consider future reuse revenue. However, we disagree with OPC's determination of the imputed amount. In Phases I and II, reuse will be provided on a temporary basis to the Mitchell property at no charge. Only at the completion of Phase III will the utility be in a position to acquire paying customers. Since future paying reuse customers cannot exist prior to completion of Phase III, we believe any imputation should only impact Phase III rates. Further, while we agree future reuse revenue should be considered, we disagree with the use of a present value analysis. We believe discounting future revenues over the 30-year life of the reuse facilities is not a real-world solution as it results in imputed revenues in the early years of the reuse system when little or no revenue would exist. As will be discussed later in this analysis, we believe a better alternative is a methodology which captures projected reuse revenue as anticipated by the utility. Also, to date, reuse rates under our jurisdiction have not been subject to annual indexing, and, therefore, OPC's assumption of indexed rates is unfounded.

The utility has repeatedly stated that it believes the market is there to accept its effluent and is waiting to be tapped once Phases II and III are in place. The utility hopes to have customers taking all the effluent they can generate and not be giving effluent to the Mitchell property within five years. Conservatively, the utility believes, at most, a two-year extension of the Mitchell agreement will be needed to sell all of its effluent. Aloha has provided a list of all anticipated and probable reuse customers. This list indicates that existing developer agreements require they take reuse, and Aloha anticipates providing such service soon after the completion of Phase III. Further, the utility believes it will generate revenues much faster than the timeline proposed by Ms. Dismukes.

Based on the fact that the Mitchell agreement will expire in May of 1999, and using the utility's assertion that at most a two-year extension would be needed to sell its effluent, all effluent would be sold by the year 2001. This is corroborated by the statement that the utility hopes it will not be providing effluent to Mitchell, at no cost, in five years. The utility has testified that Phase III will be complete in May of 1998. Therefore, assuming the Mitchell agreement is extended to the year 2001, all effluent will be sold within four years of completion of Phase III. Based on the above, we believe it is reasonable to assume that reuse sales will increase by 25% per year over this four-year period.

The utility has stated it cannot negotiate reuse contracts without a reuse system and known charges. Also, it has indicated that until it has reuse available, it has not discussed with the District its view on the economic feasibility of reuse to a property or what assistance the District could offer through their permitting process to pressure properties to accept reuse. Further, Mr. Watford, concedes that existing developer agreements are vague and do not detail whether the utility or developer will be responsible for the cost of additional lines needed to reach the properties from the reuse main. Upon approval of its reuse plan and a tariffed reuse charge, Aloha can initiate working with the District and aggressively negotiating reuse contracts. This will give the utility approximately 1 1/2 years to negotiate reuse contracts prior to being able to provide reuse and an additional three years to contract for the remainder of its reuse. Based upon this timeline, we believe it is reasonable to assume at project completion, Aloha will have waiting reuse customers and be able to add additional customers each year.

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. Rates reflecting these decreases are shown later in this Order.

In its brief, Aloha argues that Ms. Dismuskes' methodology would result in non-compensatory rates and is simply an attempt to suggest that the cost of disposing of effluent generated by current customers should fall on the utility rather than the customers served. We believe the adopted methodology provides a reasonable incentive for the utility to contract customers and sell its effluent based upon its stated timeframe. Instead of imputing levelized revenues based upon a present value analysis to all phases, we are considering achievable sales only in phase III, when Aloha is positioned to sell its reuse. Based on all the above, we find that reuse revenue shall be considered in rate setting, but such revenue shall only impact Phase III.

XIX. REVENUE PROJECTIONS FOR EACH PHASE OF THE PROJECT

In developing its percentage revenue increase for each phase, Aloha used as the base, its 1994 annual revenue adjusted for customer growth to the projected completion dates for each phase. This resulted in different base revenues under present rates for

each time period. The cumulative additional revenue requirements of each phase were then divided by the base revenue for each phase to determine the percentage increase to rates in each phase.

In recognition that the time frames for completion of the reuse project had been extended and that 1995 billing data and revenue was available, the utility provided a late-filed exhibit to reflect both 1995 revenues and growth rates. Additionally, we have used the revised schedule for completion of each phase of the system. We accept this revised exhibit and believe it properly addresses OPC's issue regarding extended construction timeframes.

The other OPC-proposed adjustment is to adjust the annual revenue upon which the utility based its revenue increases to a year-end basis. The rationale for this adjustment is to match year-end rate base with year-end revenue. The utility contends this adjustment is not appropriate, since rate base is not applicable under the reuse statute, which provides for full recovery of eligible reuse projects. Instead of rate base, it believes the term "net company costs" for reuse projects is appropriate.

Regardless of terminology, it is appropriate to consider year-end revenues because, in the rate setting methodology proposed by the utility, the additional revenue requirement is calculated on a year-end basis assuming plant was on line all year. Using year-end revenue simply adjusts 1995 revenues by assuming that customers added during the year were actually receiving service all year. Since these customers will be generating revenue for the entire time revised rates will be in effect, the revenue must be adjusted to match year-end revenue with year-end plant and associated expenses. The year-end adjustment is calculated to be \$26,099, and the 1995 annual revenue shall be adjusted for each phase of the project based upon the revised construction schedule and to reflect this adjustment.

XX. OPERATION AND MAINTENANCE EXPENSES ASSOCIATED WITH THE PROVISION OF REUSE

Aloha submitted the projected operation and maintenance costs for all three phases of the reuse project. The annual operation and maintenance cost for Phase I was projected to be \$114,024, and was itemized as follows:

Salaries and wages	\$ 32,100
Employee benefits	5,658
Purchased power	17,699
Chemicals	3,468
Laboratory testing	19,102

Equipment	4,000
Transportation	2,123
Regulatory Commission expense	29,250
Miscellaneous expense	<u>624</u>
TOTAL - PHASE I	<u>\$114,024</u>

The estimated Phase II operation and maintenance costs are \$174,477, \$60,453 greater than the estimated Phase I operation and maintenance cost. The additional costs associated with Phase II are an additional operator for the reuse system as well as increased power, chemical, and equipment maintenance expenses.

The estimated Phase III operation and maintenance costs are \$13,140 greater than the Phase II operation and maintenance costs. The increased operation and maintenance costs for Phase III are primarily associated with increased power (\$9,315) and chemical (\$1,825) expenses. The remaining \$2,000 is for increased equipment maintenance costs associated with the Phase III sprayfield. Since the cost of the Phase III sprayfield has not been included for recovery, the additional \$2,000 associated with the maintenance of this sprayfield shall also be removed. The other expenses have been reviewed, and are found to be reasonable. Accordingly, we approve annual operation and maintenance expenses of \$114,024 for Phase I, \$174,477 for Phase II, and \$185,617 for Phase III.

XXI. APPROPRIATE AMOUNT OF REGULATORY COMMISSION EXPENSE/  
RATE CASE EXPENSE AND AMORTIZATION PERIOD

In its application, the utility included an estimate of \$117,000 for regulatory commission expense. In this estimate, the utility requested \$52,000 in accounting fees, \$40,000 for legal fees, and \$25,000 in engineering fees. In the exhibit, filed at the hearing, the utility referred to regulatory expense as rate case expense. Regardless, we believe that the costs incurred in filing and presenting the reuse case are costs incurred to secure a rate increase and that they should be considered as rate case expense and not regulatory commission expense. Therefore, from this point forward, regulatory expense will be referred to as rate case expense.

In the exhibit filed at the hearing the utility requested rate case expense of \$294,610. We have reviewed the amounts filed in Exhibit 32, as well as the supporting documentation presented for

reasonableness. The requested amounts in Exhibit 32 are shown below:

	<u>Actual</u>	<u>Estimated</u>	<u>Total</u>
Accounting	\$ 86,208	\$ 6,516	\$ 92,724
Engineering	\$ 19,869	\$ 6,100	\$ 25,969
Legal	\$123,748	\$36,825	\$160,573
Miscellaneous	\$ 9,867	\$ 5,538	\$ 15,405
Total	<u>\$239,692</u>	<u>\$54,979</u>	<u>\$294,671</u>

OPC presented several arguments regarding the recovery of requested rate case expense by the utility. OPC witness Dismukes testified that the regulatory costs associated with the reuse filing did not need to be amortized over four years, since it was not a rate case. She recommends that the Commission capitalize the costs, because they would not have been incurred if the utility did not upgrade its plant, propose this reuse plan and ask for recovery from current customers. OPC witness Dismukes, in the alternative, proposes to amortize the expenses over five years. According to her testimony, this is consistent with the Commission's practice concerning abnormal and non-recurring events.

Utility witness Nixon argued that every rate increase request, whether it is in the form of a limited proceeding, general rate case or pass-through adjustment, would not generate regulatory commission expense if a company never asked for the increase or never incurred the expenses. He further disagrees that the costs of this proceeding should be amortized over five years. He claims that this is simply an attempt to reduce the revenue requirement and extend the time over which the utility may recover its costs. Further, rate relief, regardless of the vehicle used to pursue such relief, has always been recognized by the Commission as a normal recurring event. The basis for the 4-year amortization of regulatory commission expense has been the Commission's finding that such events are normal and recurring activities of utilities under its jurisdiction. Therefore, we do not agree with Ms. Dismukes that the costs for this docket should be treated differently than in any other rate proceeding, and, pursuant to 367.0816, Florida Statutes, shall amortize prudent rate case expense over four years.

In its brief, OPC states that the customers of Aloha should not have to pay for the utility's poor quality of service. OPC contends that the utility's legal representatives and its engineering consultant spent a significant effort defending the water quality of service issues. OPC recognizes that while it is not possible to determine precisely the amount of rate case expense

associated with water quality issues, it is substantial. OPC proposes to disallow 50% of the utility's proposed legal expenses and 20% of the engineering fees, because of the association with water quality issues.

On cross-examination, Utility witness Nixon was asked how the charges related to the water investigation docket should be recovered. He testified that he would propose the costs related to the issues concerning water quality be recovered through the reuse case, because most of the wastewater customers are also water customers. However, he later admitted that according to his interpretation of the reuse statute it would be inappropriate to include the costs from the investigation docket in the reuse rates. He also acknowledges that 80% to 85% of the hearing in Pasco county was devoted to water quality issues.

We agree with OPC that the expenses related to the water quality issues should be removed, since they do not relate to the reuse project. Further, pursuant to the reuse statute only costs directly associated to the reuse project should be included. Therefore, the costs related to the investigation docket should be removed. By reviewing Exhibit 32, we identified \$4,875 in legal fees that related specifically to litigating water quality issues. However, the majority of the costs reflected in the supporting invoices were difficult to separate between water quality and reuse. OPC has proposed to remove 50% of legal costs and 20% of engineering costs. However, we believe the record supports the major portion of the costs prior to the hearing dealt with the reuse project and not the issue of water quality. Based on the above and the testimony of utility witness Nixon, we find the best method of reducing the costs related to water quality issues would be to disallow 80% of the costs related to the hearing. Therefore, we have removed \$3,136 ( $\$3,920 \times 80\%$ ) from accounting fees, \$27,804 ( $\$34,755 \times 80\%$ ) from legal fees and \$9,110 ( $\$11,388 \times 80\%$ ) from engineering fees. Also, a review of the utility's brief shows that 25% of the brief related to water quality issues. Therefore, we have removed \$2,813 ( $\$11,250 \times 25\%$ ) of the legal costs related to the preparation of the brief.

Another area addressed by OPC relates to the legal charges for Aloha's attempts to secure bank financing for the reuse project. Utility witness Watford was cross-examined on the issue. He admitted that the legal charges related to the bank financing should be removed from rate case expense. Based on the above and our analysis of the supporting invoices in Exhibit 32, we have removed \$3,384 in rate case expense related to the utility's attempts to obtain bank financing.

Utility witness Nixon was questioned on our policy concerning the allowance of cost estimates for reconsideration or appeals in

rate case expense, prior to the events occurring. He acknowledged that it was Commission policy not to include these costs, but that he did not agree with the policy. However, he was not aware of any cases where the Commission had allowed such costs as part of estimated rate case expense. Section 367.081(7), Florida Statutes, requires that the Commission determine the reasonableness of rate case expense and disallow all rate case expense determined to be unreasonable. We will not know whether the utility will appeal the Order arising from this proceeding. Accordingly, the estimated \$5,925 for future appeals shall be removed from rate case expense.

On cross-examination by the OPC, Utility witness Nixon was asked if he had included the supporting invoices for the \$21,689 charge listed on page two of the rate case exhibit. He admitted the invoices were left out of the exhibit. He also agreed that the July and August invoices with a combined total of \$9,446 were missing from the exhibit. Also, our analysis of the supporting documents for legal expense revealed that the utility failed to provide support for \$2,758.

The burden of proof in a Commission proceeding is always on a utility seeking a rate increase. Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982) The utility has failed to meet its burden in that it failed to file supporting documentation to justify its requested rate case expense for a portion of its accounting and legal expenses. Based on the above, the utility has neither supported nor justified its request for \$31,135 in accounting fees and \$2,758 in legal costs. Therefore, we find it appropriate to reduce rate case expense by \$88,894. Accordingly, rate case expense is \$205,777 (\$294,271 - \$88,894).

Pursuant to Section 367.0816, Florida Statutes, rate case expense shall be apportioned for recovery over a period of four years. However, the utility was granted recovery of rate case expense in Order No. PSC-95-1605-FOF-SU, issued December 28, 1995. That Order allowed annual rate case expense of \$25,324. These rates have been in effect for 13 months. Therefore, Aloha has already recovered \$27,434 and this amount is subtracted from the allowed amount of \$205,777 (\$205,777 - \$27,434 = \$178,343). Consistent with the above statute and since approximately one year has passed, the remaining rate case expense of \$178,353 shall be amortized over three years. This results in an annual rate expense allowance of \$59,448, which is \$14,220 less than the utility's amortized amount.

#### XXII. APPROPRIATE AMOUNT OF PROPERTY TAX EXPENSE

In its application, the utility requested property taxes of \$71,370 for Phase I, \$83,543 for Phase II, and \$110,093 for Phase III. These amounts were calculated by multiplying the capitalized

costs for each phase by the county millage rate of 21.682 mills. We have recalculated property taxes for each phase by multiplying the approved rate base for each phase by the same rate. Based on the above, we find it appropriate to reduce property taxes by \$9,461 for Phase I, by \$11,958 for Phase II, and by \$24,384 for Phase III. Therefore the appropriate amount of property tax expense is \$58,765 for Phase I, \$66,486 for Phase II, and \$80,610 for Phase III.

XXIII. APPROPRIATE AMOUNT OF INCOME TAX EXPENSE

The utility's application did not include a provision for income taxes. OPC witness Dismukes testified that she used an overall cost of capital as opposed to the utility's use of only debt in its calculation. Consequently, she included an income tax provision in her revenue requirement calculation. Based on our decision to calculate the overall rate of return using only debt, we find that no income tax provision is appropriate.

XXIV. ALLOCATION OF THE REVENUE INCREASE TO EACH PHASE

In developing rates for each phase of its reuse system, the utility allocated its additional revenue requirement to each phase based upon the cost of constructing and operating each phase. OPC has proposed using the capacity of each phase to allocate additional revenue.

The utility contends and we agree that this proposal equates to an inappropriate used and useful adjustment which would limit the recovery of return and operating expenses in the initial phases of the reuse system. All three phases of the reuse system are needed to dispose of present effluent capacity. As such, all phases are part of one project which entail more than three segments of transmission main. While at the completion of Phase 1, Aloha will only be able to dispose of one-third of its effluent capacity, this phase is the most important and costly phase, accounting for approximately two-thirds of the cost of constructing the reuse system. The front loading of these costs is due to treatment plant upgrades needed for advanced treatment in order to enter the reuse business.

Pursuant to Section 367.0817(4), Florida Statutes, the Commission's order approving the reuse project plan shall approve rates based on projected costs and shall provide for the implementation of rates without the need for a subsequent proceeding. We believe that phasing in rates based upon the completion of each phase is consistent with the provisions of the statute and is reasonable and fair to the utility's customers. Accordingly, the revenue increase shall be allocated to each phase based upon the cost of the respective phase.

XXV. REVENUE REQUIREMENT OF THE REUSE PROJECT

Based on all the above, we find that the appropriate revenue requirement is \$674,589 for Phase I, \$814,214 for Phase II, and \$947,994 for Phase III. By setting rates designed to produce these revenue requirements, the utility will be given the opportunity to recover its allowed level of expenses. The Schedule of Wastewater Operations for each Phase are appended to this Order as Schedules Nos. 3-A, with our adjustments to the Operating Statements shown on Schedules Nos. 3-B.

XXVI. REFUND OF TEMPORARY RATES APPROVED BY ORDER NO.  
PSC-95-1605-FOF-SU

Because the revenue requirement approved for Phase I is less than that implemented on a temporary basis pursuant to PAA Order No. PSC-95-1605-FOF-SU, there is a requirement for a refund. In the PAA Order, we allowed the utility to implement the approved wastewater rates on a temporary basis subject to refund in the event of a protest. Therefore, as a result of the protest filed by a customer, Aloha established an escrow account as security in the event of a refund, and implemented the approved rates on February 12, 1996.

The PAA Order approved an annual revenue requirement of \$737,951 for Phase I. As noted above, the Phase I revenue requirement is \$674,589. The difference in the two revenue requirements represents the net effect of changes made in this Order from the PAA Order. These changes include: disallowing the income tax expense that was allowed in the PAA Order; an increase in the recommended rate of return from 10.49% to 11.00%; a decrease in rate base from \$2,974,332 to \$2,710,570; and an increase in the allowance for rate case expense from \$25,324 to \$59,448. The net effect of these changes is to reduce the revenue requirement from the PAA Phase I revenue requirement by \$63,362, and this amount shall be refunded to the customers.

Also, the revenue requirement associated with the operation and maintenance (O&M) expenses contained in the PAA Order for Phase I shall be refunded. Under cross-examination by counsel for OPC, SSU witness Nixon testified that, through the PAA rates, the utility has been collecting O&M expenses related to the plant upgrade for Phase I even though Phase I was not yet in operation. Witness Nixon agreed with counsel for OPC that the Commission should "true-up" the PAA rates since the utility did not incur the operation and maintenance expenses. Therefore, based on this testimony, Aloha shall be required to refund the O&M expenses it did not incur during the time the PAA rates were in effect. On an annual basis, the revenue requirement associated with these O&M expenses is \$88,768.

Based on the above, the refund on an annual basis shall be \$152,130, which includes the refund based on a recalculation of the Phase I revenue requirement and the refund of the O&M expenses not incurred but collected while the PAA rates were in effect. Therefore, on an annual basis, 20.61% of the increase collected through the implementation of rates pursuant to the PAA Order shall be refunded with interest pursuant to Rule 25-30.360(4), Florida Administrative Code. Consistent with Rule 25-30.360(2), Florida Administrative Code, the refund shall be accomplished within 90 days of the issuance date of this Order. The utility shall be required to submit the proper refund reports pursuant to Rule 25-30.360(7), Florida Administrative Code. Any unclaimed refunds shall be treated as CIAC pursuant to Rule 25-30.360(8), Florida Administrative Code. Further, the utility's escrow account shall be released upon staff's verification that the refund has been completed.

#### XXVII. ALLOCATION OF REVENUE REQUIREMENT

We have previously determined that only wastewater customers shall bear the cost of Phases I and II of the reuse system. For Phase III, the revenue requirement shall be allocated between the wastewater and reuse customers.

We have reached this conclusion even though the record clearly indicates reuse benefits water supply by replacing groundwater withdrawals as well as recharging aquifers. Additionally, the Florida Legislature in Section 367.0817(3), Florida Statutes, has specifically stated that reuse benefits water, wastewater and reuse customers and gives us the authority to allow a utility to recover the costs of a reuse project from a combination of its water, wastewater or reuse customers. However, staff witness Lingo has testified that criteria to quantify benefits to customers is presently evolving. Absent such criteria, allocating a portion of the revenue requirement to the water customers becomes a judgment call.

We believe at this time that it is not appropriate to allocate any portion of the reuse revenue requirement to water customers. As discussed above, there was substantial customer testimony provided at the hearing regarding customer concerns with the quality of water in the Seven Springs area. In fact, water quality discussions became the focal point of the hearing. It is evident that the quality of water service in the Seven Springs area needs improvement. Until the utility adequately addresses these water quality concerns, we do not believe it is appropriate to raise water rates by shifting a portion of reuse costs to the water customers.

Therefore, the reuse revenue requirements for the initial two phases shall be allocated solely to the wastewater customers. The Phase III revenue requirement shall be allocated between the wastewater and reuse customers. The utility shall explore the issue of whether and how much of the reuse revenue requirement should be allocated to its water customers within its next general rate case involving its wastewater system.

XXVIII. DETERMINATION OF REUSE RATE

Aloha has proposed a reuse rate of \$.25 per thousand gallons. The utility acknowledges this rate is not cost based, but is comparable to the reuse rate charged by Pasco County and will encourage customers to take reuse.

OPC has proposed a cost based rate of \$.84 per thousand gallons. Since phases II and III are necessary to reach paying customers and cease disposing of effluent on the Mitchell property, OPC has considered only the cost of the two latter phases as reuse. OPC then divided the incremental revenue requirement attributable to the latter two phases by the total capacity of the plant to develop its rate.

The utility believes that it is important when first starting a reuse system to make the rate attractive to encourage new customers. The reuse customers are needed for Aloha to stay in the wastewater business and to comply with DEP requirements. We agree that it is important to get the system completed with customers on line. Also, the utility's proposed reuse rate of \$.25 is market based since it compares favorably to the Pasco County reuse rate of \$.28, which is the nearest utility providing reuse. We believe this rate is just, fair and reasonable for the inception of the reuse system, with the knowledge that the rate is subject to increase in subsequent proceedings.

The utility has stated that effluent disposal on the Mitchell property is the most cost-effective disposal alternative available to the utility in the short term to comply with the DEP Consent Final Judgment. Based upon the reuse agreement, the utility can dispose of up to 1.2 mgd of effluent for a five-year period while it completes its reuse system and obtains paying customers. Further, according to the utility, Mr. Mitchell has alternate irrigation sources and will not accept effluent if he is charged. Recognizing that the utility is in transition to reuse, and the Mitchell property is a needed temporary disposal site, we agree that providing reuse to the Mitchell property at a rate of zero is appropriate. However, the record indicates that the Mitchell property, which is presently a ranch, may be subject to future commercial or residential development. Since, the nature of service to all, or part, of the property may change during the

duration of the present contract or the term of an extended contract, if needed, we believe service to the Mitchell property should be periodically evaluated.

Therefore, a reuse rate of \$.25 per thousand gallons shall be approved, but reuse shall be provided to the Mitchell property at a rate of zero during the duration of the present contract. After the contract expires the rate shall be reevaluated based upon conditions at that time and any extension of the contract shall be filed with the Commission for approval. In conjunction with the tariff sheets required for the approved rates, the utility shall file for approval, a revised tariff sheet showing the level and applicability of both rates.

XXIX. APPROPRIATE RATE STRUCTURE AND RATES FOR THE WATER AND WASTEWATER SYSTEMS

Rate Structure

For its Seven Springs system, Aloha's present water rate structure for both its Residential and General Service customers employs a minimum charge based upon meter size and a minimum water usage by meter size. For its wastewater system, Aloha has a flat rate structure for its residential customers and, as with its water customers, a minimum charge rate structure for its general service customers. These rate structures have been in place since 1976.

Water Rate Restructuring

As stated by staff witness Lingo, the above rate structures are not consistent with Commission practice. Current Commission practice provides for a base facility charge rate structure for both water and wastewater service. The base facility charge structure provides proper price signals regarding the true cost of water and better promotes water conservation. While the base facility charge rate structure is preferable, we have determined that no portion of the reuse revenue requirement shall be allocated to water customers at this time. Therefore, it is not necessary to adjust water rates in this reuse proceeding. Additionally, although Aloha's water rates have been indexed, its last rate case was in 1976. As a result, the utility has a relatively low gallonage charge of \$1.25. A revenue neutral rate restructuring, which would remove the gallons included in the minimum charge, would result in an even lower gallonage charge. Since we are not approving, at this time, any revenue change to the water system, and rate restructuring would have, at best, a negligible conservation effect, we believe that the water rate structure should not be changed at this time. However, the utility shall be put on notice that rate restructuring will be considered in its next rate proceeding involving its water system.

Wastewater Rate Restructuring

Since the focus of this Docket is the utility's proposal to include the cost of its reuse system in its wastewater rates, we believe it is appropriate to implement a base facility charge (BFC) rate structure in conjunction with the revenue increases. Aloha provided a 1995 consolidated bill analysis and a schedule of 1995 revenues. Using this revenue and associated billing determinants, we have developed BFC rates to generate the calculated revenue requirement. To design this rate, we have allocated this annual revenue requirement on a 40%/60% ratio between the base facility and gallonage charge. Also, we incorporated a 10,000 gallon cap in the rate structure. Staff witness Lingo proposed a 6,000 gallon cap. However, the utility contends that a 10,000 gallon cap is more appropriate since it includes 74% of total gallons, while only 57% of total gallons would be included under the 6,000 cap. Additionally, a lower cap places a higher revenue burden on low-use customers. It is our practice that the cap be higher than the average usage, which for Aloha is approximately 8,000 gallons. Therefore, we find that a 10,000 gallon cap is appropriate because it is above average usage and lessens the burden on lower-usage customers.

Rate Level

The utility proposed that the revenue increase be allocated in increments based upon completion of each phase. Rates reflecting these incremental revenue increases are developed by factoring the rates in effect prior to temporary rates by the respective percentage revenue increases for each phase. However, because we are approving a change to a BFC rate structure for wastewater rates as discussed above, we have applied the percentage increases for each phase to the revenue neutral BFC wastewater rates. Using increases of 48.74% for Phase I, 57.54% for Phase II, and 63.09% for Phase III, the wastewater rates are as shown on Schedule No. 4. Further, three additional sets of rates are calculated to reflect increases in reuse sales projected to start at the end of Phase III. These rates are also shown on Schedule No. 4.

Based upon the above, the wastewater rate structure for both residential and general service wastewater customers shall be changed to a BFC rate structure. Water rates and rate structure shall not be changed at this time, but as determined above, Docket No. 960545-WS shall remain open. The utility shall be required to file revised tariff sheets and a proposed customer notice for each phase 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.

Prior to the implementation of rates for each phase, the utility shall be required to provide certification by its licensed professional engineer that the phase is complete and in service. This is consistent with the utility's proposal. If the certification for Phase I has not been received as of the date of our vote, then the rates shall be recalculated to reflect the deletion of O&M expenses. Further, 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 ten days after the date of the notice. Subsequent wastewater rate reductions based upon projected reuse revenue shall occur annually based upon the anniversary date of approval of Phase III rates, and shall be subject to the same tariff filing and customer noticing requirements as mentioned above.

XXX. AUTOMATIC REDUCTION OF RATES TO REFLECT REMOVAL  
OF AMORTIZED RATE CASE EXPENSE AS REQUIRED  
BY SECTION 367.0816, FLORIDA STATUTES

Section 367.0816, Florida Statutes, requires that the rates be reduced immediately following the expiration of the four-year period by the amount of rate case expense previously authorized in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees which is \$62,249. As noted above, temporary rates have been in effect for approximately one year, and a portion of rate case expense was recovered in those rates. Therefore, the remaining rate case expense shall be amortized over the remaining three-year period. The removal of rate case expense will reduce rates as shown on Schedule No. 5.

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

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

XXXI. LIMITED PROCEEDING VERSUS REUSE STATUTE

In PAA Order No. PSC-95-1605-FOF-SU, issued on December 28, 1995, we considered the three-phased plan proposed by Aloha and preliminarily determined that only Phase I should be approved and that this phase did not constitute reuse. Therefore, we proposed to approve Phase I as a limited proceeding pursuant to Section

367.0822, Florida Statutes, and required Aloha to pay a filing fee in accordance with that section. In response to this decision, Aloha submitted its check in the amount of \$2,250.

Under Section 367.0817, Florida Statutes, there is no definition of what constitutes a reuse system. However, Section 367.0817, Florida Statutes, specifically references Section 403.064, Florida Statutes, and subsection (1) of that latter section specifically provides:

The encouragement and promotion of water conservation, and reuse of reclaimed water, as defined by the department [Department of Environmental Protection], are state objectives and are considered to be in the public interest. (emphasis supplied)

Chapter 62-610, Florida Administrative Code, is DEP's rule concerning reuse. Rules 62-610.200(47) and (49), Florida Administrative Code, provide as follows:

(47) "Reclaimed water distribution system" means a network of pipes, pumping facilities, storage facilities, and appurtenances designed to convey and distribute reclaimed water from one or more domestic wastewater treatment facilities to one or more users of reclaimed water.

\* \* \*

(49) "Reuse" means the deliberate application of reclaimed water, in compliance with Department and District rules, for a beneficial purpose. Criteria used to classify projects as "reuse" or "effluent disposal" are contained in Rule 62-610.810, Florida Administrative Code.

Rule 62.810(2), Florida Administrative Code, provides in pertinent part:

(2) Reuse projects. The following shall be classified as "reuse."

\* \* \*

(b) Projects permitted under Part III of Chapter 62-610, Florida Administrative Code

Part III of Chapter 62-610, Florida Administrative Code, is entitled: Slow Rate Land Application Systems; Public Access Areas, Residential Irrigation, and Edible Crops.

In the testimony of Aloha witness Porter, he specifically states that, "Aloha's project has been permitted by the FDEP under Part III of 62-610, Florida Administrative Code, as a slow rate land application system with public access." Further, he testified that this project was designed to replace the consumptive use permits and wells currently being used by Mitchell for irrigation purposes. Both Aloha witnesses Porter and Watford testified that, whether you looked at each phase together or separately, each phase was a reuse project. Mr. Watford further noted that in order to proceed with Phase I, Aloha had "to construct a plant upgrade to meet DEP public access irrigation standards" and that to meet "Class 1 reliability standards involved significant costs." Also, by letter dated September 19, 1995, Mr. York, the DEP Reuse Coordinator, confirmed that the project proposed by Aloha was a valid reuse project.

Therefore, the "reuse project plan" filed by Aloha shall be considered a valid reuse project and such application shall be processed pursuant to Section 367.0817, Florida Statutes. Further, because Section 367.0817, Florida Statutes, does not make provision for a filing fee, Aloha shall be refunded the \$2,250 it paid the Commission when we tentatively determined that this case should be processed as a limited proceeding pursuant to Section 367.0822, Florida Statutes.

XXXII. CLOSING OF DOCKET

For Docket No. 950615-SU, there are no further actions to be taken, and that docket shall be closed administratively upon verification that the utility has completed the required refunds with interest. However, Docket No. 960545-WS shall remain open to address our remaining concerns about the quality of service for water and the appropriate rates for water.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the application by Aloha Utilities, Inc., for approval of its reuse project is 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

ORDER NO. PSC-97-0280-FOF-WS  
DOCKETS NOS. 950615-SU, 960545-WS  
PAGE 46

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

ORDERED that Aloha Utilities, Inc., shall immediately investigate the availability of funding under the Southwest Florida Water Management District's programs and provide the Commission with its findings within 30 days of the date of this Order. When funding is available, Aloha Utilities, Inc., shall apply and provide the Commission with copies of such applications. It is further

ORDERED that Aloha Utilities, Inc., shall take aggressive action to correct the water quality problems and shall evaluate treatment alternatives for the removal of hydrogen sulfide from the supply wells. It is further

ORDERED that Aloha Utilities, Inc., shall submit a report on this evaluation within three months from the date of this Order containing the information set forth in the body of this Order. It is further

ORDERED that the base facility charge rate structure and rates for wastewater service shall be approved as set forth in the body and schedule attached to and made a part of this Order. It is further

ORDERED that Aloha Utilities, Inc., shall be put on notice that rate restructuring will be considered in its next rate proceeding involving its water system. It is further

ORDERED that Aloha Utilities, Inc., shall implement the approved charge for reuse service consisting of no charge to the Mitchell property and \$.25 to all other reuse customers as set forth in the body of this Order. In conjunction with the tariff sheets required for the approved rates, the utility shall file for approval, a revised tariff sheet showing the level and applicability of both reuse rates set forth in the body of this Order. It is further

ORDERED that after the Mitchell contract expires, the reuse rate shall be reevaluated based upon conditions at the time and any extension of the contract shall be filed with the Commission for approval. It is further

ORDERED that, prior to the implementation of the rates and charges approved herein, and pursuant to Rule 25-22.0407(10), Florida Administrative Code, Aloha Utilities, Inc., shall submit, and have approved, revised tariff sheets and a customer notice for each phase. The revised tariff sheets will be approved upon

ORDER NO. PSC-97-0280-FOF-WS  
DOCKETS NOS. 950615-SU, 960545-WS  
PAGE 47

staff's verification that they are consistent with this Commission's decision and that the proposed customer notice is adequate. It is further

ORDERED that the rates approved herein for each phase and subsequent to Phase III 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 rates for each phase, Aloha Utilities, Inc., shall provide certification by its licensed professional engineer that the phase is complete and in service. 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 based upon the projected reuse revenue, after implementation of Phase III, Aloha Utilities, Inc., shall decrease its rates each year as set forth in the body of this Order. 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 pursuant to Rule 25-30.360(2), Florida Administrative Code, the refunds shall be completed within 90 days of the date of this Order. It is further

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

ORDERED that pursuant to Rule 25-30.360(8), Florida Administrative Code, any unclaimed refunds shall be treated as contributions in aid of construction.

ORDERED that the utility's escrow account shall be released upon staff's verification that the refund has been completed. It is further

ORDERED that the rates approved herein shall be reduced at the end of the remaining three-year rate case expense amortization period. Aloha Utilities, Inc., shall file revised tariff sheets no later than one month prior to the actual date of the reduction and shall also file a customer notice. It is further

ORDER NO. PSC-97-0280-FOF-WS  
DOCKETS NOS. 950615-SU, 960545-WS  
PAGE 48

ORDERED that if Aloha Utilities, Inc., files this reduction in conjunction with a price index or pass through or other rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease, and for the reduction in the rates due to the removal of the amortized rate case expense. It is further

ORDERED that Aloha Utilities, Inc., shall file all required reports within the time periods prescribed in the body of this Order. It is further

ORDERED that the next rate filing of Aloha Utilities, Inc., shall contain information sufficient to enable this Commission to address reuse rates for all reuse customers. Further, Aloha Utilities, Inc., shall explore in its next rate filing whether and how much of the reuse revenue requirement should be allocated to its water customers. It is further

ORDERED that Docket No. 950615-SU shall be closed administratively upon our staff's verification that Aloha Utilities, Inc., has completed the required refunds with interest. However, Docket No. 960545-WS shall remain open to allow the Commission to continue to investigate the quality of service and whether a change in water rates will ultimately be required.

By ORDER of the Florida Public Service Commission, this 12th day of March, 1997.

BLANCA S. BAYÓ, Director  
Division of Records and Reporting

by: Kary Flynn  
Chief, Bureau of Records

( S E A L )

RRJ

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. SCHEDULE OF WASTEWATER RATE BASE REUSE PROJECT - PHASE I			SCHEDULE NO. 1 DOCKET NO. 950615-SU			
COMPONENT	PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED	
1 UTILITY PLANT IN SERVICE	\$ 3,146,653	\$ 0	\$ 3,146,653	(296,422)	2,850,231	
2 LAND	0	0	0	0	0	
3 NON-USED & USEFUL COMPONENTS	0	0	0	0	0	
4 ACCUMULATED DEPRECIATION	0	0	0	(139,661)	(139,661)	
5 CIAC	0	0	0	0	0	
6 AMORTIZATION OF CIAC	0	0	0	0	0	
7 ACQUISITION ADJUSTMENTS -NET	0	0	0	0	0	
8 ADVANCES FOR CONSTRUCTION	0	0	0	0	0	
9 DEFERRED TAXES	0	0	0	0	0	
10 WORKING CAPITAL ALLOWANCE	0	0	0	0	0	
<b>RATE BASE</b>	<b>\$ 3,146,653</b>	<b>\$ 0</b>	<b>\$ 3,146,653</b>	<b>(436,083)</b>	<b>2,710,570</b>	

ALOHA UTILITIES, INC.  
CAPITAL STRUCTURE  
REUSE PROJECT - PHASE I

SCHEDULE NO. 2  
DOCKET NO. 950615-SU

ORDER NO. PSC-97-0280-FOF-WS  
DOCKETS NOS. 950615-SU, 960545-WS  
PAGE 51

DESCRIPTION	TOTAL CAPITAL	SPECIFIC ADJUSTMENTS (EXPLAIN)	PRO RATA ADJUSTMENTS	CAPITAL RECONCILED TO RATE BASE	RATIO	COST RATE	WEIGHTED COST
<b>PER UTILITY</b>							
1 LONG TERM DEBT	\$ 3,146,653	\$ 0	\$ 0	3,146,653	100.00%	12.00%	12.00%
2 SHORT-TERM DEBT	0	0	0	0	0.00%	0.00%	0.00%
3 PREFERRED STOCK	0	0	0	0	0.00%	0.00%	0.00%
4 COMMON EQUITY	0	0	0	0	0.00%	0.00%	0.00%
5 CUSTOMER DEPOSITS	0	0	0	0	0.00%	0.00%	0.00%
6 DEFERRED ITC'S-ZERO COST	0	0	0	0	0.00%	0.00%	0.00%
7 DEFERRED ITC'S-WTD COST	0	0	0	0	0.00%	0.00%	0.00%
8 DEFERRED INCOME TAXES	0	0	0	0	0.00%	0.00%	0.00%
9 TOTAL CAPITAL	\$ <u>3,146,653</u>	\$ 0	\$ 0	<u>3,146,653</u>	<u>100.00%</u>		<u>12.00%</u>
<b>PER COMMISSION</b>							
10 LONG TERM DEBT	\$ 2,855,901	\$ 0	\$(145,331)	2,710,570	100.00%	11.00%	11.00%
11 SHORT-TERM DEBT	0	0	0	0	0.00%	0.00%	0.00%
12 PREFERRED STOCK	0	0	0	0	0.00%	0.00%	0.00%
13 COMMON EQUITY	0	0	0	0	0.00%	0.00%	0.00%
14 CUSTOMER DEPOSITS	0	0	0	0	0.00%	0.00%	0.00%
15 DEFERRED ITC'S-ZERO COST	0	0	0	0	0.00%	0.00%	0.00%
15 DEFERRED ITC'S-WTD COST	0	0	0	0	0.00%	0.00%	0.00%
16 DEFERRED INCOME TAXES	0	0	0	0	0.00%	0.00%	0.00%
17 TOTAL CAPITAL	\$ <u>2,855,901</u>	\$ 0	\$(145,331)	<u>2,710,570</u>	<u>100.00%</u>		<u>11.00%</u>
<b>RANGE OF REASONABLENESS</b>					<b>LOW</b>	<b>HIGH</b>	
RETURN ON EQUITY (ROE)					<u>0.00%</u>	<u>0.00%</u>	
OVERALL RATE OF RETURN					<u>11.00%</u>	<u>11.00%</u>	

ALOHA UTILITIES, INC.  
 STATEMENT OF WASTEWATER OPERATIONS  
 REUSE PROJECT - PHASE I

SCHEDULE NO. 3-A  
 DOCKET NO. 950615-SU

DESCRIPTION	PER UTILITY'S APPLICATION	ADJUSTMENTS	UTILITY ADJUSTED	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$ 750,979	0 \$	750,979 \$	(750,979) \$	0 \$	674,589 \$	674,589
OPERATING EXPENSES							
2 OPERATION AND MAINTENANCE	\$ 114,024	44,418 \$	158,442 \$	(14,220) \$	144,222 \$	\$	144,222
3 DEPRECIATION	154,193	0	154,193	(14,254)	139,939		139,939
4 AMORTIZATION	0	0	0	0	0		0
5 TAXES OTHER THAN INCOME	105,164	0	105,164	(43,255)	61,909	30,357	92,265
6 INCOME TAXES	0	0	0	0	0	0	0
7 TOTAL OPERATING EXPENSES	\$ 373,381 \$	44,418 \$	417,799 \$	(71,729) \$	346,070 \$	30,357 \$	376,426
8 OPERATING INCOME	\$ 377,598 \$	(44,418) \$	333,180 \$	(679,250) \$	(346,070) \$	644,233 \$	298,163
9 RATE BASE	\$ 3,146,653	\$ 3,146,653	\$ 3,146,653	\$ 2,710,570	\$ 2,710,570	\$ 2,710,570	\$ 2,710,570
RATE OF RETURN	12.00%		10.59%		-12.77%		11.00%

ORDER NO. PSC-97-0280-FOF-WS  
 DOCKETS NOS. 950615-SU, 960545-WS  
 PAGE 52

**ALOHA UTILITIES, INC.  
 ADJUSTMENTS TO OPERATING STATEMENTS  
 REUSE PROJECT - PHASE I**

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

EXPLANATION	WASTEWATER
<b>OPERATING REVENUES</b>	
a) To reverse the utility's proposed revenue increase.	\$ <u>(750,979)</u>
<b>OPERATION AND MAINTENANCE EXPENSES</b>	
Adjustment to reduce rate case expense	\$ <u>(14,220)</u>
<b>DEPRECIATION EXPENSE</b>	
To reflect adjustment to plant	\$ <u>(14,254)</u>
<b>TAXES OTHER THAN INCOME</b>	
a) Adjustment to correct property taxes.	(9,461)
b) Adjustment of RAFs to coincide with Commission's adjusted revenues.	<u>(33,794)</u>
	\$ <u>(43,255)</u>
<b>OPERATING REVENUES</b>	
a) To reflect recommended revenue increase.	\$ <u>674,589</u>
<b>TAXES OTHER THAN INCOME</b>	
a) To reflect taxes other than income pertaining to recommended revenues.	\$ <u>30,357</u>

ALOHA UTILITIES, INC. SCHEDULE OF WASTEWATER RATE BASE REUSE PROJECT - PHASE II			SCHEDULE NO. 1 DOCKET NO. 950615-SU		
COMPONENT	PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED
1 UTILITY PLANT IN SERVICE	\$ 3,617,912	\$ 0	\$ 3,617,912	(331,128)	3,286,784
2 LAND	0	0	0	0	0
3 NON-USED & USEFUL COMPONENTS	0	0	0	0	0
4 ACCUMULATED DEPRECIATION	(89,941)	0	(89,941)	(130,443)	(220,384)
5 CIAC	0	0	0	0	0
6 AMORTIZATION OF CIAC	0	0	0	0	0
7 ACQUISITION ADJUSTMENTS -NET	0	0	0	0	0
8 ADVANCES FOR CONSTRUCTION	0	0	0	0	0
9 DEFERRED TAXES	0	0	0	0	0
10 WORKING CAPITAL ALLOWANCE	0	0	0	0	0
<b>RATE BASE</b>	<b>\$ 3,527,971</b>	<b>\$ 0</b>	<b>\$ 3,527,971</b>	<b>(461,571)</b>	<b>3,066,400</b>

ALOHA UTILITIES, INC.  
CAPITAL STRUCTURE  
REUSE PROJECT - PHASE II

SCHEDULE NO. 2  
DOCKET NO. 950615-SU

ORDER NO. PSC-97- 80-FOF-WS  
DOCKETS NOS. 950615-SU, 960545-WS  
PAGE 55

DESCRIPTION	TOTAL CAPITAL	SPECIFIC ADJUSTMENTS (EXPLAIN)	PRO RATA ADJUSTMENTS	CAPITAL RECONCILED TO RATE BASE	RATIO	COST RATE	WEIGHTED COST
<b>PER UTILITY</b>							
1 LONG TERM DEBT	\$ 3,617,912	\$ 0	\$ 0	3,617,912	100.00%	12.00%	12.00%
2 SHORT-TERM DEBT	0	0	0	0	0.00%	0.00%	0.00%
3 PREFERRED STOCK	0	0	0	0	0.00%	0.00%	0.00%
4 COMMON EQUITY	0	0	0	0	0.00%	0.00%	0.00%
5 CUSTOMER DEPOSITS	0	0	0	0	0.00%	0.00%	0.00%
6 DEFERRED ITC'S-ZERO COST	0	0	0	0	0.00%	0.00%	0.00%
7 DEFERRED ITC'S-WTD COST	0	0	0	0	0.00%	0.00%	0.00%
8 DEFERRED INCOME TAXES	0	0	0	0	0.00%	0.00%	0.00%
9 TOTAL CAPITAL	\$ <u>3,617,912</u>	\$ 0	\$ 0	<u>3,617,912</u>	<u>100.00%</u>		<u>12.00%</u>
<b>PER COMMISSION</b>							
10 LONG TERM DEBT	\$ 3,286,784	\$ 0	\$(220,384)	3,066,400	100.00%	11.00%	11.00%
11 SHORT-TERM DEBT	0	0	0	0	0.00%	0.00%	0.00%
12 PREFERRED STOCK	0	0	0	0	0.00%	0.00%	0.00%
13 COMMON EQUITY	0	0	0	0	0.00%	0.00%	0.00%
14 CUSTOMER DEPOSITS	0	0	0	0	0.00%	0.00%	0.00%
15 DEFERRED ITC'S-ZERO COST	0	0	0	0	0.00%	0.00%	0.00%
15 DEFERRED ITC'S-WTD COST	0	0	0	0	0.00%	0.00%	0.00%
16 DEFERRED INCOME TAXES	0	0	0	0	0.00%	0.00%	0.00%
17 TOTAL CAPITAL	\$ <u>3,286,784</u>	\$ 0	\$(220,384)	<u>3,066,400</u>	<u>100.00%</u>		<u>11.00%</u>
<b>RANGE OF REASONABLENESS</b>					<b>LOW</b>	<b>HIGH</b>	
RETURN ON EQUITY (ROE)					<u>0.00%</u>	<u>0.00%</u>	
OVERALL RATE OF RETURN					<u>11.00%</u>	<u>11.00%</u>	

ALOHA UTILITIES, INC.  
 STATEMENT OF WASTEWATER OPERATIONS  
 REUSE PROJECT - PHASE II

SCHEDULE NO. 3-A  
 DOCKET NO. 950615-SU

DESCRIPTION	PER UTILITY'S APPLICATION	ADJUSTMENTS	UTILITY ADJUSTED	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$ 902,379	0 \$	902,379 \$	(902,379) \$	0 \$	814,214 \$	814,214
OPERATING EXPENSES							
2 OPERATION AND MAINTENANCE	\$ 174,477	44,418 \$	218,895 \$	(14,220) \$	204,675 \$	\$	204,675
3 DEPRECIATION	180,395	0	180,395	(16,385)	164,010		164,010
4 AMORTIZATION	0	0	0	0	0		0
5 TAXES OTHER THAN INCOME	124,150	0	124,150	(52,565)	71,585	36,640	108,225
6 INCOME TAXES	0	0	0	0	0	0	0
7 TOTAL OPERATING EXPENSES	\$ 479,022 \$	44,418 \$	523,440 \$	(83,170) \$	440,270 \$	36,640 \$	476,910
8 OPERATING INCOME	\$ 423,357 \$	(44,418) \$	378,939 \$	(819,209) \$	(440,270) \$	777,574 \$	337,304
9 RATE BASE	\$ 3,527,971		\$ 3,527,971		\$ 3,066,400		\$ 3,066,400
RATE OF RETURN	12.00%		10.74%		-14.36%		11.00%

EXPLANATION	WASTEWATER
<b>ALOHA UTILITIES, INC.</b>	
<b>ADJUSTMENTS TO OPERATING STATEMENTS</b>	
<b>REUSE PROJECT - PHASE II</b>	
<b>SCHEDULE NO. 3-B</b>	
<b>DOCKET NO. 950615-SU</b>	
<u>OPERATING REVENUES</u>	
a) To reverse the utility's proposed revenue increase.	\$ <u>(902,379)</u>
<u>OPERATION AND MAINTENANCE EXPENSES</u>	
Adjustment to reduce rate case expense	\$ <u>(14,220)</u>
<u>DEPRECIATION EXPENSE</u>	
To reflect adjustment to plant	\$ <u>(16,385)</u>
<u>TAXES OTHER THAN INCOME</u>	
a) Adjustment to correct property taxes.	(11,958)
b) Adjustment of RAFs to coincide with COMMISSION's adjusted revenues.	<u>(40,607)</u>
	\$ <u>(52,565)</u>
<u>OPERATING REVENUES</u>	
a) To reflect recommended revenue increase.	\$ <u>814,214</u>
<u>TAXES OTHER THAN INCOME</u>	
a) To reflect taxes other than income pertaining to recommended revenues.	\$ <u>36,640</u>

ALOHA UTILITIES, INC. SCHEDULE OF WASTEWATER RATE BASE REUSE PROJECT - PHASE III			SCHEDULE NO. 1 DOCKET NO. 950615-SU			
COMPONENT	PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED	
1 UTILITY PLANT IN SERVICE	\$ 4,842,471	\$ 0	\$ 4,842,471	(723,098)	4,119,373	
2 LAND	0	0	0	0	0	
3 NON-USED & USEFUL COMPONENTS	0	0	0	0	0	
4 ACCUMULATED DEPRECIATION	(240,317)	0	(240,317)	(161,203)	(401,520)	
5 CIAC	0	0	0	0	0	
6 AMORTIZATION OF CIAC	0	0	0	0	0	
7 ACQUISITION ADJUSTMENTS -NET	0	0	0	0	0	
8 ADVANCES FOR CONSTRUCTION	0	0	0	0	0	
9 DEFERRED TAXES	0	0	0	0	0	
10 WORKING CAPITAL ALLOWANCE	0	0	0	0	0	
<b>RATE BASE</b>	<b>\$ 4,602,154</b>	<b>\$ 0</b>	<b>\$ 4,602,154</b>	<b>(884,301)</b>	<b>3,717,853</b>	

ALOHA UTILITIES, INC.  
 CAPITAL STRUCTURE  
 REUSE PROJECT - PHASE III

SCHEDULE NO. 2  
 DOCKET NO. 950615-SU

ORDER NO. PSC-97-0280-FOF-W5  
 DOCKETS NOS. 950615-SU, 960545-W5  
 PAGE 59

DESCRIPTION	TOTAL CAPITAL	SPECIFIC ADJUSTMENTS (EXPLAIN)	PRO RATA ADJUSTMENTS	CAPITAL RECONCILED TO RATE BASE	RATIO	COST RATE	WEIGHTED COST
<b>PER UTILITY</b>							
1 LONG TERM DEBT	\$ 4,602,154	\$ 0	\$ 0	4,602,154	100.00%	12.00%	12.00%
2 SHORT-TERM DEBT	0	0	0	0	0.00%	0.00%	0.00%
3 PREFERRED STOCK	0	0	0	0	0.00%	0.00%	0.00%
4 COMMON EQUITY	0	0	0	0	0.00%	0.00%	0.00%
5 CUSTOMER DEPOSITS	0	0	0	0	0.00%	0.00%	0.00%
6 DEFERRED ITC'S-ZERO COST	0	0	0	0	0.00%	0.00%	0.00%
7 DEFERRED ITC'S-WTD COST	0	0	0	0	0.00%	0.00%	0.00%
8 DEFERRED INCOME TAXES	0	0	0	0	0.00%	0.00%	0.00%
9 TOTAL CAPITAL	\$ 4,602,154	\$ 0	\$ 0	4,602,154	100.00%		12.00%
<b>PER COMMISSION</b>							
10 LONG TERM DEBT	\$ 4,119,373	\$ 0	\$(401,520)	3,717,853	100.00%	11.00%	11.00%
11 SHORT-TERM DEBT	0	0	0	0	0.00%	0.00%	0.00%
12 PREFERRED STOCK	0	0	0	0	0.00%	0.00%	0.00%
13 COMMON EQUITY	0	0	0	0	0.00%	0.00%	0.00%
14 CUSTOMER DEPOSITS	0	0	0	0	0.00%	0.00%	0.00%
15 DEFERRED ITC'S-ZERO COST	0	0	0	0	0.00%	0.00%	0.00%
15 DEFERRED ITC'S-WTD COST	0	0	0	0	0.00%	0.00%	0.00%
16 DEFERRED INCOME TAXES	0	0	0	0	0.00%	0.00%	0.00%
17 TOTAL CAPITAL	\$ 4,119,373	\$ 0	\$(401,520)	3,717,853	100.00%		11.00%
<b>RANGE OF REASONABLENESS</b>					<b>LOW</b>	<b>HIGH</b>	
RETURN ON EQUITY (ROE)					0.00%	0.00%	
OVERALL RATE OF RETURN					11.00%	11.00%	

ALOHA UTILITIES, INC.  
 STATEMENT OF WASTEWATER OPERATIONS  
 REUSE PROJECT - PHASE III

SCHEDULE NO. 3-A  
 DOCKET NO. 950615-SU

DESCRIPTION	PER UTILITY'S APPLICATION	ADJUSTMENTS	UTILITY ADJUSTED	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$ 1,130,023	0	\$ 1,130,023	\$ (1,130,023)	0	\$ 947,994	\$ 947,994
OPERATING EXPENSES							
2 OPERATION AND MAINTENANCE	\$ 187,617	44,418	\$ 232,035	\$ (16,220)	\$ 215,815	\$	\$ 215,815
3 DEPRECIATION	229,204	0	229,204	(34,358)	194,846		194,846
4 AMORTIZATION	0	0	0	0	0		0
5 TAXES OTHER THAN INCOME	160,944	0	160,944	(75,235)	85,709	42,660	128,369
6 INCOME TAXES	0	0	0	0	0	0	0
7 TOTAL OPERATING EXPENSES	\$ 577,765	\$ 44,418	\$ 622,183	\$ (125,813)	\$ 496,370	\$ 42,660	\$ 539,030
8 OPERATING INCOME	\$ 552,258	\$ (44,418)	\$ 507,840	\$ (1,004,210)	\$ (496,370)	\$ 905,334	\$ 408,964
9 RATE BASE	\$ 4,602,154		\$ 4,602,154		\$ 3,717,853		\$ 3,717,853
RATE OF RETURN	12.00%		11.03%		-13.35%		11.00%

**ALOHA UTILITIES, INC.**  
**ADJUSTMENTS TO OPERATING STATEMENTS**  
**REUSE PROJECT - PHASE III**

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

EXPLANATION	WASTEWATER
<b><u>OPERATING REVENUES</u></b>	
a) To reverse the utility's proposed revenue increase.	\$ <u>(1,130,023)</u>
<b><u>OPERATION AND MAINTENANCE EXPENSES</u></b>	
Adjustment to reduce rate case expense	(14,220)
Adjustment to reduce equipment maintenance expense	<u>(2,000)</u>
	\$ <u>(16,220)</u>
<b><u>DEPRECIATION EXPENSE</u></b>	
To reflect adjustment to plant	\$ <u>(34,358)</u>
<b><u>TAXES OTHER THAN INCOME</u></b>	
a) Adjustment to correct property taxes.	(24,384)
b) Adjustment of RAFs to coincide with Commission's adjusted revenues.	<u>(50,851)</u>
	\$ <u>(75,235)</u>
<b><u>OPERATING REVENUES</u></b>	
a) To reflect recommended revenue increase.	\$ <u>947,994</u>
<b><u>TAXES OTHER THAN INCOME</u></b>	
a) To reflect taxes other than income pertaining to recommended revenues.	\$ <u>42,660</u>

UTILITY: ALOHA UTILITIES INC.		SCHEDULE 4 DOCKET NO. 950615-SU										
RATE SCHEDULE		Wastewater Monthly Rates										
		Tariffed Rates Prior to Filing	Implemented PAA Rates	Utility Requested Phase I	Comm App Phase I	Utility Requested Phase II	Comm App Phase II	Utility Requested Phase III	Comm App Phase III	Comm App Phase III-A	Comm App Phase III-B	Comm App Phase III-C
<b>RESIDENTIAL</b>												
Base Facility Charge * All Meter Sizes		\$13.60	\$21.37	\$21.40	\$8.82	\$22.73	\$9.34	\$24.53	\$9.67	\$9.32	\$9.17	\$9.03
Residential Gallonage Charge, per 1,000 gallons (Maximum 10,000 gallons)		0	0	0	\$2.30	0	\$2.43	0	\$2.52	\$2.42	\$2.39	\$2.35
<b>GENERAL SERVICE / ALL OTHER PHASES</b>												
Base Facility Charge: minimum **												
5/8"x3/4" 3,000		\$13.60	\$21.37	\$21.40	\$8.82	\$22.73	\$9.34	\$24.53	\$9.67	\$9.32	\$9.17	\$9.03
1" 8,000		\$36.21	\$56.93	\$56.96	\$22.05	\$60.50	\$23.36	\$65.29	\$24.18	\$23.29	\$22.93	\$22.57
1-1/2" 15,000		\$69.97	\$106.82	\$106.93	\$44.11	\$113.57	\$46.72	\$122.56	\$48.36	\$46.59	\$45.85	\$45.14
2" 24,000		\$108.75	\$170.91	\$171.07	\$70.57	\$181.69	\$74.75	\$196.08	\$77.38	\$74.54	\$73.37	\$72.23
3" 48,000		\$217.60	\$341.79	\$342.12	\$141.15	\$363.37	\$149.50	\$392.14	\$154.76	\$149.08	\$146.73	\$144.46
6" 150,000		\$679.65	\$1,068.15	\$1,069.16	\$441.08	\$1,135.54	\$467.18	\$1,225.45	\$483.63	\$465.89	\$458.53	\$451.42
8" 240,000		\$1,088.00	\$1,708.97	\$1,710.62	\$705.73	\$1,816.83	\$747.48	\$1,960.68	\$773.82	\$745.42	\$733.65	\$722.28
General Service Gallonage Charge, per 1,000 gallons (No Maximum)		\$1.75	\$2.76	\$2.75	\$2.75	\$2.92	\$2.91	\$3.16	\$3.02	\$2.91	\$2.86	\$2.82
<b>TYPICAL MONTHLY BILL COMPARISONS</b>												
- Residential Usage (gallons) -												
3,000		\$13.60	\$21.37	\$21.40	\$15.72	\$22.73	\$16.63	\$24.53	\$17.23	\$16.58	\$16.34	\$16.08
5,000		\$13.60	\$21.37	\$21.40	\$20.32	\$22.73	\$21.49	\$24.53	\$22.27	\$21.42	\$21.12	\$20.78
10,000		\$13.80	\$21.37	\$21.40	\$31.82	\$22.73	\$33.64	\$24.53	\$34.87	\$33.52	\$33.07	\$32.53
<b>RECLAIMED WATER CUSTOMERS (REUSE)</b>												
Mitchell Property		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
All others		\$0.00	\$0.00	\$0.25	\$0.25	\$0.25	\$0.25	\$0.25	\$0.25	\$0.25	\$0.25	\$0.25

\* The utility's present and proposed residential rate is a flat rate structure

\*\* The utility's present and proposed General Service rates have minimum gallonage included within the base facility charge (minimum charge)

UTILITY: ALOHA UTILITIES, INC.

SCHEDULE 5  
 DOCKET NO. 950615-SU

Schedule of Rate Decrease After Expiration of  
 Amortization Period for Rate Case Expense

	Phase III APPROVED Rates	Rate Decrease
<b>Residential</b>		
Base Facility Charge (meter size): All Meter Sizes	\$9.67	\$0.41
Gallorage Charge, per 1,000 gallons (Maximum 10,000 gallons)	\$2.52	\$0.11
	Phase III APPROVED Rates	Rate Decrease
<b>General Service and all other classes</b>		
Base Facility Charge (meter size): 5/8"x3/4"	\$9.67	\$0.41
1"	\$24.18	\$1.03
1-1/2"	\$48.36	\$2.07
2"	\$77.38	\$3.30
3"	\$154.76	\$6.61
4"	\$483.63	\$20.65
6"	\$773.82	\$33.04
Gallorage Charge, per 1,000 gallons	\$3.02	\$0.13