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WILLIAM E. SUNDBSTROM, P.A.
DIANE D. TREMOR, P.A.
JOHN L. WHARTON

January 4, 1999

ROBERT M. C. ROSE
OF COUNSEL

VIA HAND DELIVERY

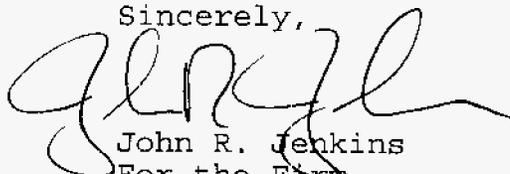
Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Audit Control No. 97-064-2-1;
Undocketed Audit of Aloha Utilities, Inc.
Our File No. 26038.27

Dear Ms. Bayo:

Enclosed please find the original and fifteen (15) copies of Aloha Utilities, Inc.'s response to the undocketed audit, Audit Control No. 97-064-2-1. Should you have any questions regarding the enclosed, please feel free to call.

Sincerely,



John R. Jenkins
For the Firm

RECEIVED & FILED



FPSC BUREAU OF RECORDS

ACK _____

AFA _____

APP _____

CAF JRJ:sn

CMU Enclosures

CTR _____

cc: Mr. Stephen Watford
EAG _____ Robert C. Nixon, CPA
LEG 1 John H. Cronin, Jr., CPA

LIN _____

OPC _____

RCH _____

SEC _____

WAS R

OTH _____

DOCUMENT NUMBER-DATE

00046 JAN-48

FPSC-RECORDS/REPORTING

Cronin, Jackson, Nixon & Wilson
CERTIFIED PUBLIC ACCOUNTANTS, P.A.

JAMES L. CARLSTEDT, C.P.A.
JOHN H. CRONIN, JR., C.P.A.
ERIC M. DOAN, C.P.A.
ROBERT H. JACKSON, C.P.A.
ELIZABETH A. MAY, C.P.A.
BRENDA W. McBARRON, C.P.A.
ROBERT C. NIXON, C.P.A.
HOLLY M. TOWNER, C.P.A.
JOHN A. VANTREASE, C.P.A.
JAMES L. WILSON, C.P.A.

2560 GULF-TO-BAY BOULEVARD
SUITE 200
CLEARWATER, FLORIDA 33765-4419
(727) 791-4020
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December 31, 1998

Ms. Denise Vandiver
Chief Bureau of Accounting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Aloha Utilities, Inc. - Undocketed Earnings Investigation Audit Report

Dear Ms. Vandiver:

On behalf of our client, Aloha Utilities, Inc., we are responding to the undocketed audit (Audit Control No. 97-064-2-1) based on the 12 months ended December 31, 1997. Each of the Utility's responses to audit disclosures and schedules are presented in the order contained in the Audit Report.

Disclosure No. 1 - Plant Additions

1. Under "Statement of Fact," the Report indicates that Utility plant workpapers were prepared from date of inception through the end of 1996. Also, the statement is made that Aloha Gardens, Seven Springs Water, and Seven Springs Wastewater had not been audited by the PSC since inception.

These statements are inaccurate. The workpapers and supporting documentation were prepared from 1976 forward, since that was the first test year audited by the Commission, which culminated in Order No. 9278, issued March 11, 1980, on remand from the Florida Supreme Court. At that time, the Aloha Gardens and Seven Springs systems were combined with no differences in water and sewer rates for the respective systems.

The Aloha Gardens Water System was audited in connection with a purchased water rate investigation culminating in Order No. 9256, issued February 20, 1980. As a result of that proceeding, the two water systems had separate service rates.

The workpapers and supporting documentation prepared to document plant investment in each system was efficient both for the Utility and its customers, as well as the auditors. Not only were the adjustments made in the rate cases mentioned above considered, but the totals were reconciled to the general ledger at December 31, 1997. This alone saved the auditors a tremendous amount of time. The total cost to reconcile the plant balances from 1976 through 1997, a period of some 21 years, was approximately \$12,000. This amounts to less than \$600 per year and included location of supporting documentation stored off-site. By any measure, this was extremely efficient.

2. In preparing the workpapers and documentation of plant, Aloha found that approximately \$232,000 of plant had been incorrectly expensed and should have been capitalized. Accumulated depreciation would have amounted to approximately \$69,000. Thus, the net impact on plant investment was approximately \$163,000.

Aloha believes that these amounts should be capitalized to correct errors in classification. Aloha contends this is appropriate since rates are set on a prospective basis and the Commission frequently makes similar adjustments for misclassifications discovered during the course of an audit.

Disclosure No. 2 - Aloha Gardens Wastewater Land

In this disclosure, the auditors note that Order No. 92-0578-FOF-SU, issued June 29, 1992, found that \$33,750 of Aloha Gardens land was non-used and useful. Aloha believes that because of changed circumstances, this land should now be treated as 100 percent used and useful.

At the time of the rate case, Aloha did not include any provision for recovery of the loss related to its investment in land associated with the abandonment of the Aloha Gardens Wastewater Treatment Plant. At that time, DEP had ordered the Wastewater Treatment Plant closed pursuant to a Consent Order and Aloha believed that the ponds would be drained, cleaned, and filled. The costs to reclaim the land were unknown at the time of the rate case, as was the potential for any possible proceeds from sale of the unused land. The unused portion of that land amounts to approximately 10.2 acres and consists primarily of five percolation ponds. Aloha has made no attempt to reclaim or restore this land, since it would cost in excess of \$1.4 million for fill dirt alone, based on a cost of \$7 per cubic yard of dirt. In addition, clean-up costs for removing any contamination from the ponds is unknown. Aloha believes that leaving this land as is and letting it slowly return to a natural state is the most cost beneficial course of action for its customers. Reclamation costs would far exceed the cost of any proceeds from sale of the reclaimed land.

Based on these circumstances, Aloha believes that the cost of the land should be considered as used and useful investment.

Disclosure No. 3 - Accumulated Depreciation

This disclosure relates to whether or not accumulated depreciation for Aloha Gardens Water and Seven Springs Water and Wastewater should be recomputed at a composite rate of 2.5 percent for the period 1984 through September 19, 1995.

Aloha believes that this issue should be determined by the Commission's current rules and policy, as set forth most recently in Order No. PSC-98-0994-FOF-WS, issued July 20, 1998. A copy of the cover page and page 9 of the Order related to accumulated depreciation is enclosed as Exhibit A.

Disclosure No. 5 - Payroll Expense

In this disclosure, the auditors recommend elimination of the salary of the former Treasurer, who is no longer compensated, and a reduction to the salary of the Vice President.

Aloha agrees with the adjustment to the salary of the former Treasurer, but disagrees with the adjustment proposed to the salary of Aloha's Vice President, Mrs. Speer.

Mrs. Speer devotes 20 percent of her time to Utility matters and is active in the management of Aloha. She is a valuable and necessary member of Aloha's management team. The auditors have proposed that her salary should be limited to 20 percent of the salary of the Company's President, Mr. Watford. The reasoning for this approach is faulty, since it assumes that the relative worth of each officer is identical. It does not take into account the Vice President's unique talents, skills, and contribution to the success of Aloha.

In response to Audit Document Requests 9, 9A, and 9B, Aloha provided full documentation and complete job descriptions of each officer. In addition, information was furnished documenting the fact that Aloha's total officers' salaries of \$226,250 are 38 percent lower than the average salaries for identical positions of similar-sized companies. A copy of that information is enclosed as Exhibit B.

Disclosure No. 8 - Allocation of Tangible Personal Property Taxes

1. Aloha agrees with the auditor's adjustment to reallocate personal property taxes for 1997.
2. In October, 1998, Aloha received its 1998 tangible personal property tax bills, based on assessed values at December 31, 1997. These taxes, using the November amounts, total \$325,055. This compares to the 1997 property tax of \$272,787 -- an increase of \$52,268. The Utility believes that this increase in personal property taxes should be fully considered. Copies of the 1998 tax bills are enclosed as Exhibit C.

Rate Base

Exhibit 1 to the Audit Report is a schedule of simple average rate base for each Utility operating system. Aloha believes that the following adjustments are required:

1. The rate bases for Seven Springs Water and Sewer should be stated on a year-end basis. During 1997, the Company completed Phase II of its reuse project and implemented Phase II reuse rates. These investments were already recognized on a year-end basis in rates established by the Commission. Also, the Company completed the S.R. 54 water and sewer line relocation project in February, 1997. At the same time, Aloha's full share of this project was paid to the Florida Department of Transportation in February, 1996. For these reasons and the fact that the project was required pursuant to governmental mandate, the full cost of these projects should be recognized on a year-end basis and not averaged.
2. No used and useful adjustment should be made to the land at Aloha Gardens Sewer for the reasons set forth above in response to Disclosure No. 2.

Attached as Exhibit D is a schedule showing the adjusted audited rate base proposed by Aloha.

On a going-forward basis, Aloha has recently accepted a bid of approximately \$1.2 million for the next phase of its Seven Springs reuse program. Construction is expected to start in January, 1999. In addition, Aloha expects to receive a permit from DEP by the end of 1998 for the construction of an additional .400 mgd capacity at the Seven Springs Wastewater Treatment Plant. Bidding will commence immediately thereafter. This project is expected to cost approximately \$2 million with construction beginning in March or April, 1999. Also, the Little Road line relocation project will be completed in 1999 at a cost of approximately \$382,000.

For the Seven Springs Water System, Aloha expects to begin pilot testing in 1999 of new water treatment processes that will be required under new EPA regulations, which must be implemented by 2003. The costs will be significant as has been fully documented in continuing Docket No. 960545-WS. A limited proceeding to recover Little Road line relocation costs was filed with the Commission in February, 1998.

During 1999, Aloha intends to file for rate relief under the true-up provisions of the reuse Statute (Chapter 367.0817), which will increase both water and sewer rates for its Seven Springs customers. Also, the Company will file a limited proceeding to recover the costs of the Seven Springs Wastewater Treatment Plant expansion.

Net Operating Income

Exhibit 2 to the Auditors Report contains schedules of audited net operating income for each of the Utility Divisions. Aloha believes that several adjustments are required as follows:

1. The auditors did not provide for \$29,260 of amortization expense in the Aloha Gardens Sewer Division pursuant to Commission Order No. PSC-92-0578-FOF-SU.
2. No adjustment should have been made to the Vice President's salary for the reasons discussed in response to Disclosure No. 5 and the enclosed information in Exhibit B.
3. The auditors made no provision for income taxes on the theory that no tax was actually paid in 1997. Aloha believes a provision for income taxes of at least \$130,294 (per Exhibit D) is required for the following reasons:
 - a. For tax purposes, Aloha depreciates Utility assets on an accelerated basis and, for book purposes, uses the straight-line method. Under Section 168 IRC, Aloha is required to use a normalization method to account for income taxes. Under this method, a regulatory provision for income tax must be computed without regard to the effect of accelerated depreciation used for income tax purposes. Also, deferred income taxes related to book-tax depreciation timing differences must be recognized in either the rate base or the capital structure. Aloha's income tax accounting fully complies with the requirements to normalize.
 - b. Aloha incurred a one-time loss of \$100,558 on its tax return for 1997. This loss was related to retirement of relocated water and wastewater lines on the S.R. 54 project. Except for this one-time item, Aloha would have had positive taxable income.

Ms. Denise Vandiver
December 31, 1998
Page Five

Attached to this response as Exhibit D are schedules of net operating income proposed by Aloha.

On a prospective basis, increases to property taxes, as discussed in response to Disclosure No. 8, should be considered.

In 1999, increased expenses associated with the next reuse phase and expansion of the Seven Springs Wastewater Treatment Plant will require recovery through the 1999 rate proceedings discussed above.

Should you have questions concerning Aloha's response to the Audit Report or the attached Exhibits, please contact me.

Very truly yours,

CRONIN, JACKSON, NIXON & WILSON



Robert C. Nixon

RCN/apf

Enclosures

cc: J. Cronin (w/encl.)
F. M. Deterding, Esq. (w/encl.)
J. R. Jenkins, Esq. (w/encl.)
D. Porter (w/encl.)
S. Watford (w/encl.)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Joint application for authority to transfer Certificates Nos.336-W and 291-S in Martin County from Radnor/Plantation Corporation d/b/a Plantation Utilities to IHC Realty Partnership, L.P. d/b/a Plantation Utilities.

DOCKET NO. 970429-WS
ORDER NO. PSC-98-0994-FOF-WS
ISSUED: July 20, 1998

The following Commissioners participated in the disposition of this matter:

- JULIA L. JOHNSON, Chairman
- J. TERRY DEASON
- SUSAN F. CLARK
- JOE GARCIA
- E. LEON JACOBS, JR.

ORDER APPROVING TRANSFER

AND

NOTICE OF PROPOSED AGENCY ACTION
ORDER ESTABLISHING RATE BASE FOR
PURPOSES OF THE TRANSFER

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the action establishing rate base for purposes of the transfer and denial of an acquisition adjustment as discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 28-106.111, Florida Administrative Code.

Background

Radnor/Plantation Corporation d/b/a Plantation Utilities (Plantation or utility) is a Class B utility which provides water

DOCUMENT NUMBER-DATE

07602 JUL 20 98

FPSC-RECORDS/REPORTING

Exhibit A
1 of 2

ORDER NO. PSC-98-0994-FOF-WS
DOCKET NO. 970429-WS
PAGE 9

utility plant-in-service shall be reduced by \$15,803 to properly reflect the required adjustment.

The utility recorded \$1,060 as water capital additions. The expenditure was for a deposit that was forfeited when the utility made the decision not to purchase four new permeators. By NARUC, Class B, Account No. 426, "[t]his account shall contain all expenses other than expenses of utility operations and interest expense. Items which are included in this account are...5. Imprudent expenses." We find that this is not a capital expenditure and that it is imprudent in nature. We also find that the utility was cognitive of the risk of losing the deposit if it chose not to purchase the equipment. Therefore, we find it appropriate to reduce water utility plant-in-service by \$1,060. This amount shall be recorded as a miscellaneous non-utility expense.

Accumulated Depreciation

In Docket No. 791033-WS, which was a rate case, the Commission established a composite depreciation rate of 2.5 percent for water and wastewater. That same rate was applied again in the utility's certificate transfer case processed in Docket No. 850054-WS. However, in Docket No. 880654-SU, the Commission began using the guideline depreciation rates contained in Rule 25-30.140, Florida Administrative Code, for the wastewater system only. Rule 25-30.140(4)(a), Florida Administrative Code, requires all utilities to maintain depreciation rates as prescribed by the Commission. Accordingly, the utility shall use the composite depreciation rate of 2.5 percent for the water system and the guideline rates for the wastewater system.

We find that the utility has been using the guideline depreciation rates for the water system rather than the Commission approved 2.5 percent composite depreciation rate. Therefore, we have recalculated the utility's accumulated depreciation for the water system using the composite rate. Additionally, accumulated depreciation was recalculated for water and wastewater to correspond to the audit adjustments to utility plant-in-service as discussed above. The total approved adjustment to accumulated depreciation is \$154,102 for the water system and \$9,572 for the wastewater system.

Exhibit A
2022

**FLORIDA PUBLIC SERVICE COMMISSION
AUDIT DOCUMENT/RECORD REQUEST
NOTICE OF INTENT**

TO: John Cronin
UTILITY: Aloha Utilities, Inc.
FROM: Tom Stambaugh
(AUDIT MANAGER)

(AUDITOR PREPARING REQUEST)
DATE OF REQUEST: 09/22/98

REQUEST NUMBER: 9
AUDIT PURPOSE: AFA #97-064-2-1

REQUEST THE FOLLOWING ITEM(S) BE PROVIDED BY: 09/25/98

REFERENCE RULE 25-22.006, F.A.C., THIS REQUEST IS MADE:
 INCIDENT TO AN INQUIRY
 OUTSIDE OF AN INQUIRY

ITEM DESCRIPTION: Please provide an organization chart of Aloha Utilities, Inc., as of 12/31/97 and as of 06/30/98. Please indicate in narrative form any changes in the positions of employees from one date to the next or in the percentage of time worked which pertains to utility operations.

TO: AUDIT MANAGER Tom **DATE:** 9/22

THE REQUESTED RECORD OR DOCUMENTATION:

- (1) HAS BEEN PROVIDED TODAY
- (2) CANNOT BE PROVIDED BY THE REQUESTED DATE BUT WILL BE MADE AVAILABLE BY _____
- (3) AND IN MY OPINION, ITEM(S) _____ IS(ARE) PROPRIETARY AND CONFIDENTIAL BUSINESS INFORMATION AS DEFINED IN 364.183, 366.093, OR 367.156, F.S. TO MAINTAIN CONTINUED CONFIDENTIAL HANDLING OF THIS MATERIAL, THE UTILITY OR OTHER PERSON MUST, WITHIN 21 DAYS AFTER THE AUDIT EXIT CONFERENCE, FILE A REQUEST FOR CONFIDENTIAL CLASSIFICATION WITH THE DIVISION OF RECORDS AND REPORTING. REFER TO RULE 25-22.006, F.A.C.
- (4) THE ITEM WILL NOT BE PROVIDED. (SEE ATTACHED MEMORANDUM)

JAC
SIGNATURE AND TITLE OF RESPONDENT)

Distribution: Original: Utility (for completion and return to Auditor)
Copy: Audit File and FPSC Analyst

- copy -
Exhibit B
1 of 12

Aloha Utilities, Inc.
Organization Chart
At December 31, 1997 & June 30, 1998

President	Steve Watford	(1)
Vice President	Lynnda Speer	(2)
Secretary - Treasurer	Yvonne Haller	(1)
Field Supervisor	Jack Burke	(1)

- (1) 100% of employee's workday is devoted to the Company.
- (2) Approximately 20% of Lynnda's workday is devoted to the Company.
- (3) Page E-6 of the 1997 Annual Report incorrectly reflects that Joann Pippin was Treasurer.

1/23/98

**FLORENCE PUBLIC SERVICE COMMISSION
AUDIT DOCUMENT/RECORD REQUEST
NOTICE OF INTENT**

TO: John Cronin
UTILITY: Aloha Utilities, Inc.
FROM: Tom Stambaugh *[Signature]*
(AUDIT MANAGER)

(AUDITOR PREPARING REQUEST)
DATE OF REQUEST: 09/24/98

REQUEST NUMBER: 9A
AUDIT PURPOSE: AFA #97-064-2-1

REQUEST THE FOLLOWING ITEM(S) BE PROVIDED BY: 09/27/98
REFERENCE RULE 25-22.006, F.A.C., THIS REQUEST IS MADE:
 INCIDENT TO AN INQUIRY
 OUTSIDE OF AN INQUIRY

ITEM DESCRIPTION: Please refer to Document/Record Request #9 and Utility response:

1. Please state the annual salaries of the President, Vice-Pres., Secy-Treas. And Field Supv.
2. Is Joann Pippin still an employee of Aloha? If so, please state position, annual pay and percentage of time worked which pertains to Utility operations.
3. Are Lynnda Speer, Steven G. Watford and Joann Pippin still the only Directors of Aloha Utilities? If not, please state all directors' names and what amount of annual compensation each receives.

TO: AUDIT MANAGER Tom **DATE:** 9/24/98

THE REQUESTED RECORD OR DOCUMENTATION:

- (1) HAS BEEN PROVIDED TODAY
- (2) CANNOT BE PROVIDED BY THE REQUESTED DATE BUT WILL BE MADE AVAILABLE BY _____
- (3) AND IN MY OPINION, ITEM(S) _____ IS(ARE) PROPRIETARY AND CONFIDENTIAL BUSINESS INFORMATION AS DEFINED IN 364.183, 366.093, OR 367.156, F.S. TO MAINTAIN CONTINUED CONFIDENTIAL HANDLING OF THIS MATERIAL, THE UTILITY OR OTHER PERSON MUST, WITHIN 21 DAYS AFTER THE AUDIT EXIT CONFERENCE, FILE A REQUEST FOR CONFIDENTIAL CLASSIFICATION WITH THE DIVISION OF RECORDS AND REPORTING. REFER TO RULE 25-22.006, F.A.C.
- (4) THE ITEM WILL NOT BE PROVIDED. (SEE ATTACHED MEMORANDUM)

John H. Cronin Jr
SIGNATURE AND TITLE OF RESPONDENT

Distribution: Original: Utility (for completion and return to Auditor)
Copy: Audit File and FPSC Analyst

Exhibit B
39/12

ALOHA UTILITIES, INC
AUDIT REQUEST NO. 9A
SALARY

1	PRESIDENT	S WATFORD	109,000
	VICE PRESIDENT	L SPEER	68,250
	SEC TREAS	Y HALLER	49,000
	FIELD SUPERVISOR	J BURKE	24,000

2 JOANN PIPPIN IS NO LONGER AN EMPLOYEE OF ALOHA EFFECTIVE
DECEMBER 31, 1997.

3 DIRECTORS:
L SPEER

S WATFORD

J PIPPIN

THESE DIRECTORS ARE ARE NOT SEPARATELY COMPENSATED .

Aloha Utilities, Inc.
Audit Request 9A Supplement

In your review of management salaries, we would like you to consider the overall management salary cost to the rate payers of Aloha in comparison to the management salary cost of a similar size utility.

In Aloha's situation, management has estimated that L. Speer works 20 percent of a normal work week on Aloha business. If this employee can effectively handle her job on a part-time basis, then the Utility should not be penalized by a disallowance of a portion of her salary if, in total, the management salaries of Aloha personnel do not exceed that of other similar sized utilities.

The attached compensation study performed for calendar years 1995 and 1996 indicates that management salaries paid to Aloha employees is less than what is paid to management of other similar size utilities.

Thank you.

Exhibit B
5 of 12

Aloha Utilities, Inc.
 Comparison of Officer Compensation with
 Benchmark Officer Compensation for Similar Sized Utilities (1)

<u>Average 1997 benchmark compensation</u>	
President	\$ 202,126
Vice President	90,689
Financial Officer	<u>72,509</u>
Total benchmark compensation	<u>365,324</u>
 <u>Aloha 1997 officer compensation</u>	
President	109,000
Vice President	68,250
Financial Officer	<u>49,000</u>
Total Aloha officer compensation	<u>226,250</u>
Difference (Aloha under)	<u>\$ (139,074)</u>
Percent Aloha under benchmark	<u>(38) %</u>

(1) Average compensation to employ a management team consisting of President, Vice President, and Financial Officer.

Exhibit B
6/12

Analysis of Officers' Compensation
Class A Utilities with More than 5,000 Customers

I. Average Cost per Customer

A. President

Total President's salaries in sample	\$ 1,073,500
Total water and sewer customers	113,559
Average annual cost per customer	\$ 9.45

B. Vice President

Total Vice President's salaries in sample	\$ 344,000
Total water and sewer customers	81,163
Average annual cost per customer	\$ 4.24

C. Financial Officer

Total Financial Officer's salaries in sample	\$ 222,000
Total water and sewer customers	65,572
Average annual cost per customer	\$ 3.39

II. Average Officers' Compensation Benchmark Based on Average Cost per Customer

A. President

	Benchmark
Average annual salary per customer	\$ 9.45
Total Aloha water and sewer customers	21,389
Total indicated President's salary	\$ 202,126

B. Vice President

Average annual salary per customer	\$ 4.24
Total Aloha water and sewer customers	21,389
Total indicated Vice President's salary	\$ 90,689

C. Financial Officer

Average annual salary per customer	\$ 3.39
Total Aloha water and sewer customers	21,389
Total indicated Financial Officer's salary	\$ 72,509

Exhibit B
7 of 12

Analysis of Officers' Compensation
Class A Utilities with More than 5,000 Customers

	Annual Revenue	Average W&S Customers	Annualized 1995/1996 Salary	Indexed to 1997 (2)	1997 Indexed Salary
<u>1995 Data</u>					
Gulf Utility Company President	\$ 3,550,000	W 7,040 S 2,435	\$ 106,500 (1)	\$ 5,000	\$ 111,500
Sanlando Utility Corp. President	4,709,000	W 9,807 S 8,821	114,000	5,000	119,000
Vice President			87,000	4,500	91,500
Palm Coast President	9,641,000	W 15,290 S 10,436	155,000	7,000	162,000
Sr. Vice President			87,500	4,000	91,500
Vice President/Finance			87,500	4,000	91,500
Florida Cities CEO	18,252,000	W 24,482 S 2,299	181,500	8,500	190,000
President			127,500	6,000	133,500
Exec. Vice President			91,000	5,000	96,000
Vice President/CFO			67,500	3,000	70,500
<u>1996 Data</u>					
Rolling Oaks President	1,894,000	W 5,661 S 4,195	107,300	2,200	109,500
Hydratech Utilities, Inc. President	2,389,000	W 5,744 S 4,284	109,600	2,400	112,000
Vice President			64,000	1,000	65,000
St. Johns Service Company President	3,369,000	W 6,876 S 6,189	133,000 (3)	3,000	136,000
Secretary/Controller			58,500	1,500	60,000

(1) Per rate case Staff Recommendation - 1995 test year.

(2) Per PSC GNP Price Deflator Index.

(3) Total salary of \$287,000 includes bonus of \$154,000. Only base salary of \$133,000 used in this analysis.

(4) Source of data is 1995 and 1996 Annual Reports, except as noted for Gulf Utility Company.

Exhibit 12
8/12

**FLORIDA PUBLIC SERVICE COMMISSION
AUDIT DOCUMENT/RECORD REQUEST
NOTICE OF INTENT**

TO: John Cronin
UTILITY: Aloha Utilities, Inc.
FROM: Tom Stambaugh *TS*

(AUDIT MANAGER)
REQUEST NUMBER: 9AB JEA
AUDIT PURPOSE: AFA #97-064-2-1

(AUDITOR PREPARING REQUEST)
DATE OF REQUEST: 10/06/98

REQUEST THE FOLLOWING ITEM(S) BE PROVIDED BY: 1 0 / 0 9 / 9 8

REFERENCE RULE 25-22.006, F.A.C., THIS REQUEST IS MADE:
INCIDENT TO AN INQUIRY
 OUTSIDE OF AN INQUIRY

ITEM DESCRIPTION: Please provide a complete job description of each Utility employee listed in doc/rec request #9. Description should include, but not be limited to:

Whether the employee's workday is spent on 100% utility work and what that work is.
If an employee's workday includes duties of a non-utility nature, please state what percent of the work day/week/year is associated with non-utility work.

TO: AUDIT MANAGER Tom
DATE: 10/14/98

Please see attached

THE REQUESTED RECORD OR DOCUMENTATION:

- (1) HAS BEEN PROVIDED TODAY
- (2) CANNOT BE PROVIDED BY THE REQUESTED DATE BUT WILL BE MADE AVAILABLE BY _____
- (3) AND IN MY OPINION, ITEM(S) _____ IS(ARE) PROPRIETARY AND CONFIDENTIAL BUSINESS INFORMATION AS DEFINED IN 364.183, 366.093, OR 367.156, F.S. TO MAINTAIN CONTINUED CONFIDENTIAL HANDLING OF THIS MATERIAL, THE UTILITY OR OTHER PERSON MUST, WITHIN 21 DAYS AFTER THE AUDIT EXIT CONFERENCE, FILE A REQUEST FOR CONFIDENTIAL CLASSIFICATION WITH THE DIVISION OF RECORDS AND REPORTING. REFER TO RULE 25-22.006, F.A.C.
- (4) THE ITEM WILL NOT BE PROVIDED. (SEE ATTACHED MEMORANDUM)

(SIGNATURE AND TITLE OF RESPONDENT)

Distribution: Original: Utility (for completion and return to Auditor)
Copy: Audit File and FPSC Analyst

John H. Cronin

*Exhibit 12
9/12*

COB

Aloha Utilities, Inc.
PSC Audit Request 9B

President - Steve Watford

Steve has overall responsibility for the Utility's operations. One hundred percent of Steve's workday relates to Aloha. Steve is not employed by any other employer. Steve's primary responsibilities fall into these major areas:

1. Engineering - Steve is the Utility's contact with all professional engineers advising the Utility. Although not a professional engineer, he needs to understand what the Utility's needs are and work with these engineers in completing these needs. Steve has taken engineering related courses at USF to better prepare him interacting with these engineers.
2. Regulatory - Steve is the Utility's contact person with the FPSC and the DEP. During this past year, Steve met frequently with DEP personnel as it related to the Seven Springs sewer plant and the reuse system. Steve is also the Utility's representative for all matters before the FPSC. Recently, when the FPSC Commissioners came to the Aloha service area to meet with selected customers, it was Steve who worked closely with them. Many situations with the FPSC and the DEP relate to legal matters. Steve is the primary contact for all outside attorneys. During the past few years, there were many legal matters that occupied much of Steve's time.
3. Financial - Steve, along with Lynnda Speer, meets regularly with the CPAs servicing the regulatory accounting and tax planning and compliance needs of Aloha.
4. Administrative - Steve, along with Yvonne Haller, is responsible for hiring, firing, and general supervision of all employees. Steve's responsibility primarily relates to field personnel. He is a licensed Class A Wastewater Plant Operator and a licensed Class B Water Plant Operator, and is extensively involved in the day-to-day operations of the utility plants. Steve is also responsible for the decision relating to an extensive upgrade of the Company's computer hardware and software needs in order to be compliant with the year 2000. Steve is very knowledgeable about computers and utility software.

Vice President - Lynnda Speer

Lynnda is employed only by Aloha. She does not work a 40-hour week. As noted in the Annual Report, Lynnda spends approximately 20 percent of her time working for the Company. Lynnda's primary responsibilities fall into these major areas:

1. Financial - Lynnda meets on a regular basis with the CPAs servicing the needs of the Company. She is involved with the review of the PSC Annual Report, as well as the corporate tax returns. Tax planning and strategies are reviewed with Lynnda. Lynnda, along with Yvonne, is the primary signer on all corporate check disbursements. This requires Lynnda to review invoices for approval and payment. She has primary responsibility for approving capital projects and financing decisions.
2. Administrative - Lynnda meets weekly with Steve to jointly manage those aspects of the business concerned with the regulatory agencies overseeing Aloha. Lynnda also shares responsibility for hiring and firing office personnel, as well as determining compensation.

Yvonne Haller - Secretary Treasurer

Yvonne has primary responsibility for office personnel and the accounting and billing function of the Company. Yvonne serves as Controller of Aloha. Yvonne is not employed by any other employer. Yvonne spends 100 percent of her workday employed by Aloha. Her primary responsibilities are:

1. Accounting - As Controller, she is responsible for the integrity and correctness of the accounting system and general ledger. She is responsible for the accounts payable system, as well as signing all disbursement checks. She is responsible for Aloha's billing system, which includes monthly invoices to Aloha's more than 12,000 customers.
2. Administrative - Yvonne is directly responsible for a clerical office staff of five employees. These employees are office personnel working directly with the customers for payments, new starts, disconnects, reconnects, etc. She is also responsible for insurance and other matters.

Field Superintendent – Jack Burke

Responsible for oversight and management of all activities occurring in the field. Jack reports directly to Stephen Watford as to happenings in the field. His area of oversight includes water and wastewater operations, repair and/or maintenance of utility facilities, inspection of new facilities, customer service in the field and coordination of all field employees. He makes recommendations as to new employees and evaluates the existing employees that he supervises. He also reviews purchases made for crews he supervises. Assists in developing long-range plans for maintenance and repair work. Keeps abreast of projected plans for extending the system.

*Exhibit B
12/12*

PASCO COUNTY FLORIDA

NOTICE OF AD VALOREM TAXES AND NON-AD VALOREM ASSESSMENTS

1998 TANGIBLE PERSONAL PROPERTY P&L 20033-06-8 ACCOUNT A-00300-000
 ASSESSED TO ALOHA UTILITIES INC
 ASSESSED VALUE 1482939 EXEMPTIONS TAXABLE VALUE 1482939
AD VALOREM TAXES

TAXING AUTHORITY	MILLAGE	TAXES LEVIED
COUNTY COMMISSION OPERATING	8.1960	12154.17
COUNTY SCHOOL OPERATING	7.2180	10703.85
COUNTY SCHOOL CAPITAL OUTLAY	2.0000	2965.88
COUNTY MUN SER FIRE DIST	1.3320	1975.27
SW FLA WATER MNGMNT DIST	.4220	625.80
COASTAL RIVERS BASIN	.2350	348.49
PASCO COUNTY MOSQUITO CONTROL	.3180	471.57
COUNTY WIDE SCHOOL BOND 1972	.1210	179.44
COUNTY WIDE SCHOOL BOND 1987	.7530	1116.65

NON-AD VALOREM ASSESSMENTS

LEVYING AUTHORITY	RATE/BASIS	AMOUNT

PAY AMOUNT UNDER APPROPRIATE MONTH.

▼ PLEASE DETACH HERE AND RETURN BOTTOM PART WITH PAYMENT ▼

PROPERTY TAX NOTICE • PASCO COUNTY FLORIDA

1998 TANGIBLE PERSONAL PROPERTY P&L 20033-06-8 ACCOUNT A-00300-000

NOV 30 29319.48	DEC 31 29624.89	JAN 31 29930.30	FEB 28 30235.71	MAR 31 30541.12	DELINQUENT APR 1
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PAYABLE TO: MIKE OLSON, TAX COLLECTOR (CHECKS ON U.S. BANKS) P.O. BOX 276, DADE CITY FL 33526-0276

ASSESSED VAL	1482939	WATER & SEWER SYSTEM	MLCD 6200
EXEMPTIONS		ALOHA GARDENS	
TAXABLE VAL	1482939	001 0000 0000 0000	
PENALTY			



ALOHA UTILITIES INC
 2514 ALOHA PL
 HOLIDAY

FL 34691-3416

Exhibit C
1/2

PASCO COUNTY FLORIDA

NOTICE OF AD VALOREM TAXES AND NON-AD VALOREM ASSESSMENTS

1998 TANGIBLE PERSONAL PROPERTY P&L 20033-07-7 ACCOUNT A-00300-005

ASSESSED TO ALOHA UTILITIES INC
ASSESSED VALUE 14838294 EXEMPTIONS TAXABLE VALUE 14838294

AD VALOREM TAXES

TAXING AUTHORITY	MILLAGE	TAXES LEVIED
COUNTY COMMISSION OPERATING	8.1960	121614.66
COUNTY SCHOOL OPERATING	7.2180	107102.81
COUNTY SCHOOL CAPITAL OUTLAY	2.0000	29676.59
COUNTY MUN SER FIRE DIST	1.3320	19764.61
SW FLA WATER MNGMNT DIST	.4220	6261.76
PINELLAS-ANCLOTE RIVER BASIN	.4010	5950.16
PASCO COUNTY MOSQUITO CONTROL	.3180	4718.58
COUNTY WIDE SCHOOL BOND 1972	.1210	1795.43
COUNTY WIDE SCHOOL BOND 1987	.7530	11173.24

NON-AD VALOREM ASSESSMENTS

LEVYING AUTHORITY	RATE/BASIS	AMOUNT

PAY AMOUNT UNDER APPROPRIATE MONTH.

▼ PLEASE DETACH HERE AND RETURN BOTTOM PART WITH PAYMENT ▼

PROPERTY TAX NOTICE • PASCO COUNTY FLORIDA

1998 TANGIBLE PERSONAL PROPERTY P&L 20033-07-7 ACCOUNT A-00300-005

NOV 30 295735.53	DEC 31 298816.10	JAN 31 301896.68	FEB 28 304977.26	MAR 31 308057.84	DELINQUENT	APR 1
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PAYABLE TO: MIKE OLSON, TAX COLLECTOR (CHECKS ON U.S. BANKS) P.O. BOX 276, DADE CITY FL 33526-0276

ASSESSED VAL 14838294	WATER & SEWER SYSTEM	MLCD 9100
EXEMPTIONS	SEVEN SPRINGS	
TAXABLE VAL 14838294	001 0000 0000 0000	
PENALTY		



ALOHA UTILITIES INC
2514 ALOHA PL
HOLIDAY

FL 34691-3416

Exhibit C
2 of 2

10984030805784300000000000200330774

Aloha Utilities, Inc.
Utility Adjusted Rate Base and Operating Income
Response to PSC Audit Report
Year Ended December 31, 1997

	Water		Sewer		Total
	Aloha Gardens	Seven Springs	Aloha Gardens	Seven Springs	
Rate Base					
Rate base per audit (simple average)	\$ 65,885	\$ 1,128,335	\$ 592,372	\$ 4,227,210	\$ 6,013,802
Adjust Seven Springs Water & Sewer to year basis (1)		211,397		325,458	536,855
Add used & useful land - Aloha Gardens Sewer			33,750		33,750
Adjusted rate base per Utility	<u>\$ 65,885</u>	<u>\$ 1,339,732</u>	<u>\$ 626,122</u>	<u>\$ 4,552,668</u>	<u>\$ 6,584,407</u>
Audited rate of return	<u>10.22%</u>	<u>10.22%</u>	<u>10.22%</u>	<u>10.22%</u>	<u>10.22%</u>
Allowed operating income per audit	<u>\$ 6,733</u>	<u>\$ 136,921</u>	<u>\$ 63,990</u>	<u>\$ 465,283</u>	<u>\$ 672,927</u>
Operating Income					
Audited operating income	\$ 19,474	\$ 136,620	\$ 161,528	\$ 508,157	\$ 825,779
Add amortization of loss on plant abandonment - Aloha Gardens Sewer			(29,260)		(29,260)
Remove audit adjustment to Vice President's salary	(6,593)	(16,955)	(6,593)	(16,955)	(47,096)
Regulated provision for income taxes (2)	(1,304)	(26,511)	(12,389)	(90,090)	(130,294)
Adjusted operating income per Utility	<u>\$ 11,577</u>	<u>\$ 93,154</u>	<u>\$ 113,266</u>	<u>\$ 401,112</u>	<u>\$ 619,129</u>
Allowed operating income per audit	<u>\$ 6,733</u>	<u>\$ 136,921</u>	<u>\$ 63,990</u>	<u>\$ 465,283</u>	<u>\$ 672,927</u>
Adjusted over (under) allowed operating income per audit	<u>\$ 4,844</u>	<u>\$ (43,767)</u>	<u>\$ 49,296</u>	<u>\$ (64,171)</u>	<u>\$ (53,798)</u>
Adjusted rate of return	<u>17.57%</u>	<u>6.95%</u>	<u>18.09%</u>	<u>8.81%</u>	<u>9.40%</u>

Notes: (1) Adjustment to convert to year-end basis for Seven Springs is calculated as follows:

	Water	Sewer
Rate base per 1997 Annual Report before working capital	\$ 1,083,989	\$ 4,280,636
Add: Audited working capital	255,743	272,032
Adjusted year-end rate base	1,339,732	4,552,668
Average rate base per audit	(1,128,335)	(4,227,210)
Adjustment required	<u>\$ 211,397</u>	<u>\$ 325,458</u>

(2) The regulatory provision for income taxes was calculated as follows:

	A.G. Water	S.S. Water	A.G. Sewer	S.S. Sewer
Rate base, as adjusted	\$ 65,885	\$ 1,339,732	\$ 626,122	\$ 4,552,668
Weighted cost of equity per audit	3.28%	3.28%	3.28%	3.28%
Regulated net income	2,161	43,943	20,537	149,328
Expansion factor for pre-tax income	1.6033	1.6033	1.6033	1.6033
Pre-tax regulated income	3,465	70,454	32,926	239,418
Regulated net income per above	(2,161)	(43,943)	(20,537)	(149,328)
Regulated provision for income taxes	<u>\$ 1,304</u>	<u>\$ 26,511</u>	<u>\$ 12,389</u>	<u>\$ 90,090</u>