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DATE: AUGUST 26, 1999

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYÓ)

FROM: DIVISION OF WATER AND WASTEWATER (FLETCHER, MERCHANT, T. DAVIS)
DIVISION OF LEGAL SERVICES (JAEGER)

RE: DOCKET NO. 970536-WS - APPLICATION FOR LIMITED PROCEEDING INCREASE IN WATER AND WASTEWATER RATES BY ALOHA UTILITIES, INC.

DOCKET NO. 980245-WS - APPLICATION FOR LIMITED PROCEEDING INCREASE IN WATER AND WASTEWATER RATES BY ALOHA UTILITIES, INC.

COUNTY: PASCO

AGENDA: SEPTEMBER 7, 1999, REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\WAW\WP\970536.RCM

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CASE BACKGROUND

Aloha Utilities, Inc. (Aloha or utility), is a class A water and wastewater utility in Pasco County. The utility consists of two distinct service areas, Aloha Gardens and Seven Springs. These service areas are physically divided by U.S. Highway 19, the major north/south highway through Pinellas and Pasco Counties. The utility's service area is located within the Northern Tampa Bay Water Use Caution Area as designated by the Southwest Florida Water Management District (SWFWMD). Critical water supply concerns have been identified by SWFWMD within this area. Aloha's 1998 operating revenues were $2,046,925 and $3,340,293 for water and wastewater, respectively. In 1998, the utility served 11,732 water and 11,193 wastewater customers.

Aloha Gardens and Seven Springs systems have separate rates. The most recent rate case for this utility was in 1991 for its Aloha Gardens wastewater system. The last rate case for the total company was in Docket No. 770720-WS. See Order No. 9278, issued March 11, 1980. The Commission initiated an overearnings investigation for the Aloha Gardens water system in Docket No. 790027-W. (See Order No. 9278, issued March 11, 1980). In 1995, the utility filed a limited proceeding to recover costs associated with its Seven Springs' reuse project (Docket No. 950615-SU).

On May 6, 1997, Aloha filed a limited proceeding to increase its water and wastewater rates for its Aloha Gardens and Seven Springs systems pursuant to Section 367.0822, Florida Statutes. Docket No. 970536-WS was assigned to this limited proceeding (1st limited proceeding). The utility requested additional revenues for Aloha's cost in the Florida Department of Transportation's (FDOT) State Road (S.R.) 54 widening project. The limited proceeding also included a request for increased revenues to change the utility's billing method from postcards to envelopes. The utility requested increased revenues of $4,575 (0.91%) and $4,157 (0.42%) for Aloha Gardens and $90,814 (6.65%) and $78,483 (3.54%) for Seven Springs water and wastewater systems, respectively. In addition, the utility requested that the Commission immediately authorize interim, temporary, or emergency rates to recover these additional revenues.

On May 23, 1997, Aloha challenged the Commission's rules and authority regarding audits of water and wastewater utilities. This challenge was prompted by the Commission staff's announcement to Aloha by letter dated March 5, 1997 that staff would perform an audit of Aloha's books and records for the year ended December 31, 1996. Aloha contended that rulemaking was required to determine the Commission's legal authority and procedures in the performance of an audit. The Office of Public Counsel (OPC) was an intervenor to this proceeding.

By Order No. PSC-97-0825-FOF-WS, issued July 10, 1997, the Commission denied the utility's request in Docket No. 970536-WS for interim, temporary, or emergency rates. The Commission also held this application in abeyance until the Division of Administrative Hearings (DOAH) issued a ruling on the utility's rule challenge. DOAH's hearing on this petition was held on January 5 and 6, 1998. DOAH issued its ruling March 20, 1998 and ruled in favor of the Commission on all issues, except one point. DOAH ruled that the Commission should promulgate a rule regarding audit exit conferences. The Commission and the utility appealed DOAH's ruling to the First District Court of Appeal (1st DCA). On December 21, 1998, the 1st DCA affirmed DOAH's ruling on all issues, with the exception of reversing DOAH's ruling on the promulgation of a rule for audit exit conferences.

On February 13, 1998, Aloha filed a limited proceeding application to increase its water and wastewater rates for its Seven Springs customers, pursuant to Section 367.0822, Florida Statutes. Docket No. 980245-WS was assigned to this limited proceeding (2nd limited proceeding). The 2nd limited proceeding request was to cover the costs of relocating its water and wastewater lines along Little Road in Pasco County. The utility requested additional revenues for Seven Springs of $41,683 (2.91%) for water and $15,328 (0.66%) for wastewater.

On September 16, 1998, staff began its audit field work of the utility's books and records for the year ended December 31, 1997. Staff completed this audit on December 14, 1998. Due to staff concerns regarding related party transactions, used and useful land, and various other items arising from the audit, staff conducted discovery and requested a supplemental audit. The utility's responses to staff's discovery were received on April 16, 1999. Staff's supplemental audit including all work papers was available for review on April 20, 1999.

This recommendation addresses the two limited proceedings and the appropriate return on equity and allowance for funds used during construction (AFUDC) rate for Aloha.

To determine whether a rate increase is warranted in Dockets Nos. 970536-WS and 980245-WS, staff analyzed the simple average test year ended December 31, 1998. Staff utilized the audited information for the year ended December 31, 1997 and applied those adjustments to the utility's 1998 annual report. Staff included pro forma costs related to the utility's proposed billing conversion from postcard to envelope requested in Docket No. 970536-WS. In addition, staff included pro forma costs related to the Little Road line relocation requested in Docket 980245-WS. The schedules attached to this recommendation are organized by system, with all schedules for a system included as a composite schedule. The Aloha Gardens composite schedules are attached as Schedule No. A, the Seven Springs 1st limited proceeding schedules are attached as Schedule No. B and the Seven Springs 2nd limited proceeding are attached as Schedule No. C. Each composite schedule includes rate base (Schedules Nos. 1-A to 1-C), cost of capital (Schedule No. 2) and net operating income (Schedules Nos. 3-A to 3-C).

DISCUSSION OF ISSUES

RATE BASE

ISSUE 1: Should the utility be allowed to capitalize invoices previously expensed?

RECOMMENDATION: No. The utility has already recovered the costs associated with these invoices and to allow capitalization of them would constitute double recovery. The capitalization of previously expensed invoices should be disallowed. Therefore, staff has reduced plant, accumulated depreciation, and depreciation for each of the utility's systems, as follows (FLETCHER):

System	Plant	Accum. Deprec.	Deprec. Expense
Aloha Gardens Water	$ 3,669	$ 942	$ 122
Aloha Gardens Wastewater	$ 1,567	$ 830	$ 87
Seven Springs Water	$ 99,794	$26,987	$3,077
Seven Springs Wastewater	$127,231	$54,855	$6,675

STAFF ANALYSIS: According to Audit Disclosure No. 1, in 1997, the utility capitalized $232,262 of invoices expensed above-the-line in several previous years (1980-1991). Specifically, the utility capitalized $3,669 and $1,567 for Aloha Gardens water and wastewater, respectively. The utility also capitalized $99,794 and $127,231 for Seven Springs water and wastewater, respectively.

In 1997, Aloha's CPA firm performed its own audit/analysis of the utility in which it discovered these previously expensed invoices that should have been capitalized. The utility believes that the 1997 capitalization of these invoices was 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 an audit.

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

Since 1985, Cronin, Jackson, Nixon & Wilson (CJNW), CPAs, P.A. has performed all the closing entries of the utility's books and prepared its annual reports filed with the Commission. In 1985, CJNW bought the utility's predecessor accounting firm that had performed the same services since 1977. As reported in its annual report, Aloha expensed approximately $50,000 in 1998 for accounting fees from CJNW. CJNW also responded to staff that the normal recurring accounting fees charged to Aloha averaged about $40,000 a year. This is in addition to the salary paid to Aloha's treasurer/bookkeeper. Given the level of these annual accounting expenses, Aloha should have a system in place that allows it to properly record its plant additions each year.

Since the utility has already expensed these invoices, one can argue that the utility has fully recovered the associated costs. In addition, staff questions the timing of Aloha's capitalization of these previously expensed items. CJNW's plant analysis occurred shortly after the utility became aware that the utility would be audited by staff and during the time that Aloha filed its rule challenge with DOAH. It appears that when Aloha became aware that the Commission was going to investigate its earnings, its CPA firm went back almost twenty years and found ways to increase rate base prospectively.

Staff believes that the capitalization of these previously expensed invoices should be disallowed. The utility's adjustment is neither fair, just, nor reasonable because it could result in the double recovery of these past expenses. Therefore, staff recommends that plant, accumulated depreciation, and depreciation for each of the utility's systems, be reduced as follows.

System	**Plant**	**Accum. Deprec.**	**Deprec. Expense**
Aloha Gardens Water	$ 3,669	$ 942	$ 122
Aloha Gardens Wastewater	$ 1,567	$ 830	$ 87
Seven Springs Water	$ 99,794	$26,987	$3,077
Seven Springs Wastewater	$127,231	$54,855	$6,675

ISSUE 2: What is the appropriate adjustment for plant recorded as land?

RECOMMENDATION: Staff believes it is appropriate to transfer the permitting and construction costs associated with new wells recorded as land to the correct plant account. However, accumulated depreciation should only be increased for 1998 and prospective years. Seven Springs water land should be reduced and plant increased by $34,320. The simple average of accumulated depreciation should be increased by $551, and depreciation expense increased by $1,102. (FLETCHER)

STAFF ANALYSIS: According to the National Association of Regulatory Utility Commissioners (NARUC) 1996 Uniform System of Accounts (USOA), Class A water utilities shall charge Account 307 - Wells and Springs for the installed cost of wells and springs. According to Supplemental Audit Disclosure No. 1, the utility was asked to provide documentation supporting all land additions since 1973. The staff auditors' review of this supporting documentation revealed that some additions to the land account were actually permitting and construction costs incurred in 1992-1994. Specifically, these costs related to two wells for its Seven Springs water system which totaled $34,320.

Based on staff's calculations, the annual depreciation expense associated with this plant is $1,102. Staff believes that this adjustment should be made as of 1998 since the utility has not recovered any depreciation expense on this amount. The average adjustment to the depreciation reserve for 1998 is $551. If we were to adjust the reserve account from the dates the plant was erroneously recorded in land, the average 1998 adjustment would be an increase to the reserve account of $5,028. Given that the total accumulated depreciation balance for the Seven Springs water system is approximately $1.5 million dollars, staff believes that the difference is immaterial between what the reserve would have been since 1992-1994 and the 1998 amount. We believe that it is reasonable to allow the utility to recover the depreciation expense associated with these assets in prospective years.

Based on the above, staff believes it is appropriate to transfer the permitting and construction costs associated with new wells recorded as land to the correct plant account. Therefore, Seven Springs water land should be reduced and plant increased by $34,320. The simple average of accumulated depreciation should be increased by $551 and depreciation expense increased by $1,102.

ISSUE 3: What is the appropriate cost of the line relocation along State Road 54?

RECOMMENDATION: The appropriate cost for the line relocation along S.R. 54 is $755,144. (FLETCHER)

STAFF ANALYSIS: In its application, the utility submitted a copy of a Joint Partnership Agreement (JPA or agreement) dated February 28, 1996, between the utility and the FDOT. This JPA related to the construction contract for widening a portion of S.R. 54. Pursuant to the agreement, the utility advanced the FDOT $715,144. On August 2, 1996, a change order was approved which decreased the utility's allocated share by $224,126.

In addition, the utility submitted a copy of another JPA dated December 20, 1996, between the utility and the FDOT. This JPA related to the construction contract for widening another portion of S.R. 54. Pursuant to the agreement, the utility advanced the FDOT $63,833. Staff has requested and received a copy of checks which verify the utility's advances of $715,144 and $63,833 to the FDOT and the utility's refund of $224,126. This results in a net cost to Aloha for the construction contract of $554,851.

In its 1st limited proceeding application, the utility stated it had incurred $128,573 in engineering expenses related to the relocation of its lines. The utility provided invoices supporting that amount plus an additional $19,843 in engineering costs. The utility also stated that the FDOT reimbursed Aloha for $83,178 in engineering costs. The total unreimbursed engineering fees was $65,238.

The utility also requested recovery of $12,385 in legal expenses associated with the first line relocation. It submitted copies of invoices for these fees, but staff notes that these invoices were also included as support for requested rate case expense in this docket. The utility's application also requested recovery of $210 in accounting fees. According to Audit Disclosure No. 7, the utility capitalized an additional $6,306 in accounting expenses related to this line relocation. This brings the total accounting fees to $6,516.

Staff has reviewed these charges and we believe that they are reasonable. Based on staff's review, the total amount of contractual services that should be capitalized for this line relocation should be $84,139.

In its application, the utility added $143,718 in AFUDC for the 1st line relocation. Initially, this calculation was based on an estimated completion date of August 1997. In response to staff's third data request in Docket No. 970536-WS, the utility provided a copy of a letter from Florida Department of Environmental Protection (FDEP) to the utility. By this letter, the FDEP certified that the line relocation was completed on March 17, 1997. On July 6, 1999, staff requested and received the utility's revised AFUDC calculation which recognized the correct completion date of this line relocation. Based on staff's review, staff believes the utility's revised calculation of AFUDC of $116,154 is appropriate.

Based on the above, the total cost of this line relocation is $755,144. Further, the total cost of this line relocation was included in rate base for the year ended December 31, 1997.

Net Construction Contract Costs	$554,851
Net Engineering Costs	$65,238
Legal & Accounting Costs	$18,901
AFUDC	$116,154
Total Cost of Line Relocation	**$755,144**

ISSUE 4: What are the appropriate pro forma adjustments for costs associated with the line relocation along Little Road requested in Docket No. 980245-WS?

RECOMMENDATION: The total plant cost of this line relocation for Seven Springs is $376,263. The corresponding adjustments to increase plant, accumulated depreciation, depreciation expense and property taxes is shown below. (FLETCHER)

	Water	**Wastewater**
Plant in Service	$262,209	$ 114,054
Accumulated Depreciation	$ 3,160	$ 1,863
Depreciation Expense	$ 6,319	$ 3,726
Property Taxes	$ 5,313	$ 2,291

STAFF ANALYSIS: Adam Smith Enterprises, Inc. (Adam Smith or developer) was required to widen a portion of Little Road as a condition of the Development Regional Impact (DRI) approval. In early 1997, Aloha became aware of the Little Road widening project in Pasco County. In March of 1997, the utility first requested a Joint Project Agreement (JPA) with the County and the developer in order to incorporate Aloha's line relocation work with the developer's road construction contract.

In 1997, Aloha worked with Adam Smith and the County by meeting with engineers and planners, and Aloha provided preliminary engineering information for Aloha's line relocation. The developer proceeded to issue bid packages for the project, which included line relocation work for both Aloha and the County. Kimmins Contracting Corporation (Kimmins) was the low bidder, and Adam Smith subsequently signed a contract for its portion of the work. Based on Kimmins's bid, the cost to relocate Aloha's lines was $285,668.

According to the utility, the developer did not provide any information regarding the bid process and the actual construction process, including any information on how Aloha's customers would be protected against service interruptions. Payment in full for Aloha's portion of the line relocation work was demanded by the developer. When the above information was requested prior to payment, the utility stated that the developer characterized Aloha as uncooperative and unprepared to relocate facilities. In August, 1997 Aloha advised Pasco County of the circumstances and again requested a JPA to address these issues and to make clear each party's rights and duties with regard to payment, scheduling, construction bonding, service interruption, indemnification, etc.

The utility stated that the County provided a proposed three-party JPA between the utility, the developer, and the County. The utility maintains that this agreement lacked detail and failed to include protections for Aloha and its customers. The utility proposed to use the same JPA that Pasco County had entered into with the developer. For unexplained reasons, this agreement was not accepted by the developer.

On October 2, 1997, the County provided the utility written notice to relocate its lines, pursuant to Section 337.403, Florida Statutes. Pasco County recognized the utility's attempts to have its lines relocated by entering into a JPA. However, on December 5, 1997, the County provided the utility written notice to relocate its lines.

On February 26, 1998, the County made the decision to exercise its statutory authority and proceeded to relocate Aloha's lines. The County began the bidding process. Upon approval by the utility, the County used the relocation plans and specifications prepared by Aloha in 1997. The low bidder again was Kimmins which quoted the project at a cost of $332,943. The County estimated its administrative and inspection charge for overseeing this relocation to be $50,000. By Resolution No. 98-270 dated May 5, 1998, the County placed a lien on all of Aloha's property in the County to secure payment of $382,943 ($332,943 plus $50,000).

In response to a staff data request, the utility stated that it would be more efficient if the County relocated its lines because it would reduce the coordination efforts which are normally difficult in road construction projects. Based on staff's communication with the County, coordination efficiency was realized by the County overseeing this relocation. According to both the County and the utility, economies of scale were achieved by having Kimmins, the principal contractor of the road widening project, handle as many utility line relocations as possible. This allowed a construction price lower than that which could be obtained by an individual utility. Staff agrees with the utility and the County. For these reasons, staff believes these pro forma costs are prudent.

On September 9, 1998, Change Order No. 1 was approved, revising the contract amount to $370,718 and extending the contract time an additional 29 days to a completion date of September 30, 1998. Change Orders No. 2-4 extended the completion date to April

29, 1999. As a result of a reduction in final construction quantities, Change Orders Nos. 5 and 6 reduced the final contract amount for this relocation to $329,614.

The utility incurred $8,484 in contractual engineering expenses, primarily related to relocation plans and specifications. The utility also incurred $6,979 in contractual legal expense related to proposed JPAs. Staff has reviewed these amounts and we believe it is reasonable to capitalize these contractual services as a part of this line relocation.

The County approved the final settlement of this line relocation on August 10, 1999. This included an administrative and inspection charge of $31,031 for overseeing this line relocation and a lien recording fee of $155. Staff received notification on August 18, 1999, that Aloha had paid the County in full.

Staff notes that AFUDC was not included in our recommended cost because the utility effectively purchased this line relocation. Further, the utility did not request AFUDC on this project in its application. According to Rule 25-30.116, Florida Administrative Code, it is inappropriate to capitalize AFUDC on purchased assets. Based on the above, staff recommends that the total pro forma costs of this line relocation should be $351,904.

Final Contract Amount	$329,614
Engineering	8,484
Legal	6,979
County Administrative and Inspection Charge	31,031
Lien Recording Fee	155
Total Construction Cost	$376,263

The corresponding adjustments to increase plant, accumulated depreciation, depreciation expense and property taxes is shown below.

	Water	Wastewater
Plant in Service	$262,209	$ 114,054
Accumulated Depreciation	$ 3,160	$ 1,863
Depreciation Expense	$ 6,319	$ 3,726
Property Taxes	$ 5,313	$ 2,291

ISSUE 5: What is the appropriate treatment of appraisal costs for land that was never purchased?

RECOMMENDATION: Aloha Gardens wastewater land should be reduced by $12,120 and retained earnings should be reduced by the same amount. (FLETCHER)

STAFF ANALYSIS: The NARUC USOA, regarding Account 183 - Preliminary Survey and Investigation Charges, states:

> This account shall be charged with all expenditures for preliminary surveys, investigations, etc., made for the purpose of determining the feasibility of projects under contemplation.... If the work is abandoned, the charge shall be to account 426 - Miscellaneous Non-utility Expenses...

According to Supplemental Audit Disclosure No. 1, in 1987, Aloha incurred $12,120 for an appraisal of land that was never purchased. The utility's reason for this appraisal was to locate land for new wastewater percolating ponds for Aloha Gardens as an alternative to connecting to Pasco County's wastewater system. Staff believes the costs associated with this appraisal at that time should have been recorded as preliminary survey and investigation charges.

In July 1991, Aloha was ordered by the Florida Department of Environmental Protection (DEP), formerly the Department of Environmental Regulation, to close its Aloha Gardens wastewater plant and to interconnect with Pasco County's wastewater system. When Aloha realized that it was not going to purchase this land or at the latest when DEP's order was issued, the utility should have charged Account 426 - Miscellaneous Non-utility Expenses for the cost associated with the appraisal. This would have correspondingly reduced retained earnings for the same amount.
Based on the above, staff recommends that Aloha Gardens wastewater land and retained earnings should be reduced by $12,120.

ISSUE 6: Should an adjustment be made to transfer land from Aloha Gardens wastewater to Seven Springs wastewater?

RECOMMENDATION: Yes. An adjustment should be made to transfer $5,000 in land from Aloha Gardens wastewater to Seven Springs wastewater. (FLETCHER)

STAFF ANALYSIS: Pursuant to Supplemental Audit Disclosure No. 2, the utility incorrectly recorded a land appraisal costing $5,000 to Aloha Gardens wastewater. The appraisal actually related to a parcel of land within the Seven Springs wastewater service area. As such, staff believes Aloha Gardens wastewater's land balance should be reduced by $5,000, and Seven Springs' wastewater's land balance should be increased by $5,000.

ISSUE 7: Should an adjustment be made to reduce the utility's land balance due to lack of support documentation?

RECOMMENDATION: Yes. Due to the lack of support documentation, staff recommends that land balance should be reduced by the following amounts: (FLETCHER)

System	Decrease
Aloha Gardens wastewater	$23,061
Seven Springs water	$ 4,143
Seven Springs wastewater	$31,586

STAFF ANALYSIS: According to Supplemental Audit Disclosure No. 1, the staff auditors asked the utility to provide documentation supporting all land additions since 1973. The utility was unable to provide support documentation for $19,261 of Aloha Gardens' wastewater land and $13,415 of Seven Springs' wastewater land. The utility provided canceled checks for $3,800 of Aloha Gardens' wastewater land balance. Further, the utility provided canceled checks for $4,143 and $18,171 of Seven Springs' water and wastewater land balance, respectively. Without invoices supporting these checks, staff is not able to determine whether these checks are for utility or non-utility related costs. It is the utility's burden to prove that its purchase price is reasonable. Florida Power Corporation v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982).

Based on the above, staff recommends that land balance should be reduced by the following amounts:

System	Decrease
Aloha Gardens wastewater	$23,061
Seven Springs water	$ 4,143
Seven Springs wastewater	$31,586

ISSUE 8: Should land formerly used for the Aloha Gardens' abandoned wastewater treatment plant be removed from rate base?

RECOMMENDATION: Yes. Staff recommends that Aloha Gardens' wastewater land balance should be reduced by $9,660. Further this land should be amortized over 7 years beginning in 1998, consistent with the period used to amortize the abandoned plant costs in Docket No. 910540-WS. Accordingly, amortization expense should be increased by $1,380 and working capital should be increased by $4,140 to reflect the simple average balance of the unamortized cost. Further, the utility should be ordered to report to this Commission any future sale, transfer or reassignment of this land to any person or entity within 60 days of such a transaction. At the time that it notifies the Commission, the utility should also submit any documentation regarding the transaction. If the transaction occurs between any affiliate or related party, the utility should submit a certified appraisal stating the current market value of the land. The utility should also submit its proposal as to how this transaction should be treated for ratemaking purposes. (FLETCHER)

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

In Aloha's response to staff's 1997 audit, the utility asserts that because of changed circumstances, this land should now be treated as 100% percent used and useful. When the DEP ordered the wastewater treatment plant closed, Aloha believed the ponds would be drained, cleaned, and filled. The utility states the costs to reclaim the land or the potential for any possible sales proceeds were unknown at the time of the 1991 rate case.

Aloha states that it has not tried to reclaim or restore this land, since it would cost in excess of $1.4 million for fill dirt alone. Aloha's estimated cost was based on a $7 cost per cubic yard of dirt. Further, the utility maintains that 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. The reclamation costs would far exceed the cost of any proceeds from the sale of the reclaimed land.

Staff disagrees with the utility. This land is no longer used for utility service and it should be removed from rate base. If the Commission were to include this land in rate base, the utility could earn a rate of return in perpetuity on this property that does not provide service to the customers. Further, allowing this land to remain in rate base provides no incentive for the utility to properly dispose of the land.

In Aloha's 1991 rate case, the Commission did not address any possible reclamation cost for this land, any future sale, or the cost/benefit analysis of either. Staff has not evaluated the utility's estimated costs to reclaim the land in Aloha's response to the staff audit. Further, the utility did not provide any documentation to support its estimate or the current market value of this land. As such, staff does not believe that a cost/benefit analysis is an appropriate method to determine whether this land should be included in rate base.

Staff's adjusted value for 100% of the Aloha Gardens wastewater land is $12,880. Therefore, 75% of this land is $9,660. Based on the above, staff recommends that this land should be removed from rate base as it is no longer providing service to the customers. Since the land was previously considered used and useful and the abandonment was beyond Aloha's control, staff believes this land should be amortized over 7 years beginning in 1998. This is consistent with the period used to amortize the abandoned plant costs in Docket No. 910540-WS. Accordingly, amortization expense should be increased by $1,380 and working capital should be increased by $4,140 to reflect the simple average balance of the unamortized cost.

Further, if the utility does sell this land in the future, any net gain on sale can be used to lower rates in the future. The utility should be ordered to report to this Commission any future sale, transfer or reassignment of this land to any person or entity within 60 days of such a transaction. At the time that it notifies the Commission, the utility should also submit any documentation regarding the transaction. If the transaction occurs between any affiliate or related party, the utility should submit a certified appraisal stating the current market value of the land. The utility should also submit its proposal as to how this transaction should be treated for ratemaking purposes.

ISSUE 9: Should the Seven Springs' wastewater land balance be reduced?

RECOMMENDATION: Yes. Staff recommends that Seven Springs' wastewater land balance should be reduced by $12,500 for unsupported and non-utility land. (FLETCHER)

STAFF ANALYSIS: In response to an audit data request, the utility provided a copy of an Agreement for Deed dated December 1, 1972 to purchase approximately 42.5 acres of land from Tahitian Development, Inc. (Tahitian) for $212,500 ($5,000 per acre). Based on staff's analysis, this agreement was a contract for sale and called for Tahitian to convey and assure Aloha a fee simple interest in this land through a good and sufficient deed. Without evidence that the deed was in fact transferred, staff cannot verify the ownership of the land by the utility with this document alone.

The 42.5 acres of land included three separate parcels. The first parcel is a 40-acre piece of land on which the utility's Seven Springs wastewater plant currently sits. The second parcel is a .1518 acre parcel on which the Seven Springs main lift station is located. For pricing purposes, the second parcel was rounded to one-half of an acre. The third parcel is a two-acre piece of land where the Sewage Disposal Plant Site for the Seven Springs Golf and Country Club was located.

According to Supplemental Audit Disclosure No. 4, the utility does in fact own the 40-acre parcel. The staff auditors verified Aloha's ownership by a search of the Pasco County Property Appraiser parcel database. Through this database, the staff auditors obtained a copy of an indenture agreement dated February 20, 1986 from the Pasco County Courthouse, which effectively deeded the 40-acre parcel to Aloha. Thus, staff believes that the utility owns this land and no adjustment is necessary for the 40-acre parcel of land.

The staff auditors' investigation did not, however, reveal any evidence of ownership of the second or third parcels of land. The utility was not certain of its ownership of the second parcel, and was unable to provide any evidence of ownership. Further, Mr. Watford, the utility's president, stated the utility did not own the third two-acre parcel of land. Mr. Watford stated the utility entered into an agreement with Pasco County to exchange some service areas that more closely aligned the existing service areas of each utility. The third two-acre parcel of land was deeded to Pasco County as part of the exchange.

As of December 31, 1998, the utility's Seven Springs wastewater land balance includes $212,500 related to the total 42.5 acres of land. Based on the above, staff recommends the removal of unsupported land of $2,500 and $10,000 for non-utility land. The total adjustment should be a decrease of $12,500 (2.5 acres at $5,000 per acre) from the Seven Spring wastewater land balance.

ISSUE 10: Should accumulated depreciation be recalculated at 2.5 percent for Aloha Gardens water system and Seven Spring water and wastewater systems?

RECOMMENDATION: No. Accumulated depreciation should not be recalculated at 2.5% for Aloha Gardens water and Seven Springs water and wastewater. (FLETCHER)

STAFF ANALYSIS: According to Audit Disclosure No. 3, the utility began using guideline depreciation rates outlined in Rule 25-30.140, Florida Administrative Code, in 1984. Based on a response to an audit document request, the utility stated that it now believes that it erroneously implemented guideline rates in 1984. As such, the utility believed that the reserve should be recalculated using a composite rate of 2.5% for the period 1984 through September 19, 1995. This recalculation, according to the utility, is only necessary for the Aloha Gardens water and for Seven Springs water and wastewater systems. Since the Aloha Gardens wastewater system had a rate case in 1991, the reserve account has already been corrected. The utility did not restate its reserve account to 2.5% on its books and instead just stated that the proper regulatory treatment was to make this correction. The staff auditors recommended that the utility's decision to change depreciation rates in 1984 was not incorrect and that the reserve accounts as calculated by the utility should be accepted.

In its response to the audit, the utility stated that this recalculation is consistent with the Commission's current policy regarding this issue as set forth in Plantation Utilities/IHC Realty Partnership transfer case. See Order No. PSC-98-0994-FOF-WS, issued July 20, 1998, in Docket No. 970429-WS. In that case, the Commission recalculated the utility's accumulated depreciation for the water system because the utility used guideline rates rather than the previously approved 2.5% rate. The utility also stated that this recalculation is consistent with Commission rules.

Pursuant to Rule 25-30.110(5)(b), Florida Administrative Code, the utility filed annual reports from 1984 to 1995 and has certified that these reports were in substantial compliance with all applicable rules and orders of the Commission. The Commission has relied on these reports for purposes of monitoring the utility's earnings level. Since the utility has already expensed the higher level of depreciation, one can argue that the utility has fully recovered the associated costs. In addition, staff questions the timing of Aloha's request to recalculate the reserve accounts. It appears that this adjustment is another means to increase Aloha's current rate base when the Commission is investigating the utility's earnings level.

Staff believes that the utility's proposal to recalculate the reserve accounts should not be approved. The utility's adjustment is neither fair, just, nor reasonable because it would result in the double recovery of these past expenses.

If the accumulated depreciation is recalculated, it is conceivable that the utility's achieved return from 1984 to 1995 would have been higher and could place the utility in an overearnings posture in those prior years. Due to the prohibition against retroactive ratemaking, the Commission, however, cannot order the utility to refund any past overearnings that could result from a change in the reserve accounts. See City of Miami v. Florida Public Service Commission, 208 So. 2d 249, 259 (Fla. 1968).

Staff has reviewed the Plantation Utilities case that Aloha argues reflects Commission policy to reset the reserve account. Staff believes that the Commission's decision in that case was incorrect. In that order, the Commission paraphrased Rule 25-30.140(4)(a), Florida Administrative Code, by stating that this rule "requires all utilities to maintain depreciation rates as prescribed by the Commission." Since the Commission had only approved a 2.5% depreciation rate previously for the water system, the utility was wrong in implementing guideline rates. Thus the Commission found that the water system's "depreciation rate shall be 2.5%" and reduced the reserve account accordingly.

Staff believes that the Commission erroneously interpreted Rule 25-30.140(4)(a). The exact wording of the rule is "All Class A and B utilities shall maintain depreciation rates and reserve activity by account as prescribed by this Commission." Further Section (3) states that:

> Except as listed in Subsections (5) and (6) of this rule average service life depreciation rates based on the guideline lives and salvages shall be used in any proceeding before this Commission that involves the setting of rates. A utility shall also implement the applicable guideline rates for any new plant to be placed in service.

Sections (5) and (6) of this rule address requests for approval of average service lives different than guideline rates and remaining life depreciation rates, respectively.

Staff believes that this rule should be interpreted to mean that rates should be maintained by account and those rates are established in section (2)(a) and (2)(b) of this rule. Staff does not believe that this rule prohibits a utility from changing depreciation rates to the guideline rates outside of a rate case or limited proceeding. The rule does state that guideline rates should be used in any rate proceeding and that the utility shall use rates prescribed by the Commission. Further, the guideline rates are prescribed by the Commission by Rule 25-30.140.

The fact that a utility would voluntarily increase its depreciation rates without a request for rate relief leads staff to believe that the utility could absorb this increased expense to offset possible overearnings. Finally, to subsequently reduce the reserve account to go back to prior depreciation rates would violate the prohibition against retroactive ratemaking.

Based on the above, staff believes it is inappropriate and would result in unfair rates to recalculate the accumulated depreciation reserve at a 2.5 percent composite rate.

ISSUE 11: What is the appropriate working capital allowance?

RECOMMENDATION: The appropriate working capital allowance, using the balance sheet approach, is $97,020 for the total company. The allocated portion for each system is shown below: (FLETCHER)

Aloha Gardens Water	$10,682
Aloha Gardens Wastewater	$20,284
Seven Springs Water	$29,297
Seven Springs Wastewater	$36,757

STAFF ANALYSIS: Rule 25-30.433(2), Florida Administrative Code, requires that working capital for Class A utilities shall be calculated using the balance sheet approach. Upon staff's request, the utility provided a copy of its working capital calculation using the balance sheet approach. The utility's calculation, based on the simple average balance for 1997 and 1998 reflected total working capital of $970,097. Based on staff's review of the utility's calculation, staff recommends the following adjustments, discussed below. Where appropriate, staff has addressed the corresponding adjustments to operation and maintenance (O&M) expenses that result from staff's recommended adjustments to working capital.

Interest Earnings on Cash Operating Account

According to staff's 1997 audit, Aloha deposits its operating cash in a sweep account. According to the utility, the bank utilizes the utility's cash balance overnight and pays interest for the use of these funds. The rate varies daily according to what the bank earns on its overnight investments.

The utility's cash operating account balances for 1997 and 1998 were $418,684 and $542,367, respectively. The utility's accounting consultant, Bob Nixon, removed interest earnings of $20,137 for 1997 and $25,061 for 1998 from the cash operating balances. In response to a staff interrogatory, the utility stated that it did not include the interest earnings on the cash operating account in above-the-line operating revenues. The utility stated that this treatment of interest earnings is consistent with the Commission's treatment of Gulf Utility Company's interest earnings in Gulf's 1996 rate case and overearnings investigation.

In Docket Nos. 960234-WS and .960329-WS, the Commission addressed a rate case and an overearnings investigation of Gulf Utility Company. In these cases, Gulf's cash operating account was a sweep account. By Order No. PSC-97-0847-FOF-WS, the Commission accepted Mr. Nixon's testimony in that case and removed $43 of interest earnings of Gulf's cash operating account from working capital. Further, the interest income was recorded below-the-line. Staff notes that this treatment in the Gulf case is not consistent with the Commission's prior practice regarding interest-bearing accounts.

It has been the Commission's practice to either include or exclude interest-bearing accounts in working capital on a case-by-case basis. When such accounts have been included in working capital, the interest earnings have been included in above-the-line revenues. See Orders Nos. PSC-94-0170-FOF-EI, issued February 10, 1994; and PSC-97-1487-FOF-EI, issued November 24, 1997. However, the Commission ordinarily excludes all interest bearing accounts from the working capital calculation to prevent subsidization of the utility by the ratepayer and vice versa. See Orders Nos. 11498, issued January 11, 1983; PSC-93-1637-FOF-TL, issued November 8, 1993; PSC-96-1320-FOF-WS, issued October 30, 1996; PSC-96-1404-FOF-GU, issued November 20, 1996; and PSC-97-1225-FOF-WU, issued October 10, 1997.

Staff has analyzed the hybrid method used in the Gulf case. By removing only the interest earnings for one year from the cash account, the utility will double-recover on the sweep account. It will earn the overall cost of capital on its operating cash plus recover the interest earnings recorded below the line. Staff believes this is unfair to the ratepayers because this method allows a utility to earn a return greater than the overall cost of capital on its operating cash. As stated earlier, the utility has already earned a return on its operating cash and did not include its interest earnings above the line. Therefore, staff recommends the utility's cash operating balances be removed from working capital to prevent subsidization of the utility by the ratepayer and vice versa. This results in a decrease to working capital of $542,376.

<u>Florida Department of Environmental Protection (DEP)
Sewage Treatment Permit (STP) Fee</u>

In 1997, the utility paid $5,000 to DEP for a construction permit for Phase III of Seven Springs wastewater treatment and reuse facility expansion. Mr. Nixon included this payment in the working capital as a deferred debit. This payment represents costs associated with a major plant improvement which staff believes should be capitalized to Construction Work in Progress (CWIP). Therefore, staff has removed this $5,000 payment from working capital.

Deferred CPA Audit Fees

The utility's working capital calculation reflected $35,908 for 1998 deferred contractual accounting services related to the utility's plant documentation analysis and responding to the Commission staff's audit data requests. The specific amounts were $8,137 for the plant documentation analysis and the remaining $27,771 for costs incurred to respond to the staff's 1997 audit.

Plant Documentation Analysis

The utility states that the plant documentation analysis was necessary because the last rate case for all four operating divisions was in 1976. At that time, Aloha had combined water and wastewater rates for Aloha Gardens and Seven Springs. Aloha Garden's wastewater was not split out until the 1991 rate case. Although all plant documentation was retained, it was in storage and had to be located and matched with the general ledger balances each year, to provide ready access to the Commission auditors. In addition, the utility states that the NARUC chart of accounts has changed several times since 1976. As such, an analysis was necessary to show the plant additions and balances in today's NARUC Account Numbering System. The utility stated, however, that it keeps its records according to NARUC and that this analysis saved the auditors and Aloha a substantial amount of time during the audit.

Pursuant to Rule 25-30.115, Florida Administrative Code, water and wastewater utilities are required to maintain their accounts and records in conformity with the USOA. Since 1976, the NARUC Uniform System of Accounts has been revised twice, first in 1984 and secondly in 1996. Moreover, the USOA requires Class A and B water and wastewater utilities to maintain separate records by plant accounts of the book cost of each plant owned. This includes additions by utility to plant leased from others and the cost of operating and maintaining each plant owned or operated. This requirement has been effective since 1976. If the utility had complied with the above requirement, a year by year analysis for each of the four divisions performed in 1997 would not have been necessary.

One of the primary reasons for the 1996 revision to the USOA was to provide accounts for reuse plant and regulatory assets and liabilities. The majority of the accounting requirements or accounts did not change from the 1984 version. As such, staff believes that any change that occurred in the NARUC chart of accounts from 1976 to 1984 is not a valid argument as to why the utility had to perform a plant documentation analysis. The utility should have maintained separate records for each system regardless of whether rates were combined or not. Further, the 1984 USOA changes should have been implemented in 1985. Staff notes that as a result of this plant documentation analysis, the utility decided to capitalize previously expensed items several years after the fact (addressed in Issue 1). Had the utility been maintaining its books separately by plant and in the proper accounts as required by the USOA, it would not have incurred these costs in 1997. Further, the utility may have avoided the erroneous items that the utility expensed in prior years.

Thus, staff believes that these costs were not prudent and the deferral and amortization of these amounts should be disallowed. Accordingly, we have removed $8,137 relating to this plant documentation from the working capital calculation. Staff notes that the staff audit report reflects that Aloha's books and records are maintained in conformity with the USOA in all material respects as of December 31, 1997.

Responding to Staff Audit Requests

According to a conversation with Mr. Nixon, the utility deferred $27,771 for outside accounting fees to respond to 35 staff audit data requests. Of this amount, the utility expensed $11,968 during 1998. The amount reflected in the working capital calculation did not reflect that this amortization had occurred.

The utility's Seven Springs water and wastewater divisions had not been audited since 1976, and Aloha Gardens water divisions had not been audited since 1978. Aloha Gardens wastewater division had not been audited since 1991. Staff recognizes that it is sometimes necessary to hire consultants to answer staff data requests. However, staff has reviewed this amount and we believe that $27,771 is excessive for responding to 35 audit requests. We do recognize that the amount of time spent on each request can vary depending on the question. However, we believe that an average response time of 3.75 hours per request is reasonable. Staff also believes that it is not necessary for Mr. Nixon to personally respond to all data requests but that some of his associates with lower fees should prepare responses. We believe that it is reasonable for the associates to perform 50% of the work on these data requests. Thus, it would require 131 total hours with 65 hours at $150/hour for Mr. Nixon or another partner and 65 hours at $75/hour for the associates. Based on this analysis, staff believes that $15,000 is a reasonable cost to respond to staff audit responses. This is a $12,771 reduction to the utility's deferred accounting fees for responding to the staff data requests.

Staff believes that the expenses related to this audit are non-recurring and should be amortized over 5 years. Pursuant to Rule 25-30.433(8), Florida Administrative Code, non-recurring expenses shall be amortized over a 5-year period unless a shorter or longer period can be justified. The annual amortization of these fees should be $3,000 and the unamortized balance at the end of 1998 should be $12,000. Since these charges were not incurred until 1998 there is a zero deferred balance in 1997. Since the utility expensed $11,968 in 1998, total expenses should be reduced by $8,968. This is a $2,242 reduction to O&M expenses for each system ($2,992-$750).

Based on the above, the average balance of deferred CPA Audit Fees that should be included in working capital should be $6,000. The utility's average balance was $22,023. This represents a decrease to working capital of $16,023.

<u>Deferred Rule Challenge Costs</u>

Aloha challenged the Commission's rules and authority regarding audits of water and wastewater utilities. On March 20, 1998, DOAH ruled in favor of the Commission on all issues, except the promulgation of a rule for audit exit conferences. DOAH also allowed the utility to be reimbursed for attorneys' fees associated with that one issue. The Commission and the utility appealed DOAH's ruling to the 1st DCA. On December 21, 1998, the 1st DCA affirmed DOAH's ruling on all issues, except the one issue on which DOAH ruled in favor of the utility. On that issue, the 1st DCA reversed DOAH and consequently also denied reimbursement of all attorneys fees for the utility. Thus, the utility did not prevail on any issues embodied in its rule challenge.

Mr. Nixon included $278,061 of deferred rule challenge costs for 1998 in his working capital calculation. Upon staff's request, Mr. Nixon provided a breakdown of the utility's 1998 amortization of deferred expenses. This breakdown indicated that the utility had amortized $86,734 of its deferred rule challenge costs equally among its systems. Thus, the utility had only deferred $191,327 as of December 31, 1998. The average balance that Mr. Nixon included in working capital for rule challenge costs was $224,625.

In Order No. PSC-94-0738-FOF-WU, issued June 15, 1994, the Commission found that Sunshine Utilities of Central Florida, Inc., should recover reasonable attorney fees based on the number of issues on which the utility prevailed after a successful appeal. Since Aloha did not prevail on any issues in its rule challenge or appeal, staff recommends that recovery of all deferred rule challenge costs be disallowed. This is consistent with the Commission decision in the Sunshine case. As such, staff has removed all deferred rule challenge costs ($224,625) from working capital. Further, staff has removed $21,684 ($86,734/4) from each of the utility systems' O&M expenses.

Other Deferred Contractual Services

In 1996, the utility expensed $45,692 in contractual services related to Aloha's quality of service docket (Docket No. 960545-WS). In 1997, the utility expensed $156,740 in contractual services related to various open dockets, to Phase III of the utility's reuse project, and to a plant documentation analysis. According to Audit Disclosure No. 7, the staff auditors recommended deferring and amortizing the $45,692 beginning in 1996 and the $156,740 beginning in 1997, over 4 years because these expenses had a future benefit. In 1999, the utility made a prior period adjustment to defer all these expenses and amortized them beginning in 1997, including the $45,692 expensed in 1996.

The following table provides a breakdown of these 1996 and 1997 expenses and indicates what the annual amortization amount was:

Project/Docket	**1996 Expenses**	**1997 Expenses**	**Annual Amortiz.**
Docket No. 950615-SU	0	$75,754	$18,939
Docket No. 960545-WS	$45,692	49,481	23,793
Docket No. 970536-WS	0	15,541	3,885
Docket No. 980245-WS	0	1,134	284
Gomberg Study	0	9,230	2,308
Plant Documentation		5,600	1,400
TOTAL	$45,692	$156,740	$50,609

In the utility's 1998 working capital calculation, the utility included $101,216 [($45,692 + $156,740) less ($50,609 x 2 years)] which represents the unamortized deferred balance of these expenses. The average balance included in working capital was $50,608.

Pursuant to Rule 25-30.110(5)(d), Florida Administrative Code, the utility certified that its 1996 and 1997 annual reports fairly presented the financial condition and results of operations for those years. The fact remains that the utility, for whatever reason, expensed these amounts in 1996 and 1997. The Commission has relied on these reports for purposes of monitoring the utility's earnings and is precluded from going back and looking at those prior years to determine if overearnings existed. In the same manner, the utility should be precluded from taking previously expensed items from prior years and changing its accounting treatment.

Since the utility has previously expensed these amounts, staff believes that the utility has already recovered the costs associated with these contractual services. Section 367.081(2)(a), Florida Statutes, states that the Commission shall fix rates which are just, reasonable, compensatory, and not unfairly discriminatory. Staff believes that amortizing these amounts is neither fair, just, nor reasonable because it results in the double recovery of these expenses. Therefore, staff recommends that the average balance of these expenses ($50,608) should be removed from the working capital calculation.

Staff also recommends that the 1998 amortized amounts should be removed from O&M expenses as follows:

System	O&M Expense Decrease
Aloha Gardens water	$ 196
Aloha Gardens wastewater	$ 196
Seven Springs water	$27,635
Seven Springs wastewater	$22,581

In addition, as discussed in Issue 19, the utility expensed $14,510 for costs associated with the quality of service investigation for Seven Springs water system. Staff has recommended that these amounts be deferred to the point when the charges cease. Accordingly, staff recommends that working capital should be increased by the average balance of this deferred account, or $7,255.

Working Capital Summary

Based on the above and Issue 8, staff recommends a working capital allowance of $97,020 for the total company. A breakdown of working capital for each system is as follows:

System	**Working Capital Allowance**
Aloha Gardens water	$10,682
Aloha Gardens wastewater	$20,284
Seven Springs water	$29,297
Seven Springs wastewater	$36,757

ISSUE 12: For the purposes of this analysis, what is the appropriate rate base for each system for Docket Nos. 970536-WS and 980245-WS?

RECOMMENDATION: The appropriate rate base for each system is as depicted in the table below. (FLETCHER)

Aloha Gardens		
Water		$(18,787)
Wastewater	$	409,714
Seven Springs		
Water-1st Limited Proc.	$	1,026,143
Wastewater-1st Limited Proc.	$	4,069,815
Water-2nd Limited Proc.	$	1,288,352
Wastewater-2nd Limited Proc.	$	4,183,869

STAFF ANALYSIS: Based on our adjustments stated earlier, staff recommends that the appropriate rate base for each system is as follows:

Aloha Gardens		
Water		$(18,787)
Wastewater	$	409,714
Seven Springs		
Water-1st Limited Proc.	$	1,026,143
Wastewater-1st Limited Proc.	$	4,069,815
Water-2nd Limited Proc.	$	1,288,352
Wastewater-2nd Limited Proc.	$	4,183,869

COST OF CAPITAL

ISSUE 13: Should Aloha's preferred stock be valued as common equity?

RECOMMENDATION: Yes. The $600,000 of Aloha's preferred stock should be valued as common equity. (FLETCHER)

STAFF ANALYSIS: In the utility's 1991 rate case for Aloha Gardens wastewater, the utility used a cost rate of 15.50 percent for its preferred stock. One share of cumulative preferred stock was issued in 1982 at a face value amount of $600,000, to Tahitian Development, a related company. The interest rates were much higher during the early 1980s than they were in the early 1990s. As such, in the 1991 rate case, the Commission found it appropriate to value Aloha's preferred stock as common equity. See Order No. PSC-92-0578-FOF-SU, issued June 29, 1992. Staff believes that the circumstances regarding Aloha's preferred stock have not changed since the Commission made its prior decision. Therefore, staff recommends that the utility's preferred stock should be valued as common equity.

ISSUE 14: What is the appropriate return on equity (ROE) for Aloha?

RECOMMENDATION: Based on the current leverage graph, the appropriate ROE for Aloha is 10.12%, with a range of 9.12% to 11.12%. (FLETCHER)

STAFF ANALYSIS: In the utility's 1977 rate case (Docket No. 770720-WS), the Commission established a total company ROE of 14%. See Order No. 9278, issued March 11, 1980. The Commission initiated an overearnings investigation for the Aloha Gardens water system in Docket No. 790027-W but did not change the authorized ROE for this system. See Order No. 9278, issued March 11, 1980.

In 1991, the utility filed an application for a rate increase for its Aloha Gardens wastewater system. By Order No. PSC-92-0578-FOF-SU, issued June 29, 1992, the Commission established a ROE of 12.69 percent with a range of 11.69% to 13.69% for Aloha Gardens wastewater. The last authorized ROE for Aloha Gardens water and both of the Seven Springs systems is 14%.

By Order No. PSC-99-1224-PAA-WS, issued June 21, 1999, the Commission approved the current leverage graph used to establish the authorized ROE for water and wastewater utilities. Based on the current leverage graph, the Aloha's last authorized ROEs are excessive. Using the simple average 1998 capital structure, the utility has a 38.70% equity ratio. Based on the current leverage graph, the appropriate cost of equity should be 10.12% with a range of 9.12% to 11.12%. Staff has used the mid-point of the ROE to determine whether any increase or decrease in rates is warranted. Further, staff recommends that this ROE should be applied to any future proceedings of this utility, including, but not limited to price indexes, interim rates, and overearnings.

ISSUE 15: What is the appropriate cost rate for the utility's related party long-term debt?

RECOMMENDATION: The appropriate cost rate of the utility's related party long-term debt should be 9.75%. (FLETCHER)

STAFF ANALYSIS: In 1995 and 1996, the utility incurred debt from Ms. Lynda Speers, the majority shareholder of Aloha, to fund the Seven Springs reuse project. In the 1995 reuse limited proceeding (Docket No. 950615-SU) for its Seven Springs wastewater system, the utility requested a 12% cost rate, which was based on a 9% prime rate of interest, plus 3%. In that case, the Commission found that the utility failed to prove the prudence of an interest rate of prime plus three percent. Further, the Commission found that a cost rate of prime plus 2% shall be used for this debt. See Order No. PSC-97-0280-FOF-WS, issued March 12, 1997.

The prime rate was 7.75% as of December 31, 1998. Therefore, consistent with the Commission's decision in Docket No. 950615-SU, staff believes that the cost rate of this related party debt should be 9.75%.

ISSUE 16: What is the appropriate overall cost of capital?

RECOMMENDATION: Staff recommends that the appropriate overall cost of capital is 9.08 percent, with a range of 8.73% to 9.43%. (FLETCHER)

STAFF ANALYSIS: Based on our recommended adjustments, the appropriate overall cost of capital is 9.08%, with a range of 8.73% to 9.43%.

ISSUE 17: What is the appropriate AFUDC rate for Aloha?

RECOMMENDATION: The annual AFUDC rate should be 9.08%, with a monthly discount rate of 0.726890%. The AFUDC rate shall be effective for construction projects beginning January 1, 1999. (FLETCHER)

STAFF ANALYSIS: By Order No. 22206, issued November 21, 1989, the Commission approved the utility's existing AFUDC rate of 14.71 percent. In determining this rate, the Commission used the utility's capital structure for the 12-month period ended May 31, 1989. Based on Aloha's cost of capital for 1998, the existing AFUDC rate is excessive.

Rule 25-30.116(7), Florida Administrative Code, states that the Commission on its own motion may initiate a proceeding to revise a utility's AFUDC rate. Using adjustments consistent with Issue 16 staff has recommended an overall cost of capital of 9.08% for this utility. Consistent with Rule 25-30.116(3), Florida Administrative Code, the annual AFUDC rate would also be 9.08 percent, with a monthly discounted rate of 0.726890%. Further, Rule 25-30.116, Florida Administrative Code, states that the AFUDC rate should be effective the month following the end of the period used to establish the rate. Since the test period for the cost of capital was the year ended December 31, 1998, the AFUDC rate shall be effective for construction projects beginning January 1, 1999.

NET OPERATING INCOME

ISSUE 18: Should an adjustment be made to reduce officers' salaries?

RECOMMENDATION: Yes. Officers' salaries and related expenses should be reduced as follows: (FLETCHER)

System	Salary Expenses	Pensions	Payroll Taxes
Aloha Gardens Water	$3,877	$1,265	$334
Aloha Gardens Wastewater	$6,387	$2,787	$567
Seven Springs Water	$24,423	$6,155	$2,156
Seven Springs Wastewater	$16,404	$4,928	$1,344

STAFF ANALYSIS: According to Aloha's 1998 annual report, Mr. Watford, the utility's president, spent 100 percent of his time in this capacity and had an annual salary of $112,108. Ms. Speers, the utility's vice-president, spent 20 percent of her time in this capacity and received $65,488 in compensation for 1998. Ms. Haller, the utility's secretary and treasurer, spent 100 percent of her time in this capacity and had an annual salary of $50,005. Further, Ms. Pippin, who is no longer employed by Aloha, was the utility's treasurer in 1996. She spent 10 percent of her time in this capacity. Staff has analyzed these salary levels and we believe that the vice president's and secretary/treasurer's salaries are excessive.

Vice President's Salary

When her salary is extrapolated to 100%, Ms. Speers' annualized salary would be $327,440. Ms. Speers is the majority shareholder of the utility with 62.5% ownership. Normally, the vice president of a company does not earn a greater salary than the president. In Audit Disclosure 5, the staff auditors recommended that the utility should not be allowed to recover payroll expenses for the part-time vice president in excess of the president's compensation. The auditors recommended that Ms. Speers' salary be limited to 20% of Mr. Watford's annual salary.

In its response to the audit, the utility states that Ms. Speers is a valuable and necessary member of Aloha's management team. Aloha argues that the auditors' adjustment is faulty and it does not take into account the vice president's unique talents, skills, and contribution to the success of Aloha. Further, Aloha states that its total salaries are 38% lower than the average salaries for identical positions of similar-sized companies.

Staff has reviewed the utility's survey that it used for comparison. This survey is based on only 7 utilities and, accordingly, is very limited. Staff notes that none of the vice presidents on the survey earn more than the president. Further, the amount of time spent on utility business is not reflected on this survey to allow staff to analyze whether the annualized salaries are comparable. Staff does not believe that this is a reasonable survey on which to base an opinion. Based on staff's review of the duties and responsibilities of Ms. Speers and the other officers, staff does not believe that Aloha's vice president warrants a greater annualized salary than the president. Further, staff agrees with the staff auditors and we believe the maximum threshold of Ms. Speers' annual salary should be limited to 20 percent of Mr. Watford's annual salary. Accordingly, we recommend that the vice president's salary should be $22,422. Thus, staff recommends that Ms. Speers' salary be reduced by $43,066.

Secretary/Treasurer's Salary

In 1996, Ms. Haller's annual salary was $26,986 for 100 percent of her time spent as secretary of the utility. In 1996, Ms. Pippin, the former treasurer, spent 10 percent of her time on utility business. Ms. Haller assumed Ms. Pippin's responsibilities as treasurer in 1997. Ms. Haller's 1997 annual salary was $50,922, which represents an increase of $23,936 or 88.7%. The utility indicated that Ms. Haller's salary increase was for the recognition of additional duties assumed over her 20 years of employment with Aloha and for assuming the duties of treasurer.

In 1998, Ms. Haller's annual salary was $50,005. The utility responded to staff that Ms. Haller is responsible for overseeing the management of the office and its employees. She maintains the billing, accounts receivable and payable systems and participates in officers' meetings and management decisions concerning Aloha. In effect, Ms. Haller is now an office manager as well as the treasurer. The utility stated that the reason why her salary increased so much in 1997 was because her duties have changed substantially over the last 19 years and her pay did not keep pace with her changing duties.

Staff recognizes that Ms. Haller has assumed more responsibility in her current position but we believe that her salary increase is excessive. We believe that a more conservative salary increase should be allowed. To recognize that she may have been underpaid and that she has taken on additional responsibilities, we have used an inflationary factor applied to her 1996 salary for those periods. Staff took a factor of 2.8% times 19 years which equates to a multiplier of 1.532. We then applied this factor to Ms. Haller's 1996 salary. We then rounded this amount up to $42,000, or a 56 percent increase from 1996 to 1998. Staff believes that this is a reasonable salary level for a secretary/treasurer/bookkeeper, who also has responsibilities as an office manager. Thus, staff recommends that Ms. Haller's salary be reduced by $8,005 ($50,005 less $42,000).

Summary

Based on the above, staff recommends that Aloha's officer salaries should be reduced by $51,071. Corresponding adjustments are also necessary to pensions and payroll taxes.

According to the 1997 audit, the utility allocates its payroll expenses of administrative and office personnel based on ERCs for each system. Staff believes that this is reasonable and our recommended salary and related payroll cost adjustments should be allocated based on ERCs as well. Based on the above, staff recommends that salary expenses, pensions, and payroll taxes be reduced as follows.

System	Salary Expenses	Pensions	Payroll Taxes
Aloha Gardens Water	$3,877	$1,265	$334
Aloha Gardens Wastewater	$6,387	$2,787	$567
Seven Springs Water	$24,423	$6,155	$2,156
Seven Springs Wastewater	$16,404	$4,928	$1,344

ISSUE 19: What is the appropriate treatment of regulatory commission expense incurred in 1998 and 1999 for Docket No. 960545-WS?

RECOMMENDATION: The costs incurred in 1998 and subsequently for the Quality of Service Investigation in Docket No. 960545-WS should be deferred until these costs cease. At that point, the utility should begin amortizing those amounts over five years. The amounts expensed prior to 1998 should not be added to the deferred balance and the determination of prudence should be addressed in a future proceeding. Accordingly, O&M expenses should be decreased by $14,510. (FLETCHER)

STAFF ANALYSIS: In 1998, the utility expensed $14,510 for the Seven Springs water quality of service investigation. The hearing for this docket is scheduled for December 13-14, 1999. As such, costs will continue to be incurred for this investigation at least until early 2000. The costs incurred in 1998 and in subsequent years should be deferred until these costs cease. At that point, the utility should begin amortizing those amounts over five years according to Rule 25-30.433(8), Florida Administrative Code. The amounts expensed prior to 1998 have already been addressed in Issue 11 and should not be added to the deferred balance for future recovery. Staff also recommends that the determination of the prudence of any of these costs should be addressed in a future proceeding, if necessary. Based on the above, staff has removed $14,510 from Seven Springs water O&M expenses.

ISSUE 20: What is the appropriate amount of rate case expense for Dockets Nos. 970536-WS and 980245-WS?

RECOMMENDATION: Staff recommends rate case expense for both limited proceedings should be disallowed. (FLETCHER)

STAFF ANALYSIS: As discussed in Issue 26, staff has recommended that no increase be granted for either of the two limited proceedings that were filed by Aloha. Under both scenarios, the total utility company was either earning at the very top of the range of the newly authorized rate of return or within the range. Under the Commission's rate setting authority, a utility seeking a change in rates must demonstrate that its present rates are unreasonable. South Fla. Natural Gas v. Florida Public Service Commission, 534 So. 2d 695, 697 (Fla. 1988). Staff recommends that it is inappropriate to approve rate case expense because our adjusted revenue requirements show that a rate increase is not warranted. If the Commission accepts staff's other recommendations, the only basis for a rate increase would be rate case expense.

As such, we believe that the decision to file for rate relief was imprudent and the customers should not have to bear this cost. Chapter 367.081(7), Florida Statutes, states that the Commission shall disallow all rate case expense determined to be unreasonable. The Commission has previously disallowed rate case expense in a limited proceeding where the rate increase was denied. See Order No. PSC-98-1583-FOF-WS, issued on November 25, 1998 in Docket No. 971663-WS, Application of Florida Cities Water Company for Recovery of Environmental Litigation Costs. Moreover, the Commission enjoys broad discretion with respect to the allowance of rate case expense. Meadowbrook Utility Systems, Inc. v. FPSC, 518 So. 2d 326 (Fla. 1st DCA 1988).

Based on the above, staff recommends that all rate case expense should be excluded from the utility's revenue requirements for both dockets. In our analysis, staff found that in 1998, the utility expensed $1,104 equally between its Seven Springs water and wastewater systems related to Docket No. 970536-WS. Consistent with our recommendation, staff has reduced the O&M expenses of Seven Springs water and wastewater each by $552. Also in 1998, the utility amortized $5,886 in rate case expense related to Docket No. 980245-WS which was allocated equally between Seven Springs water and wastewater. Therefore, staff has reduced the O & M expenses of Seven Springs water and wastewater each by $3,495.

ISSUE 21: What are the appropriate pro forma adjustments related to the billing conversion from postcards to envelopes requested in Docket 970536-WS?

RECOMMENDATION: The appropriate pro forma adjustments related to the billing conversion from postcards to envelopes are $4,369 and $3,970 for Aloha Gardens water and wastewater, respectively, and $11,224 and $10,905 for Seven Springs water and wastewater, respectively. Further, the utility should be ordered to implement this change within 90 days of the date of the consummating order if the proposed agency action (PAA) order becomes final. (FLETCHER)

STAFF ANALYSIS: In its application, the utility requested in part a rate increase for additional billing and mailing costs related to a conversion from postcards to envelopes. The utility's allocated cost to each division was $4,369 and $3,970 for Aloha Gardens water and wastewater, respectively, and $11,224 and $10,905 for Seven Springs water and wastewater, respectively. This allocation was based on the number of bills for each division. Staff has reviewed these costs and we believe that they are reasonable. For the purposes of this analysis, staff has included these pro forma costs.

In response to Staff's First Data Request in Docket No. 970536-WS, Aloha stated it is still utilizing postcard billing. Further, the utility stated it is awaiting Commission approval of the additional cost of envelope billing in rates prior to implementing this change. If Issue 28 is approved, the utility should implement this change within 90 days of the date of the consummating order if the PAA order becomes final.

ISSUE 22: Should an adjustment be made to amortization expense?

RECOMMENDATION: Yes. The loss on abandonment of the Aloha Garden's wastewater treatment plant should be increased by $12,712. (FLETCHER)

STAFF ANALYSIS: By Order No. PSC-92-0578-FOF-SU, issued June 29, 1992, the Commission found that the appropriate amortization amount of the loss related to the Aloha Gardens wastewater plant retirement was $33,781 per year for seven years. Staff notes that this loss should have been fully amortized as of June 29, 1999. Since we are looking at earnings for 1998, staff believes that it is appropriate to include this amount as an expense for that year. If we were addressing prospective rates for 1999, staff would recommend that this expense be excluded from the revenue requirement calculation. According to its 1998 annual report, the utility only amortized $21,069 for this loss. To reflect the full amount approved by the order, staff believes that it is appropriate to increase the amortization expense by $12,712 for Aloha Gardens wastewater.

ISSUE 23: Should an adjustment be made to the utility's 1998 tangible personal property and real estate taxes?

RECOMMENDATION: Yes. An adjustment should be made to the utility's 1998 tangible personal property taxes as reflected in the staff analysis. (FLETCHER)

STAFF ANALYSIS: The staff auditors' review of the utility's plant accounts revealed that it was using an old allocation method for tangible personal property taxes. According to Audit Disclosure No. 2, the proper allocation method for these taxes should be based on plant accounts less land and transportation equipment accounts, net of depreciation. By letter dated December 31, 1998, Mr. Nixon responded to the 1997 staff audit for Aloha. Mr. Nixon stated that Aloha agrees with the use of this method to allocate these taxes. Thus, staff has utilized this method to allocate the utility's 1998 taxes.

Further, based on a discussion with the utility, Aloha paid its 1998 tangible and real estate property taxes in December of 1998. As such, the utility did not take the available discounts in November. The personal property tax discount totaled $3,386 and the real estate discount was $906. These amounts are the difference between the November and the December amounts. Because of the utility's decision not to take all the available discounts, staff believes it is unfair for ratepayers to bear these additional expenses. See FPL, Order No. 6591, issued April 1, 1975, Docket No. 74509-EU; and TECO, Order No. 9599, issued October 17, 1980, Docket No. 800011-EU. As such, property taxes should be reduced by the amount of the discounts not taken.

The two tables below reflect staff's recommended adjustments for tangible personal and real estate property taxes.

Tangible Personal Property Taxes	**Discount Amount**	**Reallocation Adjustment**	**Total Adjustment**
Aloha Gardens Water	$(52)	$(53)	$(105)
Aloha Gardens Wastewater	$(253)	$53	$(200)
Seven Springs Water	$(1,171)	$8,623	$7,452
Seven Springs Wastewater	$(1,911)	$(8,623)	$(10,534)

Real Estate Property Taxes	**Discount Amount**
Aloha Gardens Water	$(142)
Aloha Gardens Wastewater	$(141)
Seven Springs Water	$(73)
Seven Springs Wastewater	$(550)

ISSUE 24: For the purpose of this analysis, what is the appropriate net operating income before any calculation for an increase or decrease for each of Aloha's systems for Dockets Nos. 970536-WS and 980245-WS?

RECOMMENDATION: For the purpose of this analysis, the appropriate net operating income for Dockets Nos. 970536-WS and 980245-WS is depicted in the tables below. (FLETCHER)

Aloha Gardens	
Water	$ 13,377
Wastewater	$ 42,628
Seven Springs	
Water-1st Limited Proc.	$ 119,501
Wastewater-1st Limited Proc.	$ 340,874
Water-2nd Limited Proc.	$ 117,738
Wastewater-2nd Limited Proc.	$ 339,510

STAFF ANALYSIS: Based on our adjustments stated earlier, staff recommends that the appropriate net operating income for each system is as follows:

Aloha Gardens	
Water	$ 13,377
Wastewater	$ 42,628
Seven Springs	
Water-1st Limited Proc.	$ 119,501
Wastewater-2nd Limited Proc.	$ 340,874
Water-1st Limited Proc.	$ 117,738
Wastewater-2nd Limited Proc.	$ 339,510

ISSUE 25: For the purpose of this analysis, what is the appropriate revenue requirement for each of Aloha's systems for Dockets Nos. 970536-WS and 980245-WS?

RECOMMENDATION: For the purpose of this analysis, the appropriate revenue requirement for Docket Nos. 970536-WS and 980245-WS is depicted in the tables below. (FLETCHER)

Aloha Gardens	
Water	$ 461,395
Wastewater	$ 971,420
Seven Springs	
Water-1st Limited Proc.	$1,518,855
Wastewater-1st Limited Proc.	$2,407,822
Water-2nd Limited Proc.	$1,561,783
Wastewater-2nd Limited Proc.	$2,427,497

STAFF ANALYSIS: Based on our adjustments stated earlier, staff recommends that the appropriate net operating income for each system is as follows:

Aloha Gardens	
Water	$461,395
Wastewater	$971,420
Seven Springs	
Water-1st Limited Proc.	$1,518,855
Wastewater-1st Limited Proc.	$2,407,822
Water-2nd Limited Proc.	$1,561,783
Wastewater-2nd Limited Proc.	$2,427,497

These amounts were based on staff's recommended rate base, overall rate of return and operating expenses for the year ended December 31, 1998.

ISSUE 26: Should the utility's request to increase it rates in Dockets Nos. 970536-WS and 980245-WS be approved?

RECOMMENDATION: No. The requested rate increases should be denied. With both line relocations and the pro forma billing costs included, the total utility company is earning within the range of the newly authorized rate of return. (FLETCHER)

STAFF ANALYSIS: In determining whether a rate increase is warranted for the first limited proceeding, staff calculated the achieved rate of return for each of the four systems for 1998. Staff has incorporated all of the adjustments as discussed in this recommendation, with the exclusion of the pro forma adjustments for the second limited proceeding. Our analysis also included the full costs of the Phase II reuse project and the line relocation along State Road 54 (both incurred in 1997). Further, we included the pro forma costs of the billing conversion from postcards to envelopes.

Based on our analysis for the first limited proceeding, the total company was earning the maximum of the range of the newly established overall rate of return of 9.43%. Individually, the Aloha Gardens and Seven Springs water systems were earning in excess of the range, with both wastewater systems earning less than the range. Staff also conducted an analysis of the historical year ended December 31, 1997. The 1997 analysis is not attached as part of our recommendation. Using the adjustments included within this recommendation, the 1997 analysis also indicates that the total utility company was earning in excess of the range of the newly authorized rate of return.

Our analysis for the second line relocation reflected that the total utility was earning a 8.79% rate of return. As addressed in Issue 16, the range of the staff recommended overall rate of return is 8.73% to 9.43%. As such, staff does not believe that a rate increase is warranted for these limited proceedings and the rate increase should be denied.

ISSUE 27: Should Dockets Nos. 970536-WS and 980245-WS be closed?

RECOMMENDATION: Yes. If no timely protest is filed, the order should become final and effective upon the issuance of a consummating order and the docket should be closed at that time. (JAEGER, FLETCHER)

STAFF ANALYSIS: If no timely protest is filed, the order should become final and effective upon the issuance of a consummating order. The docket should be closed at that time.

ALOHA UTILITIES, INC. - Aloha Gardens
SCHEDULE OF WATER RATE BASE
TEST YEAR ENDED 12/31/98

SCHEDULE NO. A(1-A)
DOCKETS NOS. 970536-WS & 980245-WS

	DESCRIPTION	[illegible]	[illegible]	[illegible]	[illegible]	ADJUSTED BALANCE PER STAFF
1	UTILITY PLANT IN SERVICE	$858,343	$0	$858,343	($3,669)	$854,673
2	LAND & LAND RIGHTS	5,000	0	5,000	0	5,000
3	NON-USED & USEFUL COMPONENT	0	0	0	0	0
4	ACCUMULATED DEPRECIATION	(728,075)	0	(728,075)	942	(727,133)
5	CIAC	(438,245)	0	(438,245)	0	(438,245)
6	AMORTIZATION OF CIAC	276,236	0	276,236	0	276,236
7	WORKING CAPITAL ALLOWANCE	101,909	0	101,909	(91,227)	10,682
	RATE BASE	$75,167	$0	$75,167	($93,954)	($18,787)

ALOHA UTILITIES, INC. - Aloha Gardens
SCHEDULE OF WASTEWATER RATE BASE
TEST YEAR ENDED 12/31/98

SCHEDULE NO. A(1-B)
DOCKETS NOS. 970536-WS & 980245-WS

	DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENT	ADJUSTED BALANCE	STAFF ADJUSTMENT	ADJUSTED BALANCE PER STAFF
1	UTILITY PLANT IN SERVICE	$1,317,962	$0	$1,317,962	($1,567)	$1,316,394
2	LAND	53,061	0	53,061	(49,841)	3,220
3	NON-USED & USEFUL COMPONENT	0	0	0	0	0
4	ACCUMULATED DEPRECIATION	(772,490)	0	(772,490)	830	(771,661)
5	CIAC	(324,586)	0	(324,586)	0	(324,586)
6	AMORTIZATION OF CIAC	166,062	0	166,062	0	166,062
7	WORKING CAPITAL ALLOWANCE	180,040	0	180,040	(159,755)	20,284
	RATE BASE	$620,048	$0	$620,048	($210,334)	$409,714

ALOHA UTILITIES, INC. - Aloha Gardens
ADJUSTMENTS TO RATE BASE
TEST YEAR ENDED 12/31/98

SCHEDULE NO. A(1-C)
DOCKETS NOS. 970536-WS & 980245-WS

EXPLANATION	WATER	WASTEWATER
(1) PLANT IN SERVICE		
To remove capitalized invoices previously expensed.	($3,669)	($1,567)
(2) LAND		
A. To remove land appraisal cost for land that was not purchased.	$0	($12,120)
B. To reduce the land due to lack of support documentation.	0	(23,061)
C. To reclassify appraisal costs associated with Seven Spring Wastewater land.	0	(5,000)
D. To remove abandoned land of the prior wastewater treatment plant.	0	(9,660)
Total	$0	($49,841)
(3) ACCUMULATED DEPRECIATION		
To remove accumulated depr. related to capitalized invoices previously expensed.	$942	$830
(4) WORKING CAPITAL		
To reflect the appropriate working capital, under the balance sheet approach.	($91,227)	($159,755)

ALOHA UTILITIES, INC. - Aloha Gardens
CAPITAL STRUCTURE
TEST YEAR ENDED 12/31/98

SCHEDULE NO. A(2)
DOCKETS NOS. 970536-WS & 980245-WS

	DESCRIPTION	[illegible]	SPECIFIC ADJUSTMENTS [illegible]	PRO RATA ADJUSTMENTS	CAPITAL RECONCILED TO RATE BASE	RATIO	COST RATE	WEIGHTED COST
	PER UTILITY 1998 - SIMPLE AVERAGE							
1	LONG TERM DEBT	$3,599,720	$0	$0	$3,599,720	54.80%	10.75%	5.89%
2	SHORT-TERM DEBT	0	0	0	0	0.00%	0.00%	0.00%
3	PREFERRED STOCK	600,000	0	0	600,000	9.13%	0.00%	0.00%
4	COMMON EQUITY	1,688,561	0	0	1,688,561	25.71%	12.69%	3.26%
5	CUSTOMER DEPOSITS	232,266	0	0	232,266	3.54%	6.00%	0.21%
6	DEFERRED INCOME TAXES	448,228	0	0	448,228	6.82%	0.00%	0.00%
7	DEFERRED ITC'S-ZERO COST	0	0	0	0	0.00%	0.00%	0.00%
8	DEFERRED ITC'S-WTD. COST	0	0	0	0	0.00%	0.00%	0.00%
9	OTHER	0	0	0	0	0.00%	0.00%	0.00%
10	TOTAL CAPITAL	$6,568,775	$0	$0	$6,568,775	100.00%		9.37%
	PER COMMISSION 1998 - SIMPLE AVERAGE							
11	LONG TERM DEBT	$3,599,720	$0	($3,385,094)	$214,626	54.90%	9.75%	5.35%
12	SHORT-TERM DEBT	0	0	0	0	0.00%	0.00%	0.00%
13	PREFERRED STOCK	600,000	(600,000)	0	0	0.00%	0.00%	0.00%
14	COMMON EQUITY	1,688,561	587,880	(2,140,713)	135,728	34.72%	10.12%	3.51%
15	CUSTOMER DEPOSITS	232,266	0	(218,418)	13,848	3.54%	6.00%	0.21%
16	DEFERRED INCOME TAXES	448,228	0	(421,503)	26,725	6.84%	0.00%	0.00%
17	DEFERRED ITC'S-ZERO COST	0	0	0	0	0.00%	0.00%	0.00%
18	DEFERRED ITC'S-WTD. COST	0	0	0	0	0.00%	0.00%	0.00%
19	OTHER	0	0	0	0	0.00%	0.00%	0.00%
17	TOTAL CAPITAL	$6,568,775	($12,120)	($6,165,729)	$390,926	100.00%		9.08%

	LOW	HIGH
RETURN ON EQUITY	9.12%	11.12%
OVERALL RATE OF RETURN	8.73%	9.43%

ALOHA UTILITIES, INC. - Aloha Gardens
STATEMENT OF WATER OPERATIONS
TEST YEAR ENDED 12/31/98

SCHEDULE NO. A(3-A)
DOCKETS NOS. 970536-WS & 980245-WS

	DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1	OPERATING REVENUES	$483,853		$483,853		$483,853	($22,458) -4.64%	$461,395
	OPERATING EXPENSES:							
2	OPERATION AND MAINTENANCE	$438,454	$0	$438,454	($24,893)	$413,561		$413,561
3	DEPRECIATION	10,760	0	10,760	(122)	10,638		10,638
4	AMORTIZATION	0	0	0	0	0		0
5	TAXES OTHER THAN INCOME	38,788	0	38,788	(582)	38,206	(1,011)	37,196
6	INCOME TAXES	3,565	0	3,565	4,506	8,071	(8,071)	(0)
7	TOTAL OPERATING EXPENSES	$491,567	$0	$491,567	($21,091)	$470,476	($9,081)	$461,395
8	OPERATING INCOME	($7,714)	$0	($7,714)	$21,091	$13,377	($13,377)	$0
9	RATE BASE	$75,167		$75,167		($18,787)		($18,787)
10	RATE OF RETURN	-10.26%		-10.26%		-71.20%		0.00%

ALOHA UTILITIES, INC. - Aloha Gardens
STATEMENT OF WASTEWATER OPERATIONS
TEST YEAR ENDED 12/31/98

SCHEDULE NO. A(3-B)
DOCKETS NOS. 970536-WS & 980245-WS

	DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	STAFF ADJUSTMENT	STAFF ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1	OPERATING REVENUES	$980,535		$980,535		$980,535	($9,115) -0.93%	$971,420
	OPERATING EXPENSES							
2	OPERATION AND MAINTENANCE	$814,657	$0	$814,657	($29,306)	$785,351		$785,351
3	DEPRECIATION	29,213	0	29,213	(87)	29,126		29,126
4	AMORTIZATION	21,069	0	21,069	14,092	35,161		35,161
5	TAXES OTHER THAN INCOME	79,273	0	79,273	(2,965)	76,308	(410)	75,898
6	INCOME TAXES	7	0	7	11,954	11,961	(3,276)	8,685
8	TOTAL OPERATING EXPENSES	$944,219	$0	$944,219	($6,312)	$937,907	($3,686)	$934,221
9	OPERATING INCOME	$36,316	$0	$36,316	$6,312	$42,628	($5,429)	$37,198
10	RATE BASE	$620,048		$620,048		$409,714		$409,714
11	RATE OF RETURN	5.86%		5.86%		10.40%		9.08%

ALOHA UTILITIES, INC. - Aloha Gardens
ADJUSTMENTS TO OPERATING INCOME
TEST YEAR ENDED 12/31/98

SCHEDULE NO. A(3-C)
DOCKETS NOS. 970536-WS & 980245-WS

EXPLANATION	WATER	WASTEWATER
(1) OPERATION AND MAINTENANCE		
A. To remove expense related to documentation of plant in service.	($196)	($196)
B. To remove expense related to PSC audit.	(2,242)	(2,242)
C. To remove expense related to DOAH Rule Challenge.	(21,683)	(21,684)
D. To reduce officers salaries.	(3,877)	(6,367)
E. To decrease pension & benefits.	(1,265)	(2,787)
F. To reflect additional billing and mailing costs.	4,369	3,970
Total	($24,893)	($29,306)
(2) DEPRECIATION EXPENSE		
To remove depreciation expense related to capitalized invoices previously expensed.	($122)	($87)
(3) AMORTIZATION EXPENSE		
A. To reflect the correct amortization amount of loss on related to plant retirement.	$0	$12,712
B. To reflect amortization of land used for prior wastewater treatment plant.	0	1,380
Total	$0	$14,092
(4) TAXES OTHER THAN INCOME		
A. To reflect the appropriate allocation and amount of tangible personal property taxes.	($105)	($200)
C. To reflect the appropriate amount of property taxes.	(142)	(141)
D. To remove property taxes related to abandoned land.	0	(2,057)
E. To remove payroll taxes related to reduction in salaries.	(334)	(567)
Total	($582)	($2,965)
(5) INCOME TAXES		
To include the provision of income tax expense.	$4,506	$11,954

ALOHA UTILITIES, INC. - Seven Springs 1st Limited Proceeding
SCHEDULE OF WATER RATE BASE
TEST YEAR ENDED 12/31/98

SCHEDULE NO. B(1-A)
DOCKET NO. 970563-WS

	DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED BALANCE PER UTILITY	STAFF ADJUSTMENTS	ADJUSTED BALANCE PER STAFF
1	UTILITY PLANT IN SERVICE	$7,449,268	$0	$7,449,268	($65,474)	$7,383,794
2	LAND & LAND RIGHTS	60,023	0	60,023	(38,463)	21,560
3	NON-USED & USEFUL COMPONENT	0	0	0	0	0
4	ACCUMULATED DEPRECIATION	(1,567,584)	0	(1,567,584)	23,276	(1,544,308)
5	CIAC	(6,203,724)	0	(6,203,724)	0	(6,203,724)
6	AMORTIZATION OF CIAC	1,339,524	0	1,339,524	0	1,339,524
7	WORKING CAPITAL ALLOWANCE	274,503	0	274,503	(245,206)	29,297
	RATE BASE	$1,352,011	$0	$1,352,011	($325,867)	$1,026,143

ALOHA UTILITIES, INC. - Seven Springs 1st Limited Proceeding SCHEDULE OF WASTEWATER RATE BASE TEST YEAR ENDED 12/31/98						SCHEDULE NO. B(1-B) DOCKET NO. 970563-WS
	DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	STAFF ADJUSTMENT	ADJUSTED BALANCE PER STAFF
1	UTILITY PLANT IN SERVICE	$13,152,493	$0	$13,152,493	($127,231)	$13,025,262
2	LAND	588,030	0	588,030	(39,086)	548,944
3	NON-USED & USEFUL COMPONENT	0	0	0	0	0
4	ACCUMULATED DEPRECIATION	(3,043,899)	0	(3,043,899)	52,991	(2,990,907)
5	CIAC	(8,853,177)	0	(8,853,177)	0	(8,853,177)
6	AMORTIZATION OF CIAC	2,302,937	0	2,302,937	0	2,302,937
7	WORKING CAPITAL ALLOWANCE	317,093	0	317,093	(280,336)	36,757
	RATE BASE	$4,463,477	$0	$4,463,477	($393,662)	$4,069,815

ALOHA UTILITIES, INC. - Seven Springs 1st Limited Proceeding
ADJUSTMENTS TO RATE BASE
TEST YEAR ENDED 12/31/98

SCHEDULE NO. B(1-C)
DOCKET NO. 970536-WS

EXPLANATION	WATER	WASTEWATER
(1) **PLANT IN SERVICE**		
A. To remove capitalized invoices previously expensed.	($99,794)	($127,231)
B. To reflect the transfer of non-land amounts to the proper plants accounts.	34,320	0
Total	($65,474)	($127,231)
(2) **LAND**		
A. To reflect the transfer of non-land amounts to the proper plants accounts.	($34,320)	$0
B. To remove land not owned by the utility.	0	(12,500)
C. To reduce the land due to lack of support documentation.	(4,143)	(31,586)
D. To reclassify appraisal costs associated with Seven Spring Wastewater land.	0	5,000
Total	($38,463)	($39,086)
(3) **ACCUMULATED DEPRECIATION**		
A. To remove accumulated depr. related to capitalized invoices previously expensed.	$26,987	$54,855
B. To reflect the accumulated depreciation associated with the transfer of non-land amounts to the proper plants accounts.	(551)	0
C. To reflect proforma accumulated depreciation of the Little Road line relocation.	(3,160)	(1,863)
Total	$23,276	$52,991
(4) **WORKING CAPITAL**		
To reflect the appropriate working capital, under the balance sheet approach.	($245,206)	($280,336)

ALOHA UTILITIES, INC. - Seven Springs 1st Limited Proceeding
CAPITAL STRUCTURE
TEST YEAR ENDED 12/31/98

SCHEDULE NO. B(2)
DOCKET NO. 970536-WS

PER UTILITY 1998 - SIMPLE AVERAGE							
1 LONG TERM DEBT	$3,599,720	$0	$0	$3,599,720	54.80%	10.75%	5.89%
2 SHORT-TERM DEBT	0	0	0	0	0.00%	0.00%	0.00%
3 PREFERRED STOCK	600,000	0	0	600,000	9.13%	0.00%	0.00%
4 COMMON EQUITY	1,688,561	0	0	1,688,561	25.71%	14.00%	3.60%
5 CUSTOMER DEPOSITS	232,266	0	0	232,266	3.54%	6.00%	0.21%
6 DEFERRED INCOME TAXES	448,228	0	0	448,228	6.82%	0.00%	0.00%
7 DEFERRED ITC'S-ZERO COST	0	0	0	0	0.00%	0.00%	0.00%
8 DEFERRED ITC'S-WTD. COST	0	0	0	0	0.00%	0.00%	0.00%
9 OTHER	0	0	0	0	0.00%	0.00%	0.00%
10 TOTAL CAPITAL	$6,568,775	$0	$0	$6,568,775	100.00%		9.70%
PER COMMISSION 1998 - SIMPLE AVERAGE							
11 LONG TERM DEBT	$3,599,720	$0	($801,949)	$2,797,771	54.90%	9.75%	5.35%
12 SHORT-TERM DEBT	0	0	0	0	0.00%	0.00%	0.00%
13 PREFERRED STOCK	600,000	(600,000)	0	0	0.00%	0.00%	0.00%
14 COMMON EQUITY	1,688,561	587,880	(507,147)	1,769,294	34.72%	10.12%	3.51%
15 CUSTOMER DEPOSITS	232,266	0	(51,744)	180,522	3.54%	6.00%	0.21%
16 DEFERRED INCOME TAXES	448,228	0	(99,857)	348,371	6.84%	0.00%	0.00%
17 DEFERRED ITC'S-ZERO COST	0	0	0	0	0.00%	0.00%	0.00%
18 DEFERRED ITC'S-WTD. COST	0	0	0	0	0.00%	0.00%	0.00%
19 OTHER	0	0	0	0	0.00%	0.00%	0.00%
17 TOTAL CAPITAL	$6,568,775	($12,120)	($1,460,697)	$5,095,958	100.00%		9.08%

	LOW	HIGH
RETURN ON EQUITY	9.12%	11.12%
OVERALL RATE OF RETUR	8.73%	9.43%

ALOHA UTILITIES, INC. - *Seven Springs 1st Limited Proceeding*
STATEMENT OF WATER OPERATIONS
TEST YEAR ENDED 12/31/98

SCHEDULE NO. B(3-A)
DOCKET NO. 970563-WS

	DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1	OPERATING REVENUES	$1,563,072		$1,563,072		$1,563,072	($44,217) -2.83%	$1,518,855
	OPERATING EXPENSES:							
2	OPERATION AND MAINTENANCE	$1,223,213	$0	$1,223,213	($88,919)	$1,134,294		$1,134,294
3	DEPRECIATION	58,939	0	58,939	(1,975)	56,964		56,964
4	AMORTIZATION	0	0	0	0	0		0
5	TAXES OTHER THAN INCOME	209,405	0	209,405	5,265	214,670	(1,990)	212,680
6	INCOME TAXES	4,723	0	4,723	32,920	37,643	(15,890)	21,753
7	TOTAL OPERATING EXPENSES	$1,496,280	$0	$1,496,280	($52,709)	$1,443,571	($17,880)	$1,425,691
8	OPERATING INCOME	$66,792	$0	$66,792	$52,709	$119,501	($26,337)	$93,164
9	*RATE BASE*	$1,352,011		$1,352,011		$1,026,143		$1,026,143
10	RATE OF RETURN	4.94%		4.94%		11.65%		9.08%

ALOHA UTILITIES, INC. - Seven Springs 1st Limited Proceeding
STATEMENT OF WASTEWATER OPERATIONS
TEST YEAR ENDED 12/31/98

SCHEDULE NO. B(3-B)
DOCKET NO. 970563-WS

	DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1	OPERATING REVENUES	$2,359,758		$2,359,758		$2,359,758	$48,064 2.04%	$2,407,822
	OPERATING EXPENSES							
2	OPERATION AND MAINTENANCE	$1,483,555	$0	$1,483,555	($60,429)	$1,423,126		$1,423,126
3	DEPRECIATION	206,870	0	206,870	(6,675)	200,195		200,195
4	AMORTIZATION	0	0	0	0	0		0
5	TAXES OTHER THAN INCOME	339,029	0	339,029	(12,469)	326,560	2,163	328,723
6	INCOME TAXES	74,689	0	74,689	(5,686)	69,003	17,272	86,276
7	TOTAL OPERATING EXPENSES	$2,104,143	$0	$2,104,143	($85,259)	$2,018,884	$19,435	2,038,319
8	OPERATING INCOME	$255,615	$0	$255,615	$85,259	$340,874	$28,628	$369,502
9	RATE BASE	$4,463,477		$4,463,477		$4,069,815		$4,069,815
10	RATE OF RETURN	5.73%		5.73%		8.38%		9.08%

ALOHA UTILITIES, INC. - Seven Springs 1st Limited Proceeding
ADJUSTMENTS TO OPERATING INCOME
TEST YEAR ENDED 12/31/98

SCHEDULE NO. B(3-C)
DOCKET NO. 970536-WS

EXPLANATION	WATER	WASTEWATER
(1) **OPERATION AND MAINTENANCE EXPENSE**		
A. To remove amortization of deferred contractual services.	($27,634)	($22,581)
B. To remove expense related to PSC audit.	(2,242)	(2,242)
C. To remove expense related to DOAH Rule Challenge.	(21,684)	(21,683)
D. To remove expense related to Docket 960545-WS.	(14,510)	0
E. To remove expense related to Docket 970536-WS.	(552)	(552)
F. To remove expense related to Docket 980245-WS.	(2,943)	(2,943)
G. To reduce officers salaries.	(24,423)	(16,404)
H. To decrease pension & benefits.	(6,155)	(4,928)
I. To reflect additional billing and mailing costs.	11,224	10,905
Total	($88,919)	($60,429)
(2) **DEPRECIATION EXPENSE**		
A. To remove depreciation expense related to capitalized invoices previously expensed.	($3,077)	($6,675)
B. To reflect depreciation expense related to plant previously recorded as land.	1,102	0
Total	($1,975)	($6,675)
(3) **TAXES OTHER THAN INCOME**		
A. To reflect the appropriate amount of tangible personal property taxes.	$7,494	($10,575)
B. To reflect the appropriate amount of property taxes.	(73)	(550)
C. To remove payroll taxes related to reduction in salaries.	(2,156)	(1,344)
Total	$5,265	($12,469)
(4) **INCOME TAXES**		
To include the provision of income tax expense.	$32,920	($5,686)

ALOHA UTILITIES, INC. - Seven Springs 2nd Limited Proceeding
SCHEDULE OF WATER RATE BASE
TEST YEAR ENDED 12/31/98

SCHEDULE NO. C(1-A)
DOCKET NOS. 970536-WS & 980245-WS

	[illegible]	[illegible]	UTILITY ADJUSTMENT	[illegible]	[illegible]	ADJUSTED BALANCE PER STAFF
1	UTILITY PLANT IN SERVICE	$7,449,268	$0	$7,449,268	$196,735	$7,646,003
2	LAND & LAND RIGHTS	60,023	0	60,023	(38,463)	21,560
3	NON-USED & USEFUL COMPONENT	0	0	0	0	0
4	ACCUMULATED DEPRECIATION	(1,567,584)	0	(1,567,584)	23,276	(1,544,308)
5	CIAC	(6,203,724)	0	(6,203,724)	0	(6,203,724)
6	AMORTIZATION OF CIAC	1,339,524	0	1,339,524	0	1,339,524
7	WORKING CAPITAL ALLOWANCE	274,503	0	274,503	(245,206)	29,297
	RATE BASE	$1,352,011	$0	$1,352,011	($63,658)	$1,288,352

ALOHA UTILITIES, INC. - Seven Springs 2nd Limited Proceeding
SCHEDULE OF WASTEWATER RATE BASE
TEST YEAR ENDED 12/31/98

SCHEDULE NO. C(1-B)
DOCKET NOS. 970536-WS & 980245-WS

	DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENT	ADJUSTED BALANCE PER UTILITY	STAFF ADJUSTMENT	ADJUSTED BALANCE PER STAFF
1	UTILITY PLANT IN SERVICE	$13,152,493	$0	$13,152,493	($13,177)	$13,139,316
2	LAND	588,030	0	588,030	(39,086)	548,944
3	NON-USED & USEFUL COMPONENT	0	0	0	0	0
4	ACCUMULATED DEPRECIATION	(3,043,899)	0	(3,043,899)	52,991	(2,990,907)
5	CIAC	(8,853,177)	0	(8,853,177)	0	(8,853,177)
6	AMORTIZATION OF CIAC	2,302,937	0	2,302,937	0	2,302,937
7	WORKING CAPITAL ALLOWANCE	317,093	0	317,093	(280,336)	36,757
	RATE BASE	$4,463,477	$0	$4,463,477	($279,608)	$4,183,869

ALOHA UTILITIES, INC. - Seven Springs 2nd Limited Proceeding
ADJUSTMENTS TO RATE BASE
TEST YEAR ENDED 12/31/98

SCHEDULE NO. C-(1-C)
DOCKET NOS. 970536-WS & 980245-W

EXPLANATION	WATER	WASTEWATER
(1) **PLANT IN SERVICE**		
A. To remove capitalized invoices previously expensed.	($99,794)	($127,231)
B. To reflect the transfer of non-land amounts to the proper plants accounts.	34,320	0
C. Pro forma adjustment for the Little Road line relocation.	262,209	114,054
Total	$196,735	($13,177)
(2) **LAND**		
A. To reflect the transfer of non-land amounts to the proper plants accounts.	($34,320)	$0
B. To remove land not owned by the utility.	0	(12,500)
C. To reduce the land due to lack of support documentation.	(4,143)	(31,586)
D. To reclassify appraisal costs associated with Seven Spring Wastewater land.	0	5,000
Total	($38,463)	($39,086)
(3) **ACCUMULATED DEPRECIATION**		
A. To remove accumulated depr. related to capitalized invoices previously expensed.	$26,987	$54,855
B. To reflect the accumulated depreciation associated with the transfer of non-land amounts to the proper plants accounts.	(551)	0
C. To reflect proforma accumulated depreciation of the Little Road line relocation.	(3,160)	(1,863)
Total	$23,276	$52,991
(4) **WORKING CAPITAL**		
To reflect the appropriate working capital, under the balance sheet approach.	($245,206)	($280,336)

ALOHA UTILITIES, INC. - Seven Springs 2nd Limited Proceeding
CAPITAL STRUCTURE
TEST YEAR ENDED 12/31/98

SCHEDULE NO. C(2)
DOCKET NOS. 970536-WS & 980245-WS

DESCRIPTION	TOTAL CAPITAL	SPECIFIC ADJUSTMENTS (EXPLAIN)	PRO RATA ADJUSTMENT	CAPITAL RECONCILED TO RATE BASE	RATIO	COST RATE	WEIGHTED COST
PER UTILITY 1998 - SIMPLE AVERAGE							
1 LONG TERM DEBT	$3,599,720	$0	$0	$3,599,720	54.80%	10.75%	5.89%
2 SHORT-TERM DEBT	0	0	0	0	0.00%	0.00%	0.00%
3 PREFERRED STOCK	600,000	0	0	600,000	9.13%	0.00%	0.00%
4 COMMON EQUITY	1,688,561	0	0	1,688,561	25.71%	14.00%	3.60%
5 CUSTOMER DEPOSITS	232,266	0	0	232,266	3.54%	6.00%	0.21%
6 DEFERRED INCOME TAXES	448,228	0	0	448,228	6.82%	0.00%	0.00%
7 DEFERRED ITC'S-ZERO COST	0	0	0	0	0.00%	0.00%	0.00%
8 DEFERRED ITC'S-WTD. COST	0	0	0	0	0.00%	0.00%	0.00%
9 OTHER	0	0	0	0	0.00%	0.00%	0.00%
10 TOTAL CAPITAL	$6,568,775	$0	$0	$6,568,775	100.00%		9.70%
PER COMMISSION 1998 - SIMPLE AVERAGE							
11 LONG TERM DEBT	$3,599,720	$0	($595,374)	$3,004,346	54.90%	9.75%	5.35%
12 SHORT-TERM DEBT	0	0	0	0	0.00%	0.00%	0.00%
13 PREFERRED STOCK	600,000	(600,000)	0	0	0.00%	0.00%	0.00%
14 COMMON EQUITY	1,688,561	587,880	(376,511)	1,899,930	34.72%	10.12%	3.51%
15 CUSTOMER DEPOSITS	232,266	0	(38,416)	193,850	3.54%	6.00%	0.21%
16 DEFERRED INCOME TAXES	448,228	0	(74,134)	374,094	6.84%	0.00%	0.00%
17 DEFERRED ITC'S-ZERO COST	0	0	0	0	0.00%	0.00%	0.00%
18 DEFERRED ITC'S-WTD. COST	0	0	0	0	0.00%	0.00%	0.00%
19 OTHER	0	0	0	0	0.00%	0.00%	0.00%
17 TOTAL CAPITAL	$6,568,775	($12,120)	($1,084,434)	$5,472,221	100.00%		9.08%

	LOW	HIGH
RETURN ON EQUITY	9.12%	11.12%
OVERALL RATE OF RETUR	8.73%	9.43%

ALOHA UTILITIES, INC. - Seven Springs 2nd Limited Proceeding
STATEMENT OF WATER OPERATIONS
TEST YEAR ENDED 12/31/98

SCHEDULE NO. C(3-A)
DOCKET NOS. 970536-WS & 980245-WS

[illegible]	TEST YEAR [illegible]	[illegible]	ADJUSTED [illegible]	STAFF [illegible]	STAFF ADJUSTED [illegible]	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	$1,563,072		$1,563,072		$1,563,072	($1,289) -0.08%	$1,561,783
OPERATING EXPENSES:							
2 OPERATION AND MAINTENANCE	$1,223,213	$0	$1,223,213	($88,919)	$1,134,294		$1,134,294
3 DEPRECIATION	58,939	0	58,939	4,344	63,283		63,283
4 AMORTIZATION	0	0	0	0	0		0
5 TAXES OTHER THAN INCOME	209,405	0	209,405	10,577	219,982	(58)	219,925
6 INCOME TAXES	4,723	0	4,723	23,052	27,775	(463)	27,312
7 TOTAL OPERATING EXPENSES	$1,496,280	$0	$1,496,280	($50,946)	$1,445,334	($521)	$1,444,813
8 OPERATING INCOME	$66,792	$0	$66,792	$50,946	$117,738	($768)	$116,971
9 RATE BASE	$1,352,011		$1,352,011		$1,288,352		$1,288,352
10 RATE OF RETURN	4.94%		4.94%		9.14%		9.08%

ALOHA UTILITIES, INC. - Seven Springs 2nd Limited Proceeding
STATEMENT OF WASTEWATER OPERATIONS
TEST YEAR ENDED 12/31/98

SCHEDULE NO. C(3-B)
DOCKET NOS. 970536-WS & 980245-WS

	DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1	OPERATING REVENUES	$2,359,758	$0	$2,359,758	$0	$2,359,758	$67,739 2.87%	$2,427,497
	OPERATING EXPENSES							
2	OPERATION AND MAINTENANCE	$1,483,555	$0	$1,483,555	($60,429)	$1,423,126		$1,423,126
3	DEPRECIATION	206,870	0	206,870	(2,949)	203,921		203,921
4	AMORTIZATION	0	0	0	0	0		0
5	TAXES OTHER THAN INCOME	339,029	0	339,029	(10,179)	328,850	3,048	331,899
6	INCOME TAXES	74,689	0	74,689	(10,339)	64,350	24,343	88,693
7	TOTAL OPERATING EXPENSES	$2,104,143	$0	$2,104,143	($83,895)	$2,020,248	$27,391	2,047,640
8	OPERATING INCOME	$255,615	$0	$255,615	$83,895	$339,510	$40,347	$379,857
9	RATE BASE	$4,463,477		$4,463,477		$4,183,869		$4,183,869
10	RATE OF RETURN	5.73%		5.73%		8.11%		9.08%

ALOHA UTILITIES, INC. - *Seven Springs 2nd Limited Proceeding*
ADJUSTMENTS TO OPERATING INCOME
TEST YEAR ENDED 12/31/98

SCHEDULE NO. C(3-C)
DOCKET NOS. 970536-WS & 980245-W

EXPLANATION	WATER	WASTEWATER
(1) OPERATION AND MAINTENANCE EXPENSE		
A. To remove amortization of deferred contractual services.	($27,634)	($22,581)
B. To remove expense related to PSC audit.	(2,242)	(2,242)
C. To remove expense related to DOAH Rule Challenge.	(21,684)	(21,683)
D. To remove expense related to Docket 960545-WS.	(14,510)	0
E. To remove expense related to Docket 970536-WS.	(552)	(552)
F. To remove expense related to Docket 980245-WS.	(2,943)	(2,943)
G. To reduce officers salaries.	(24,423)	(16,404)
H. To decrease pension & benefits.	(6,155)	(4,928)
I. To reflect additional billing and mailing costs.	11,224	10,905
Total	($88,919)	($60,429)
(2) DEPRECIATION EXPENSE		
A. To remove depreciation expense related to capitalized invoices previously expensed.	($3,077)	($6,675)
B. To reflect depreciation expense related to plant previously recorded as land.	1,102	0
C. To reflect pro forma depreciation related to the Little Road line relocation.	6,319	3,726
Total	$4,344	($2,949)
(3) TAXES OTHER THAN INCOME		
A. To reflect the appropriate amount of tangible personal property taxes.	$12,806	($8,285)
B. To reflect the appropriate amount of property taxes.	(73)	(550)
C. To remove payroll taxes related to reduction in salaries.	(2,156)	(1,344)
Total	$10,577	($10,179)
(4) INCOME TAXES		
To include the provision of income tax expense.	$23,052	($10,339)