

FLORIDA PUBLIC SERVICE COMMISSION

VOTE SHEET

SEPTEMBER 7, 1999

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 in Pasco County by Aloha Utilities, Inc.

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:

COMMISSIONERS ASSIGNED: Full Commission

COMMISSIONERS' SIGNATURES

MAJORITY

DISSENTING

*[Handwritten signatures in majority column]*  
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REMARKS/DISSENTING COMMENTS:

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<u>System</u>	<u>Plant</u>	<u>Accum. Deprec.</u>	<u>Deprec. Expense</u>
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

**APPROVED**

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. 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.

**APPROVED**

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

Recommendation: The appropriate cost for the line relocation along State Road 54 is \$755,144.

**APPROVED**

Issue 4: What are the appropriate pro forma adjustments for costs associated with the line relocation along Little Road requested in Docket 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 are shown below.

	<u>Water</u>	<u>Wastewater</u>
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

**APPROVED**

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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.

**APPROVED**

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.

**APPROVED**

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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:

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

**APPROVED**

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 seven 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. The utility, at the time that it notifies the Commission, should also submit any documentation regarding the transaction. If the transaction occurs between

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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.

**APPROVED**

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

Recommendation: Yes. Staff recommends that Seven Springs' wastewater land should be reduced by \$12,500 for unsupported and non-utility land.

**APPROVED**

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

Recommendation: No. Accumulated depreciation should not be recalculated at 2.5 percent for Aloha Gardens water and Seven Springs water and wastewater.

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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:

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

*The following 1998 amortized amounts should be removed from O+M expenses:*

<i>Aloha gardens water - \$196</i>	<i>Seven Springs water - \$27,635</i>
<i>Aloha gardens wastewater - \$196</i>	<i>Seven Springs wastewater - \$22,581</i>

Approved as modified

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.

Aloha Gardens

Water	\$ (18,787)
Wastewater	\$ 409,714

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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

**APPROVED**

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.

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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%.

**APPROVED**

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%.

**APPROVED**

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%.

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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.

**APPROVED**

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:

<u>System</u>	<u>Salary Expenses</u>	<u>Pensions</u>	<u>Payroll Taxes</u>
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

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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.

**APPROVED**

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.

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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 PAA order becomes final.

**APPROVED**

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.

**APPROVED**

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 analysis portion of staf's August 26, 1999 memorandum.

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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.

Aloha Gardens

Water \$ 13,377

Wastewater \$ 42,628

Seven Springs

\$ 119,501

Water-1st Limited Proc.

Wastewater-1st Limited Proc. \$ 340,874

Water-2nd Limited Proc. \$ 117,738

Wastewater-2nd Limited Proc. \$ 339,510

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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.

<u>Aloha Gardens</u>	
Water	\$ 461,395
Wastewater	\$ 971,420
<u>Seven Springs</u>	
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

**APPROVED**

Issue 26: Should the utility's request to increase its 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.

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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 dockets should be closed at that time.

**APPROVED**