

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

DOCKET NO. 000737-WS
ORDER NO. PSC-00-1289-FOF-WS
ISSUED: July 18, 2000

The following Commissioners participated in the disposition of this matter:

J. TERRY DEASON, Chairman
SUSAN F. CLARK
E. LEON JACOBS, JR.
LILA A. JABER

ORDER INITIATING INVESTIGATION INTO RATES AND CHARGES
AND MAKING REVENUES SUBJECT TO REFUND

BY THE COMMISSION:

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

In its 1999 annual report, Aloha reported the following:

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

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FPSC-RECORDS/REPORTING

In the utility's last rate proceeding, rate base was established for each of the utility's systems by Order No. PSC-99-1917-PAA-WS, issued September 28, 1999, in Dockets Nos. 970536-WS and 980245-WS. This order was consummated by Order No. PSC-99-2083-CO-WS, issued October 21, 1999. Order No. PSC-99-1917-PAA-WS, also set the midpoint on the return on equity at 10.12% with a range of 9.12% to 11.12%. The appropriate rates for the utility's Seven Springs wastewater system are being considered in Docket No. 991643-SU, and need not be separately addressed in this proceeding. A formal hearing in Docket No. 991643-SU is currently scheduled for September 25-26, 2000.

INITIATING INVESTIGATION INTO RATES AND CHARGES

We received the utility's 1999 annual report on May 15, 2000. Our preliminary analysis indicates that the Aloha Gardens water and wastewater system achieved returns on equity of 5,589.70% and 43.30%, respectively. Further, our preliminary analysis indicates that the Seven Springs water system achieved a return on equity of 19.37%. As stated above, in the utility's last rate proceeding we established the midpoint of the return on equity of 10.12% with a range of 9.12% to 11.12%. Based on the above, we find that Aloha may be exceeding the range of its authorized return on equity for these systems. Further, because the utility has filed a rate case for the Seven Springs wastewater system, any underearnings for that system may no longer be utilized to offset any overearnings for these other systems. Accordingly, a formal investigation of the utility's Aloha Gardens water and wastewater systems and its Seven Springs water system shall be initiated.

REVENUES SUBJECT TO REFUND

As stated above, the utility's Aloha Gardens water and wastewater systems and the Seven Springs water system may be overearning. Pursuant to Section 367.082(5)(b)1., Florida Statutes, the achieved rate of return for interim purposes shall be calculated by applying appropriate adjustments consistent with those used in the utility's most recent rate proceeding. As addressed in Order No. PSC-99-1917-PAA-WS, the utility disagreed with three of our adjustments in that case. Those adjustments included the disallowance of capitalized invoices previously expensed, the removal of an interest bearing cash operating account from working capital, and the reduction of officers' salaries and associated benefits and payroll taxes. The utility requested, and we agreed, that the utility should be allowed to fully litigate its

objections to those adjustments in its next rate case. However, we specifically determined that those adjustments were to be used for the calculation of interim rates and any earnings investigation pending the conclusion of any rate case.

The attached accounting schedules illustrate our calculated rate base, capital structure, and test year operating income amounts, which are discussed below. Aloha Gardens' water and wastewater rate bases are shown on Schedules Nos. A(1-A) and A(1-B), respectively. Adjustments to rate base for these systems are shown on Schedule No. A(1-C). Seven Springs water rate base is shown on Schedule No. B(1-A), and adjustments to this rate base are shown on Schedule No. B(1-B). The cost of capital schedule that reconciles capital to the rate bases of Aloha Gardens water and wastewater systems and Seven Springs water system is shown on Schedule No. 2. Aloha Gardens water and wastewater operating statements are shown on Schedules Nos. A(3-A) and A(3-B), respectively. Adjustments to the operating statements for these systems are shown on Schedule No. A(3-C). The Seven Springs water operating statement is shown on Schedule No. B(3-A), with adjustments to the operating statement shown on Schedule No. B(3-B).

RATE BASE

Pursuant to Rule 25-30.433, Florida Administrative Code, the averaging method used to calculate rate base and the cost of capital for Class A utilities is the 13-month average. The utility's 1999 annual report only reflects Aloha's year-end financial data. As such, we used the simple average of 1998 and 1999 to analyze the utility's Aloha Gardens water and wastewater systems and the Seven Springs water system.

Capitalized Invoices Previously Expensed

In Aloha's last rate proceeding, we reduced plant to disallow the capitalization of invoices previously expensed. We also reduced accumulated depreciation and depreciation expense associated with these plant reductions. According to our review of Aloha's 1999 annual report, the utility did not make these adjustments. In accordance with the interim statute, plant, accumulated depreciation, and depreciation expense shall be reduced as follows:

<u>System</u>	<u>Plant</u>	<u>Accumulated Depreciation</u>	<u>Depreciation Expense</u>
Aloha Gardens Water	3,669	\$1,064	\$122
Aloha Gardens Wastewater	\$1,567	\$917	\$87
Seven Springs Water	\$99,794	\$30,064	\$3,077

Working Capital Allowance

Based on our analysis of the utility's working capital, we determined that the utility included its interest bearing cash operating account to calculate working capital. In the utility's last rate proceeding, the cash operating account was excluded from working capital and the interest income from the cash operating account was recorded below-the-line. Consistent with those adjustments made in the last rate proceeding, the cash operating account shall be excluded from working capital and the interest income from the cash operating account shall be recorded below-the-line.

In addition, working capital in the last rate proceeding was allocated to Aloha's systems based on the pro rata share of the total company operation and maintenance (O&M) expenses. As discussed below in the net operating income section of our analysis, we made adjustments to officers' salaries and benefits that are consistent with the utility's last rate proceeding. Although Aloha's Seven Springs wastewater system rates are being addressed in Docket No. 991643-SU, it is appropriate to make the consistent interim adjustments to this system's O&M expenses, before allocating the total working capital to each system. Based on the above, we find that the appropriate working capital for the Aloha Gardens water and wastewater systems and Seven Springs water system are as follows:

<u>System</u>	<u>Utility's Working Capital</u>	<u>Commission Adjustment</u>	<u>Approved Working Capital</u>
Aloha Gardens Water	\$81,806	(\$62,309)	\$19,497
Aloha Gardens Wastewater	\$161,805	(\$118,138)	\$43,667
Seven Springs Water	\$252,264	(\$179,962)	\$72,301

Rate Base Summary

Rate base for interim purposes is \$4,164 for Aloha Gardens water, \$453,002 for Aloha Gardens wastewater, and \$1,100,871 for Seven Springs water.

COST OF CAPITAL

Consistent with Section 367.082(5)(b), Florida Statutes, in calculating any overearnings, the required rate of return shall be calculated using the maximum of the range of the last authorized rate of return on equity, and the test year cost rates of other sources of capital. Further, adjustments should be made which are consistent with those made in the last rate proceeding. This section also requires that the return on equity for an interim decrease shall be calculated using the maximum of the range of the utility's last authorized return on equity. We reviewed the utility's capital structure and find that adjustments are necessary for interim purposes.

According to its 1999 annual report, the utility used a prime rate of 7.75% plus 3% (10.75%) for variable cost long-term debt issued by Linda L. Speer, a related party. In the utility's last rate proceeding, we approved a cost rate of prime plus 2 percent for this related party debt. Prime interest rates are reported on the first day of each month. Since the test year is the year ended December 31, 1999, the prime rate of 7.98% shall be used. This is a weighted cost of the prime rate during the test year. As such, a cost rate of 9.98% shall be used for this related party debt. Thus, we calculated a weighted average cost of long-term debt of 9.85% which is 73 basis points lower than the utility's calculated cost rate of 10.58%.

In Aloha's last rate proceeding, we calculated the maximum of the range to be 11.12%, and we have used this figure to calculate any potential overearnings. Based on the above, Aloha's overall rate of return for interim purposes is 9.36%.

NET OPERATING INCOME

Test Year Revenues

Pursuant to Section 367.082(5)(b)1., Florida Statutes, any rate changes which occurred during the interim test year must be annualized in order to calculate the achieved rate of return. On

January 18, 2000, we approved an index and pass through increase for the utility's Aloha Gardens water and wastewater systems and its Seven Springs water system. There was no index or pass through implemented in the 1999 test year. Because the price index and pass through were implemented after the end of the test year, no other adjustments are necessary to the test year revenues. Further, according to Section 367.081(4)(d), Florida Statutes, index and pass through rate adjustments remain subject to refund 15-months after the filing of the utility's 2000 annual report.

Operation & Maintenance Expense

In Aloha's last rate proceeding, Linda L. Speer, the vice-president, spent only 20 percent of her time on utility business, but was paid \$65,488. The president's salary was \$112,110 for 100% of his time spent on Aloha business. We found Ms. Speer's salary to be excessive for the amount of time she spent as vice-president and limited her salary to 20 percent of the president's salary. Further, we found that the secretary/treasurer's salary of \$50,005 was excessive and set this compensation at \$42,000. We also reduced benefits and payroll taxes related to these salary reductions. According to its 1999 annual report, the utility did not make any of these adjustments. To comply with the interim statute, officers' salaries, benefits, and payroll taxes shall be reduced as follows:

<u>System</u>	<u>Officers' Salaries</u>	<u>Benefits</u>	<u>Payroll Taxes</u>
Aloha Gardens Water	\$8,560	\$626	\$398
Aloha Gardens Wastewater	\$7,770	\$572	\$364
Seven Springs Water	\$8,489	\$1,848	\$1,176

Taxes Other Than Income

In the utility's last rate proceeding, we reduced Aloha's tangible personal property tax expense because the utility waited until December to pay its taxes, and did not take advantage of available discounts. According to the audit completed for Docket No. 991643-SU, the utility paid its 1999 taxes in December, 1999. As such, the same adjustment is required for interim purposes, because the utility did not take available discounts.

In the last rate proceeding, we also allocated tangible personal property taxes based on net depreciable plant less transportation equipment. The utility had used an old allocation method. Based on our analysis, it appears that the utility did not use the method approved in the last rate proceeding. Therefore, we utilized the same method to comply with the interim statute.

Based on the above, the utility's tangible personal property taxes shall be adjusted as follows:

<u>System</u>	<u>Tangible Personal Property Taxes</u>
Aloha Gardens Water	(\$3,126)
Aloha Gardens Wastewater	\$1,698
Seven Springs Water	\$1,039

REVENUE REQUIREMENT

Based on our calculated rate base, cost of capital, and operating expense, the following annualized amounts shall be held subject to refund:

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

SECURITY FOR REFUND

Pursuant to Section 367.082(2)(b), Florida Statutes, in an interim decrease, the utility shall be authorized to continue collecting its previously authorized rates provided that the revenues held subject to refund are secured. The amount held subject to refund with interest shall be placed under bond, escrow, letter of credit or corporate undertaking pending our final action in the docket. The amount of potential overearnings is \$133,977 for Aloha Gardens water, \$84,076 for Aloha Gardens wastewater, and \$52,378 for Seven Springs water. Assuming a seven-month time

ORDER NO. PSC-00-1289-FOF-WS
DOCKET NO. 000737-WS
PAGE 8

frame, the potential refund amount is \$157,751. The interest component is \$3,389, making a total amount of \$161,140 for the 7-month period subject to refund with interest.

The criteria for a corporate undertaking include sufficient liquidity, ownership equity, profitability, and interest coverage to guarantee any potential refund. The 1997, 1998, and 1999 annual reports were used to determine the financial condition of Aloha. Based on our staff's analysis, a corporate undertaking signed by Aloha would be sufficient to protect the potential refund. Therefore, the utility is allowed to provide a corporate undertaking in the amount of \$161,140 as a guarantee of any potential refund of water and wastewater revenues collected under the interim conditions.

Further, an accurate and detailed account of all monies received shall be kept by the utility. By no later than the twentieth (20th) day of each month, the utility shall file a report showing the amount of revenues collected each month subject to refund. Should a refund be required, the refund shall be with interest and undertaken in accordance with Rule 25-30.360, Florida Administrative Code. In no instance shall maintenance and administrative costs associated with any refund be borne by the customers. These costs are the responsibility of, and shall be borne by, the utility.

This docket shall remain open pending our investigation of the utility's earnings for 1999.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that an investigation of the rates and charges of Aloha Utilities, Inc., shall be initiated. It is further

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

ORDERED that Aloha Utilities, Inc., shall hold annual revenues of \$133,977 for Aloha Gardens water, \$84,076 for Aloha Gardens wastewater and \$52,378 for Seven Springs water subject to refund with interest in accordance with Rule 25-30.360, Florida Administrative Code, as set forth in the body of this Order. It is further

ORDER NO. PSC-00-1289-FOF-WS
DOCKET NO. 000737-WS
PAGE 9

ORDERED that Aloha Utilities, Inc., shall provide the Commission with a corporate undertaking in the amount of \$161,140 as set forth in the body of this Order as a guarantee of any potential refund of water and wastewater revenues collected subject to refund. It is further

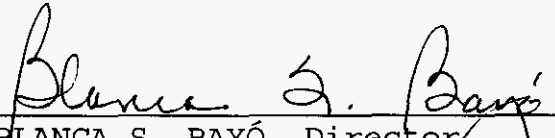
ORDERED that Aloha Utilities, Inc., shall keep an accurate and detailed account of all monies collected subject to refund. It is further

ORDERED that by no later than the twentieth day of each month, Aloha Utilities, Inc., shall file a report showing the amount of revenues collected each month and the amount of revenues collected to date relating to the amount subject to refund, pursuant to Rule 25-30.360(6), Florida Administrative Code. It is further

ORDERED that should a refund be required, the refund shall be with interest and undertaken in accordance with Rule 25-30.360, Florida Administrative Code. It is further

ORDERED that this docket shall remain open.

By ORDER of the Florida Public Service Commission this 18th day of July, 2000.



BLANCA S. BAYÓ, Director
Division of Records and Reporting

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

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

Any party adversely affected by the Commission's final action initiating the investigation into overearnings may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water and/or wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

Any party adversely affected by the decision setting interim rates and making revenues subject to refund, which is intermediate in nature, may request judicial review by the Florida Supreme Court, in the case of an electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or wastewater utility. Citizens of the State of Florida v. Mayo, 316 So.2d 262 (Fla. 1975), states that an order on interim rates is not final nor reviewable until a final order is issued. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.

**ALOHA UTILITIES, INC. - ALOHA GARDENS
SCHEDULE OF WATER RATE BASE
SIMPLE AVERAGE TEST YEAR ENDED 12/31/99**

**SCHEDULE NO. A(1-A)
DOCKET NO. 000737-WS**

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUST- MENTS	COMMISSION ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$882,636	\$0	\$882,636	(\$3,669)	\$878,966
2 LAND & LAND RIGHTS	\$5,000	\$0	\$5,000	\$0	\$5,000
3 NON-USED & USEFUL COMPONENTS	\$0	\$0	\$0	\$0	\$0
4 ACCUMULATED DEPRECIATION	(\$751,282)	\$0	(\$751,282)	\$1,064	(\$750,218)
5 CIAC	(\$438,245)	\$0	(\$438,245)	\$0	(\$438,245)
6 AMORTIZATION OF CIAC	\$289,164	\$0	\$289,164	\$0	\$289,164
7 ALLOCATED PLANT	\$0	\$0	\$0	\$0	\$0
8 ADVANCES FOR CONSTRUCTION	\$0	\$0	\$0	\$0	\$0
9 UNFUNDED POST-RETIRE. BENEFITS	\$0	\$0	\$0	\$0	\$0
10 DEFERRED INCOME TAXES	\$0	\$0	\$0	\$0	\$0
11 WORKING CAPITAL ALLOWANCE	\$81,806	\$0	\$81,806	(\$62,309)	\$19,497
12 OTHER	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
RATE BASE	\$69,079	\$0	\$69,079	(\$64,915)	\$4,164

**ALOHA UTILITIES, INC. - ALOHA GARDENS SYSTEM
SCHEDULE OF WASTEWATER RATE BASE
SIMPLE AVERAGE TEST YEAR ENDED 12/31/99**

**SCHEDULE NO. A(1-B)
DOCKET NO. 000737-WS**

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUST- MENTS	COMMISSION ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$1,365,743	\$0	\$1,365,743	(\$1,567)	\$1,364,175
2 LAND	\$3,220	\$0	\$3,220	\$0	\$3,220
3 NON-USED & USEFUL COMPONENTS	\$0	\$0	\$0	\$0	\$0
4 ACCUMULATED DEPRECIATION	(\$809,545)	\$0	(\$809,545)	\$917	(\$808,629)
5 CIAC	(\$324,586)	\$0	(\$324,586)	\$0	(\$324,586)
6 AMORTIZATION OF CIAC	\$175,154	\$0	\$175,154	\$0	\$175,154
7 ACQUISITION ADJUSTMENTS - NET	\$0	\$0	\$0	\$0	\$0
8 ADVANCES FOR CONSTRUCTION	\$0	\$0	\$0	\$0	\$0
9 UNFUNDED POST-RETIRE. BENEFITS	\$0	\$0	\$0	\$0	\$0
10 DEFERRED INCOME TAXES	\$0	\$0	\$0	\$0	\$0
11 WORKING CAPITAL ALLOWANCE	\$161,805	\$0	\$161,805	(\$118,138)	\$43,667
12 OTHER	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
RATE BASE	\$571,791	\$0	\$571,791	(\$118,789)	\$453,002

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

**SCHEDULE NO. A(1-C)
 DOCKET NO. 000737-WS**

EXPLANATION	WATER	WASTEWATER
<u>PLANT IN SERVICE</u>		
Reduce plant per Order No. PSC-99-1917-PAA-WS.	<u>(\$3,669)</u>	<u>(\$1,567)</u>
<u>LAND</u>		
None	<u>\$0</u>	<u>\$0</u>
<u>NON-USED AND USEFUL</u>		
None	<u>\$0</u>	<u>\$0</u>
<u>ACCUMULATED DEPRECIATION</u>		
Reduce accum. depr. per Order No. PSC-99-1917-PAA-WS.	<u>\$1,064</u>	<u>\$917</u>
<u>CIAC</u>		
None	<u>\$0</u>	<u>\$0</u>
<u>ACCUM. AMORT. OF CIAC</u>		
None	<u>\$0</u>	<u>\$0</u>
<u>WORKING CAPITAL</u>		
To adjust working capital consistent with the last rate	<u>(\$62,309)</u>	<u>(\$118,138)</u>

ORDER NO. PSC-00-1289-FOF-WS

DOCKET NO. 000737-WS

PAGE 14

**ALOHA UTILITIES, INC. - SEVEN SPRINGS SYSTEM
SCHEDULE OF WATER RATE BASE
SIMPLE AVERAGE TEST YEAR ENDED 12/31/99**

**SCHEDULE NO. B(1-A)
DOCKET NO. 000737-WS**

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUST- MENTS	COMMISSION ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$8,045,699	\$0	\$8,045,699	(\$99,794)	\$7,945,905
2 LAND & LAND RIGHTS	\$21,563	\$0	\$21,563	\$0	\$21,563
3 NON-USED & USEFUL COMPONENTS	\$0	\$0	\$0	\$0	\$0
4 ACCUMULATED DEPRECIATION	(\$1,798,978)	\$0	(\$1,798,978)	\$30,064	(\$1,768,914)
5 CIAC	(\$6,679,030)	\$0	(\$6,679,030)	\$0	(\$6,679,030)
6 AMORTIZATION OF CIAC	\$1,509,046	\$0	\$1,509,046	\$0	\$1,509,046
7 ALLOCATED PLANT	\$0	\$0	\$0	\$0	\$0
8 ADVANCES FOR CONSTRUCTION	\$0	\$0	\$0	\$0	\$0
9 UNFUNDED POST-RETIRE. BENEFITS	\$0	\$0	\$0	\$0	\$0
10 DEFERRED INCOME TAXES	\$0	\$0	\$0	\$0	\$0
11 WORKING CAPITAL ALLOWANCE	\$252,264	\$0	\$252,264	(\$179,962)	\$72,301
12 OTHER	\$0	\$0	\$0	\$0	\$0
RATE BASE	\$1,350,564	\$0	\$1,350,564	(\$249,693)	\$1,100,871

ORDER NO. PSC-00-1289-FOF-WS
DOCKET NO. 000737-WS
PAGE 15

**ALOHA UTILITIES, INC. - SEVEN SPRINGS SYSTEM
ADJUSTMENTS TO RATE BASE
SIMPLE AVERAGE TEST YEAR ENDED 12/31/99**

**SCHEDULE NO. B(1-B)
DOCKET NO. 000737-WS**

EXPLANATION	WATER
<u>PLANT IN SERVICE</u> Reduce plant per Order No. PSC-99-1917-PAA-WS.	<u>(\$99,794)</u>
<u>LAND</u> To reflect the appropriate land balance per last rate proceeding.	<u>\$0</u>
<u>NON-USED AND USEFUL</u> None	<u>\$0</u>
<u>ACCUMULATED DEPRECIATION</u> Reduce accum. depr. per Order No. PSC-99-1917-PAA-WS.	<u>\$30,064</u>
<u>CIAC</u> None	<u>\$0</u>
<u>ACCUM. AMORT. OF CIAC</u> None	<u>\$0</u>
<u>WORKING CAPITAL</u> To adjust working capital consistent with the last rate proceeding.	<u>(\$179,962)</u>

ALOHA UTILITIES, INC. - ALOHA GARDENS WATER & WASTEWATER AND SEVEN SPRINGS WATER SYSTEMS SCHEDULE NO. 2
 CAPITAL STRUCTURE DOCKET NO. 000737-WS
 SIMPLE AVERAGE TEST YEAR ENDED 12/31/99

DESCRIPTION	TOTAL CAPITAL	SPECIFIC ADJUSTMENTS (EXPLAIN)	PRO RATA ADJUSTMENTS	CAPITAL RECONCILED TO RATE BASE	RATIO	COST RATE	WEIGHT COST
PER UTILITY							
1 LONG TERM DEBT	\$3,714,686	\$0	(\$2,886,068)	\$828,618	53.18%	9.85%	5.24%
2 SHORT-TERM DEBT	\$0	\$0	\$-0	\$0	0.00%	0.00%	0.00%
3 PREFERRED STOCK	\$600,000	\$0	(\$466,161)	\$133,839	8.59%	11.12%	0.96%
4 COMMON EQUITY	\$1,799,660	\$0	(\$1,398,218)	\$401,442	25.77%	11.12%	2.87%
5 CUSTOMER DEPOSITS	\$346,925	\$0	(\$269,538)	\$77,387	4.97%	6.00%	0.30%
6 DEFERRED INCOME TAXES	\$523,394	\$0	(\$406,643)	\$116,751	7.49%	0.00%	0.00%
7 DEFERRED ITC'S-ZERO COST	\$0	\$0	\$-0	\$0	0.00%	0.00%	0.00%
8 DEFERRED ITC'S-WTD. COST	\$0	\$0	\$-0	\$0	0.00%	0.00%	0.00%
9 OTHER	\$0	\$0	\$-0	\$0	0.00%	0.00%	0.00%
10 TOTAL CAPITAL	<u>\$6,984,664</u>	<u>\$0</u>	<u>(\$5,426,627)</u>	<u>\$1,558,037</u>	<u>100.00%</u>		<u>9.36%</u>
PER COMMISSION							
11 LONG TERM DEBT	\$3,714,686	\$0	(\$2,886,068)	\$828,618	53.18%	9.85%	5.24%
12 SHORT-TERM DEBT	\$0	\$0	\$-0	\$0	0.00%	9.03%	0.00%
13 PREFERRED STOCK	\$600,000	\$0	(\$466,161)	\$133,839	8.59%	11.12%	0.96%
14 COMMON EQUITY	\$1,799,660	\$0	(\$1,398,218)	\$401,442	25.77%	11.12%	2.87%
15 CUSTOMER DEPOSITS	\$346,925	\$0	(\$269,538)	\$77,387	4.97%	6.00%	0.30%
16 DEFERRED INCOME TAXES	\$523,394	\$0	(\$406,643)	\$116,751	7.49%	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	<u>\$6,984,664</u>	<u>\$0</u>	<u>(\$5,426,627)</u>	<u>\$1,558,037</u>	<u>100.00%</u>		<u>9.36%</u>
					LOW	HIGH	
RETURN ON EQUITY					<u>9.12%</u>	<u>11.12%</u>	
OVERALL RATE OF					<u>8.84%</u>	<u>9.36%</u>	

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

SCHEDULE NO. A(3-A)
 DOCKET NO. 000737-WS

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUST- MENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	<u>\$517,032</u>	<u>\$0</u>	<u>\$517,032</u>	<u>\$2,944</u>	<u>\$519,976</u>	<u>(\$133,977)</u> -25.77%	<u>\$385.95</u>
OPERATING EXPENSES:							
2 OPERATION & MAINTENANCE	<u>\$355,549</u>	<u>\$0</u>	<u>\$355,549</u>	<u>(\$9,186)</u>	<u>\$346,363</u>		<u>\$346,363</u>
3 DEPRECIATION	<u>\$12,157</u>	<u>\$0</u>	<u>12,157</u>	<u>(122)</u>	<u>12,035</u>		<u>12,035</u>
4 AMORTIZATION	<u>\$0</u>	<u>\$0</u>	<u>0</u>	<u>0</u>	<u>0</u>		<u>0</u>
5 TAXES OTHER THAN INCOME	<u>\$36,364</u>	<u>\$0</u>	<u>\$36,364</u>	<u>(\$3,219)</u>	<u>\$33,145</u>	<u>(\$6,029)</u>	<u>\$27,116</u>
6 INCOME TAXES	<u>\$4,345</u>	<u>\$0</u>	<u>\$4,345</u>	<u>\$43,898</u>	<u>\$48,243</u>	<u>(\$48,147)</u>	<u>\$96</u>
7 TOTAL OPERATING EXPENSES	<u>\$408,415</u>	<u>\$0</u>	<u>\$408,415</u>	<u>\$31,370</u>	<u>\$439,785</u>	<u>(\$54,176)</u>	<u>\$385,609</u>
8 OPERATING INCOME	<u>\$108,617</u>	<u>\$0</u>	<u>\$108,617</u>	<u>(\$28,426)</u>	<u>\$80,191</u>	<u>(\$79,801)</u>	<u>\$390</u>
9 RATE BASE	<u>\$69,079</u>		<u>\$69,079</u>		<u>\$4,164</u>		<u>\$4,164</u>
10 RATE OF RETURN	<u>157.24%</u>		<u>157.24%</u>		<u>1925.94%</u>		<u>9.3</u>

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

SCHEDULE NO. A(3-B)
DOCKET NO. 000737-WS

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUST- MENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	<u>\$1,009,285</u>	\$0	<u>\$1,009,285</u>	<u>(\$7,569)</u>	<u>\$1,001,716</u>	<u>(\$84,076)</u> -8.39%	<u>\$917,640</u>
OPERATING EXPENSES							
2 OPERATION & MAINTENANCE	<u>\$784,101</u>	\$0	<u>\$784,101</u>	<u>(\$8,342)</u>	<u>\$775,759</u>	\$0	<u>\$775,759</u>
3 DEPRECIATION	<u>\$31,016</u>	\$0	<u>\$31,016</u>	<u>(\$87)</u>	<u>\$30,929</u>	\$0	<u>\$30,929</u>
4 AMORTIZATION	<u>\$1,380</u>	\$0	<u>\$1,380</u>	\$0	<u>\$1,380</u>	\$0	<u>\$1,380</u>
5 TAXES OTHER THAN INCOME	<u>\$59,151</u>	\$0	<u>\$59,151</u>	<u>\$1,374</u>	<u>\$60,525</u>	<u>(\$3,783)</u>	<u>\$56,742</u>
6 INCOME TAXES	<u>\$2,118</u>	\$0	<u>\$2,118</u>	<u>\$38,538</u>	<u>\$40,656</u>	<u>(\$30,214)</u>	<u>\$10,442</u>
7 TOTAL OPERATING EXPENSES	<u>\$877,766</u>	\$0	<u>\$877,766</u>	<u>\$31,483</u>	<u>\$909,249</u>	<u>(\$33,997)</u>	<u>\$875,252</u>
8 OPERATING INCOME	<u>\$131,519</u>	\$0	<u>\$131,519</u>	<u>(\$39,052)</u>	<u>\$92,467</u>	<u>(\$50,078)</u>	<u>\$42,389</u>
9 RATE BASE	<u>\$571,791</u>		<u>\$571,791</u>		<u>\$453,002</u>		<u>\$453,00</u>
10 RATE OF RETURN	<u>23.00%</u>		<u>23.00%</u>		<u>20.41%</u>		<u>9.36%</u>

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

**SCHEDULE NO. A(3-C)
 DOCKET NO. 000737-WS**

EXPLANATION	WATER	WASTEWATER
<u>OPERATING REVENUES</u>		
To record interest income from cash operating acct. below-the-	<u>(\$2,944)</u>	<u>(\$7,569)</u>
<u>OPERATION & MAINTENANCE EXPENSE</u>		
1 Reduce officers salaries.	(\$8,560)	(\$7,770)
2 Reduce benefits.	(626)	(\$572)
Total	<u>(\$9,186)</u>	<u>(\$8,342)</u>
<u>DEPRECIATION EXPENSE-NET</u>		
Reduce depreciation expense for disallowed invoices.	<u>(\$122)</u>	<u>(\$87)</u>
<u>TAXES OTHER THAN INCOME</u>		
1 Reduce payroll taxes consistent with last rate proceeding.	(\$398)	(\$364)
2 To reflect tangible property taxes consistent with last rate	(2,819)	1,738
Total	<u>(\$3,217)</u>	<u>\$1,374</u>
<u>INCOME TAXES</u>		
To adjust to test year income tax expense.	<u>\$43,898</u>	<u>\$38,538</u>

ALOHA UTILITIES, INC. - SEVEN SPRINGS SYSTEM
 STATEMENT OF WATER OPERATIONS
 SIMPLE AVERAGE TEST YEAR ENDED 12/31/99

SCHEDULE NO. B(3-A)
 DOCKET NO. 000737-WS

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUST- MENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	<u>\$1,726,029</u>	<u>\$0</u>	<u>\$1,726,029</u>	<u>(\$2,944)</u>	<u>\$1,723,085</u>	<u>(\$52,378)</u> -3.04%	<u>\$1,670,707</u>
OPERATING EXPENSES:							
2 OPERATION & MAINTENANCE	<u>\$1,294,788</u>	<u>\$0</u>	<u>\$1,294,788</u>	<u>(\$10,337)</u>	<u>\$1,284,451</u>		<u>\$1,284,451</u>
3 DEPRECIATION	<u>\$70,284</u>	<u>\$0</u>	<u>70,284</u>	<u>(3,077)</u>	<u>67,207</u>		<u>67,207</u>
4 AMORTIZATION	<u>(\$29,397)</u>	<u>\$0</u>	<u>(29,397)</u>	<u>0</u>	<u>(29,397)</u>		<u>(29,397)</u>
5 TAXES OTHER THAN INCOME	<u>\$223,699</u>	<u>\$0</u>	<u>\$223,699</u>	<u>(\$1,282)</u>	<u>\$222,417</u>	<u>(\$2,357)</u>	<u>\$220,060</u>
6 INCOME TAXES	<u>\$35,984</u>	<u>\$0</u>	<u>\$35,984</u>	<u>\$8,214</u>	<u>\$44,198</u>	<u>(\$18,823)</u>	<u>\$25,375</u>
7 TOTAL OPERATING EXPENSES	<u>\$1,595,358</u>	<u>\$0</u>	<u>\$1,595,358</u>	<u>(\$6,482)</u>	<u>\$1,588,876</u>	<u>(\$21,180)</u>	<u>\$1,567,696</u>
8 OPERATING INCOME	<u>\$130,671</u>	<u>\$0</u>	<u>\$130,671</u>	<u>\$3,538</u>	<u>\$134,209</u>	<u>(\$31,198)</u>	<u>\$103,011</u>
9 RATE BASE	<u>\$1,350,564</u>		<u>\$1,350,564</u>		<u>\$1,100,871</u>		<u>\$1,100,871</u>
10 RATE OF RETURN	<u>9.68%</u>		<u>9.68%</u>		<u>12.19%</u>		<u>9.36%</u>

**ALOHA UTILITIES, INC. - SEVEN SPRINGS SYSTEM
 ADJUSTMENTS TO OPERATING INCOME
 SIMPLE AVERAGE TEST YEAR ENDED 12/31/99**

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

EXPLANATION	WATER
<u>OPERATING REVENUES</u>	
To record interest income from cash operating acct. below-the-line.	<u>(\$2,944)</u>
<u>OPERATION & MAINTENANCE EXPENSE</u>	
1 Reduce officers salaries.	(\$8,489)
2 Reduce benefits.	(1,848)
Total	<u>(\$10,337)</u>
<u>DEPRECIATION EXPENSE-NET</u>	
Reduce depreciation expense for disallowed invoices.	<u>(\$3,077)</u>
<u>TAXES OTHER THAN INCOME</u>	
1 Reduce payroll taxes consistent with last rate proceeding.	(\$1,176)
2 To reflect tangible property taxes consistent with last rate	(97)
Total	<u>(\$1,273)</u>
<u>INCOME TAXES</u>	
To adjust to test year income tax expense.	<u>\$8,214</u>