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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

RECORDS AND REPORTING

ALOHA UTILITIES, INC.'S ADDITIONAL RESPONSE TO STAFF'S SECOND REQUEST FOR PRODUCTION OF DOCUMENTS

Applicant, ALOHA UTILITIES, INC., ("Aloha" or "Utility") by and through its undersigned attorneys, hereby responds to the Commission Staff's Second Request for Production of Documents to Aloha Utilities, Inc. as follows:

Proforma Plant and Operation & Maintenance (O&M) Expense

5. Provide a copy of all invoices with amounts totaling \$10,000 or greater for proforma plant additions for each system since January 1, 2000.

Response

In addition to the information transmitted previously concerning actual invoices for plant additions and O&M expenses since January 1, 2000 to the present time, the Utility has recently received verification that it will incur two substantial additional expenses that will be in fully in effect within the next two months, and will be part of the operating cost of the Utility systems from that point forward. We have briefly outlined the nature of these costs below, and the estimated net affect:

- New Office Building - The Utility was informed in July that it must vacate its existing office building by the end of this year. This change will substantially increase the Utility's rental costs, since the Utility has for many years been renting space in the existing building from a related party at rates substantially below market value for such office space. The current annual rental expense is \$17,478 for approximately 5,270 feet of office space. The new building that the Utility is very close to contracting to purchase costs approximately \$800,000. Based upon discussions with the realtor involved and with the Utility's banker, we anticipate that the annual mortgage payment will be \$86,373 for this new office building with 6,062 square feet. Annual tax expense will be \$11,884. Annual insurance expense will be \$3,800 and annual maintenance of the building will be \$3,900. All of these are estimates from the realtor based upon last year's cost and the purchase price

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proposed. The total annual expense will therefore be \$106,000. However, there are approximately 2,000 additional square feet included within the purchase, that are being rented to a third party under a four year lease. Therefore, for the next four years, the amount of this additional rental expense will be reduced by the amount of those rents, which approximate \$30,000 per year. Therefore, the net out of pocket cost to the Utility will be \$76,000 for this new office space. Subtracting the \$17,478 of annual rent in the current office building results in a net increase of approximately \$58,522.

Since this new rental cost will be in effect throughout the period of time rates are in effect for this Utility, these new costs must be spread between the various systems, including the Seven Springs wastewater system, and recognized in any ratesetting currently. The Utility could not have known of these additional costs until they received the information many months after filing the MFRs.

2. Pilot Project - As a result of the Order issued by the Commission this Summer in the water quality Docket No. 960545-WS, Aloha Utilities, Inc.'s Seven Springs water system has been required to begin construction of a pilot project for the removal of hydrogen sulfide. The Utility had originally estimated that the cost of those pilot project facilities would be approximately \$380,000. Full detail of that estimate is included in the testimony submitted by Mr. David Porter in his expert testimony in the water quality case. This alone will increase the investment in water plant for the Seven Springs water system by approximately \$380,000 in capital costs, before consideration of any of the additional operating costs that will result from complying with the Order's requirements to initiate this pilot project.
3. The Utility has also been required within the water quality Docket No. 960545-WS to undergo a management audit. Regardless of whether the management audit requires the Utility to undertake additional steps, hire additional employees, or perform additional functions, the participation in the management audit itself will also add to the Utility's costs which should be recognized as regulatory commission expense, if not in the test year, at least amortized over a several year period. Nowhere have these costs been recognized though they will, as a result of the Commission Orders, be incurred by the Utility along with any additional suggestions that the management audit may offer for increased operating costs to be undertaken by the Utility.

The above three items should be considered by the Commission in any review of rates for all four systems operated by Aloha, and especially in the rate case proceeding currently underway in Docket No. 991643-SU.

6. Provide a copy of all invoices with amounts totaling \$3,000 or greater for proforma O&M expenses for each system since January 1, 2000.

Response

The documents are available for inspection and copying.

Respectfully submitted this
8th day of September, 2000, by:

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F. MARSHALL DETERDING

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and accurate copy of the foregoing has been furnished via

Hand Delivery to the following on this 8th day of September, 2000:

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F. MARSHALL DETERDING