

ORIGINAL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application of Aloha Utilities, Inc.)
for Increase in Wastewater Rates in its Seven)
Springs System in Pasco County, Florida)

DOCKET NO. 991643-3

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RECORDS AND REPORTING

POST-HEARING MEMORANDUM
FILED ON BEHALF OF ALOHA UTILITIES, INC.

Statement of Issues and Positions

ISSUE 1: Is the quality of service satisfactory?

Position: *Yes. The utility is providing a service in conformance with all applicable standards, including full compliance with the requirements of the Consent Agreement entered into between the utility and DEP.*

ISSUE 2: Are the proposed modifications and expansion of the Aloha wastewater treatment plant prudent and justified?

Position: *Yes. They are not only prudent, but they are required pursuant to a Consent Final Judgment with the Florida Department of Environmental Protection and are prerequisites to the Utility being allowed to provide reuse service to any paying customer.*

ISSUE 3: Are the costs of the utility's infiltration and inflow reduction program prudent?

Position: *Yes.*

ISSUE 4: Should the utility be allowed to capitalize invoices previously expensed?

Position: *Yes, in keeping with longstanding Commission policy and the only Orders addressing the subject as well as the appropriate accounting treatment, these items should be capitalized.*

ISSUE 5: Should the Commission consider the new office building cost for the utility in this rate proceeding?

Position: *Yes. Because of the unforeseen requirement of the Utility to vacate its main office building, the Utility will incur substantially higher costs for obtaining new office space. This change was unknown and unforeseeable at the time the application and direct testimony were filed. The need and reasonableness of the price paid have been demonstrated. This known change should be recognized.*

ISSUE 6: Does Aloha have excessive infiltration and inflow (I/I)?

Position: *No. The utility's infiltration and inflow is minimal, well below engineering standards and deemed by DEP to be not excessive.*

- APP _____
- CAF _____
- CMP _____
- COM 3
- CTR _____
- ECR Merchant
- LEG 2
- OPC _____
- PAI _____
- RGO 2
- SEC 1
- SER _____
- OTH _____

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FPSC-RECORDS/REPORTING

ISSUE 7: What is the used and useful percentage of the wastewater treatment plant and the wastewater collection system?

Position: *Both the wastewater treatment facilities and the collection system are 100% used and useful, along with all trunk lines and associated maintenance expenses. The entire wastewater treatment plant is an integral part of the reuse facilities and the collection system is 100% contributed.*

ISSUE 8: Should a used and useful adjustment be applied to the reuse facilities?

Position: *No. All reuse facilities are required to be recovered in rates, pursuant to Section 367.0817, Florida Statutes and Section 403.064, Florida Statutes. In addition, even by traditional methods applied to non-reuse facilities were applied to these reuse facilities they are still 100% used and useful.*

ISSUE 9: Are any adjustments necessary to test year CIAC and accumulated amortization of CIAC for changes in projection methodology?

Position: *No such adjustments are appropriate unless the Commission accepts Mr. Stallcup's testimony.*

ISSUE 10: What is the appropriate regulatory treatment of contributed taxes and accumulated deferred income taxes?

Position: *These should be given the treatment required by PSC Orders 16971 and 23541 and subsequent Orders and all tariffs approved to implement those Orders' requirements as testified to by Mr. Nixon.*

ISSUE 11: Should the cash operating account balance be removed from the working capital calculation?

Position: *No. The interest is reported above-the-line and to penalize the Utility in the working capital calculation would result in this and all other Utilities' refusal to use interest bearing sweep accounts that benefit the customers. The staff auditors concurred with this treatment.*

ISSUE 12: Are any adjustments necessary to the working capital allowance for rate case expense?

Position: *Yes, the full investment in rate case expenses must be recognized in the working capital calculation.*

ISSUE 13: What is the appropriate working capital allowance?

Position: *The appropriate amount is subject to the resolution of other issues.*

ISSUE 14: What is the appropriate projected rate base?

- Position: *The appropriate amount is subject to the resolution of other issues.*
- ISSUE 15:** Should any adjustments be made to retained earnings and customer deposits to determine the overall cost of capital?
- Position: *Yes. Aloha agrees with Ms. Merchant's adjustment for this item.*
- ISSUE 16:** What is the appropriate weighted average cost of capital for the projected test year ending September 30, 2001?
- Position: *To the extent the Commission's leverage formula return on equity or the variable interest rate on long term debt changes between the time of the original filing in this case and the Final Order, the returns should be updated.*
- ISSUE 17:** What is the appropriate prospective Allowance for Funds Used During Construction rate for Aloha?
- Position: *The appropriate amount is subject to the resolution of other issues.*
- ISSUE 18:** What is the appropriate method of projecting customers and consumption for the projected year ending September 30, 2001, and what changes, if any, are appropriate to the utility's projection factors?
- Position: *The Commission should utilize those projection factors required pursuant to Commission Rule and as contained in Aloha's MFR filing, which is a simple regression over a historic five-year period.*
- ISSUE 19:** What adjustments, if any, are necessary to the 2001 projected test year revenues and expenses to reflect the appropriate number of wastewater customers, bills, and consumption?
- Position: *As per the revised MFRs, adjustments may be necessary to the extent the Commission changes the Utility's projected customer growth rate.*
- ISSUE 20:** What is the appropriate amount of reuse revenue to include in the test year?
- Position: *While the staff calculation is mathematically correct based on the information provided on gallons of reuse to be sold, the information concerning expected paying customers was in error. The Fox Hollow Golf Course will not be paying any reuse charges for the first four years of its receiving reuse water.*
- ISSUE 21:** What is the appropriate salary for Aloha's vice-president?
- Position: *The salary proposed in the MFRs and charged for the historic test year.*
- ISSUE 22:** Should an adjustment be made to remove expenses associated with an administrative employee?

Position: *No. That employee is a necessary addition to the staff of Aloha, not only because of under staffing during the test year, but additionally because of the requirements imposed by the DEP.*

ISSUE 23: Should the cost of the annual financial audit be allocated to all of the utility's systems?

Position: *No. The financial audit is required as part of the financing arrangement related to the Seven Springs wastewater system and relates solely to the financing for the improvements to that system. Allocating these costs to other systems is inappropriate.*

ISSUE 24: Should any additional adjustments be made to Contractual Services – Accounting, for non-recurring costs?

Position: *No adjustments should be made to reduce contractual services – accounting. The adjusted items are recurring expenses.*

ISSUE 25: Should an adjustment be made to Contractual Services – Accounting, as a result of the Company hiring a new comptroller?

Position: *No adjustment is appropriate. The new Comptroller is less experienced than the old Comptroller and less knowledgeable in Utility matters. It would probably be appropriate to include additional outside accounting expenses for the first few years.*

ISSUE 26: Should any adjustments be made to remove expenses associated with the settlement of the DEP enforcement action?

Position: *Yes. Those related to the enforcement action should be amortized over five years. However, the initial audit position removed far more than were related to annual enforcement action. Those expenses related to annual recurring functions should have been left in normal operating expenses.*

ISSUE 27: Is an adjustment necessary to chemicals and purchased power expenses as a result of the utility's infiltration and inflow reduction program?

Position: *No. There is no significant change in these accounts as a result of this infiltration and inflow reduction.*

ISSUE 28: Should any adjustments be made to the utility's base year ended 9/30/99 balance for Account 720 – Materials & Supplies?

Position: *Yes, an adjustment to capitalize \$11,606 should be made as proposed by Audit Exception No. 3, and the effect of Stipulation No. 6. However, no other adjustments to the base year materials and supplies account are appropriate.*

ISSUE 29: Should an adjustment be made to Contractual Services – Other, to remove the projected maintenance expense for the new plant?

Position: *No. There will be no savings as the warranty provided with the new plant has nothing to do with the normal operation and maintenance expenses related to that plant.*

ISSUE 30: Should any adjustments be made to the base year ended September 30, 1999 balance for miscellaneous expenses?

Position: *No adjustments are appropriate, other than those agreed to in Issue 26.*

ISSUE 31: What is the appropriate amount of current rate case expense?

Position: *The appropriate allowable rate case expense is the amount shown in Mr. Nixon's updated rebuttal exhibits.*

ISSUE 32: What is the appropriate amortization period and amount of contributed taxes associated with the Seven Springs wastewater system?

Position: *Aloha agrees an adjustment is appropriate to utilize a 32.68 year life. This equates to a composite rate of 3.06 percent, which is the composite rate for all CIAC during the period CIAC collected was taxable (1987-1996).*

ISSUE 33: What is the appropriate millage rate to project tangible personal property taxes?

Position: *The actual millage rate for the test period as calculated by dividing the tax by the value stated on the tax bill, is the only appropriate rate to utilize.*

ISSUE 34: What is the test year operating income before any revenue increase?

Position: *The appropriate amount is subject to resolution of other issues.*

ISSUE 35: What is the appropriate revenue requirement?

Position: *The appropriate amount is subject to resolution of other issues.*

ISSUE 36: What are the appropriate final wastewater rates?

Position: *The final wastewater rates are subject to resolution of other issues.*

ISSUE 37: Should the Commission determine a reuse rate in this proceeding, and if so, what is the appropriate rate?

Position: *Yes. However, it should be kept in mind that the higher the rate, the less likely Aloha will be able to sell the effluent in the first place.*

ISSUE 38: Who should bear the risk that the company will not find buyers for its reclaimed water?

Position: *Since these are required improvements to the wastewater system, it is inappropriate for the Utility to bear this risk, and contrary to the provisions of Chapter 367 and 403 related to reuse systems.*

ISSUE 39: Should the three-step rate reduction required by Order No. PSC-97-0280-FOF-WS be implemented, modified, or canceled?

Position: *The three step rate reduction should not be implemented. The Commission should instead monitor Aloha's reuse revenue and customers by requiring the Utility to submit additional information in its Annual Report.*

ISSUE 40: Should Aloha's Seven Springs wastewater plant capacity charge be revised?

Position: *Yes, to the maximum authorized by the Commission rule. However, if the staff auditor's position on Issue 12 is adopted, application of the rule would likely result in a reduction or elimination of Aloha's service availability charges.*

ISSUE 41: Should Aloha be fined in the amount of \$250 for its apparent violation of Order No. PSC-97-0280-FOF-WS by its failure to timely file the extension of the Mitchell agreement with the Commission for approval?

Position: *No. The delay in filing this agreement was merely an oversight and the Utility had no choice but to extend the Mitchell agreement in order to allow it to continue to dispose of treated effluent or face being in violation of DEP and EPA requirements.*

ISSUE 42: Should Aloha be fined for its apparent violation of Order No. PSC-97-0280-FOF-WS by its failure to file sufficient information to enable the Commission to address reuse rates for all reuse customers and whether and how much of the reuse revenue requirement should be allocated to its water customers?

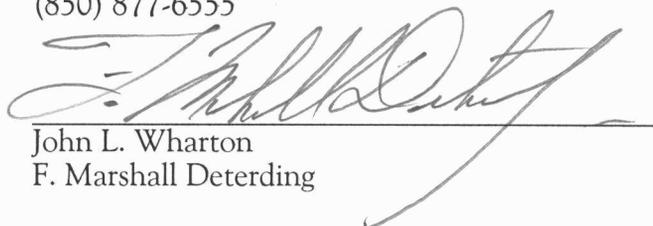
Position: *No. As was stated in the reuse case, it is the Utility's position that none of the costs should be allocated to its water customers.*

ISSUE 43: Should this docket be closed?

Position: *Yes, upon approval of final rates.*

RESPECTFULLY SUBMITTED this 29th day of November, 2000, by:

ROSE, SUNDSTROM & BENTLEY, LLP
2548 Blairstone Pines Drive
Tallahassee, FL 32301
(850) 877-6555


John L. Wharton
F. Marshall Deterding

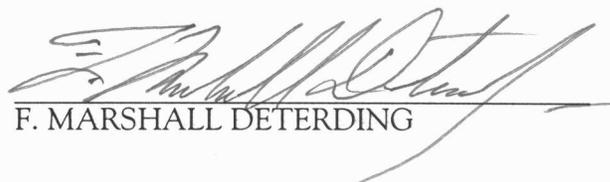
CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing Post-Hearing Memorandum has been furnished by *Hand Delivery or U.S. Mail to the following parties this 29th day of November, 2000:

*Blanca S. Bayo, Director [15 copies]
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399

*Jason Fudge, Esquire [1 copy]
*Ralph Jaeger, Esquire [1 copy]
Division of Legal Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399

Stephen Burgess, Esquire [1 copy]
Office of Public Counsel
c/o Florida Legislature
111 West Madison Street, Room 812
Tallahassee, FL 32399-1400


F. MARSHALL DETERDING

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