



Public Service Commission

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DATE: DECEMBER 20, 2000

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

FROM: DIVISION OF ECONOMIC REGULATION (DRAPER, FLETCHER, MAUREY, MERCHANT) *RM*
DIVISION OF LEGAL SERVICES (FUDGE, JAEGER) *JF*

RE: DOCKET NO. 000737-WS - 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.
COUNTY: PASCO COUNTY

AGENDA: January 2, 2001 - REGULAR AGENDA - PARTICIPATION IS LIMITED TO COMMISSIONERS AND STAFF

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: This item should immediately precede the recommendation filed in Docket No. 991643-SU.

FILE NAME AND LOCATION: S:\PSC\ECR\WP\000737.RCM

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 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:

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<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>

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.

On March 21, 2000, Commission staff initiated an undocketed earnings investigation by submitting an audit service request to the Commission's Division of Auditing & Financial Analysis. This audit's purpose was to compile and audit the utility's Aloha Gardens water, Aloha Gardens wastewater, and Seven Springs water systems rate base, capital structure and net operating income for the test year ended December 31, 1999. By Order No. PSC-00-1289-FOF-WS, issued July 18, 2000, the Commission initiated an investigation of the rates and charges of the utility's Aloha Gardens water and wastewater systems and Seven Springs water system.

The utility's Seven Springs wastewater system is not included in this docket because Aloha filed an application for an increase in rates for that system. Docket No. 991643-SU was established to process that application. The Commission held a hearing in Docket No. 991643-SU on October 2 and 3, 2000, in Pasco County. The hearing was continued on November 2, 2000, in Tallahassee. The Commission's ruling on the issues in Docket No. 991643-SU is scheduled for the January 16, 2001 agenda conference.

The Commission has jurisdiction pursuant to Section 367.081(2)(b), Florida Statutes. This recommendation addresses the need for an increase in the amount of security for revenues held subject to refund.

DISCUSSION OF ISSUES

ISSUE 1: Should the utility provide additional security to guarantee the amount held subject to refund by Order No. PSC-00-1289-FOF-WS, issued July 18, 2000?

RECOMMENDATION: Yes. The utility's corporate undertaking approved in Order No. PSC-00-1289-FOF-WS, issued July 18, 2000, should be increased by \$70,910, resulting in a total amount of \$232,050 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 should be kept by the utility. By no later than the twentieth (20th) day of each month, the utility should file a report showing the amount of revenues collected each month subject to refund. Should a refund be required, the refund should be with interest and undertaken in accordance with Rule 25-30.360, Florida Administrative Code. In no instance should maintenance and administrative costs associated with any refund be borne by the customers. These costs are the responsibility of, and should be borne by the utility. (FLETCHER, D.DRAPER)

STAFF ANALYSIS: By Order No. PSC-00-1289-FOF-WS, issued July 18, 2000, the Commission held the following amounts 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%

Further, based on a 7-month time frame, the Commission ordered the utility to provide a corporate undertaking in the amount of \$161,140 as a guarantee of any potential refund of water and wastewater revenues collected subject to refund. The \$161,140 amount included an interest component in the amount of \$3,389.

As stated in the case background, Aloha has a current rate case application pending for its Seven Springs wastewater system. Docket No. 991643-SU was established to process that application. The Commission held a hearing for Docket No. 991643-SU on October 2nd & 3rd in Pasco County. The hearing was continued on November 2, 2000, in Tallahassee. The Commission's ruling on the issues in

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Docket No. 991643-SU is scheduled for the January 16, 2001 agenda conference.

There are several issues in Docket No. 991643-SU that will also be addressed in this earnings docket. Some of these issues are controversial, such as the appropriate treatment of contributed and deferred taxes and of capitalized invoices previously expensed. Since the rate case docket has been through an administrative hearing, staff believes it would be appropriate to address this earnings docket after the Commission's vote on the rate case. This will allow staff to incorporate the Commission's decisions on several issues in this earnings investigation. In addition, the utility recently purchased a new office building for \$765,000. Staff also plans to evaluate this purchase for any potential impact on the earnings level of the utility's Aloha Gardens water and wastewater systems and the Seven Springs water system. Further, due to the demanding time constraints of the utility's pending rate case for its Seven Springs wastewater system, the utility requested and staff agreed to allow the utility more time to respond to our data requests in this earnings investigation.

Pursuant to Section 367.082(2)(b), Florida Statutes, in an interim decrease proceeding, 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 the Commission's final action in the docket. Pursuant to Section 367.082(2)(c), the Commission shall determine whether escrow, letter of credit, or corporate undertaking may be filed in lieu of a bond. 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 staff's analysis, a corporate undertaking signed by Aloha would be sufficient to protect the potential refund. Therefore, staff recommends that the corporate undertaking approved in Order No. PSC-00-1289-FOF-WS, issued July 18, 2000, should be increased by \$70,910, resulting in a total amount of \$232,050 as a guarantee of any potential refund of water and wastewater revenues collected under the interim conditions. This \$232,050 guaranteed amount represents a 10-month time frame, including 90-day period for the utility to administer any potential refunds.

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Further, the utility should keep an accurate and detailed account of all monies received. By no later than the twentieth (20th) day of each month, the utility should file a report showing the amount of revenues collected each month subject to refund. Should a refund be required, the refund should be with interest and undertaken in accordance with Rule 25-30.360, Florida Administrative Code.

Staff also recommends that in no instance should maintenance and administrative costs associated with any refund be borne by the customers. These costs are the responsibility of, and should be borne by the utility.

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ISSUE 2: Should this docket be closed?

RECOMMENDATION: No, this docket should remain open pending staff's investigation of the utility's earnings. (FLETCHER, JAEGER)

STAFF ANALYSIS: This docket should remain open pending staff's investigation of the utility's earnings.