



Public Service Commission
-M-E-M-O-R-A-N-D-U-M-

DATE: April 23, 2001
TO: Chairman Jacobs
FROM: Timothy J. Devlin, Director, Division of Economic Regulation *TD*
 Rosanne Gervasi, Chief of Water & Wastewater, Division of Legal Services *RG*
RE: Docket No. 010503-WU - Application for Increase in Water Rates for Seven Springs Water System in Pasco County by Aloha Utilities, Inc. - Test Year Approval

By letter dated April 16, 2001, Aloha Utilities, Inc. (Aloha) has requested approval to use a projected test year ended December 31, 2001, with a historical test year ended December 31, 2000. This rate increase application will be for its Seven Springs water system only. Aloha is also requesting that it be allowed to file its minimum filing requirements (MFRs) on or before August 15, 2001 or no more than 90 days after the requested test year is approved, whichever is shorter. By telephone, the utility has stated to staff that it has not decided if it will seek interim rate relief. Given this indecision, staff believes that the Commission can address the appropriateness of any interim rate request after the utility has filed its application. Further, by telephone, the utility stated that it will not file its application using the Proposed Agency Action (PAA) provision in Section 367.081(8), Florida Statutes.

The utility has indicated that the proposed base year ended December 31, 2000 is representative of the current operations, except for the required changes in operations that have already begun to occur and will be fully implemented in about nine months. The utility is requesting the projected test year ended December 31, 2001 in order to fully recognize the costs of purchased water imposed upon the utility to comply with its Water Use Permit (WUP), along with other known items that will impact the cost of providing water service. After these operational changes have been incorporated into the filing, the projected test year ended December 31, 2001 will be a representative period to measure the cost of service and establish new rates.

Aloha has been ordered by the Southwest Florida Water Management District (SWFWMD) to substantially reduce pumping from its own wells in order to come into compliance with its WUP. The utility estimates that this will result in a net cost increase of \$621,000 based on 1999 water usage. With growth projections, this amount will be slightly higher. Aloha will also need to project expenses associated with additional customer service staffing needs, the purchase of its new office building, water quality investigation costs and the pilot study for removal of hydrogen sulfide from its water. Aloha also has been ordered by the SWFWMD to implement an inclining block rate structure and other conservation measures.

The last rate case for the Seven Springs water system was in Docket No. 770720-WS, with Order No. 9278 issued on March 11, 1980. By Order No. PSC-99-1917-PAA-WS, issued September 28, 2000, in Dockets Nos. 970536-WS and 980245-WS, the Commission denied the utility's request for two limited proceedings, required the utility to implement envelope billing, established rate base, a new rate of return on equity and an AFUDC rate. The test year for that proceeding was the year ended December 31, 1998.

Staff believes that the requested test year will be representative because of the reasons stated

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above. Staff has reviewed the utility's annual reports for the calendar years 1996 through 1998. Based on our review, we believe that the requested test year should be approved. Receipt of the application by July 31, 2001, will be acceptable.

The test year letter filename is I:\psc\ecr\wp\aloha-ssw1.tya

c: Dr. Mary Bane, Deputy Executive Director/Technical
Division of Economic Regulation (Willis, Crouch, Merchant)
Division of Legal Services (Jaeger)
Division of Auditing and Financial Analysis (Vandiver)
Division of Records and Reporting
Jackie Edwards



Public Service Commission

April 27, 2001

Mr. F. Marshall Deterding
Rose, Sundstrom & Bentley LLP
2548 Blairstone Pines Drive
Tallahassee, Florida 32301

Re: Docket No. 010503-WU - Application for Increased Water Rates for Seven Springs System in Pasco County by Aloha Utilities, Inc. - Test Year Approval

Dear Mr. Deterding,

We have received your letter dated April 6, 2001 requesting test year approval for the Seven Springs Water System of Aloha Utilities, Inc. (Aloha or utility). Your letter states that the utility is requesting to use a projected test year ending December 31, 2001, with an historical base year of December 31, 2000. Aloha is also requesting that it be allowed to file its minimum filing requirements on or before August 15, 2001 or no more than 90 days after the requested test year is approved, whichever is shorter. By a telephone conversation with staff, you stated that the utility has not decided if it will seek interim rate relief. Further, by telephone, you stated that the utility will not file its application using the Proposed Agency Action (PAA) provision in Section 367.081(8), Florida Statutes. The utility's test year request as outlined above is hereby approved. You should also be aware that prefiled direct testimony must be filed with the minimum filing requirements (MFRs) since you are not electing to request the PAA process.

For administrative purposes only, Docket No. 010503-WU has been assigned to the forthcoming case. Your petition will be deemed filed on the date that the Division of Records and Reporting receives the complete petition, revised tariff sheets, the MFRs, testimony (if not requesting PAA), and the filing fee. To minimize any regulatory lag that may occur, we request that you file the above no later than July 31, 2001. Because of the difficulty in scheduling hearing dates it is not anticipated that an extension of this filing date will be granted.

Under the file and suspend law, the time period for processing the request will begin on the date that all of the required data is completely filed. If not complete, the official filing date will be the date the complete corrections to the deficiencies are filed. The utility is instructed to file all information it wishes the Commission to consider when arriving at a decision on its rate case application with its original filing. Because of the time limitations contained in Section 367.081, Florida Statutes, and the lengthy auditing and investigation required, information not filed with the original application may not be considered. Lastly, the utility should be prepared to justify its

Mr. F. Marshall Deterding

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requested test year operation and maintenance expenses, particularly those which have increased above the level of customer growth and inflation from those approved for the December 31, 1998 test year in Dockets Nos. 970536-WS and 980245-WS.

Sincerely,

E. Leon Jacobs, Jr.
Chairman

ELJ:pwm

cc: Bill Talbott
Mary Bane
Division of Records and Reporting
Division of Economic Regulation (Willis, Merchant)
Division of Legal Services (Jaeger)
Division of Regulatory Oversight (Vandiver)