

State of Florida



# Public Service Commission

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## -M-E-M-O-R-A-N-D-U-M-

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REPORTING AND  
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**DATE:** MAY 3, 2001

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

**FROM:** DIVISION OF ECONOMIC REGULATION (FLETCHER, MERCHANT, WETHERINGTON, CROUCH) *re* *SM*  
DIVISION OF LEGAL SERVICES (JAEGER) *JS*

**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

**AGENDA:** MAY 15, 2001 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

**CRITICAL DATES:** NONE

**SPECIAL INSTRUCTIONS:** THIS RECOMMENDATION SHOULD BE PLACED IMMEDIATELY BEFORE DOCKET NO. 010518-WS

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

DOCUMENT NUMBER-DATE

05588 MAY-30

RECORDS AND REPORTING

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ACCOUNTING SCHEDULES FOR ALOHA GARDENS

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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. 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>

In the utility's last rate proceeding (2 combined limited proceedings), 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. The utility also had a more recent rate proceeding for its Seven Springs wastewater system, which is discussed further below.

On November 19, 1999, Aloha filed for an index and a pass-through rate adjustment. Upon Commission approval, the utility implemented rate increases for all of its systems which were effective on January 18, 2000. For the Aloha Gardens systems, the rate adjustments provided annual revenue increases of 1.41% and 5.53% for water and wastewater, respectively. These rate increases are held subject to refund with interest pursuant to Section 367.081(4)(d), Florida Statutes, provided that the Commission finds that overearnings exist within 15 months of the filing of the annual report for the year 1999.

On March 21, 2000, Commission staff initiated an undocketed earnings investigation and commenced an audit of the utility. The purpose of this audit was to compile and audit the utility's Aloha Gardens water, Aloha Gardens wastewater, and Seven Springs water rate base, capital structure and net operating income for the 13-month average test year ended December 31, 1999.

By Order No. PSC-00-1289-FOF-WS, issued July 18, 2000, the Commission initiated a formal investigation of the rates and charges of the Aloha Gardens water and wastewater systems and Seven Springs water system, based on a preliminary analysis of the utility's 1998 and 1999 annual reports. Further, the Commission held the following revenues 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%

On July 28, 2000, the staff audit report for the utility's Aloha Gardens water, Aloha Gardens wastewater, and Seven Springs water for the 13-month average test year ended December 31, 1999 was completed. On September 1, 2000, Aloha submitted its response to this audit report.

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 that docket and Order No. PSC-01-0326-FOF-SU (Final Order) was issued on February 6, 2001. The Office of Public Counsel (OPC) filed a Motion for Reconsideration on two issues in the Final Order on February 21, 2001. Further, on March 5, 2001, Aloha filed its response to OPC's Motion and filed a Cross Motion for Reconsideration on several different issues in the Final Order. These Motions were the subjects of a separate staff recommendation considered at the April 3, 2001 Agenda Conference in Docket No. 991643-SU.

By Order No. PSC-01-0101-PCO-WS, issued January 11, 2001, the Commission increased the corporate undertaking approved in Order PSC-00-1289-FOF-WS by \$70,910, resulting in total secured revenues of \$232,050 as a guarantee of any potential refund of water and wastewater revenues collected under the interim conditions.

On February 1, 2001, the utility filed an application to increase its plant capacity charges for its Seven Springs water system, pursuant to Section 367.101, Florida Statutes and Rule 25-30.565, Florida Administrative Code. Aloha was required to file

that application, pursuant to Order No. PSC-00-1285-FOF-WS, issued July 14, 2000, in Docket No. 960545-WS.

In addition, on February 5, 2001, Aloha filed a limited proceeding for its Seven Springs water system, stating that it was being filed pursuant to Sections 367.081(1)(a) [sic] and (3) and 367.0822, Florida Statutes. The utility requested an emergency, temporary, and permanent increase in rates due to a substantial increase in purchases of bulk water from Pasco County.

Staff has utilized the staff audited amounts for the 13-month average test year ended December 31, 1999, and has made annualized 13-month average pro forma plant and expense adjustments for known and measurable changes in the calendar year-end 2000. Staff has used this test year to determine the earnings posture for the utility's Aloha Gardens water and wastewater systems. In our analysis, staff has also incorporated the Commission's final decisions on several issues in the recent rate case for Aloha's Seven Springs wastewater system that were not subject to any Motion for Reconsideration.

Staff is not addressing the earnings posture of the Seven Springs water system at this time. Staff believes the 1999 pro forma test year is appropriate for the Aloha Gardens water and wastewater systems because those systems are built out and have no major plant improvements. However, the Seven Springs water system has realized substantial growth (which means increased revenues and contributions in aid of construction). In addition, the utility informed staff that it anticipated moderate to small plant additions in 2000, and realized material increases in purchased water expenses in 2000. As such, staff believes it appropriate to evaluate the earnings of Seven Springs water after we have had the opportunity to review the earnings for the 12-month period ending December 31, 2000. Staff is contemplating filing a recommendation for this system on May 31, 2001.

This recommendation addresses: 1) whether any refunds to Aloha Gardens ratepayers are appropriate; 2) the appropriate method to administer any potential refunds; 3) whether the existing rates for the utility's Aloha Gardens water and wastewater systems should be maintained; and 4) the appropriate security amount for the Seven Springs water system. The Commission has jurisdiction pursuant to Sections 368.081 and 367.082, Florida Statutes.

**List of Acronyms and Technical Terms**

The following is a list of acronyms and technical terms which have been used in the recommendation.

CIAC Contributions in Aid of Construction  
DEP Department of Environmental Protection  
ERCs Equivalent Residential Connections  
MFRs Minimum Filing Requirements  
NARUC National Association of Regulatory Utility Commissioners  
NOI Net Operating Income  
O&M Operation and Maintenance  
ROE Return on Equity  
SWFWMD Southwest Florida Water Management District  
USOA Uniform System of Accounts

**DISCUSSION OF ISSUES**

**RATE BASE**

**ISSUE 1:** Should the utility be allowed to capitalize invoices previously expensed?

**RECOMMENDATION:** No. The capitalization of previously expensed invoices should be disallowed. Plant, accumulated depreciation, and depreciation expense as of December 31, 1999 for Aloha Gardens should be reduced as follows (FLETCHER):

<u>System</u>	<u>Plant</u>	<u>Accumulated Depreciation</u>	<u>Depreciation Expense</u>
Water	\$3,669	\$1,064	\$122
Wastewater	\$1,567	\$917	\$87

**STAFF ANALYSIS:** According to Order No. PSC-99-1917-PAA-WS, issued September 28, 1999, in Dockets Nos. 970536-WS and 980245-WS, the utility capitalized \$232,262 of invoices in 1997 that were expensed above-the-line in several previous years (1980-1991). Specifically, the utility capitalized \$3,669 and \$1,567 for its Aloha Gardens water and wastewater systems, respectively. In Audit Disclosure No. 1, staff auditors stated that the utility did not make any adjustment to remove these items from the rate base of Aloha Gardens water and wastewater.

By the Final Order in Aloha's recent Seven Springs wastewater rate case, the Commission disallowed the capitalization of these previously expensed invoices. No Motion for Reconsideration of that issue was filed. Further, based on a conversation with the utility's accounting consultant, Aloha will reflect these adjustments on its books for the year ended December 31, 2000. As such, staff recommends that the capitalization of these previously expensed invoices should be disallowed for the Aloha Gardens water and wastewater systems. Therefore, plant, accumulated depreciation, and depreciation expense should be reduced as follows:

<u>System</u>	<u>Plant</u>	<u>Accumulated Depreciation</u>	<u>Depreciation Expense</u>
Water	\$3,669	\$1,064	\$122
Wastewater	\$1,567	\$917	\$87



**ISSUE 2:** Should an item expensed by the utility during the 1999 test year be capitalized to plant?

**RECOMMENDATION:** Yes. The utility erroneously expensed an item during the 1999 test year that should have been capitalized to plant. Aloha Gardens wastewater plant balance should be increased by \$3,816 and its O&M expenses should be reduced by \$3,816. In addition, accumulated depreciation and depreciation expense should be increased by \$106 for the Aloha Gardens wastewater system. (FLETCHER)

**STAFF ANALYSIS:** In Audit Disclosure No. 6, staff auditors noted that the utility expensed a new pump that should have been capitalized in 1999. This pump was for the Aloha Gardens wastewater system. Specifically, the utility recorded \$3,816 in Account No. 720 - Material & Supplies for this pump.

In accordance with the NARUC USOA for Class A water and wastewater utilities, the utility should have recorded this pump under Account 371 - Pumping Equipment. As such, staff believes this item should be reclassified from an expense account to a plant account. Further, in its response to the Audit Disclosure No. 6, Aloha agrees with this adjustment. Therefore, staff recommends that the Aloha Gardens wastewater plant balance should be increased by \$3,816 and its O&M expenses should be reduced by \$3,816. In addition, staff recommends that accumulated depreciation and depreciation expense should be increased by \$106 for the Aloha Gardens wastewater system.

**ISSUE 3:** Should adjustments be made to include costs associated with the utility's new office building?

**RECOMMENDATION:** Yes. Pro forma adjustments for the Aloha Gardens costs associated with the utility's new office building should be allowed. The following annualized adjustments should be made (FLETCHER):

	<u>Water</u>	<u>Wastewater</u>
Plant	\$70,952	\$70,952
Land	\$5,876	\$5,876
Accumulated Depreciation	\$2,004	\$2,004
Depreciation Expense	\$2,172	\$2,172
Rent Expense	(\$2,622)	(\$2,622)
Maintenance & Insurance	\$757	\$757
Property Taxes	\$1,236	\$1,236

**STAFF ANALYSIS:** On July 27, 2000, Interphase, Inc., a related party of Aloha, notified the utility that it would not be renewing its lease that expired on December 31, 2000. On September 12, 2000, the utility purchased a new building for \$765,000. On October 9, 2000, the new building and associated land was appraised at a value of \$770,000.

Staff has reviewed all the utility's documentation proffered in Docket No. 991643-SU regarding the purchase of the new building. Staff believes this documentation contains a thorough analysis and explanation of the utility's decision to purchase the new building. The analysis documents the minimum requirements for a new office location. Further, the analysis of the potential office locations included: 1) the size, location, availability, cost and whether the property was available for purchase or lease; and 2) a comparison of each of the alternatives with documented advantages and disadvantages of each property, including a thorough analysis of the estimated costs associated with each property.

In support of its decision to buy the building, Aloha stated that the minimum requirements for a new office location were as follows:

1. The property must be located in the Seven Springs service area because it represents 75% of the total customer base

currently and 100% of current and future growth. In addition, the closer the building's location can be to the Seven Springs wastewater treatment plant the better from an operational standpoint, because this treatment plant is the center of field operations for all of the activity in the field.

2. The new office location should be approximately 6,000 to 6,500 square feet. However, the utility noted that this will be dictated by the layout of each potential office location and the configurations Aloha would require in order to accommodate its employees and customer service needs.

3. The building must be in full compliance with all of the public access requirements of the Americans With Disabilities Act. Further, the ingress and egress for customers must be convenient.

4. The office location should be professional in appearance, preferably, a stand-alone building if possible, and not in a retail shopping center. Additional traffic could hinder Aloha's ability to provide safe & efficient customer service, as well as its service personnel that have to come and go from the office many times a day.

5. Aloha preferred a constructed building that could be modified within the six-month time frame for necessary building modifications.

Based on our review of the utility's analysis, staff believes that Aloha's purchase of the new office building was the most cost effective alternative. Since this is a material change that occurred at the end of 2000, staff recommends that it should be included in determining the appropriate revenue requirement. Accordingly, staff recommends that these costs be treated as a pro forma plant adjustment.

The utility also completed \$11,595 of improvements to the new building before the 2000 calendar year-end. Staff has reviewed the items and related costs for the improvements, and we believe that they are reasonable. Accordingly, staff recommends that these costs also be treated as a pro forma plant adjustment.

Further, based on staff's review of the appraisal report for this building and the land on which it is located, there was no separate breakdown for the value of land. According to the on-line Pasco County Property Appraiser's database, the tax-assessed value for this land is \$64,409. Without sufficient support

documentation, the Commission has on numerous occasions utilized the tax-assessed value to determine the original cost of land. See Orders Nos. PSC-93-0301-FOF-WS, issued February 25, 1993, in Docket No. 911188-WS; and PSC-98-1585-FOF-WU, issued November 25, 1998, in Docket No. 980445-WU. Without a breakdown of the value of land and consistent with prior Commission practice, staff believes it is appropriate to use the tax-assessed value of \$64,409 for this land. Accordingly, staff recommends that this \$64,409 land value be treated as a pro forma plant adjustment.

In its supporting documentation, Aloha stated that, at the old office building, most of the office furnishings were the property of the landlord. Accordingly, the utility has requested recovery of the cost for new office furniture. Aloha provided a schedule of office furniture required for the new building, which totaled \$42,448. This schedule included a description of the furnishings, the quantity and purposes, and the cost for each item. Based on our discussions with the utility, Aloha has purchased all of the above-mentioned office furnishings. Based on our review, staff believes the items and associated costs of these furnishings are reasonable and recommend that these costs be treated as a pro forma plant adjustment.

The utility did not purchase the building until late 2000, and as such the annual rent expense for the old building is included in 1999 O&M expenses. Since staff is recommending a pro forma adjustment to include costs associated with the new building, the non-recurring lease costs should be removed. Accordingly, rent expense should be reduced by \$2,622 for both Aloha Gardens water and wastewater.

According to a letter to staff dated October 17, 2000, Aloha's landlord was responsible for maintenance, insurance, and property taxes at the old building. Based on our review of the utility's prior lease, staff agrees with the utility. Included with its support documentation, Aloha provided a letter dated August 24, 2000 from the former owner of the utility's new building, which indicated that the annual insurance and maintenance for the building were \$3,793 and \$3,864, respectively. Staff has reviewed these amounts, and believes that these expenses are reasonable. In addition, the property taxes associated with this building are \$12,167, according to the on-line Pasco County Property Appraiser's estimated tax calculation. Accordingly, staff recommends that these expenses be treated as pro forma expense adjustments.

According to the appraisal report, the new building has 8,094 square feet. In addition, this report indicates that Aloha will

continue to honor the outstanding five-year lease to a third party of 2,380 square feet. In its support documentation, Aloha calculated the non-utility office space to be 28.19% resulting from the continued leased office space to the third party. Staff believes that the utility's non-utility percentage is slightly understated. Based on the appraisal report, the non-utility percentage should be 29.40% (2,380 sq. ft. leased to third party divided by the total 8,094 sq. ft. of the new building). Staff recommends that the non-utility percentage should be applied to the cost of the building and land and the related pro forma expense adjustments associated with the new building, except for the removal of the prior rent expense and the building improvements. The building improvements relate only to the office space occupied by the utility.

Aloha allocates common costs based on the ERCs of each system. In Docket No. 991643-SU, the Commission used the following ERC percentages: 1) 14% each for the Aloha Gardens water and wastewater systems; and 2) 36% each for the Seven Springs water and wastewater systems. Staff believes that these are reasonable and recommends that the above percentages should be applied in allocating the pro forma costs associated with the new building.

#### Conclusion

Based on the above, staff recommends that pro forma adjustments for costs associated with the utility's new office building should be allowed. Specifically, the following annualized adjustments should be made for Aloha Gardens:

	<u>Water</u>	<u>Wastewater</u>
Plant	\$70,952	\$70,952
Land	\$5,876	\$5,876
Accumulated Depreciation	\$2,004	\$2,004
Depreciation Expense	\$2,172	\$2,172
Rent Expense	(\$2,622)	(\$2,622)
Maintenance & Insurance	\$757	\$757
Property Taxes	\$1,236	\$1,236

**ISSUE 4:** Should an adjustment be made to correct an error in the land balances of the utility's Aloha Gardens wastewater system and Seven Springs wastewater system?

**RECOMMENDATION:** Yes. The land balance for the Aloha Gardens wastewater system should be increased by \$3,030. In addition, the amortization expense for the Aloha Gardens wastewater system should be increased by \$1,515. (FLETCHER)

**STAFF ANALYSIS:** In Docket No. 910540-SU (the last rate case for Aloha Gardens wastewater), the Commission found that 75 percent of the land for the Aloha Gardens' wastewater treatment plant site was no longer needed to provide service and deemed that amount as non-used and useful. See Order No. PSC-92-0578-FOF-SU, issued June 29, 1991. Due to a DEP mandated wastewater interconnection to Pasco County's system, land used for treatment and disposal purposes was no longer used and useful. Some land was still needed for a master lift station, a force main, and a warehouse. The Commission determined this was 25 percent of the wastewater treatment plant site.

In Supplemental Audit Disclosure No. 1 of the Commission's December 31, 1997 test period audit, staff auditors stated the following: "In 1987, one payment of \$12,120 was made for an appraisal of land which was never purchased. The appraisal fee, therefore, should have been classified to expense." In Dockets Nos. 970536-WS and 980245-WS (the 2 limited proceedings), the Commission reduced the utility's Aloha Gardens wastewater system land balance by \$12,120. See Order No. PSC-99-1917-PAA-WS, issued September 28, 1999. Consistent with its decision in Docket No. 910540-SU, the Commission removed 75% of Aloha Gardens' wastewater land balance from rate base in Dockets Nos. 970536-WS and 980245-WS. The Commission utilized the Aloha Gardens wastewater adjusted land balance of \$12,880 which included the erroneous \$12,120 adjustment, discussed earlier. The Commission then considered the \$9,660 (\$12,880 multiplied by 75%) as non-used and useful and allowed the utility to recover this cost as a loss on abandonment. The Commission amortized the \$9,660 over 7 years beginning in 1998. This represented an annual amortization of \$1,380.

In the audit for this current investigation, the staff auditors indicated that the \$12,120 amount was actually recorded as land for its Seven Springs wastewater system. As such, in the last rate proceeding, the reduction of the utility's Aloha Gardens wastewater system land balance by \$12,120 was an error. The reduction should have been made to Seven Springs wastewater land.

In the Seven Springs wastewater rate case, Docket No. 991643-SU, all parties stipulated to the correction of this error.

Staff recommends that adjustments are necessary to correct the land balances and amortization for this error. As shown below, staff recommends that the land balance for the Aloha Gardens wastewater system should be increased by \$3,030. In addition, staff recommends that the amortization expense for Aloha Gardens wastewater should be increased by \$1,515. Accordingly, working capital should be increased by \$8,333 to reflect the 13-month average balance of the unamortized cost.

Aloha Gardens Wastewater

Land Adjustment

Error in Last Rate Proceeding	\$12,120
Multiplied by Used and Useful Percentage	<u>25%</u>
Increase to Land Balance	<u>\$3,030</u>

Amortization Expense Adjustment

Correct Balance Before Non-Used and Useful Adj.	\$25,000
Removal for Abandoned/Non-used and Useful Land	<u>75%</u>
Loss on Abandoned Land	\$18,750
Less: Annual Amortization allowed by Prior Order	<u>1,380</u>
Net Unamortized Balance at December 31, 1998	\$17,370
Divided by Remaining Years of Amortization Period	<u>6 years</u>
Correct Annual Amortization	\$2,895
Amortization Previously Allowed	<u>1,380</u>
Increase to Annual Amortization	<u>\$1,515</u>

**ISSUE 5:** What are the used and useful percentages of the Aloha Gardens water and wastewater systems?

**RECOMMENDATION:** The entire Aloha Gardens water treatment, and the wastewater collection and water distribution systems should be considered 100% used and useful. (CROUCH)

**STAFF ANALYSIS:** The Aloha Gardens service area is essentially built out with no growth anticipated. This is an old system where the wastewater service is 100% purchased. Aloha Gardens has no wastewater treatment plant and a very small water treatment plant. Approximately 80% of Aloha Gardens' water is purchased. The original water distribution and wastewater collection lines were contributed for the most part with utility investment in transmission lines, meter installation and distribution and collection line replacement and repair. Staff recommends that the entire Aloha Gardens water treatment, and the wastewater collection and water distribution systems should be considered 100% used and useful.



**ISSUE 6:** Should an adjustment be made to accumulated depreciation associated with new computer equipment and system software?

**RECOMMENDATION:** Yes. The utility used an incorrect depreciation rate. As such, Aloha Gardens accumulated depreciation and depreciation expense should be increased for the December 31, 1999 test year as follows (FLETCHER):

<u>System</u>	<u>Accumulated Depreciation</u>	<u>Depreciation Expense</u>
Water	\$484	\$968
Wastewater	\$217	\$433

**STAFF ANALYSIS:** Aloha capitalized new computer equipment and system software purchased in 1998 and 1999. It classified these costs as Office Furniture using a 15-year depreciable life. The allocated additions as of December 31, 1999 were \$13,918 and \$8,574 for Aloha Gardens water and wastewater, respectively.

According to Rule 25-30.140, Florida Administrative Code, computer equipment should be depreciated over six years instead of fifteen. Consistent with the above rule, the depreciation rate for the computer equipment should be corrected for the December 31, 1999 test year. Based on the above, staff recommends that accumulated depreciation and depreciation expense should be increased as follows:

<u>System</u>	<u>Accumulated Depreciation</u>	<u>Depreciation Expense</u>
Water	\$484	\$968
Wastewater	\$217	\$433

**ISSUE 7:** What is the appropriate working capital allowance for the Aloha Gardens water and wastewater systems?

**RECOMMENDATION:** Consistent with the Commission approved working capital in Docket No. 991643-SU, the appropriate working capital allowance is \$38,056 for Aloha Gardens water and \$90,263 for Aloha Gardens wastewater. (FLETCHER)

**STAFF ANALYSIS:** Rule 25-30.433(2), Florida Administrative Code requires that working capital for Class A utilities shall be calculated using the balance sheet approach. In a staff audit workpaper, staff auditors compiled the 13-month average balances of current assets and liabilities, based on Aloha's general ledger account balances. Using the utility's general ledger account balances and consistent with the Commission approved working capital in Docket No. 991643-SU, staff recommends that the appropriate working capital allowance is \$38,056 for Aloha Gardens water and \$90,263 for Aloha Gardens wastewater. See Order No. PSC-01-0326-FOF-WS, issued February 6, 2001. The following schedule illustrates staff's calculation of the working capital.

**ALOHA UTILITIES, INC. - ALOHA GARDENS  
 WORKING CAPITAL ALLOWANCE-BALANCE SHEET APPROACH  
 THIRTEEN MONTH AVERAGE TEST YEAR ENDED 12/31/99**

DOCKET NO. 000737-WS

Account Title	Average Balance Per Utility @12/31/99	Staff Adjustments	Staff Adjusted Balance @12/31/99
<b>Current Assets:</b>			
Cash	\$650,267	\$0	\$650,267
Customer Accts Receivable	718,663	0	718,663
Accts. Rec. - Other (Income Tax Deposits)	18,456	(18,456)	0
Allowance for Bad Debts	(6,900)	0	(6,900)
Deferred Rate Case Expense	0	14,507	14,507
Other Miscellaneous Deferred Debits	<u>137,161</u>	<u>8,333</u>	<u>145,494</u>
Total Current Assets and Deferred Debits	<u>\$1,517,647</u>	<u>\$4,383</u>	<u>\$1,522,030</u>
<b>Current Liabilities:</b>			
Accounts Payable - Trade	\$594,121	\$0	\$594,121
Accrued Taxes	339,203	0	339,203
Miscellaneous Current & Accrued Liabilities	24,913	0	24,913
Total Liabilities and Deferred Credits	<u>\$958,237</u>	<u>\$0</u>	<u>\$958,237</u>
Net Allowance for Average Working Capital	<u>\$559,410</u>	<u>\$4,383</u>	<u>\$563,793</u>
	<u>SYSTEMS</u>	O&M Expense Percentage (1)	Working Capital
	Aloha Gardens Water	6.75%	\$38,056
	Aloha Gardens Wastewater	16.01%	90,263
	Seven Springs Water	29.44%	165,981
	Seven Springs Wastewater	<u>47.80%</u>	<u>269,493</u>
		<u>100.00%</u>	<u>\$563,793</u>
<b>Footnote:</b>			
(1) Used same percentage allocation to determine rates in Docket No. 991643-SU. See Order No. PSC-01-0326-FOF-SU, issued February 6, 2001.			

**ISSUE 8:** What is the appropriate rate base for the Aloha Gardens water and wastewater systems?

**RECOMMENDATION:** Consistent with other recommended adjustments, the appropriate rate bases for the Aloha Gardens water and wastewater systems are \$83,830 and \$539,102, respectively. (FLETCHER)

**STAFF ANALYSIS:** Based on the 13-month average test year balances and staff's recommended adjustments, staff recommends that the appropriate rate bases for the Aloha Gardens water and wastewater systems are \$83,830 and \$539,102, respectively. This represents an increase from the utility's 13-month average water and wastewater rate base balances of \$56,433 and \$46,750, respectively. Schedules Nos. 1-A and 1-B depict staff's rate base calculation for Aloha Gardens water and wastewater, respectively. Staff's proposed adjustments to rate base are depicted on Schedule No. 1-C.

**COST OF CAPITAL**

**ISSUE 9:** Should any adjustment be made to long-term debt to determine the overall cost of capital?

**RECOMMENDATION:** Yes. Long-term debt should be increased by \$3,995,580 to included the mortgage for the new building and the construction loan for the Seven Springs wastewater system. The appropriate long-term cost rate should be 10.17%. (FLETCHER)

**STAFF ANALYSIS:** The following is staff's analysis of recommended long-term debt pro forma adjustments.

Mortgage for New Building

Aloha executed a mortgage with Bank of America in the amount of \$612,000 for the new building on October 30, 2000. The cost rate for this debt was 9.00%. Staff believes it is appropriate to recognize the annualized 13-month average increase to long-term debt associated with this mortgage. Since we are recommending the inclusion of pro forma building costs in rate base, staff recommends that long-term debt should be increased by \$564,923 (\$612,000 multiplied by twelve (12 months) divided by thirteen).

Construction Loan for Seven Springs Wastewater System

Docket No. 991643-SU was established to process the utility's application for its Seven Springs wastewater system. Aloha expanded the Seven Springs wastewater treatment plant from 1.2 MGD to 1.6 MGD and upgraded it to Class I Reliability in order for the effluent to be used for public access reuse. On July 30, 1999, the utility closed on a construction loan with Bank of America in the amount of \$5,200,000.

As of December 31, 1999, the utility had only drawn \$224,828 on this construction loan, which represented an \$86,472 13-month average balance for the calendar year 1999. According to a schedule provided by the utility in Docket No. 991643-SU, Aloha anticipated a draw of \$5,067,120 as of December 31, 2000. Staff notes that the Commission approved Aloha's projections for the long-term debt draws in that case. Staff believes that this construction loan is a material change to the utility's cost of capital and we believe it should be incorporated in the calculation of the revenue requirement. As such, staff believes it is appropriate to recognize the 13-month average increase to long-term debt associated with this construction loan for the 2000 calendar year. Thus, using the balances from December 1999 to December

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2000, discussed above, staff recommends that long-term debt should be increased by \$3,430,657. The cost rate for this debt was 9.18%.

Conclusion

Based on the above, staff recommends that long-term debt should be increased by \$3,995,580 (\$564,923 plus \$3,430,657). Accordingly, staff recommends that the appropriate long-term cost rate should be 10.17%.

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**ISSUE 10:** What is the appropriate Return on Equity (ROE) to determine the overall cost of capital?

**RECOMMENDATION:** The appropriate ROE is 9.93% with a range of reasonableness of 8.93% to 10.93%. (FLETCHER)

**STAFF ANALYSIS:** The last authorized ROE for Aloha Gardens water and wastewater was 10.12%. This cost rate was set by the Commission in Dockets Nos. 970536-WS and 980245-WS. Also, the Commission has established Aloha's preferred stock cost rate to be equal to that of common equity. See Order No. PSC-99-1917-PAA-WS, issued September 28, 1999.

By Order No. PSC-00-1162-PAA-WS, issued June 26, 2000, in Docket No. 000006-WS, the Commission approved its current leverage formula used to establish the authorized ROE for water and wastewater utilities. That Order was consummated by Order No. PSC-00-1299-CO-WS, issued July 18, 2000. Based on Aloha's adjusted capital structure, the current leverage formula yields a cost of equity of 9.93%. Therefore, staff recommends that the appropriate ROE to determine the overall cost of capital is 9.93% with a range of reasonableness of 8.93% to 10.93%, on a prospective basis.

**ISSUE 11:** What is the appropriate overall cost of capital?

**RECOMMENDATION:** Consistent with other recommended adjustments, the appropriate weighted average cost of capital for the Aloha Gardens water and wastewater systems is 9.93%. (FLETCHER)

**STAFF ANALYSIS:** In Docket No. 991643-SU, the utility prorated all sources of capital. See Order No. PSC-01-0326-FOF-SU, issued February 6, 2001. However, in that docket, the Commission specifically identified the deferred income taxes for each system. Staff believes that it is appropriate to do the same in this case. Staff notes that the Aloha Gardens water and wastewater systems do not have any gross-up CIAC.

Further, Rule 25-30.433(3), Florida Administrative Code, states:

Used and useful debit deferred taxes shall be offset against used and useful credit deferred taxes in the capital structure. Any resulting net debit deferred taxes shall be included as a separate line item in the rate base calculation. Any resulting net credit deferred taxes shall be included in the capital structure calculation.

In the utility's response to staff's Interrogatory No. 13 in this docket, Aloha provided a breakdown of deferred income taxes for each of the utility's systems for the year-end December 31, 1999. Based on the utility's breakdown, the 13-month average reflects a \$3,394 net credit balance of deferred income taxes for Aloha Gardens. Consistent with the Commission's decision in Docket No. 991643-SU, no prorata adjustment should be made for deferred income taxes.

The overall cost of capital is a fall-out of the recommended rate base and other cost of capital issues. Based on the above, the weighted average cost of capital should be 9.93% for Aloha Gardens water and wastewater. Schedule No. 2-A depicts staff's overall cost of capital calculation for Aloha Gardens water and wastewater. Staff's proposed adjustments to cost of capital are depicted on Schedule No. 2-B.



**NET OPERATING INCOME**

**ISSUE 12:** Should any adjustment be made to operating revenues?

**RECOMMENDATION:** Yes. Since the Commission approved a 1999 index and pass-through that became effective on January 18, 2000, it is appropriate to reflect the associated annualized revenues as pro forma adjustments. Operating revenues should be increased by \$6,828 for Aloha Gardens water and \$53,687 for Aloha Gardens wastewater. (FLETCHER)

**STAFF ANALYSIS:** On November 19, 2000, Aloha filed for a 1999 index and pass-through rate adjustments for all four of its systems. The Commission approved these rate increases with an effective date of January 18, 2000, pursuant to Section 367.081(4), Florida Statutes. The price index and pass-through rate adjustments for Aloha Gardens resulted in increases in revenue of \$6,828 for water and \$53,687 for wastewater.

Since we are utilizing a 1999 test year with known and measurable changes for 2000, staff believes that it is appropriate to recognize any rate changes that occurred after the historical test year to calculate the revenue requirement for rate setting purposes. Thus, the annualized revenues associated with the 1999 index and pass-through should be added as pro forma adjustments. Accordingly, staff recommends that operating revenues should be increased by \$6,828 for Aloha Gardens water and \$53,687 for Aloha Gardens wastewater.

**ISSUE 13:** What is the appropriate salary for Aloha's vice-president?

**RECOMMENDATION:** The vice-president's salary should be 20% of the president's salary. As a result, Salary & Wages - Officers, Employee Benefits, and Payroll Tax accounts for Aloha Gardens should be reduced as follows (FLETCHER):

<u>System</u>	<u>Salary &amp; Wages</u> <u>- Officers</u>	<u>Employee</u> <u>Benefits</u>	<u>Payroll</u> <u>Tax</u>
Water	\$6,292	\$2,551	\$537
Wastewater	\$6,292	\$2,671	\$497

**STAFF ANALYSIS:** By Order No. PSC-01-0326-FOF-SU, issued February 6, 2001, the Commission limited the vice-president's salary to 20% of the president's salary. The utility allocates the vice-president's salary based on the ERC allocation percentages discussed earlier. Based on the above, staff recommends that Salary & Wages - Officers, Employee Benefits, and Payroll Tax accounts should be reduced as follows:

<u>System</u>	<u>Salary &amp; Wages</u> <u>- Officers</u>	<u>Employee</u> <u>Benefits</u>	<u>Payroll</u> <u>Tax</u>
Water	\$6,292	\$2,551	\$537
Wastewater	\$6,292	\$2,671	\$497

Further, based on a conversation with the utility's accounting consultant, Aloha will adjust its books for the year ended December 31, 2000 to reflect this recommended adjustment.

**ISSUE 14:** Should any pro forma adjustment be made to Salaries and Wages - Employees?

**RECOMMENDATION:** Yes. Salaries and Wages - Employees should be increased to recognize the annualized salary of an employee hired during 1999. Salaries and Wages - Employees should be increased by \$2,372 for Aloha Gardens water and \$2,171 for Aloha Gardens wastewater. In addition, Pensions and Benefits should be increased by \$813 for Aloha Gardens water and \$745 for Aloha Gardens wastewater. Further, payroll taxes should be increased by \$181 for Aloha Gardens water and \$166 for Aloha Gardens wastewater. (FLETCHER)

**STAFF ANALYSIS:** By a letter to staff dated December 15, 2000, the utility requested that the Commission in this earnings investigation recognize the increase in salaries from the 1999 test year. The utility stated that Ms. Pam Yacobelli, a secretary, was hired in the Fall of 1999. Further, Aloha asserted that it was in the process of interviewing for a new receptionist position, which it plans to fill in January of 2001. In addition, the utility stated that it plans to hire an additional billing clerk and customer service representative.

In the December 15, 2000 letter, Aloha stated that the annual salary for Ms. Yacobelli was \$18,720. However, in the utility's MFRs filed in Docket No. 991643-SU, the utility used an annual salary of \$17,680 for Ms. Yacobelli in its projected September 30, 2001 test year. Also, according to the MFRs, Ms. Yacobelli was hired on November 12, 1999. Based on the record in Docket No. 991643-SU, Ms. Yacobelli was hired to meet DEP staffing requirements and to handle other duties due to customer growth and demand. See Order No. PSC-01-0326-FOF-SU, issued February 6, 2001.

By letter dated April 27, 2001 to staff, the utility explained that Ms. Yacobelli had completed her 90-day probationary period in early 2000 and that her 2000 salary level was \$18,720. Aloha further explained that in Docket No. 991643-SU, it projected Ms. Yacobelli's probationary salary of \$17,680 for simplicity. Based on the above, staff believes that the inclusion of Ms. Yacobelli's salary at the 2000 level of \$18,720 is reasonable. Further, staff believes that the appropriate amount to increase Salaries and Wages - Employees expense is this \$18,720 annual salary less the actual portion expensed from November 12, 1999 to December 31, 1999. Based on the above, staff recommends that Salaries and Wages - Employees should be increased by \$2,372 for Aloha Gardens water and \$2,171 for Aloha Gardens wastewater. In addition, staff recommends that Pensions and Benefits should be increased by \$813 for Aloha

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Gardens water and \$745 for Aloha Gardens wastewater. Further, staff recommends that payroll taxes should be increased by \$181 for Aloha Gardens water and \$166 for Aloha Gardens wastewater.

Based on a subsequent discussion with utility, Aloha states that it did fill the receptionist position in early 2001. Staff has utilized the staff audited amounts for the 13-month average test year ended December 31, 1999. Also, we have made pro forma plant and expense adjustments for specific known and measurable changes in the calendar year-end 2000. Our analysis does not include the effect of 2000 depreciation expense or any plant retirements in 2000 and does not represent a projected test year. To be consistent with our pro forma test year, we recommend that any additional salary changes beyond 2000 should not be considered because those amounts are outside of our pro forma test year determination.

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**ISSUE 15:** Should any adjustments be made for purchased water and sewage treatment expenses?

**RECOMMENDATION:** Yes. Purchased water should be adjusted to correct a misclassification, to reflect the 10/1/00 pass-through increase, and to normalize an annual expense due to a faulty meter. Purchased water expense should be increased by \$76,387 for Aloha Gardens water, and sewage treatment expense should be increased by \$59,588 for Aloha Gardens wastewater. Staff recommends that the utility should be precluded from filing for a pass-through rate adjustment based on purchased water and sewage treatment rates that became effective on 10/1/00. (FLETCHER, WETHERINGTON)

**STAFF ANALYSIS:** Staff believes that three issues regarding the Aloha Gardens purchased water and sewage treatment expenses should be discussed: 1) correction for a misclassification; 2) a pass-through increase and normalization adjustment for a faulty meter; and 3) a possible retirement of a well.

Correction for a Misclassification

In Audit Disclosure No. 4, staff auditors stated that the utility recorded expenses for water purchased from Pasco County incorrectly in November and December of 1999. The utility receives one monthly bill from Pasco County for purchased water. On the bill, there are generally two meters that reflect the prior month's water consumption. One meter is for Aloha Gardens, and the other is for Seven Springs. Aloha mistakenly recorded Aloha Garden's November and December consumption as a Seven Springs expense and vice-versa. In order to correct this, staff recommends that the purchased water expense should be reduced by \$15,227 for the Aloha Gardens water system and increased by \$15,227 for the Seven Springs water system. Pursuant to its audit response, the utility agrees with this adjustment.

Rate Increase by Pasco County and Faulty Meter of Pasco County

By letter dated August 30, 1999, Pasco County notified its bulk water and wastewater customers that rates would be increased as follows:

<u>Fiscal Year</u>	<u>Effective Date</u>	<u>Water Charge per 1,000 Gallons</u>	<u>Wastewater Charge per 1,000 Gallons</u>
2000	10/1/99	\$2.12	\$3.58
2001	10/1/00	\$2.20	\$3.65

Upon application by Aloha, the Commission approved a 1999 pass-through for the Aloha Gardens water and wastewater systems effective January 18, 2000.

In its 1999 annual report, Aloha stated that Pasco County's meter measuring gallons delivered to the Aloha Gardens began running slow in early 1999. This resulted in more gallons sold than were purchased. Based on staff's discussion with an Assistant County Administrator, the County fixed this meter in October 2000 and stated that it does not plan to back-bill Aloha for this under billing.

In its response to staff's Interrogatory No. 12, Aloha provided an analysis of annual gallons of water sold to estimate the correct annual purchased water expense for Aloha Gardens. The utility's initial response reflected an increase of \$76,387. This adjustment, however, did not take into consideration the erroneous \$15,227 adjustment for the Seven Springs water system. Once this is corrected, the appropriate adjustment to annualize purchased water for the Aloha Gardens water system is an increase of \$91,614. By letter dated April 27, 2001 to staff, the utility agrees that an increase of \$91,614 is appropriate.

Using Pasco County's bulk wastewater rate of \$3.65 as of 10/1/00 and the actual gallons of sewage treatment in 1999, staff has calculated an annualized purchased sewage treatment expense of \$621,423 for Aloha Gardens. According to the utility's 1999 annual report, the actual purchased sewage treatment expense for this system was \$561,835. This results in an increase of \$59,588 in the 1999 purchased sewage treatment expense. Because this is a significant increase in expenses, staff believes it is appropriate to treat the \$59,588 amount as a pro forma expense adjustment.

Based on the above, staff recommends that Aloha Gardens purchased water and sewage treatment expenses should be increased by \$91,614 and \$59,588, respectively. Since staff's recommendation includes the purchased treatment expenses using Pasco County's rates as of 10/1/00, the utility should be precluded from filing for an additional pass-through on these bulk rate increases because it would constitute double recovery of those expenses.

#### Retirement of a Well for Aloha Gardens Water System

By letter dated December 15, 2000 to staff, the utility asserted that a well in the Aloha Gardens water system became unusable in mid-2000, and must be retired. As a result, Aloha

stated that it would shift all demands previously met by that well to purchased water from Pasco County. Further, the utility stated that it has not yet identified the revenue impact of this required change, though it is effective immediately.

Staff has contacted DEP and SWFWMD, who state that they have not been notified by the utility of any problems with its wells. However, based on pumping reports submitted to DEP, staff does note that two wells reflected zero gallons at the end of the 2000 calendar year. As stated earlier, the Commission opened this earnings investigation on July 18, 2000. If the well became unusable in mid-2000, staff believes Aloha should have been able to calculate the revenue impact for the retirement of the well by the 2000 calendar year-end. Based on the above, staff has made no adjustment.

#### Summary

Based on the above, staff recommends that Aloha Gardens' purchased water expense should be increased by a net \$76,387 and purchased sewage treatment should be increased by \$59,588. Staff also recommends that the utility should be precluded from filing a pass-through based on purchased water and wastewater rates that became effective on 10/1/00.

**ISSUE 16:** Should miscellaneous expenses for Aloha Gardens water and wastewater be increased?

**RECOMMENDATION:** Yes. To correct an erroneous allocation, miscellaneous expenses for Aloha Gardens water and wastewater systems should be increased each by \$2,174. (FLETCHER)

**STAFF ANALYSIS:** In Audit Disclosure No. 8, staff auditors stated that the utility replaced its general ledger software system in July 1999 with a new general ledger software system. Further, the utility stated that during the mid-year conversion of accounts payable, differences arose between the detail and the general ledger. The utility assumed these differences were related to the Seven Springs water and wastewater systems and a journal entry was made to increase chemical and material and supplies expense accounts for Seven Springs by \$15,526.

Where an expense cannot be specifically identified and charged directly to the appropriate division of the utility, Aloha's policy is to allocate these expenses based on ERCs. Staff auditors believe the \$15,526 adjustment should have been allocated to all system instead of just Seven Springs. In its audit response, the utility agrees with this treatment. Based on the above, staff recommends that miscellaneous expenses for Aloha Gardens water and wastewater systems should be increased each by \$2,174.



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**ISSUE 17:** Should any adjustment be made to Contractual Services - Accounting?

**RECOMMENDATION:** Yes. To amortize a non-recurring expense, Contractual Services - Accounting expense should be reduced by \$1,251 each for Aloha Gardens water and wastewater. (FLETCHER)

**STAFF ANALYSIS:** The utility replaced its general ledger software system in July of 1999. In Audit Disclosure No. 9, staff auditors stated that the utility's accounting firm assisted the utility with the implementation of the new system by reviewing system output, balancing accounts, and testing accuracy. The staff auditors recommended that the replacement of billing and accounting systems is an infrequent event and expenses related to this event are non-recurring. In Docket No, 991643-SU, the Commission amortized the expenses allocated to the utility's Seven Springs wastewater system over five years. See Order No. PSC-01-0326-FOF-SU, issued February 6, 2001. Consistent with the Commission's decision in Docket No. 991643-SU, staff recommends that Contractual Services - Accounting expense should be reduced by \$1,251 each for Aloha Gardens water and wastewater.

**ISSUE 18:** Should any other pro forma O&M expense adjustments be made for the utility's Aloha Gardens water and wastewater systems?

**RECOMMENDATION:** Yes. It is reasonable and appropriate to recognize inflation for 2000 and pro forma billing costs. As such, O&M expenses should be increased by \$7,159 for Aloha Gardens water and by \$6,790 for Aloha Gardens wastewater. (FLETCHER)

**STAFF ANALYSIS:** The following is staff's analysis of two additional recommended O&M expense adjustments: 1) an inflationary adjustment for 2000 and 2) a pro forma billing cost adjustment.

Inflationary Adjustment for the 2000 Calendar Year-end

According to the utility's response to staff's Interrogatory No. 12, Aloha suggested that O&M expenses other than purchased water and wastewater treatment, purchased power, and regulatory commission expense, should be increased for inflation for the 2000 calendar year-end. Specifically, the utility calculated an increase of \$2,616 for Aloha Gardens water and \$2,726 for Aloha Gardens wastewater. Staff believes that this suggested increase appears reasonable in order to recognize inflation in the 2000 calendar year. As such, staff recommends that O&M expenses should be increased by \$2,616 for Aloha Gardens water and by \$2,726 for Aloha Gardens wastewater.

Pro forma Billing Costs

By Order No. PSC-99-1917-PAA-WS, issued September 28, 1999, in Dockets Nos. 970536-WS and 980245-WS, the Commission ordered the utility to convert from postcard to envelope billing. According to the utility's response to staff's Interrogatory No. 12, Aloha suggested that O&M expenses be increased by \$4,543 for Aloha Gardens water and by \$4,064 for Aloha Gardens wastewater. According to staff's review, these amounts represent the annualized billing cost for the 2000 calendar year-end and appear reasonable. As such, staff recommends that O&M expenses should be increased by \$4,543 for Aloha Gardens water and by \$4,064 for Aloha Gardens wastewater.

Based on the above, staff recommends that O&M expenses should be increased by \$7,159 for Aloha Gardens water and by \$6,790 for Aloha Gardens wastewater.

**ISSUE 19:** What is the appropriate amount of rate case expense related to this current earnings investigation of the Aloha Gardens water and wastewater systems?

**RECOMMENDATION:** Rate case expense of \$5,966 and \$5,445 should be allowed for the Aloha Gardens water and wastewater systems, respectively. To reflect the 4-year amortization, the O&M expenses of Aloha Gardens water and wastewater should be increased by \$1,491 and \$1,361, respectively. (FLETCHER)

**STAFF ANALYSIS:** Staff believes that the costs incurred by the utility in responding to audit and other data requests to determine prospective rates should be considered rate case expense. Section 367.081(7), Florida Statutes, states that "[t]he Commission shall determine the reasonableness of rate case expenses and shall disallow all rate case expenses determined to be unreasonable. No rate case expense determined to be unreasonable shall be paid by a consumer." Further, Section 367.0816, Florida Statutes, states that rate case expense should be amortized over four years.

On April 27, 2001, the utility submitted invoices and estimates for its total rate case expense of \$29,011 for this earnings investigation docket. Aloha allocated this expense equally among Aloha Garden water, Aloha Gardens wastewater, and Seven Springs water. Based on our review of Aloha's support documentation, the amount appears reasonable. However, the utility's policy is to allocate common costs based on the ERCs of each system and this method has been approved by the Commission in Aloha's prior cases. Consistent with this methodology, staff believes the rate case expense should be allocated based on ERCs of the utility's Aloha Gardens water and wastewater systems and the Seven Springs water system. Based on the above and the ERCs reflected in the utility's 1999 annual report, staff recommends that rate case expense of \$5,966 and \$5,445 should be allowed for the Aloha Gardens water and wastewater systems, respectively. To reflect the 4-year amortization, the O&M expenses of Aloha Gardens water and wastewater should be increased by \$1,491 and \$1,361, respectively.

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**ISSUE 20:** What is the test year operating income before any increase or decrease for the utility's Aloha Gardens water and wastewater systems?

**RECOMMENDATION:** Based on recommended adjustments discussed in previous issues, the appropriate test year operating income before any increase or decrease is \$25,794 for Aloha Gardens water and \$93,831 for Aloha Gardens. (FLETCHER)

**STAFF ANALYSIS:** Based on recommended adjustments discussed in previous issues, staff recommends that the test year operating income before calculation for an increase or decrease is \$25,794 for Aloha Gardens water and \$93,831 for Aloha Gardens wastewater. Schedules Nos. 3-A and 3-B depict staff's net operating income calculation for Aloha Gardens water and wastewater, respectively. Schedule No. 3-C depicts staff's adjustments to the net operating income calculation for Aloha Gardens water and wastewater.

**REVENUE REQUIREMENT**

**ISSUE 21:** What is the appropriate revenue requirement for the Aloha Gardens water and wastewater systems?

**RECOMMENDATION:** The following revenue requirements for Aloha Gardens should be approved:

<u>System</u>	<u>Total</u>	<u>\$ Increase</u>	<u>% Increase</u>
Water	\$494,535	(\$29,325)	(5.60)%
Wastewater	\$995,348	(\$67,624)	(6.36)%

**STAFF ANALYSIS:** The revenue requirement is a summation measure that depends on previously approved provisions for rate base, cost of capital, and operating income. Based upon staff's proposed recommendations concerning the underlying rate base, cost of capital, and operating income issues, we recommend the following revenue requirements for Aloha Gardens:

<u>System</u>	<u>Total</u>	<u>\$ Increase</u>	<u>% Increase</u>
Water	\$494,535	(\$29,325)	(5.60)%
Wastewater	\$995,348	(\$67,624)	(6.36)%

Further, these recommended revenue requirements for Aloha Gardens water and wastewater systems are shown on Schedules Nos. 3-A and 3-B, respectively.

**RATES AND RATE STRUCTURE**

**ISSUE 22:** In determining whether any refunds are appropriate, how should the refund be calculated, and what is the amount of the refund, if any?

**RECOMMENDATION:** The final revenue requirement should be adjusted for items not representative of the period interim rates were in effect. The adjusted final revenue requirement should then be compared with the interim revenue requirement to determine whether a refund is necessary. Based on staff's analysis of Aloha Gardens, the utility should refund 1.41% for water and 5.53% for wastewater from January 18, 2000 until June 28, 2000. Further, refunds of 9.16% and 6.60% for water and wastewater, respectively, should be required from June 29, 2000 until the effective date of the new final rates. Pursuant to Rule 25-30.360(3), Florida Administrative Code, the refunds should be made to the customers of record as of the date the PAA Order is final and made on the basis of usage. The refunds should be made with interest in accordance with Rule 25-30.360(4), Florida Administrative Code. The utility should provide refund reports pursuant to Rule 25-30.360(7), Florida Administrative Code. The utility should treat any unclaimed refunds as CIAC in accordance with Rule 25-30.360(8), Florida Administrative Code. (FLETCHER)

**STAFF ANALYSIS:** On January 18, 2000, the utility implemented increased rates for 1999 index and pass through rate adjustments. Based on staff's analysis of the utility's application and the tariffs implemented, staff has calculated annual revenue increases of 1.41% and 5.53% for the Aloha Gardens water and wastewater systems, respectively. Pursuant to Section 367.081(4)(d), Florida Statutes, the revenues for the index and pass-through are held subject to refund for 15 months after the utility files its annual report in the year that the increase was implemented if the Commission finds that the utility exceeded its authorized rate of return on equity.

In addition, by Order No. PSC-00-1289-FOF-WS, issued July 18, 2000, the Commission held the following revenues subject to refund, pursuant to Section 367.082, Florida Statutes: 1) 25.77% for Aloha Gardens water; and 8.39% for Aloha Gardens wastewater.

Pursuant to Section 367.082(4), Florida Statutes, any refund shall be calculated to reduce the rate of return of the utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return that is found reasonable on a prospective basis. However, the refund shall not

be in excess of the amount held subject to refund. In interpreting this statute, the Commission removes adjustments in the test year that do not relate to the period interim rates were in effect. Examples of these adjustments would be an attrition allowance or rate case expense, which are recovered only after final rates are established. See Order No. PSC-99-1912-FOF-SU, issued September 27, 1999, in Docket No. 971065-SU.

In this proceeding the test period for establishment of prospective rates was the 13-month average December 31, 1999 with pro forma adjustments for known and measurable changes in 2000. Our analysis does not include any items which were not incurred during the time interim rates were in effect. Based on our analysis as discussed in Issue 21, staff has recommended that the utility's Aloha Gardens water and wastewater systems had excessive earnings of \$29,325 and \$67,624, respectively. Staff has divided the above overearning amounts by staff's adjusted revenues, net of miscellaneous service revenues and above-the-line interest income, in order to determine the refund percentage. This results in a refund percentage of 5.70% for Aloha Gardens water and 6.42% for Aloha Gardens wastewater.

Based on the above, for Aloha Gardens, the utility should refund 1.41% for water and 5.53% for wastewater from January 18, 2000 until June 28, 2000 related to the index and pass through rate adjustments. The index and pass through adjustments are less than the amount required to be refunded on an annual basis. Thus, pursuant to 367.081(4)(d), Florida Statutes, the refund is limited to the revenues collected for those rate adjustments. Further, refunds of 5.70% and 6.42% for water and wastewater, respectively, should be required from June 29, 2000 until the effective date of the new final rates. These amounts are less than the amounts held subject to refund by Order No. PSC-00-1289-FOF-WS. June 29, 2000 is the date of the Commission's vote to hold revenues subject to refund under the interim statute in this docket.

Pursuant to Rule 25-30.360(3), Florida Administrative Code, the refunds should be made to the customers of record as of the date the PAA Order is final and made on the basis of usage. The refunds should be made with interest in accordance with Rule 25-30.360(4), Florida Administrative Code. In no instance should maintenance and administrative costs associated with any refund be borne by the customers; the costs are the responsibility of, and should be borne by, the utility. The utility should provide refund reports pursuant to Rule 25-30.360(7), Florida Administrative Code. The utility should treat any unclaimed refunds as CIAC in accordance with Rule 25-30.360(8), Florida Administrative Code.

**ISSUE 23:** Are the present rates for the utility's Aloha Gardens water and wastewater systems appropriate on a going-forward basis?

**RECOMMENDATION:** No. The rates for Aloha Gardens water and wastewater should be decreased by 5.70% and 6.42%, respectively. The utility should file revised tariff sheets and a proposed customer notice reflecting the appropriate rates and the reason for the reduction within 20 days of the date that the Order is final. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code. The rates should not be implemented until proper notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days after the date of the notice. (FLETCHER)

**STAFF ANALYSIS:** In Issue 21, staff recommended that Aloha Gardens had excessive earnings of \$29,325 (5.60%) for water and \$67,624 (6.36%) for wastewater, respectively. The prospective rates should be designed to produce annual revenues of \$494,535 and \$995,348 for water and wastewater, respectively. After taking out miscellaneous service revenues and above-the-line interest income, this results in across the board rate decreases of 5.70% and 6.42% for water and wastewater, respectively.

The utility should file revised tariff sheets and a proposed customer notice reflecting the appropriate rates and the reason for the reduction within 20 days of the date the Order is final. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code. The rates should not be implemented until proper notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days after the date of the notice.

A comparison of Aloha Gardens' water and wastewater present rates and staff's recommended rates are shown on Schedules Nos. 4-A and 4-B, respectively.



**ISSUE 24:** Should the amount of revenues secured for the Aloha Gardens water and wastewater and the Seven Springs water system be adjusted?

**RECOMMENDATION:** Yes. The appropriate amount of security for Aloha Gardens water and wastewater is \$109,739. The appropriate amount to secure for the Seven Springs water system is \$68,388. Since the total security for these three systems is \$178,127, staff recommends that \$53,923 of the \$232,050 previously approved corporate undertaking should be released. Upon staff's verification that the refunds for the Aloha Gardens water and wastewater systems have been completed, \$109,739 of the corporate undertaking should be released. (FLETCHER)

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

In that Order, the Commission also secured \$161,140 through a corporate undertaking for any potential refunds of these systems. By Order No. PSC-01-0101-PCO-WS, issued January 11, 2001, the Commission increased the corporate undertaking approved in Order PSC-00-1289-FOF-WS by \$70,910, resulting in total secured revenues of \$232,050 as a guarantee of any potential refund of water and wastewater revenues collected under the interim conditions.

Assuming the filing of a staff recommendation for the Seven Springs water system on May 31, 2001 and using a 90-day refund period from the last day of the protest period, the potential refund amount is \$65,472 for this system. The interest component associated with this refund amount is \$2,916. As such, staff recommends that the appropriate amount to secure for the Seven Springs water system is \$68,388.

Using our recommended excessive earnings and a 90-day refund period from the last day of the protest period, staff has estimated that the refunds with interest for Aloha Gardens water and wastewater are \$109,739. Based on the above, the total estimated amount of potential refunds for all three systems is \$178,127 (\$68,388 plus \$109,739). Staff recommends that \$53,923 of the

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\$232,050 previously approved corporate undertaking should be released. Upon staff's verification that the refunds for the Aloha Gardens water and wastewater systems have been completed, \$109,739 of the corporate undertaking should be released.

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**ISSUE 25:** Should this docket be closed?

**RECOMMENDATION:** No, this docket should remain open pending the completion of the Commission's investigation of the earnings for the Seven Springs water system. (FLETCHER, JAEGER)

**STAFF ANALYSIS:** This docket should remain open pending the completion of the Commission's investigation of the earnings for the Seven Springs water system.

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

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

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	STAFF ADJUST- MENTS	STAFF ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$884,016	\$0	\$884,016	\$67,283	\$951,299
2 LAND & LAND RIGHTS	5,000	0	5,000	5,876	10,876
3 NON-USED & USEFUL	0	0	0	0	0
4 ACCUMULATED DEPRECIATION	(765,896)	0	(765,896)	(1,425)	(767,321)
5 CIAC	(438,245)	0	(438,245)	0	(438,245)
6 AMORTIZATION OF CIAC	289,164	0	289,164	0	289,164
7 DEFERRED INCOME TAXES	0	0	0	0	0
8 WORKING CAPITAL ALLOWANCE	<u>53,358</u>	<u>0</u>	<u>53,358</u>	<u>(15,302)</u>	<u>38,056</u>
<b>RATE BASE</b>	<u>\$27,397</u>	<u>\$0</u>	<u>\$27,397</u>	<u>\$56,433</u>	<u>\$83,830</u>

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

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

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	STAFF ADJUST- MENTS	STAFF ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$1,344,321	\$0	\$1,344,321	\$73,201	\$1,417,522
2 LAND	3,220	0	3,220	8,906	12,126
3 NON-USED & USEFUL	0	0	0	0	0
4 ACCUMULATED DEPRECIATION	(829,967)	0	(829,967)	(1,411)	(831,378)
5 CIAC	(324,586)	0	(324,586)	0	(324,586)
6 AMORTIZATION OF CIAC	175,154	0	175,154	0	175,154
7 DEFERRED INCOME TAXES	0	0	0	0	0
8 WORKING CAPITAL ALLOWANCE	<u>124,210</u>	<u>0</u>	<u>124,210</u>	<u>(33,947)</u>	<u>90,263</u>
<b>RATE BASE</b>	<b><u>\$492,352</u></b>	<b><u>\$0</u></b>	<b><u>\$492,352</u></b>	<b><u>\$46,750</u></b>	<b><u>\$539,102</u></b>

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

**SCHEDULE NO. 1-C  
 DOCKET NO. 000737-WS**

EXPLANATION	WATER	WASTEWATER
<b><u>PLANT IN SERVICE</u></b>		
1 Issue 1: Reduce plant per Order No. PSC-99-1917-PAA-WS.	(\$3,669)	(\$1,567)
2 Issue 2: To capitalize items that were expensed during test year.	0	3,816
Issue 3:	0	
3 Pro forma cost of new building and improvements.	65,414	65,414
4 Pro forma cost of new furniture.	<u>5,538</u>	<u>5,538</u>
Total	<u>\$67,283</u>	<u>\$73,201</u>
<b><u>LAND</u></b>		
1 Issue 3: To reflect the land associated with the new building.	5,876	5,876
2 Issue 4: To correct error in Order No. PSC-99-1917-PAA-WS.	<u>0</u>	<u>3,030</u>
Total	<u>\$5,876</u>	<u>\$8,906</u>
<b><u>NON-USED AND USEFUL</u></b>		
None	<u>\$0</u>	<u>\$0</u>
<b><u>ACCUMULATED DEPRECIATION</u></b>		
1 Issue 1: Reduce accumulated depreciation per Order No. PSC-99-1917-PAA-WS.	\$1,064	\$917
2 Issue 2: To reflect depr. exp. of capitalize items expensed during test year.	0	(\$106)
Issue 3:		
3 To reflect depreciation on the new building and improvements.	(1,635)	(\$1,635)
4 To reflect depreciation on the new office furniture.	(369)	(369)
5 Issue 6: To reflect the correct depreciation rate for computer equipment.	<u>(484)</u>	<u>(217)</u>
Total	<u>(\$1,425)</u>	<u>(\$1,411)</u>
<b><u>WORKING CAPITAL</u></b>		
Issue 7: To reflect the appropriate working capital.	<u>(\$15,302)</u>	<u>(\$33,947)</u>

**ALOHA UTILITIES, INC. - ALOHA GARDENS WATER AND WASTEWATER SYSTEMS**  
**CAPITAL STRUCTURE**  
**THIRTEEN MONTH AVERAGE TEST YEAR ENDED 12/31/99**

**SCHEDULE NO. 2-A**  
**DOCKET NO. 000737-WS**

DESCRIPTION		TOTAL CAPITAL	SPECIFIC ADJUSTMENTS (EXPLAIN)	PRO RATA ADJUSTMENTS	CAPITAL RECONCILE TO RATE BASE	RATIO	COST RATE	WEIGHTED COST
<b>PER UTILITY AVERAGE 1999</b>								
1	LONG TERM DEBT	\$3,755,039	\$0	(\$3,473,812)	\$281,227	54.11%	11.07%	5.99%
2	SHORT-TERM DEBT	0	\$0	0	0	0.00%	0.00%	0.00%
3	PREFERRED STOCK	600,000	\$0	(555,064)	44,936	8.65%	10.12%	0.87%
4	COMMON EQUITY	1,737,873	\$0	(1,607,718)	130,155	25.04%	10.12%	2.53%
5	CUSTOMER DEPOSITS	323,565 (1)	\$0	(299,332)	24,233	4.66%	6.00%	0.28%
6	DEFERRED INCOME TAXES	523,394	\$0	(484,195)	39,199	7.54%	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	<b>TOTAL CAPITAL</b>	<u>\$6,939,871</u>	<u>\$0</u>	<u>(\$6,420,122)</u>	<u>\$519,749</u>	<u>100.00%</u>		<u>9.68%</u>
<b>PER STAFF AVERAGE 1999</b>								
11	LONG TERM DEBT	\$3,755,039	\$3,995,580	(\$7,289,442)	\$461,177	74.03%	10.17%	7.53%
12	SHORT-TERM DEBT	0	0	0	0	0.00%	0.00%	0.00%
13	PREFERRED STOCK	600,000	0	(564,299)	35,701	5.73%	9.93%	0.57%
14	COMMON EQUITY	1,737,873	0	(1,634,466)	103,407	16.60%	9.93%	1.65%
15	CUSTOMER DEPOSITS	323,565	0	(304,312)	19,253	3.09%	6.00%	0.19%
16	DEFERRED INCOME TAXES	523,394	(520,001)	0	3,393	0.55%	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%
20	<b>TOTAL CAPITAL</b>	<u>\$6,939,871</u>	<u>\$3,475,580</u>	<u>(\$9,792,520)</u>	<u>\$622,931</u>	<u>100.00%</u>		<u>9.93%</u>
						<b>LOW</b>	<b>HIGH</b>	
						<u>8.93%</u>	<u>10.93%</u>	
						<u>9.77%</u>	<u>10.10%</u>	
Footnote:								
(1) The source is the utility's response to a staff Interrogatory No. 37 provided in Docket No. 991643-SU.								

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**ALOHA UTILITIES, INC. - ALOHA GARDENS WATER AND WASTEWATER SYSTEMS**      **SCHEDULE NO. 2-B**  
**ADJUSTMENTS TO COST OF CAPITAL**      **DOCKET NO. 000737-WS**  
**THIRTEEN MONTH AVERAGE TEST YEAR ENDED 12/31/99**

EXPLANATION	
<b><u>LONG-TERM DEBT</u></b>	
Issue 9: To reflect appropriate pro forma adjustments.	<u>\$3,995,580</u>
<b><u>DEFERRED INCOME TAXES</u></b>	
Issue 11: Reflect appropriate treatment of deferred income taxes.	<u>(\$520,001)</u>



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

**SCHEDULE NO. 3-A  
DOCKET NO. 000737-WS**

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	STAFF ADJUST- MENTS	STAFF ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	<u>\$517,032</u>	<u>\$0</u>	<u>\$517,032</u>	<u>\$6,828</u>	<u>\$523,860</u>	<u>(\$29,325)</u> -5.60%	<u>\$494,535</u>
OPERATING EXPENSES:							
2 OPERATION & MAINTENANCE	<u>\$355,549</u>	<u>\$0</u>	<u>\$355,549</u>	<u>\$78,438</u>	<u>\$433,987</u>		<u>\$433,987</u>
3 DEPRECIATION	<u>12,157</u>	<u>0</u>	<u>12,157</u>	<u>3,017</u>	<u>15,174</u>		<u>15,174</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>881</u>	<u>37,245</u>	<u>(1,320)</u>	<u>35,925</u>
6 INCOME TAXES	<u>4,345</u>	<u>0</u>	<u>4,345</u>	<u>7,315</u>	<u>11,660</u>	<u>(10,539)</u>	<u>1,122</u>
7 TOTAL OPERATING EXPENSES	<u>\$408,415</u>	<u>\$0</u>	<u>\$408,415</u>	<u>\$89,651</u>	<u>\$498,066</u>	<u>(\$11,858)</u>	<u>\$486,208</u>
8 OPERATING INCOME	<u>\$108,617</u>	<u>\$0</u>	<u>\$108,617</u>	<u>(\$82,823)</u>	<u>\$25,794</u>	<u>(\$17,467)</u>	<u>\$8,327</u>
9 RATE BASE	<u>\$27,397</u>		<u>\$27,397</u>		<u>\$83,830</u>		<u>\$83,830</u>
10 RATE OF RETURN	<u>396.46%</u>		<u>396.46%</u>		<u>30.77%</u>		<u>9.93%</u>

**ALOHA UTILITIES, INC. - ALOHA GARDENS  
STATEMENT OF WASTEWATER OPERATIONS  
THIRTEEN MONTH AVERAGE TEST YEAR ENDED 12/31/99**

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

	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	STAFF ADJUST- MENTS	STAFF ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	<u>\$1,009,285</u>	<u>\$0</u>	<u>\$1,009,285</u>	<u>\$53,687</u>	<u>\$1,062,972</u>	<u>(\$67,624)</u> -6.36%	<u>\$995,348</u>
<b>OPERATING EXPENSES</b>							
2 OPERATION & MAINTENANCE	\$784,101	\$0	\$784,101	\$56,935	\$841,036	\$0	\$841,036
3 DEPRECIATION	31,016	0	31,016	2,624	33,640	0	33,640
4 AMORTIZATION	1,380	0	1,380	1,515	2,895	0	2,895
5 TAXES OTHER THAN INCOME	59,151	0	59,151	905	60,056	(3,043)	57,013
6 INCOME TAXES	<u>2,118</u>	<u>0</u>	<u>2,118</u>	<u>29,396</u>	<u>31,514</u>	<u>(24,302)</u>	<u>7,213</u>
7 TOTAL OPERATING EXPENSES	<u>\$877,766</u>	<u>\$0</u>	<u>\$877,766</u>	<u>\$91,375</u>	<u>\$969,141</u>	<u>(\$27,345)</u>	<u>\$941,796</u>
8 OPERATING INCOME	<u>\$131,519</u>	<u>\$0</u>	<u>\$131,519</u>	<u>(\$37,688)</u>	<u>\$93,831</u>	<u>(\$40,279)</u>	<u>\$53,552</u>
9 RATE BASE	<u>\$492,352</u>		<u>\$492,352</u>		<u>\$539,102</u>		<u>\$539,102</u>
10 RATE OF RETURN	<u>26.71%</u>		<u>26.71%</u>		<u>17.41%</u>		<u>9.93%</u>

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

**SCHEDULE NO. 3-C**  
**DOCKET NO. 000737-WS**  
**PAGE 1 OF 2**

EXPLANATION	WATER	WASTEWATER
<b><u>OPERATING REVENUES</u></b>		
Issue 12: Reflect revenue increase from pass-through and index.	<u>\$6,828</u>	<u>\$53,687</u>
<b><u>OPERATION &amp; MAINTENANCE EXPENSE</u></b>		
1 Issue 2: To capitalize items that were expensed during test year. Issue 3:	\$0	(\$3,816)
2 To remove rent expense from old building.	(2,622)	(2,622)
3 To reflect maintenance and insurance expense on new building. Issue 13:	757	757
4 Reduce officers salaries.	(6,292)	(6,292)
5 Reduce benefits. Issue 14:	(2,551)	(2,671)
6 Pro forma employee salary.	2,240	2,051
7 Pro forma benefits. Issue 15:	768	703
8 Reallocation of purchased water expense.	(15,227)	0
9 To reflect appropriate purchased water and sewer from Pasco County.	91,614	59,588
10 Issue 16: To correct error from computer system conversion.	2,174	2,174
11 Issue 17: To reflect certain accounting expenses as non-recurring.	(1,251)	(1,251)
12 Issue 18: Reflect additional appropriate pro forma 2000 year-end O&M expenses.	7,159	6,790
13 Issue 19: To reflect the appropriate regulatory commission expense.	<u>1,491</u>	<u>1,361</u>
Total	<u>\$78,438</u>	<u>\$56,935</u>
<b><u>DEPRECIATION EXPENSE-NET</u></b>		
1 Issue 1: Reduce depreciation expense for disallowed invoices.	(\$122)	(\$87)
2 Issue 2: To increase depr. exp. of capitalize items expensed during test year. Issue 3:	0	106
3 To reflect depreciation associated with the new building.	1,772	1,772
4 To reflect depreciation associated with new office furniture.	400	400
5 Issue 6: To reflect the correct depreciation rate for computer equipment.	968	433
Total	<u>\$3,017</u>	<u>\$2,624</u>
<b><u>AMORTIZATION EXPENSE</u></b>		
Issue 4: To reflect appropriate amortization of land used for prior WWTP.	<u>\$0</u>	<u>\$1,515</u>
Total		

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

**SCHEDULE NO. 3-C  
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EXPLANATION	WATER	WASTEWATER
<b><u>TAXES OTHER THAN INCOME</u></b>		
1 Issue 3: To reflect property tax on new building	\$1,236	\$1,236
2 Issue 13: Reduce payroll taxes associated with salary reduction.	(537)	(497)
3 Issue 14: Reflect payroll taxes associated pro forma salary adjustment.	<u>181</u>	<u>166</u>
Total	<u>\$881</u>	<u>\$905</u>
<b><u>INCOME TAXES</u></b>		
To adjust to test year income tax expense.	<u>\$7,315</u>	<u>\$29,396</u>

**ALOHA UTILITIES, INC. - ALOHA GARDENS SYSTEM  
 WATER MONTHLY SERVICE RATES  
 THIRTEEN MONTH AVERAGE TEST YEAR ENDED 12/31/99**

**SCHEDULE NO. 4-A  
 DOCKET NO. 000737-WS**

	<b>Utility Present Rates</b>	<b>Staff Recomm. Rates</b>
<b><u>Residential</u></b>		
Base Facility Charge:		
Meter Size		
5/8"X3/4"	\$2.61	\$2.46
1"	\$6.54	\$6.17
1 1/2"	\$13.08	\$12.34
2"	\$20.92	\$19.73
3"	\$40.62	\$38.31
4"	\$65.29	\$61.57
6"	\$130.70	\$123.26
8"	\$209.12	\$197.21
Gallonage Charge - Per 1,000 gallons	\$2.69	\$2.54
<b><u>General Service</u></b>		
Base Facility Charge:		
Meter Size		
5/8"X3/4"	\$2.61	\$2.46
1"	\$6.54	\$6.17
1 1/2"	\$13.08	\$12.34
2"	\$20.92	\$19.73
3"	\$40.62	\$38.31
4"	\$65.29	\$61.57
6"	\$130.70	\$123.26
8"	\$209.12	\$197.21
Gallonage Charge, per 1,000 Gallons	\$2.69	\$2.54
5/8" x 3/4" Meter Size		
3,000 Gallons	\$10.68	\$10.07
5,000 Gallons	\$16.06	\$15.15
10,000 Gallons	\$29.51	\$27.83

**ALOHA UTILITIES, INC. - ALOHA GARDENS SYSTEM  
 WASTEWATER MONTHLY SERVICE RATES  
 THIRTEEN MONTH AVERAGE TEST YEAR ENDED 12/31/99**

**SCHEDULE NO. 4-B  
 DOCKET NO. 000737-WS**

	Utility Present Rates	Staff Recomm. Rates
<b><u>Residential</u></b>		
Base Facility Charge: All meter sizes	\$11.05	\$10.34
Gallorage Charge - Per 1,000 gallons (10,000 gallon cap)	\$4.85	\$4.54
<b><u>General Service</u></b>		
Base Facility Charge: Meter Size		
5/8" x 3/4"	\$11.05	\$10.34
1"	\$27.64	\$25.87
1-1/2"	\$55.27	\$51.73
2"	\$88.43	\$82.76
3"	\$176.85	\$165.51
4"	\$276.33	\$258.61
6"	\$552.66	\$517.23
8"	\$884.24	\$827.55
Gallorage Charge, per 1,000 Gallons	\$5.75	\$5.38
5/8" x 3/4" Meter Size		
3,000 Gallons	\$25.60	\$23.96
5,000 Gallons	\$35.30	\$33.04
10,000 Gallons	\$59.55	\$55.73