

FLORIDA PUBLIC SERVICE COMMISSION

VOTE SHEET

JUNE 12, 2001

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.

DOCKET NO. 010518-WS - Notice of intent to increase water and wastewater rates in Pasco County, based upon application of provisions of Section 367.081(4) (a) & (b), F.S., by Aloha Utilities, Inc.

ISSUE 1: Are any adjustments appropriate for the cost allocations to the Seven Springs water system for the new building and associated land?

RECOMMENDATION: Yes. Plant should be increased by \$1,019, and land should be reduced by \$970, to be consistent with the Commission's decision at the May 15, 2001 Agenda Conference. Further, for prospective rate setting purposes, O&M expenses for the Seven Springs water system should be reduced by \$6,117 to remove non-recurring rent expense.

**APPROVED**

COMMISSIONERS ASSIGNED: Full Commission

COMMISSIONERS' SIGNATURES

MAJORITY

DISSENTING

*Michael A. Paschke*  
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REMARKS/DISSENTING COMMENTS:

*Chairman Jacobs dissented on issue 14.*

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

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ISSUE 2: What is the used and useful percentage of the utility's Seven Springs water system?

RECOMMENDATION: The Seven Springs water system plant and distribution lines should be considered 100% used and useful.

**APPROVED**

ISSUE 3: 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, Seven Springs water accumulated depreciation and depreciation expense should be increased by \$6,032 and \$4,021, respectively.

**APPROVED**

ISSUE 4: What is the appropriate amortization period and amount of contributed taxes (CTs) associated with the Seven Springs water system?

RECOMMENDATION: The appropriate amortization rate is 2.61%, and the appropriate annual amortization amount is \$30,691. Accordingly, staff recommends that accumulated amortization of CIAC should be decreased by \$5,115 and that the annual amortization of CTs should be decreased by \$11,523.

**APPROVED**

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ISSUE 5: What is the appropriate working capital allowance for the Seven Springs water system?

RECOMMENDATION: The appropriate working capital allowance is \$343,090 for the Seven Springs water system. Accordingly, working capital for this system should be increased by \$124,667. Further, O&M expenses for this system should also be increased by \$65,735 to recognize one year's amortization of regulatory commission expense associated with Docket No. 960545-WS.

**APPROVED**

ISSUE 6: What is the appropriate rate base for the Seven Springs water system?

RECOMMENDATION: Consistent with other recommended adjustments, the appropriate rate base for the Seven Springs water system is \$1,222,488.

**APPROVED**

ISSUE 7: What is the appropriate cost rate for long-term debt?

RECOMMENDATION: The appropriate weighted average cost rate for long-term debt is 10.28%.

**APPROVED**

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ISSUE 8: 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%.

# APPROVED

ISSUE 9: What is the appropriate weighted average cost of capital?

RECOMMENDATION: Consistent with other recommended adjustments, the appropriate weighted average cost of capital for the Seven Springs water is 9.98%.

# APPROVED

ISSUE 10: Should any adjustment be made for related party purchased water transactions?

RECOMMENDATION: Yes. The related party rates for purchased raw water of \$0.32 per thousand gallons should be reduced to \$0.10 per thousand gallons. This rate is equal to the rate charged by Mitchell, a non-related third party. This results in a \$95,070 reduction to O&M expenses for the utility's Seven Springs water system. Moreover, staff recommends that the issue regarding the reasonableness of the purchased raw water rates charged by Mitchell, Tahitian, and Interphase should be addressed in the upcoming rate case for the Seven Springs water system.

**MODIFIED** *Approved with the modification to accept aloha's stipulation to use 10¢ per thousand gallons for the purposes of calculating O/E - not to use 10¢/thousand gallons for purposes of interim rate. This does not preclude the Commission from finding that 10¢ is appropriate for final rate calculation in future rate case if company fails to meet its burden of proof.*

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ISSUE 11: Should any pro forma O&M expense adjustments be made to determine whether the Seven Springs water system's present rates should be continued?

RECOMMENDATION: Yes. Salaries and Wages - Employees should be increased by \$18,938 to recognize the allocated portion of three additional employees hired in 2001. Pensions and Benefits and payroll taxes should also be increased by \$18,938, \$6,496, and \$1,449, respectively. Further, O&M expenses should be increased by \$55,053 to recognize the significant increase of purchased water in 2001.

**APPROVED**

ISSUE 12: What is the appropriate net operating income before any calculation for an increase or decrease for the utility's Seven Springs water system?

RECOMMENDATION: Based on recommended adjustments discussed in previous issues, the appropriate test year operating income is \$131,276 for refund purposes and \$83,988 for the purposes of determining the appropriateness of existing rates on a prospective basis.

**APPROVED**

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ISSUE 13: What is the appropriate revenue requirement for the utility's Seven Springs water system?

RECOMMENDATION: The appropriate revenue requirement for the test year ending December 31, 2000 is \$1,779,101. Based on the adjusted test year revenues of \$1,794,660, the utility had excess revenues of \$15,559 (or 0.87%). The revenue requirement for the test year ending December 31, 2000, with 2001 pro forma expense adjustments, is \$1,858,492. This calculation reflects underearnings of \$63,832 (or 3.56%) from the adjusted test year revenues of \$1,794,660.

**APPROVED**

ISSUE 14: Did Aloha have excess earnings for the test year ended December 31, 2000, and if so, what is the appropriate regulatory treatment for these amounts?

RECOMMENDATION: Yes. Aloha's Seven Springs water system had excess earnings of \$15,559 for the test year ended December 31, 2000. However, refunds should not be required and, instead, the utility should be allowed to defer all overearnings to 2001. According to Rule 25-30.360, Florida Administrative Code, interest should be calculated on this amount based on the 30-day commercial paper rate. As of June 30, 2001, the amount of this liability is \$16,860. Upon issuance of the final order, the utility should defer \$15,559 and include the deferred revenues as a separate line item in its capital structure with a cost rate equal to the thirty-day commercial paper rate.

**APPROVED**

*Chairman Jacobs dissented on this issue.*

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ISSUE 15: Should the present rates for the utility's Seven Springs water system be continued?

RECOMMENDATION: Yes. Based on staff's analysis, the prospective 2001 revenue requirement generates an achieved return below the minimum limit of the overall cost of capital.

**APPROVED**

ISSUE 16: Should the Commission order Aloha Utilities, Inc., to refrain from increasing its Seven Springs water rates for the 2000 price index?

RECOMMENDATION: Yes. Since this system overearned during the December 31, 2000 test year, the Commission should order Aloha Utilities, Inc., to refrain from increasing its Seven Springs water rates pursuant to the provisions of Section 367.081(4)(a), Florida Statutes, for the 2000 price index.

**DENIED**

*The Commission exercised its discretion to allow the 2000 index with the understanding that if there is overearnings within the 15-month period, refunds will be made. Staff was directed to consider whether rulemaking is appropriate for the index rule.*

ISSUE 17: Should Docket No. 000737-WS be closed?

RECOMMENDATION: No. This docket should remain open pending staff's verification that the required refunds are made and the utility's submission of tariff sheets for the Aloha Gardens water and wastewater systems are consistent with the Commission's decision at the May 15, 2001 Agenda Conference. Upon staff's verification, this docket should be administratively closed, if no person whose substantial interests are affected by the Commission's May 15, 2001 PAA decision and this PAA for the Seven Springs water system files a protest within 21 days of the issuance of the respective Orders. Accordingly, if no protest is filed, the corporate undertaking for the Seven Springs water system should be released.

**APPROVED**

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ISSUE 18: Should Docket No. 010518-WS be closed?

RECOMMENDATION: Yes. If the Commission finds that Aloha overearned by \$15,559 and no person whose substantial interests are affected by this PAA for the Seven Springs water system files a protest within 21 days of the issuance of the Order, the decision will become final and effective upon the issuance of a Consummating Order. Docket No. 010518-WS should be closed upon issuance of the Consummating Order.

**APPROVED**