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November 7, 2001

Ms. Blanca S. Bayó, Director
Division of the Commission Clerk
and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0870

RE: Docket No. 010503-EI

Dear Ms. Bayó:

Enclosed are an original and fifteen copies of Direct Testimony of Donna DeRonne for filing in the above-referenced docket.

Also enclosed is a 3.5 inch diskette containing the Direct Testimony of Donna DeRonne in WordPerfect for Windows 6.1. Please indicate receipt of filing by date-stamping the attached copy of this letter and returning it to this office. Thank you for your assistance in this matter.

Sincerely,

Stephen C. Burgess
Deputy Public Counsel

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Enclosures

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for increase in water rates for Seven Springs System in Pasco County by Aloha Utilities, Inc.	)	Docket No. 010503-WU Filed: November 7, 2001

DIRECT TESTIMONY OF

DONNA DERONNE

Respectfully submitted,
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Public Counsel

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Attorney for the Citizens
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DIRECT TESTIMONY OF DONNA DERONNE

ON BEHALF OF THE CITIZENS OF FLORIDA

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

ALOHA UTILITIES, INC

DOCKET NO. 010503-WU

I. INTRODUCTION

Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?

A. My name is Donna DeRonne. I am a Certified Public Accountant licensed in the State of Michigan and a senior regulatory consultant at the firm of Larkin & Associates, PLLC, Certified Public Accountants, with offices at 15728 Farmington Road, Livonia, Michigan 48154.

Q. PLEASE DESCRIBE THE FIRM LARKIN & ASSOCIATES, PLLC.

A. Larkin & Associates, PLLC, is a Certified Public Accounting and Regulatory Consulting Firm. The firm performs independent regulatory consulting primarily for public service/utility commission staffs and consumer interest groups (public counsels, public advocates, consumer counsels, attorneys general, etc.). Larkin & Associates, PLLC, has extensive experience in the utility regulatory field as expert witnesses in over 300 regulatory proceedings, including numerous water and wastewater, gas, electric and telephone utilities.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION?

A. Yes. I have testified before the Florida Public Service Commission on two prior occasions. I have also testified before several other state regulatory commissions.

Q. HAVE YOU PREPARED AN EXHIBIT DESCRIBING YOUR QUALIFICATIONS AND EXPERIENCE?

A. Yes. I have attached Appendix I, which is a summary of my regulatory experience and qualifications.

Q. ON WHOSE BEHALF ARE YOU APPEARING?

A. Larkin & Associates, PLLC, was retained by the Florida Office of Public Counsel (OPC) to review the rate increase request by Aloha Utilities, Inc. for its Seven Springs Water Division. Accordingly, I am appearing on behalf of the Citizens of Florida (Citizens).

Q. ARE ANY ADDITIONAL WITNESSES APPEARING ON BEHALF OF THE FLORIDA OFFICE OF PUBLIC COUNSEL IN THIS CASE?

A. Yes. Hugh Larkin, Jr., also of Larkin & Associates, PLLC, is presenting testimony in this case. Additionally, OPC Witnesses Ted Biddy and Steven Stewart are also presenting testimony.

Q. HOW WILL YOU TESTIMONY BE ORGANIZED?

A. I address, in order, the following: Overall Financial Summary, Operating Income, Rate Base, Rate of Return and Rate Design.

II. OVERALL FINANCIAL SUMMARY

Q. HAVE YOU PREPARED AN EXHIBIT IN SUPPORT OF YOUR TESTIMONY?

A. Yes. I have prepared Exhibit__(DD-1), consisting of Schedules A, B, C and D, with supporting schedules B-1 through B-8 and C-1 through C-2. The schedules presented in Exhibit__(DD-1) are also consecutively numbered at the bottom of each page.

Q. WHAT DOES SCHEDULE A, ENTITLED "CALCULATION OF REVENUE REQUIREMENT" SHOW?

A. Schedule A presents the calculation of revenue requirement, at this time, giving effect to all the adjustments I am recommending in this testimony, along with the impacts of the recommendations made by OPC witnesses Hugh Larkin, Jr. and Steven Biddy. The adjustments presented on Schedule A which impact net operating income can be found on Schedule B. Schedules B-1 through B-8 present the detailed calculations supporting the adjustments to net operating income contained on Schedule B. The OPC adjustments to rate base are listed on Schedule C. Schedule C-1 through C-2 provide supporting calculations for the adjustments to rate base presented on Schedule C. Finally, the OPC's recommended rate of return is presented on Schedule D.

As shown in the revenue increase column, Column (5), on Schedule A, the OPC's recommended adjustments in this case result in a revenue increase for Seven Springs water division of $635,169. This is considerably lower than the $1,077,337 increase requested by the Company.

Q. BASED ON THE CALCULATIONS PRESENTED ON SCHEDULE A, IS THE OPC RECOMMENDING A RATE INCREASE FOR THE SEVEN SPRINGS WATER DIVISION OF $635,169?

A. No, it is not. While the calculations presented in Exhibit__(DD-1) indicate a revenue increase of $635,169, the OPC recommends that Seven Springs water division be allowed no increase in rates at this time. The OPC's overall position that no increase in rates be allowed, along with the justification for that position, is discussed in the testimony of OPC Witness Hugh Larkin, Jr. Schedule A of Exhibit__(DD-1) presents what the OPC's recommended increase in revenues would be, if an increase was warranted in this case. However, as discussed by Mr. Larkin, the OPC strongly feels that no increase in rates is appropriate at this time.

Additionally, there are several late filed exhibits outstanding in areas that the OPC is still investigating. These may impact the revenue calculation I have included on Schedule A.

III. OPERATING INCOME

Correction of Errors in MFRs

Q. ARE THERE ANY ERRORS CONTAINED IN THE COMPANY'S FILING THAT NEED TO BE CORRECTED?

A. Yes. There are numerous errors in the Company's filing that need to be corrected. The Company has acknowledged several of the errors in response to OPC interrogatories filed in this case. Errors need to be corrected for the following items:

- Interest income allocated to Seven Springs Water Division;
- Reflect residential vacation bill revenue;
- Correction to the allocation of bad debt expense;
- Correction to the allocation of pension expense;
- Correction to the allocation of an employee's wages;
- Correction to Contributions in Aid of Construction Additions; and
- Correction of the accumulated amortization of contributed taxes.

Additionally, the Florida Public Service Commission Division of Regulatory Oversight has identified several necessary revisions to the Company's filing as it pertains to the historical test year ended December 31, 2000, in its Audit Report, AFA Control #01-207-2-1, dated October 10, 2001. The audit reports addressed the historic test period; however, several of the problems identified also impact the projected test year calculations in the Company's filing. During the OPC's depositions of Company witnesses, the Company indicated that it did not anticipate, at that time, protesting any of the Division of Regulatory Oversight's findings. As of the date this testimony was prepared, I have not received a copy of the Company's response to the audit report.

Q. WOULD YOU PLEASE DISCUSS THE FIRST ERROR YOU IDENTIFIED PERTAINING TO INTEREST INCOME?

A. During the historic test year, the Company allocated $10,139 of interest income to the Seven Springs water division. The amount was increased by 1.04688% for customer growth in the filing, resulting in adjusted interest income of $10,614. The interest income for the Company as a whole was $46,114 in 2000. In response to OPC Interrogatory No. 53, the Company indicated that the amount included in the filing was incorrectly allocated. The response indicated that the projected amount for 2001 for the Seven Springs water division should have been $18,104, not the $10,614 contained in the filing. This results in an increase in interest income of $7,490, which I reflected on Schedule B, line 2.

Q. PLEASE DISCUSS THE NEXT ERROR IN THE FILING.

A. On Schedule E-13, page 1 of the Company's MFRs, it failed to extend the vacation bills in calculating the projected test year revenues. The Company acknowledged this error in response to OPC Interrogatory No. 45, stating that: "The 1141 vacation bills should be extended at $3.66 to result in additional test year revenue of $4,176." This additional revenue for residential vacation bills of $4,176 is reflected on Schedule B, line 3.

Q. PLEASE DISCUSS THE CORRECTION TO CONTRIBUTIONS IN AID OF CONSTRUCTION.

A. On MFR Schedule G-12, the Company identified $99,331 of contributed property additions in April 2001. Schedule A-12(A) of the filing, in which the Company calculates the thirteen-month average amount of Contributions in Aid of Construction, only included an increase of $59,990 for contributed property for April 2001. In response to OPC Interrogatory 3, the Company agreed that the monthly balances on Schedule A-12(A) of the filing for April through December 2001 should be increased by $39,341 ($99,331 - $59,990). Since rate base is calculated on a thirteen-month average basis, the correction result in additional Contributions in Aid of Construction (which is a reduction to rate base) of $27,236 ($39,341 x 9/13ths). This correction is reflected on Schedule C, line 6.

Q. DO YOU PLAN TO ADDRESS THE REMAINING ERRORS?

A. Yes. The remaining errors will be discussed in subsequent sections of this testimony, specifically under the headings bad debt expense, pension expense, salaries and wages and accumulated amortization of contributed taxes.

Items that Should Have Been Capitalized

Q. PLEASE DISCUSS YOUR ADJUSTMENT ON SCHEDULE B-2 FOR ITEMS THAT SHOULD HAVE BEEN CAPITALIZED.

A. The Commission's Division of Regulatory Oversight identified four different items in its audit report that were recorded as expenses on the Company's books during 2000 that should have been capitalized. The items consisted of a well head check valve, pump, pump motor and office filing cabinets. Each of these items, totaling $11,552, were recorded in expense Account 620 during the historic test year. Schedule B-2 calculates the impact on the projected test year that results from transferring the items from expense to plant in service. As shown on the schedule, plant in service should be increased by $11,552, accumulated depreciation should be increased by $613, depreciation expense should be increased by $613 and operation and maintenance expense should be decreased by $12,396. These adjustments are carried forward to summary Schedules B and C.

Q. SINCE THESE ITEMS WERE INCORRECTLY RECORDED AS EXPENSE IN 2000, WHY DO THEY IMPACT THE PROJECTED TEST YEAR EXPENSES?

A. In calculating the projected test year expense in Account 620, the Company essentially utilized the historic test year expense in this account and increased it by its proposed growth and inflation factors. Consequently, any items which overstate the expenses in Account 620 in the historic test year would also overstate the projected test year level. On Schedule B-2, I applied the Company's growth and inflation factors to the $11,552 of expenses that should have been capitalized to determine the appropriate reduction to the projected test year expense level. This results in a reduction to projected test year expense of $12,396.

Bad Debt Expense

Q. WHAT AMOUNT IS INCLUDED IN THE COMPANY'S FILING FOR BAD DEBT EXPENSE?

A. The filing includes bad debt expense of $3,229. The amount is based on the historic test year level. In response to OPC Interrogatory 1, the Company indicated that the amount included in the filing is incorrect. The amounts for Aloha Gardens sewer and Seven Springs water were switched in the allocation process, resulting in Seven Springs water bad debt expense being based on the amount for Aloha Gardens sewer division. According to the Company's response to the interrogatory, the bad debt expense is understated by $2,316 due to the error.

Q. HAVE YOU INCREASED BAD DEBT EXPENSE FOR SEVEN SPRINGS WATER DIVISION BY $2,316 TO CORRECT THE ALLOCATION ERROR?

A. No. I agree that the amount included in the filing should be revised; however, I do not agree with the methodology used by the Company in determining the amount of bad debt expense that should be allocated to Seven Springs water division.

Q. HOW DID THE COMPANY DETERMINE THE AMOUNT OF BAD DEBT EXPENSE THAT SHOULD BE ALLOCATED TO SEVEN SPRINGS WATER DIVISION?

A. In November 2000, the Company prepared a listing off all closed accounts for which no payment had been received from customers in six months. This resulted in

$11,090 of accounts that were written-off to bad debt expense for Seven Springs water and sewer operations in 2000. The Company's response to OPC Interrogatory 1 indicates that this amount should have been allocated 50/50 to Seven Springs water and sewer divisions. This is how the Company determined its corrected bad debt expense for Seven Springs water of $5,545, which is $2,316 higher than the amount included in the filing.

Q. IS THE 50/50 SPLIT OF THE BAD DEBT EXPENSE BETWEEN THE WATER AND SEWER OPERATIONS APPROPRIATE?

A. No, it is not. The most appropriate method for assigning the costs would be to base it on the amount that is specific to each division. However, during depositions, Company's accounting witness, Bob Nixon, indicated that he did not think the Company's accounting system had the capability of determining which of the Seven Springs accounts that were written-off were specific to water versus the sewer operations. Consequently, the 50/50 split was used.

A more appropriate method for allocating the bad debt expense between the water and sewer operations, as the amount specific to each division is apparently not available, would be to allocate the amount based on the percentage of revenue applicable to each division. On an annual basis, Seven Springs sewer division records significantly more revenue than the water division. Since it is previously recorded revenues that are being written-off, it is logical to assume that the percentage of revenues applicable to each division would be a more appropriate allocation factor to use in assigning bad debt expense.

Q. WHAT PERCENTAGE OF THE TOTAL SEVEN SPRINGS REVENUES ARE APPLICABLE TO THE WATER DIVISION?

A. Based on the amount of revenues for the Seven Springs water and sewer divisions contained in the Company's annual report to the Florida Public Service Commission for the year ended December 31, 2000, 40.27% of Seven Springs total water and sewer revenues were applicable to the Seven Springs water division. The calculation of this percentage is presented on Exhibit__(DD-1), Schedule B-3.

Q. WHAT ADJUSTMENT SHOULD BE MADE TO THE BAD DEBT EXPENSE CONTAINED IN THE COMPANY'S FILING?

A. As shown on Schedule B-3, bad debt expense should be increased by $1,237. This corrects for the error in the Company's filing in which it utilized the amount allocated to Aloha Garden sewer operations, and it includes the more appropriate 40.27% allocation factor for Seven Springs water.

<u>Pension Expense</u>

Q. PLEASE DISCUSS THE ADJUSTMENT ON SCHEDULE C THAT INCREASES PENSION EXPENSE BY $40,509.

A. During the first six months of 2001, the Company recorded as a cost of Seven Springs water the amount that should have been allocated to Aloha Gardens sewer, and vice-versa. This resulted in the amount of pension expense contained in the filing being significantly understated. Additionally, the amount included in the filing was based on estimated pension amounts, and the Company has since received the 2001 updated pension expense amounts from its pension plan administrator. According to the Company's response to OPC Interrogatory 12, employee benefits expense should be increased by $40,509 to correct the allocation to Seven Springs water and to reflect the more recent pension expense level provided by the pension plan administrator. This correction and update, which I have reflected on Schedule C, results in a $40,509 increase in employee benefit expense.

Q. SHOULD ANY ADDITIONAL ADJUSTMENTS TO PENSION EXPENSE BE MADE?

A. According to the Company's response to OPC Interrogatory 12, Seven Springs water division should have been allocated 44.83% of the pension expense. The revised pension expense includes the impact of the 44.83% allocation. This is considerably higher than the 37.5% general allocation factor used in the filing. During the Deposition of Company accounting witness Bob Nixon, the OPC requested a late filed exhibit to explain and show how the 44.83% allocation factor was determined. The OPC also requested a copy of the information provided by the pension plan administrators resulting in the higher pension expense amount. As of the time this testimony was prepared, I have not received the late filed exhibits. Consequently, additional adjustments to pension expense may be appropriate.

Salaries & Wages - Open Positions

Q. PLEASE DISCUSS THE COMPANY'S ADJUSTMENT FOR ADDITIONAL EMPLOYEE POSITIONS.

A. In addition to its actual employee compliment as of June 30, 2001, the Company's filing includes ten additional employees. The adjustment for the ten additional employees results in an increase in salary and wage expense, on a Seven Springs water division basis, of $107,850. This is a 30% increase above the projected annualized level of salary and wage expense for employees existing as of June 30, 2001. Of the ten additional employees, five are to fill new positions and five are to fill open positions. The new positions are for a clerk, fleet maintenance employee, electronic technician, utility director and an additional utility worker. The open positions are for a utility I worker, utility II worker, labor supervisor, and two plant trainees.

Q. HAS THE COMPANY FILLED ANY OF THE OPEN OR NEW POSITIONS YET?

A. No. According to the response to OPC Interrogatory 25, all ten positions remain open. In fact, according to the response to OPC Interrogatory 27, three additional positions have become vacant. Consequently, the Company's filing includes payroll costs associated with thirteen more employees than it actually has on-hand.

Q. ARE YOU RECOMMENDING ANY ADJUSTMENTS RELATING TO THE ADDITIONAL EMPLOYEES ADDED BY THE COMPANY?

A. Yes. As shown on Schedule C, I recommend that the entire $107,850 added by the Company for the ten additional employees be removed. These positions have not been filed to date, and the employee compliment has declined even further. Considering the Company's high historic employee turnover rates and problems retaining employees, along with the further reduction of employees, it is not realistic to assume that the Company will retain thirteen additional employees in the near future, or that 100% of the Company's proposed employee positions will both be filled and remain filled. The Company would need to increase its compliment of employees who are directly charged or allocated to Seven Springs water by 37% above the current level. Ratepayers should not be asked to pay costs associated with employees that do not exist. By allowing the Company's annualized salary and wage adjustment, after a correction discussed later in this testimony, I am still reflecting the costs for three more employees than the Company currently has.

Q. DOES THE REMOVAL OF THE COMPANY'S ADJUSTMENT FOR ADDITIONAL EMPLOYEES IMPACT ANY OTHER ADJUSTMENTS CONTAINED IN THE FILING?

A. Yes. On MFR Schedule B-3(A), the Company increased employee benefit expense by $13,255 for benefits associated with the proposed new employees. This amount is also being removed on Schedule B in Exhibit__(DD-1).

Correction to Salary and Wage Annualization

Q. PLEASE DISCUSS THE CORRECTION THAT NEEDS TO BE MADE TO THE COMPANY'S SALARY AND WAGE ANNUALIZATION ADJUSTMENT.

A. The Company calculated its salary and wage annualization adjustment on MFR Schedule G-8. The purpose of the adjustment on MFR Schedule G-8 is to reflect the annualized salary and wages of the actual employees based on the salaries effective as of July 9, 2001. On line 42 of the Schedule, the Company calculated the annualized salary of Charles Painter, who is the Utility Operations Supervisor. According to the schedule, Mr. Painter's salary should have been allocated to Seven Springs water division at a rate of 37.5%. However, the calculation presented on line 42 of the schedule results in 100% of Mr. Painter's annualized salary being allocated to Seven Springs water.

Q. WHAT ADJUSTMENT IS NECESSARY TO CORRECT THIS APPARENT ERROR?

A. The Company's annualized salary and wage expense for Seven Springs water division should be reduced by $21,268. The calculation of the adjustment is presented on Schedule B-4.

Officers Salary and Wages

Q. DID YOU REVIEW THE COMPANY'S PROPOSED OFFICER SALARY AND WAGE EXPENSE TO ENSURE THAT IT IS CONSISTENT WITH PAST

COMMISSION DECISIONS?

A. Yes. Based on my review, an adjustment to the Company's proposed projected test year officers salary and wage expense needs to be made.

Q. PLEASE EXPLAIN.

A. In Order No. PSC-01-0326-FOF-SU, the Commission limited the vice-president's salary to 20% of the president's salary. On MFR Schedule G-7, page 1, the Company indicated that it was basing the projected expense in Account 603 - Salaries and Wages - Officers on the amount allowed in the last Order. The filing reflects an expense level of $66,707. OPC Interrogatory 23 asked the Company to provide a listing of the officers whose payroll expense is included in Account 603, along with the officer's actual salaries for 2000 and 2001. Based on the response, the expense level in Account 603 in the filing consists of the 2000 salary costs associated with the president, the vice-president at 20% of the president's salary level, and either Connie Kurish or the controller's salary, depending on which portion of the response is relied upon. Connie Kurish and the controller's (Marion Vinyard) salaries are already included in the Company's salary and wage annualization adjustment. Consequently, the amount of salary and wage expense for officers includes a double count for certain employees who are already reflected in the payroll annualization adjustment.

Q. WHAT ADJUSTMENT SHOULD BE MADE TO REMOVE THE DOUBLE COUNTING OF PAYROLL COSTS FOR CERTAIN EMPLOYEES?

A. As previously indicated, the salaries and wages for the officers other than the president and vice-president are already reflected in the salary and wage annualization adjustment. On Schedule B-5, I calculated a revised officers salary and wage expense based on the current salary of the president and 20% of the president's salary for the vice-president. This resulted in a total officers salary and wage expense of $154,502. I then applied the Seven Springs water division allocation factor of 37.5%, resulting in adjusted officers salary and wages expense of $57,938, which is $8,769 ($66,707 - $57,938) less than the amount contained in the Company's filing.

Purchase Water Expense

Q. THE PROJECTED PURCHASE WATER EXPENSE IS THE MAIN DRIVER OF THE RATE INCREASE REFLECTED IN THIS CASE. IS THE OPC RECOMMENDING ANY REVISIONS TO THE PROJECTED LEVEL OF PURCHASE WATER EXPENSE?

A. Yes. OPC Witnesses Steven Stewart and Ted Biddy both discuss the Company's projections of customer water consumption in this case. Both are recommending significant reductions to the Company's projected water to be sold in 2001. While each of these OPC witnesses use different methodologies in projecting the amount of gallons to be sold to customers in 2001, they come to a similar conclusion and similar levels of projected gallons to be sold. Any reductions to the projected level of water sold likewise impacts the amount of water that is necessary to be purchased from Pasco County.

Q. HAVE YOU CALCULATED THE IMPACT OF THE OPC'S RECOMMENDED REDUCTION IN PROJECTED WATER TO BE SOLD IN THE TEST YEAR ON PURCHASE WATER EXPENSE?

A. Yes. As previously mentioned, both OPC witness Ted Biddy and OPC witness Steven Stewart recommend significant reductions to the projected number of gallons to be sold in the projected test year. As the number of gallons projected to be sold is slightly higher in Mr. Stewart's analysis, I flowed through the impact of his recommendation in order to be conservative in determining the necessary reduction to purchase water expense. The calculation is presented in Exhibit__(DD-1), Schedule B-6. The calculation follows the same methodology used by the Company on its Schedule G-9 of the MFRs in determining the projected purchase water expense for purchases from Pasco County. For illustrative purposes, the schedule also includes a column (column 3) showing the impact of OPC witness Ted Biddy's recommended reduction to purchase water expense.

Q. PLEASE DESCRIBE YOUR CALCULATION.

A. OPC Witness Steven Stewart determined that the projected 2001 test year level of water to be sold to customers should be 998,492,175 gallons. In translating the projected water to be sold to total water required with treatment and system losses, the Company used a factor of 10% for unaccounted for water. On Schedule B-6, I used a factor of 9.20% for unaccounted for water. This resulted in the OPC's recommended water required with treatment and system losses of 1,099,660,986. I then subtracted the water available under the Consumptive Use Permits in determining the amount of water required to be purchased from Pasco County, prior to the Company's recommended repression adjustment. After applying the Company's proposed repression adjustment of 5% to the total estimated 2001 water required, consistent with the methodology employed by the Company, the resulting amount of water to be purchased from Pasco County is 300,077,936 gallons. On Schedule B-6, I then applied the current rate charged from Pasco County of $2.35 per thousand gallons, resulting in projected cost of water to be purchased from Pasco County of $705,183. The Company used the previous rate of $2.20 per thousand gallons in its calculations. Schedule B-6 updates this amount for the actual current rate of $2.35 per thousand gallons. As shown on Schedule B-6, purchase water expense should be reduced by $222,910.

Q. WHY DID YOU USE A 9.20% UNACCOUNTED FOR WATER FACTOR IN YOUR CALCULATION?

A. The Company's calculations assumed a 10% unaccounted for water rate. However, the actual percentage of unaccounted for water, per Company MFR Schedule F-1 was 9.20%. According to the response to OPC Interrogatory 50, the actual accounted for water percentage for the first seven months of 2001 was 8%. The Company would have to realize a considerably higher unaccounted for rate for the last five months of 2001 to bring the average 2001 rate up to 10%. Consequently, I see no reason to, at a minimum, reflect the actual historic test year unaccounted for level of 9.20% in calculating the amount of water needed to be purchased from Pasco County.

Q. DOES THE OPC'S RECOMMENDED REDUCTIONS TO THE LEVEL OF PROJECTED WATER TO BE SOLD IN THE TEST YEAR IMPACT OTHER AMOUNTS CONTAINED IN THE COMPANY'S FILING?

A. Yes. Any reductions to the projected level of customer consumption will likewise impact the projected level of revenues to be collected from customers during the test year.

Q. HAVE YOU CALCULATED THE IMPACT ON PROJECTED TEST YEAR REVENUES?

A. Yes. On MFR Schedule E-13, the Company estimated its projection factor for application to test year consumption sales by dividing its estimated 2001 gallons to be sold by the gallons actually sold in 2000. This resulted in the Company's estimated projection factor of 1.08473. On Schedule B-1, I recalculated the projection factor by dividing the OPC's recommended 2001 gallons to be sold by the actual 2000 historic test year gallons sold. This results in a revised projection factor of 0.98012. Using the same methodology employed by the Company, I then determined the projected test year consumption that the gallons sold rate of $1.32 is applied to. As shown on Schedule B-1, projected test year revenues should be reduced by $99,787 to reflect the impacts of the reduced consumption level recommended by the OPC.

Q. DO YOU HAVE ADDITIONAL CONCERNS REGARDING THE LEVEL OF PURCHASE WATER EXPENSE REFLECTED IN THE CALCULATION OF BASE RATES?

A. Yes. In response to Staff Interrogatory 25, as updated November 1, 2001, the Company provided the number of gallons pumped and the number of gallons purchased from Pasco County for the first nine months of 2001. Based on the response, the Company only purchased 103,056,000 gallons from Pasco County for the first nine months of 2001. In fact, the response shows that no purchases have been made from Pasco County since March 2001. In other words, no purchases were made from Pasco County for the months of April through September of 2001. The Company's filing includes the expense associated with purchasing 421,860,000 gallons from Pasco County on an annual basis. Applying a 75% factor to this amount would result in a three-fourths year (9 months) purchase level of 316,395,000, which is considerably larger than the amount actually purchased in the first nine months of 2001 of 103,056,000 gallons. The amount to be purchased from Pasco County in the Company's filing was assumed to be the total gallon requirements less the amounts allowed to be withdrawn by the Company under its Consumptive Use Permit.

Q. HAS THE COMPANY CONTINUED TO EXCEED ITS CONSUMPTIVE USE PERMIT LIMITS FOR THE FIRST NINE MONTHS OF 2001?

A. Yes, considerably so. The Consumptive Use Permit specifies that the average daily authorized gallons per day are 2,040,000. The peak monthly gallons per day allowance is 2,470,000. Based on the response to Staff Interrogatory 25, as updated, for the first nine months of 2001, the Company pumped 747,964,341 gallons from its wells. The Consumptive Use Permit allowance, based on the average allowed gallons per day, would be 556,920,000 gallons (2,040,000 gpd x 273 days) for that same nine month period.

Q. WHY IS THIS A CONCERN, FROM A REVENUE REQUIREMENT PERSPECTIVE?

A. If base rates are set under the assumption that the Company stays within its Consumptive Use Permit (CUP) requirements, and the Company then continues to withdraw more water from its wells than allowed under the Permit, the Company will essentially receive a windfall at the cost of ratepayers. The Company pays nothing for amounts withdrawn from two of its wells. On one of its wells, it pays a royalty fee of $0.10 per thousand gallons withdrawn, and on the five remaining wells, it pays a royalty fee of $0.32 per thousand gallons. The Company pays $2.35 per thousand gallons for water it purchases from Pasco County. If the Company exceeds its Consumptive Use Permit allowance while base rates are set assuming this will not happen, the Company will receive a windfall ranging from $2.03 to $2.35 per thousand gallons on the amount it exceeds its CUP allowances by.

Q. DO YOU RECOMMEND THAT REVENUE REQUIREMENT BE CALCULATED TO REFLECT THE FACT THAT THE COMPANY HAS HISTORICALLY

EXCEEDED ITS CONSUMPTIVE USE PERMIT WITHDRAWAL ALLOWANCES?

A. No. However, I do recommend that as part of the final order in this case, some safety measures be put into place to ensure that ratepayers are not required to pay excessive amounts for water purchases that are not ultimately made by the Company. I recommend that the Commission put in place a reporting requirement for the Company in which it reports the amounts withdrawn from each of its wells and the amounts purchased from Pasco County on a regular basis, such as quarterly. In periods in which the Company exceeds its Consumptive Use Permit allowances, thereby purchasing less water from Pasco County and withdrawing more water from its own wells at a lower cost, the Company should be required to record the price differential in a deferral account to be flowed back to ratepayers in a future proceeding. This would protect both the Company (allowing it to collect rates based on the higher Pasco County purchases) and protect ratepayers.

Q. COULD YOU GIVE A BRIEF EXAMPLE OF HOW THE DIFFERENTIAL WOULD BE CALCULATED?

A. Yes. The Company's Consumptive Use Permit allows for the average gallons per day withdrawn from Well 1, which is the Mitchell well, of 449,000 gallons. On a monthly basis (assuming a 30-day month), this would be 13,470,000 gallons. Assume that the Company withdraws 18,584,000 gallons in a given month from that well. (This was the case in June 2001, per Staff Interrogatory 25.) The actual withdrawal would exceed the average daily allowance for that month by 5,114,000 gallons. The royalty fee on the water withdrawn from the Mitchell well is $0.10 per thousand gallons, which is $2.25 less per thousand gallons than the water purchased from Pasco County. Under this scenario, the Company would defer $11,506.50 (5,114 thousand gallons x $2.25 per thousand gallons).

Since the Company is permitted under its CUP to withdraw up to 1.2 times the permitted quantities for an individual well on given days so long as it does not exceed its average daily withdrawal allowances on an annual basis, the calculation of the deferral could be done on an annual basis, as opposed to the monthly basis given in the above example.

Q. WHEN DO YOU RECOMMEND THIS DEFERRAL METHOD BEGIN?

A. I recommend that it begin on a prospective basis at the date the final order in this case is issued. While the Company has exceeded its CUP allowances for at least the first six months of 2001, the higher costs associated with a higher level of purchases from Pasco County have not yet been considered in setting base rates for Seven Springs water operations.

Q. DO YOU HAVE ANY ESTIMATES OF BY HOW MUCH THE COMPANY COULD OVER-EARN IF BASE RATES ARE SET TO ASSUME THE COMPANY STAYS WITHIN ITS CUP LIMITS AND IT THEN EXCEEDS THOSE LIMITS?

A. Since actual data was available for the first nine months of 2001, I prepared Exhibit__(DD-2), attached, demonstrating the impact of the Company exceeding its CUP permits for the first nine months of this year had base rates been in effect which assumed that the Company stayed within its CUP limits. If base rates are set on the premise that the Company will not exceed its CUP limits, thereby resulting in higher purchase water expense for purchases from Pasco County, and the Company then exceeds its CUP limits at a similar level as was experienced in the first nine months of this year, the Company would effectively receive $427,087 more from ratepayers for purchase water expense during that period that it would actually pay out to Pasco County. This $427,087 differential is based on the Company's actual gallons pumped and gallons purchased from Pasco County for a period of only nine months. On an annual basis, if the Company continued these water source patterns, the amount would be higher than the $427,087 calculated on Exhibit__(DD-2). I am not recommending that an adjustment be made based on the information provided in Exhibit__(DD-2). The purpose of the exhibit is to demonstrate how important it is for a safety mechanism to be put in place as a result of this case to ensure that the Company does not receive windfall profits from its customers in the event that it continues to exceed its CUP limits.

<u>Chemical and Purchase Power Expense</u>

Q. DO THE RECOMMENDED REDUCTIONS TO THE PROJECTED TEST YEAR AMOUNT OF GALLONS TO BE SOLD TO CUSTOMERS ALSO IMPACT THE

COMPANY'S PROJECTED LEVEL OF CHEMICAL EXPENSE AND PURCHASE POWER EXPENSE?

A. Yes, it should. In calculating the projected 2001 chemical expense, the Company applied its projected ERC growth rate of 4.688% and its projected inflation rate of 2.5% to the historic test year chemical expense of $89,344. This resulted in a projected test year chemical expense of $95,871, or an increase of $6,527. In calculating the projected 2001 purchase power expense, the Company applied its projected ERC growth rate of 4.688% to the historic test year purchase power expense of $80,713, resulting in an increase of $3,784.

Q. SHOULD THE ERC GROWTH RATE BE USED IN ESTIMATING THE CHANGE IN CHEMICAL AND PURCHASE POWER EXPENSE?

A. No. As indicated by OPC Witness Steven Stewart, the historic test year level of water consumption was higher than normal due to weather conditions in the historic test year. The amount of chemicals and purchase power necessary would be more directly related to the total amount of water that is treated and pumped, rather than the number of customers or ERCs. Consequently, I recommend that the projected test year chemical and purchase power expenses be recalculated based on the consumption projection factor instead of the ERC growth factor.

Q. YOU PREVIOUSLY STATED THAT THE COMPANY ALSO APPLIED AN INFLATION FACTOR TO ITS HISTORIC TEST YEAR CHEMICAL EXPENSE.

DO YOU RECOMMEND THAT THE INFLATION FACTOR BE APPLIED?

A. No, I do not. The two largest components of the Company's chemical expense are chlorine gas and Aquadene Liquid. In response to OPC Interrogatory 5, the Company provided a breakdown of the chemicals it purchased through June 2001 in both quantity and unit cost. The quantities and unit costs for chemicals purchased in the historic test year were provided in workpapers to the Company's filing. Based on a review of the information provided, the unit cost per pound for chlorine gas was $0.47 for all of 2000 and through at least June 2001. The unit cost per gallon of Aquadene Liquid was $10.10 for all purchases in 2000 and 2001 to date. The two largest components of chemical expense have not changed and have not increased by the 2.5% inflation factor. I recommend that the inflation factor not be applied to the historic test year level of chemical expense. In fact, the total chemical expense for the first seven months of 2001 was $8,141 lower than the chemical expense for the same seven month period in 2000.

Q. HAVE YOU PREPARED SCHEDULES SHOWING THE IMPACT OF YOUR RECOMMENDATIONS ON PROJECTED CHEMICAL EXPENSE AND PURCHASED POWER EXPENSE?

A. Yes. The projected test year chemical expense is calculated on Schedule B-7 and results in a $8,303 reduction to the Company's requested level. The projected test year purchase power expense is calculated on Schedule B-8 and results in a $5,389 reduction to purchase power expense.

Rate Case Expense

Q. IS THE OPC RECOMMENDING ANY ADJUSTMENTS TO RATE CASE EXPENSE?

A. Yes. OPC Witness Hugh Larkin, Jr. recommends in his direct testimony that the Company's proposed rate case expense associated with the current case be denied. Consistent with his recommendation, I removed the Company's proposed amortization for the current case of $111,625 on Schedule B. Additionally, I removed the proposed average unamortized balance of $223,250 from working capital on Schedule C, page 2.

IV. RATE BASE

Accumulated Depreciation Related to Computers

Q. WHAT IS THE PURPOSE OF YOUR ADJUSTMENT ON SCHEDULE C, PAGE 2, FOR ACCUMULATED DEPRECIATION RELATED TO COMPUTERS?

A. In the audit report for the historic test year by the Commission's Division of Regulatory Oversight, Audit Disclosure No. 1 indicated that the Company incorrectly adjusted its accumulated depreciation account when it reflected the separation of its computer equipment from its other office furniture and equipment. The separation was required in Commission Order 01-1374-PAA-WS. According to the audit report, accumulated depreciation related to computers should be increased by $2,262 to correct the error. I reflected this revision on Schedule C, page 2.

Working Capital - Pilot Plant Project

Q. PLEASE DISCUSS THE COMPANY'S ADJUSTMENT TO INCREASE WORKING CAPITAL BY $190,000 FOR THE PILOT PLANT PROJECT.

A. On MFR Schedule A-3(A), the Company increased working capital by $190,000 for the average estimated cost of the pilot plant project, based on the amount approved in Commission Order No. PSC-01-1374-PAA-WS. On July 14, 2000, the Commission issued Order No. PSC-00-1285-FOF-WS, in which it ordered the Company to implement a pilot project to enhance water quality. The Company estimated the cost of the pilot project would be $380,000. In Order No. PSC-01-1374-PAA-WS, dated June 27, 2001, the Commission increased working capital for the Seven Springs water system by $190,000 for the average projected cost of the pilot project. The Company increased working capital by the $190,000 projected average balance approved in the Order.

Q. WHAT IS THE CURRENT STATUS OF THE PILOT PROJECT?

A. The current status and further details regarding the pilot project is discussed in the direct testimony of OPC witness Ted Biddy. As indicated in his testimony, the pilot program has essentially been suspended and a final report has not yet been prepared by the Company's engineer. The Company is apparently waiting until water supply issues are resolved prior to completing the pilot project.

Q. WHAT AMOUNTS HAVE BEEN SPENT BY THE COMPANY TO DATE ON

THE PILOT PROJECT?

A. The Company records the costs associated with the Pilot Project in Account 105-02-00 - W/W Pilot Plant on its general ledger. In response to OPC Production of Document request no. 9, the Company provided its general ledger for 2001 through August. Based on the general ledger, the actual balance in the account as of August 2001 was $74,746. This is considerably lower than the total projected cost of $380,000. Exhibit__(DD-1), Schedule C-1 provides the month-end balances in the pilot project account, along with the monthly increases in the balance.

Q. CONSIDERING THE ACTUAL AMOUNT SPENT TO DATE IS CONSIDERABLY LOWER THAN THE PROJECTED COST OF $380,000, SHOULD THE BALANCE INCLUDED IN WORKING CAPITAL BE REVISED?

A. Yes. The amount included as an addition to rate base for working capital should be based on the actual projected 13-month average balance for the 2001 test year, not 50% of the total projected amount to be spent. As indicated previously, the Company only spent $74,746 on the project through August 2001. It is highly unlikely that the 13-month average test year balance will be $190,000, particularly as the project has essentially been put on hold and delayed by the Company.

Q. WHAT ADJUSTMENT ARE YOU RECOMMENDING?

A. As shown on Schedule C-1, I recommend that working capital be reduced by $135,730 to reflect a projected test year thirteen-month average balance of $54,270.

In calculating the projected test year average balance, I used the actual balances for each month, December 2000 through August 2001. I then estimated the monthly level of additions for the months of September through December based on the average monthly expenditures for the first eight months of the year. This may actually result in a larger amount than is appropriate as the delay in the program may result in lower amounts being spent during the last few months of the year.

Accumulated Amortization of Contributed Taxes

Q. WHAT IS THE PURPOSE OF YOUR ADJUSTMENT ON SCHEDULE C-3 TO REDUCE ACCUMULATED AMORTIZATION OF CONTRIBUTED TAXES BY $10,877?

A. In its filing, the Company made an adjustment to the average historic test year level of accumulated amortization of contributed taxes to correct its 2000 amortization, per Commission Order No. PSC-01-1374-PAA-WS. In that order, the Commission required the Company to continue using the amortization rate previously adopted. This impacted both the level of amortization and the level of accumulated amortization. On Schedule A-3(B), it appears the Company correctly adjusted the balance of accumulated amortization in the historic test year. However, the correction did not carry-over into the projected test year balance in the filing.

Q. PLEASE EXPLAIN.

A. As shown on Exhibit__(DD-1), Schedule C-3, the Company's adjusted average historic test year balance of accumulated amortization of contributed taxes was $180,633. In Order No. PSC-01-1374-PAA-WS, the Commission determined that the correct annual level of amortization of contributed taxes was $30,691. The projected test year thirteen-month average level should be the corrected historic test year thirteen-month average level plus one year of amortization. This would result in a projected test year thirteen-month average level of $211,324, not the $222,201 balance contained in the Company's filing. The Company adjusted its starting point in determining the historic test year average balance, but not in determining its projected test year average balance. As shown on Schedule C-3, accumulated amortization of contributed taxes should be reduced by $10,877, which decreases rate base by the same amount. I would like to note that the Company does appear to have correctly reflected the Commission's approved amortization level in calculating the annual amortization in its net operating income on MFR Schedule B-1(A) of the filing.

V. RATE OF RETURN

Q. ARE YOU RECOMMENDING ANY REVISIONS TO THE COMPANY'S PROPOSED RATE OF RETURN?

A. Yes. I am recommending three separate revisions to the Company's calculation of its proposed rate of return. All three revisions pertain to the long-term debt component of the capital structure. Specifically, I recommend the following:

- The amount of debt be increased to include all debt components in calculating the capital structure.

- The annual amortization of the discount on the Bank of America construction loan be corrected to reflect twelve months of amortization instead of seventeen months.
- The interest expense for the two loans from the owner, L. L. Speers be revised to reflect the current prime rate plus 2%.

Q. PLEASE DISCUSS YOUR FIRST REVISION.

A. In calculating the capital structure weighting, the Company only included the two loans from its owner, Lynnda Speer, in the debt balance and excluded its other debt issues. The Company also has debt associated with two loans from Bank of America and various vehicle loans. The Commission's Division of Regulatory Oversight indicated in Disclosure No. 5 of its audit report that the Company should include all of its long term debt issues in its capital structure. I agree. On Exhibit__(DD-1), Schedule D, page 2, I calculate the adjusted capital structure weighting giving effect to all debt issues. The revised capital structure calculated on page 2 is carried forward to the calculation of the overall rate of return on page 1 of Schedule D.

Q. PLEASE DISCUSS YOUR NEXT REVISION.

A. In its audit report, the Division of Regulatory Oversight, in Disclosure No. 5, indicated that the amortization of the issuing expense for the Bank of America construction loan used in the calculation of the effective debt cost rate included seventeen months of amortization instead of twelve months. This error was carried forward by the Company in calculating the 2001 effective debt cost rate. On page 3 of Schedule D, I reflect the corrected amount of annual amortization of the issuing expense, resulting in a $1,760 reduction in the amount used by the Company in its calculations.

Q. WHY DO YOU RECOMMEND THAT THE INTEREST RATE APPLIED TO THE LOANS FROM L. L. SPEER BE REVISED?

A. Interest on the Company's loans from the owner, Lynnda Speer, are based on prime plus 3%. In prior Commission Orders, the Commission has determined that the debt rate applied to the loans from the related party (owner) for purposes of calculating the overall rate of return should be limited to prime plus 2%. In its filing, the Company used a rate of 8.75% for these two loans. As of November 2, 2001, prime was 5.50%. Consequently, I recommend that the debt rate for the two loans from the owner be included in the calculation of the average debt cost rate at 7.50% (prime of 5.50% plus 2%). Page 3 of Schedule D calculates the revised effective cost rate for debt of 8.53%.

Q. WHAT IS THE IMPACT OF THE COMBINATION OF YOUR THREE RECOMMENDED REVISIONS ON THE OVERALL RECOMMENDED RATE OF RETURN?

A. As shown on Schedule D, page 1, my recommended revisions result in an overall rate of return of 8.67%. The Company's calculated rate of return of 9.07% should be replaced by the 8.67%.

VII. RATE DESIGN

Q. DOES THE OPC HAVE ANY ADDITIONAL CONCERNS BEYOND THOSE ALREADY IDENTIFIED?

A. Yes. In this case, the OPC is not recommending a specific rate design. However, the rate design proposal offered by the Company should not be approved without revision.

Q. COULD YOU BRIEFLY DISCUSS THE IMPACT OF THE COMPANY'S RATE DESIGN PROPOSAL?

A. The rate structure, as proposed by the Company, is designed to collect all of the revenue requirement proposed by the Company in the base charge and the first consumption block. The Company then proposes that amounts collected under the second tier, which would be amounts which exceed the revenue requirement calculated in this case, be used to pay higher water bills from Pasco County, for conservation measures and for the search for alternate sources of water. As shown on MFR Schedule E-13, page 2, the Company's proposed rate design, prior to resulting conservation, would result in the Company collecting $690,295 more in rates than the amount calculate as the Company's revenue requirement. The Company then used the conservation rate model provided by SWFWMD to estimate a reduction to this amount of $401,377 due to conservation resulting from the rate increase and rate structure. After the conservation adjustment is made, the Company's proposed rate design still results in the Company collecting $288,918 more from ratepayers than its revenue requirement calculations support. It is this amount that the Company proposes to be used for higher purchase water costs, conservation measures and research into new water sources.

Q. WHY SHOULD THE PROPOSED RATE DESIGN NOT BE APPROVED?

A. Rates should not be designed to result in the ultimate collection of revenues which exceeds the amount of revenue requirement approved by the Commission in this case. In other words, the Company's rates should not be designed to recover the additional $288,918, as proposed by the Company. To do so would effectively result in a guarantee that the Company will recovery its authorized rate of return. Rates are set to allow the Company the opportunity to earn a reasonable rate of return, not to guarantee that the Company will earn a return. The rate structure proposed by the Company would effectively eliminate risk the Company may have at the cost to ratepayers. This is not appropriate and not consistent with ratemaking principles and standards.

Q. WHAT ABOUT THE COMPANY'S POSITION THAT IT IS REQUIRED TO SPEND ADDITIONAL AMOUNTS ON CONSERVATION MEASURES?

A. If the Company wishes to collect additional amounts from ratepayers for conservation measures, it should submit its proposed conservation programs and the associated costs for review by the OPC, the Commission Staff and any other parties in the proceeding, along with the estimated cost of such programs. If such information had been provided, it could have been considered for inclusion in calculating revenue requirement. The Company should not effectively be given a blank check at ratepayers expense to fund future programs and costs at its discretion. It is not appropriate to automatically include amounts in rate design to be collected from ratepayers that exceed the revenue requirement that was supported and justified in the rate case.

Q. DOES THIS COMPLETE YOUR TESTIMONY?

A. Yes, it does.

APPENDIX II

QUALIFICATIONS OF DONNA DERONNE, C.P.A.

Q. WHAT IS YOUR OCCUPATION?

A. I am a certified public accountant and regulatory consultant in the firm of Larkin & Associates, Certified Public Accountants, with offices at 15728 Farmington Road, Livonia, Michigan.

Q. PLEASE DESCRIBE YOUR EDUCATION AND EXPERIENCE.

A. I graduated with honors from Oakland University in Rochester, Michigan in 1991. I have been employed by the firm of Larkin & Associates since 1991.

As a certified public accountant and regulatory consultant with Larkin & Associates, my duties have included the analysis of utility rate cases, researching accounting and regulatory developments, preparation of computer models and spreadsheets, the preparation of testimony and schedules and testifying in regulatory proceedings. A partial listing of cases which I have participated in are included below:

Performed Analytical Work in the Following Cases:

Docket No. 92-06-05	The United Illuminating Company State of Connecticut, Department of Public Utility Control

Docket No. R-00922428	The Pennsylvania American Water Company Pennsylvania Public Utility Commission
Cause No. 39498	PSI Energy, Inc. Before the State of Indiana - Indiana Utility Regulatory Commission
Docket No. 6720-TI-102	Wisconsin Bell, Inc. Wisconsin Citizens' Utility Board
Docket No. 90-1069 (Remand)	Commonwealth Edison, Inc. Before the Illinois Commerce Commission
Docket Nos. 920733-WS & 920734-WS	General Development Utilities, Inc. - Port Labelle and Silver Springs Shores Divisions. Before the Florida Public Service Commission
Case No. PUE910047	Virginia Electric and Power Company (State Corporation Commission)
Docket No. U-1565-91-134	Sun City Water Company Residential Utility Consumer Office
Docket No. 930405-EI	Florida Power & Light Company Before the Florida Public Service Commission
Docket No. UE-92-1262	Puget Sound Power & Light Company Before the Washington Utilities & Transportation Commission
Docket No. R-932667	Pennsylvania Gas & Water Company Before the Pennsylvania Public Utility Commission
Docket No. 7700	Hawaiian Electric Company, Inc. Before the Public Utilities Commission of the State of Hawaii
Docket No. R-00932670	Pennsylvania American Water Company Before the Pennsylvania Public Utility Commission
Case No. 78-T119-0013-94	Guam Power Authority vs. U.S. Navy Public Works Center, Guam - Assisting the Department of Defense in the investigation of a billing dispute.

Case No. 90-256	South Central Bell Telephone Company Before the Kentucky Public Service Commission
Case No. 94-355	Cincinnati Bell Telephone Company Before the Kentucky Public Service Commission
Docket No. 7766	Hawaiian Electric Company, Inc. Before the Public Utilities Commission of the State of Hawaii
Docket No. 2216	Narragansett Bay Commission On Behalf of the Division of Public Utilities and Carriers, Before the Rhode Island Public Utilities Commission
Docket No. 2216	Narragansett Bay Commission - Surrebuttal On Behalf of the Division of Public Utilities and Carriers, Before the Rhode Island Public Utilities Commission
Docket No. 94-0097	Citizens Utilities Company, Kauai Electric Division Before the Public Utilities Commission of the State of Hawaii
Docket No. 5863*	Central Vermont Public Service Corporation Before the Vermont Public Service Board
Docket No. E-1032-95-433	Citizens Utilities Company - Arizona Electric Division Before the Arizona Corporation Commission
Docket No. R-00973947	United Water Pennsylvania Before the Pennsylvania Public Utilities Commission
Docket No. 95-0051	Hawaiian Storm Damage Reserve Case Before the Public Utilities Commission of the State of Hawaii
Application Nos. 96-08-070, 96-08-071, 96-08-072	Pacific Gas & Electric Company, Southern California Edison Company & San Diego Gas & Electric Co.; Phases I & II; Before the California Public Utilities Commission
Docket No. E-1072-97-067	Southwestern Telephone Company Before the Arizona Corporation Commission

Docket No. 920260-TL	BellSouth Telecommunications Inc. - Florida On Behalf of the Florida Office of Public Counsel
Docket No. R-00973953	PECO Energy Company Before the Pennsylvania Public Utilities Commission
Docket No. 5983	Green Mountain Power Corporation Before the Vermont Public Service Board
Case No. PUE-9602096	Virginia Electric and Power Company Before the Commonwealth of Virginia State Corporation Commission
Docket No. 97-035-01	PacifiCorp, dba Utah Power & Light Company Before the Public Service Commission of Utah
Docket No. G-34930705	Black Mountain Gas Division - Northern States Power Before the Arizona Corporation Commission
Docket No. T-01051B-99-105*	US West/Qwest Corporation Before the Arizona Corporation Commission
Docket No. 98-10-019	Verizon Audit Report on Behalf of California Office of Ratepayers Advocates
Docket No. 99-057-20*	Questar Gas Company Before the Utah Public Service Commission

Submitted Testimony in the Following Cases

Docket No. 92-11-11	Connecticut Light & Power Company State of Connecticut, Department of Public Utility Control
Docket No. 93-02-04	Connecticut Natural Gas Corporation State of Connecticut, Department of Public Utility Control
Docket No. 93-02-04	Connecticut Natural Gas Corporation Supplemental State of Connecticut, Department of Public Utility Control

Docket No. 95-02-07	Connecticut Natural Gas Corporation State of Connecticut, Department of Public Utility Control
Case No. 94-0035-E-42T	Monongahela Power Company Before the Public Service Commission of West Virginia
Case No. 94-0027-E-42T	Potomac Edison Company Before the Public Service Commission of West Virginia
Case No. 95-0003-G-42T*	Hope Gas, Inc. Before the West Virginia Public Service Commission
Case No. 95-0011-G-42T*	Mountaineer Gas Company Before the West Virginia Public Service Commission
Docket No. 950495-WS	Southern States Utilities Before the Florida Public Service Commission
Docket No. 960451-WS	United Water Florida Before the Florida Public Service Commission
Docket No. 5859	Citizens Utilities Company - Vermont Electric Division Before the Vermont Public Service Board
Docket No. 97-12-21	Southern Connecticut Gas Company State of Connecticut, Department of Public Utility Control
Docket No. 98-01-02	Connecticut Light & Power Company State of Connecticut, Department of Public Utility Control
Docket No. 98-07-006	San Diego Gas and Electric Company Public Utilities Commission of the State of California
Docket No. 99-04-18 Phase I	Southern Connecticut Gas Company State of Connecticut, Department of Public Utility Control
Docket No. 99-04-18	Southern Connecticut Gas Company

Phase II	State of Connecticut, Department of Public Utility Control
Docket No. 99-09-03 Phase II	Connecticut Natural Gas Corporation State of Connecticut, Department of Public Utility Control
Docket No. 99-09-03 Phase III	Connecticut Natural Gas Corporation State of Connecticut, Department of Public Utility Control
Docket No. G-01551A-00-0309	Southwest Gas Corporation Before the Arizona Corporation Commission
Docket No. 99-035-10	PacifiCorp dba Utah Power & Light Company Public Service Commission of Utah
Docket No. 00-12-01	Connecticut Light & Power Company State of Connecticut, Department of Public Utility Control
Docket No. 6460*	Central Vermont Public Service Corporation Before the Vermont Public Service Board
Docket No. 01-035-10	PacifiCorp dba Utah Power & Light Company Public Service Commission of Utah
Docket No. G-01551A-00-0309	Southwest Gas Corporation Arizona Corporation Commission
Docket No. 01-05-19	Yankee Gas Services Company State of Connecticut Department of Public Utility Control
Docket No. 01-035-23 Interim	PacifiCorp dba Utah Power & Light Company Public Service Commission of Utah

Case Settled*

ALOHA UTILITIES, INC.
Seven Springs Water Division
Test Year Ended December 31, 2001

Docket No. 010503-WU
Exhibit__(DD-1)
Schedule B-1

Adjustment to Revenue for Reduced Consumption

Line No.	Description	Company Amount	OPC Amount	
		(1)	(2)	
1	Projected 2001 Gallons Sold (Thousands)	1,105,068	998,492	(A)
2	Divide by 2000 Test Year Gallons (Thousands)	1,018,746	1,018,746	
3	Projection Factor for Gallons	1.08473	0.98012	
4	Total Historic Test Year Consumption Projection Factor is Applied to (Sch. E-13, p.1, lines 4 and 23)	722,614	722,614	
5	Projected Test Year Consumption $1.32 Rate is Applied to (Line 3 x Line 4)	783,844	708,248	
6	Present Rate	$1.32	$1.32	
7	Projected Consumption Revenues	$1,034,674	$934,887	
8	Reduction to Projected Test Year Revenue		($99,787)	

Source/Notes:

The above schedule uses the same methodology used by the Company on Schedule E-13 in calculating the projected test year revenues associated with consumption.
Per Company amounts from Schedule E-13, page 1 of 2.
(A) Amount recommended by OPC Witness Steven Stewart

ALOHA UTILITIES, INC.
Seven Springs Water Division
Test Year Ended December 31, 2001

Docket No. 010503-WU
Exhibit__(DD-1)
Schedule B-2

Adjustments for Items that Should Have Been Capitalized

Line No.	Description	Amount
	Increase to Plant in Service:	
1	Pumping Equipment, Acct. 311	9,440
2	Office Furniture, Acct. 340	2,112
3	Increase to Plant in Service	11,552
	Impact on Accumulated Depreciation: (1)	
4	Pumping Equipment (5% Depreciation Rate)	472
5	Office Furniture (6.67% Depreciation Rate)	141
6	Increase in Accumulated Depreciation	613
	Impact on Depreciation Expense:	
7	Pumping Equipment (5% Depreciation Rate)	472
8	Office Furniture (6.67% Depreciation Rate)	141
9	Increase in Depreciation Expense	613
	Impact on O&M Expense:	
10	Reduction to Historic TY O&M Expense, Acct. 620	(11,552)
11	Growth Factor Applied by Utility to Acct. 620	1.04688
12	Inflation Factor Applied by Utility to Acct. 620	1.02500
13	Reduction to Pro Forma O&M Expense	(12,396)

Source:

FPSC Staff Audit Report, Audit Disclosure No. 2

(1) Average pro forma test year balance, assuming plant was added at mid-point of 2000, consistent with audit disclosure.

ALOHA UTILITIES, INC.
Seven Springs Water Division
Test Year Ended December 31, 2001

Docket No. 010503-WU
Exhibit__(DD-1)
Schedule B-3

Adjustment to Bad Debt Expense

Line No.	Description		Amount	
1	Corrected Seven Springs Bad Debt Expense, per Company		11,090	OPC Interrogatory 1
2	Per OPC Allocation to Water Operations		40.27%	Line A.4, below
3	Corrected Bad Debt Expense, per OPC		4,466	
4	Bad Debt Expense (Acct. 670) Included in MFRs		3,229	MFR Sch. B-5(A)
5	Adjustment to Bad Debt Expense		1,237	
	Calculation of Allocation to Water Operations			
A.1	2000 Water Revenues, per Annual Report	1,794,660		
A.2	2000 Wastewater Revenues, per Annual Report	2,661,547		
A.3	Total Seven Springs Revenues	4,456,207		
A.4	Percentage Applicable to Water	40.27%		

ALOHA UTILITIES, INC.
Seven Springs Water Division
Test Year Ended December 31, 2001

Docket No. 010503-WU
Exhibit__(DD-1)
Schedule B-4

Correction to Salary & Wage Annualization

Line No.	Description	Amount
1	Amount Allocated to Seven Springs Water Division for Utility Operations Supervisor (100%)	34,029
2	Percentage that Should have been Allocated	37.5%
3	Corrected Allocation to Seven Springs Water	12,761
4	Reduction to Salary & Wage Expense	(21,268)

Source/Notes:

Position reflected on MFR Schedule G-8, page 1, line 42. The schedule indicates that the salary for this position (held by Charles Painter) should have been allocated 37.5% to Seven Springs water, yet the schedule allocates 100% to the Seven Springs water division.

ALOHA UTILITIES, INC.
Seven Springs Water Division
Test Year Ended December 31, 2001

Docket No. 010503-WU
Exhibit__(DD-1)
Schedule B-5

Officers Salary & Wages - Remove Double Count

Line No.	Description	Amount	
1	President's Current Salary (Steve Watford)	128,752	OPC Interrog. 23
2	Vice President's Allowed Salary (Lynnda Speers)	25,750	Line 1 x 20%
3	Subtotal	154,502	
4	Percentage Allocated to Seven Springs Water Division	37.5%	
5	Projected Test Year Officer Salary and Wages, per OPC	57,938	
6	Amount Included in Filing (Acct. 603)	66,707	MFR Sch. G-7, p.1
7	Reduction to Officers Salary and Wage Expense	(8,769)	

Source/Notes:

According to the Company's response to OPC Interrogatory No. 23, the Company's calculation of Officer Salary & Wage expense of $66,707 includes employees other than the President and Vice-President. However, the other employees (Connie Kurish and Marion Vineyard) were included in the Company's payroll annualization on MFR Schedule G-8. The above adjustment removes the double-counting of employee payroll.

ALOHA UTILITIES, INC.
Seven Springs Water Division
Test Year Ended December 31, 2001

Docket No. 010503-WU
Exhibit__(DD-1)
Schedule B-6

Adjustment to Purchase Water Expense

Line No.	Description	Amount Included in MFRs (1)	Amount Per OPC* (2)		Alternative Based on Ted Biddy's Recommendation (3)
1	Water Projected to be Sold in 2001	1,105,067,967	998,492,175	(A)	994,044,000
2	Water Required with Treatment & System Losses - Company amount at 10%, OPC amount at 9.20%	1,227,853,297	1,099,660,986	(B)	1,094,762,115
3	Water Available Under Consumptive Use Permits	744,600,000	744,600,000		744,600,000
4	Water Required to be Purchased from Pasco County Prior to Company's Repression Adjustment	483,253,297	355,060,986		350,162,115
5	Less 5% Repression of Total Water Needs, per Company	(61,393,000)	(54,983,049)		(54,738,106)
6	Water to be Purchased from Pasco, after Repression	421,860,297	300,077,936		295,424,009
7	Rate per Thousand Gallons	$2.20	$2.35	(C)	$2.35
8	Cost of Water to be Purchased from Pasco County	$928,093	$705,183		$694,246
9	Reduction to Purchase Water Expense		($222,910)		

Source/Notes:

* This column, based on OPC Witness Stewart's recommended gallons sold, flows through the revenue requirement and the other schedules in this exhibit. Column (3) is provided for illustrative purposes.

Col. (1): Amounts from MFR Schedule G-9, pages 3 and 4

(A) Total gallons to be sold, per OPC Witness Steven Stewart.

(B) Amount calculated based on actual historic test year unaccounted for water percentage of 9.20%. (Line 1 / (1-.092))

(C) Current rate charged by Pasco County, which reflects an increase above the $2.20 rate used by the Company in the MFRs.

ALOHA UTILITIES, INC.
Seven Springs Water Division
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Docket No. 010503-WU
Exhibit__(DD-1)
Schedule B-7

Chemical Expense - Account 618

Line No.	Description	Amount	Reference:
1	Historic Test Year Chemical Expense	89,344	MFR Sch. G-7, p. 2
2	Per OPC Projection Factor for Gallons Sold	0.98012	Schedule B-1
3	Projected 2001 Chemical Expense, per OPC	87,568	
4	Projected 2001 Chemical Expense, per Company	95,871	MFR Sch. G-7, p.2
5	Reduction to Chemical Expense	(8,303)	

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Exhibit__(DD-1)
Schedule B-8

Purchase Power Expense - Acct. 615

Line No.	Description	Amount	Reference:
1	Historic Test Year Purchase Power Expense	80,713	MFR Sch. G-7, p. 2
2	Per OPC Projection Factor for Gallons Sold	0.98012	Schedule B-1
3	Projected 2001 Purchase Power Expense, per OPC	79,108	
4	Projected 2001 Purchase Power Expense, per Company	84,497	MFR Sch. G-7, p.2
5	Reduction to Purchase Power Expense	(5,389)	

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Schedule C
Page 1 of 2

Rate Base

Line No.	Description	Utility Adjusted Balance (A)	OPC Adjustments	Adjusted Rate Base
1	Utility Plant in Service	9,937,171	11,552	9,948,723
2	Utility Land & Land Rights	42,898		42,898
3	Less: Non-Used & Useful Plant	-		-
4	Construction Work in Progress	-		-
5	Less: Accumulated Depreciation	(2,328,109)	(2,875)	(2,330,984)
6	Less: CIAC	(8,479,418)	(27,236)	(8,506,654)
7	Accumulated Amortization CIAC	1,923,349		1,923,349
8	Deferred Taxes (Net)	835,318		835,318
9	Contributed Taxes	(1,175,890)		(1,175,890)
10	Accum Amort of Contrib Tax	222,201	(10,877)	211,324
11	Working Capital Allowance	843,970	(358,980)	484,990
12	Total Rate Base	1,821,490		1,433,074

Source/Notes:
(A) MFR Schedule A-1(A)
OPC Adjustments are presented on page 2.

ALOHA UTILITIES, INC.
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Schedule C
Page 2 of 2

Schedule of Adjustments to Rate Base

Line No.	Description	Amount	Reference:
	Adjustments to Plant in Service		
1	- Items that Should Have Been Capitalized (Staff Audit Disclosure No. 2)	11,552	Schedule B-2
2	Total Adjustments to Plant in Service	11,552	
	Adjustments to Accumulated Depreciation:		
3	- Accumulated Depreciation Related to Computers (Staff Audit Disclosure No. 1)	2,262	
4	- Items that Should Have Been Capitalized	613	Schedule B-2
5	Total Adjustments to Accumulated Depreciation	2,875	
	Adjustments to CIAC:		
6	- Correction to CIAC Additions in MFRs ($39,341 x 9/13ths)	27,236	OPC Interrog. 3, Testimony
	Adjustments to Working Capital:		
7	- Remove Cost of This Proceeding	(223,250)	MFR Sch. A-3(A)
8	- Reduction to Pilot Plant Project Amount	(135,730)	Schedule C-1
9	Total Adjustments to Working Capital	(358,980)	
	Adjustments to Accum. Amort. Of Contributed Taxes:		
10	- Correction to MFR Amount	(10,877)	Schedule C-2

ALOHA UTILITIES, INC.
Seven Springs Water Division
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Docket No. 010503-WU
Exhibit__(DD-1)
Schedule C-1

Pilot Plant Project Costs to Include in Working Capital

Line No.	Description	Monthly Increase	Month-End Balance
	Actual Balances:		
1	December-00		3,826
2	January-01	160	3,986
3	February-01	2,789	6,775
4	March-01	15,466	22,241
5	April-01	11,013	33,254
6	May-01	17,886	51,140
7	June-01	6,439	57,579
8	July-01	6,750	64,329
9	August-01	10,417	74,746
10	Average Monthly Increase	8,865	
	Estimated Balances:		
11	September-01	8,865	83,611
12	October-01	8,865	92,476
13	November-01	8,865	101,341
14	December-01	8,865	110,206
15	Estimated 13-Month Average Balance		54,270
16	Amount Included in MFRs (Sch. A-3(A))		190,000
17	Reduction to Working Capital		(135,730)

Source:

December 2000 through August 2001 amounts obtained from the Company's General Ledger for Account 105-02-00 - W/W Pilot Plant, provided in response to OPC POD 9.

ALOHA UTILITIES, INC.
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Exhibit__(DD-1)
Schedule C-2

Accumulated Amortization of Contributed Taxes

Line No.	Description	Amount	
1	Utility Adjusted Average Historic Test Year Balance of Accumulated Amortization of Contributed Taxes	180,633	MFR Sch. A-1(B)
2	Annual Allowed Amortization of Contributed Taxes, per Order No. PSC-01-1374-PAA-WS	30,691	Referenced Order and MFR. Sch. B-1(A)
3	Correct Average Projected Test Year Balance of Accumulated Amortization of Contributed Taxes	211,324	
4	Average Projected Test Year Balance Included in MFRs	222,201	MFR Sch. A-1(A)
5	Reduction to Accumulated Amortization of Contributed Taxes	(10,877)	

ALOHA UTILITIES, INC.
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Exhibit__(DD-1)
Schedule D

Rate of Return

Line No.	Description	Per OPC Capital Ratio	Cost Rate per OPC	Weighted Cost
		(1)	(2)	(3)
1	Long-Term Debt	77.12%	8.53%	6.58%
2	Short-Term Debt			
3	Preferred Stock	4.99%	9.93%	0.50%
4	Customer Deposits	4.68%	6.00%	0.28%
5	Common Equity	13.21%	9.93%	1.31%
6	Total	100.00%		8.67%

Source/Notes:

Col. (1): Adjusted to include all debt components, see page 2 for calculation.

Col. (2): Amounts from MFR Schedule D-1, page 1, with the exception of the weighted long-term debt rate, which is calculated on page 3.

ALOHA UTILITIES, INC.
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Exhibit__(DD-1)
Schedule D
Page 2 of 3

Rate of Return
Revised Capital Ratio

Line No.	Description	Amount Per Utility	Adjustment	Adjusted Amount	Adjusted Ratio
		(1)	(2)	(3)	(4)
1	Debt	3,525,036	5,742,933	9,267,969	77.12%
2	Preferred Stock	600,000		600,000	4.99%
3	Common Equity	1,587,440		1,587,440	13.21%
4	Customer Deposits	562,205		562,205	4.68%
5	Total	6,274,681		12,017,614	100.00%

Source/Notes:

Col. (1): MFR Schedule D-2, page 1.

Col. (2): The debt balance used by the Company only included the debt with the owner, L. L. Speers and excluded the remaining debt. The adjustment incorporates the 13-month average balance of the remaining debt from MFR Schedule D-5(A).

ALOHA UTILITIES, INC.
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Schedule D
Page 3 of 3

Rate of Return
Calculation of Long-Term Debt Cost Rate

Line No.	Description	Coupon Rate	13-Month Avg. Amt. Outstanding	Unamort. Issuing Expense	Annual Amort. of Discount	Interest	Total Interest Cost	Effective Cost Rate
		(1)	(2)	(3)	(4)	(5) = (1)x(2)	(6)=(4)+(5)	(7)=(6)/((2)-(3))
1	Bank of America -15yrs.	9.00%	5,108,717	51,399	4,224 (A)	459,785	464,009	9.17%
2	Vehicle Notes - 3yrs.	4.90%	20,252			992	992	4.90%
3	Vehicle Note - 3yrs.	9.25%	7,707			713	713	9.25%
4	Bank of America (Bldg)	9.00%	606,270			54,564	54,564	9.00%
5	L.L. Speer (Line of Credit)	7.50% (B)	2,983,159	13,773	562	223,737	224,299	7.55%
6	L.L. Speer (DOT)	7.50% (B)	541,877			40,641	40,641	7.50%
7	Total		9,267,982	65,172	4,786	780,432	785,218	8.53%

Source/Notes:

Unless noted otherwise, the above amounts are from MFR Schedule D-5(A).

(A) Amount included in MFR for this items was $5,984 and consisted of 17 months of amortization instead of 12 months. The above amount consists of 12 months amortization.

(B) The two loans from the owner of the utility are set at prime plus 3%, changing biannually based on prime. In past cases, the Commission has allowed the interest expense based on prime plus 2%. As of November 2, 2001, prime was 5.50%, consequently, the above schedule allows for interest at 7.50% (current prime plus 2%).

ALOHA UTILITIES, INC.
Seven Springs Water Division
Test Year Ended December 31, 2001

Docket No. 010503-WU
Exhibit__(DD-2)

Differential Associated with Exceeding CUP Limits

Line No.	Description	Actual Gallons Jan - Sept.	Maximum Daily CUP Pumpage	Nine-Months CUP Allowed Pumpage	Amount Exceeding CUP Allowed	Rate Differential (per 1000 g)	Excess Amount
		(1)	(2)	(3) = (2)x273	(4)=(3)-(1)	(5)	(6)=(4)x(5)
1	Well #1 (Mitchell)	188,069,000	449,000	122,577,000	(65,492,000)	$2.25	147,357
2	Wells 2, 3, 4, 6 & 7	348,169,600	1,100,000	300,300,000	(47,869,600)	$2.03	97,175
3	Wells 8 & 9	211,725,741	491,000	134,043,000	(77,682,741)	$2.35	182,554
4		747,964,341	2,040,000	556,920,000	(191,044,341)		$427,087
5	Excess amount that would have been collected had rates been established for the period assuming Consumptive Use Permit requirements were met						$427,087

Source/Notes:

Col. (1): Response to Staff Interrogatory No. 25, as updated November 1, 2001.
Col. (2): Consumptive Use Permits provided in response to OPC POD 15 and MFR Schedule G-9, page 4.
Col. (4): Based on Pasco County rate of $2.35, Mitchell royalty rate of $.10 and affilate royalty rate of $.32.

CERTIFICATE OF SERVICE
DOCKET NO. 010503-WU

I HEREBY CERTIFY that a true and correct copy of the foregoing Direct Testimony of Donna DeRonne has been furnished by hand-delivery(*) or U.S. Mail to the following parties on this 7th day of November, 2001:

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