

SCANNED

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
ORDER NO. PSC-01-2199-FOF-WU
ISSUED: November 13, 2001

The following Commissioners participated in the disposition of
this matter:

E. LEON JACOBS, JR., Chairman
J. TERRY DEASON
LILA A. JABER
BRAULIO L. BAEZ
MICHAEL A. PALECKI

ORDER APPROVING INTERIM RATES

BY THE COMMISSION:

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. This Order relates to the Seven Springs water system. 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 2000 annual report, Aloha reported operating revenues of \$2,298,460 and \$3,694,106 for water and wastewater, respectively. In 2000, the utility served 12,732 water and 12,112 wastewater customers. Rate base was last established for Aloha's Seven Springs water system by Order No. PSC-01-1374-PAA-WS, issued June 27, 2001, in Docket No. 000737-WS, an overearnings proceeding. Order No. PSC-01-1374-PAA-WS was finalized by Order No. PSC-01-1672-AS-WS, issued August 16, 2001.

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

On August 10, 2001, Aloha filed an application for an increase in rates for its Seven Springs water system. The utility's application was complete as filed, and, pursuant to Section 367.083, Florida Statutes, that date was established as the official filing date.

The utility's requested test year for setting final rates is the projected year ended December 31, 2001. Also, the utility requested that this application be directly set for hearing. A hearing in Pasco County has been scheduled for January 9 through 11, 2002. In its minimum filing requirements (MFRs), the utility has requested total water revenues of \$3,044,811. This represents a revenue increase of \$1,077,337 (or 54.76%). These final revenues are based on the utility's requested overall rate of return of 9.07%.

Aloha initially requested a test year for interim purposes for the historical year ended December 31, 2000. However, on September 10, 2001, Aloha filed its Amended Application for an Interim Increase in Water Rates, in which it requested that interim rates be determined using the historic test year ended June 30, 2001. Aloha's amended request was for annual revenues of \$2,027,224. This represented a revenue increase of \$290,138 (or 16.70%) for interim purposes.

Our staff originally filed a recommendation on the utility's amended request for interim rates on October 4, 2001. However, by letter dated October 10, 2001, Aloha expressed disagreement with our staff's adjustments to depreciation expense and income tax expense, and our staff's analysis that the utility could not support a corporate undertaking. Upon receipt and review of additional interim schedules, our staff agreed that the depreciation adjustment was in error. Therefore, the October 4, 2001 recommendation was deferred, and our staff filed a revised recommendation to remove the depreciation expense adjustment. Regarding the utility's other two concerns - the adjustment to income tax expense and the denial of a corporate undertaking, the utility now states that it agrees with our staff's position.

The sixty-day statutory deadline for us to address the utility's requested interim rates is November 9, 2001. This Order

addresses Aloha's amended request for interim rates. We have jurisdiction pursuant to Section 367.082, Florida Statutes.

INTERIM RATE INCREASE

As stated above, Aloha is seeking an interim revenue increase of \$290,138 (or 16.70%). Based on the historical test year ended June 30, 2001, the utility filed rate base, cost of capital, and operating statements to support its requested water increase. In its application, the utility has used a thirteen-month average to calculate its requested rate base and cost of capital. The utility has filed its MFRs consistent with the averaging requirement of Rule 25-30.433, Florida Administrative Code.

Section 367.082(5)(b)1., Florida Statutes, requires that the achieved rate of return for interim purposes be calculated by applying appropriate adjustments consistent with those used in the utility's most recent rate proceeding, and annualizing any rate changes that occurred during the interim test year. Our interpretation of the interim statute is that projections or pro forma adjustments are not allowed, but corrections of errors are appropriate.

Based on our review of the utility's interim request and the last rate proceeding order for the Seven Springs water system, we have made adjustments as discussed below. Our calculation of rate base is shown on Schedule 1. The capital structure is reflected on Schedule 2. The operating statement is Schedule 3-A, and the schedule of adjustments to the operating statement is Schedule 3-B.

RATE BASE

Based on our review of the utility's interim rate base, we note one inconsistency with Aloha's last rate proceeding. As stated earlier, rate base was last established for Aloha's Seven Springs water system by Order No. PSC-01-1374-PAA-WS, issued June 27, 2001, in Docket No. 000737-WS. In that Order, we specifically increased the working capital for the Seven Springs water system by \$190,000 to reflect the costs associated with the pilot project ordered by this Commission in Docket No. 960545-WS. The purpose of the pilot project was to use the best available treatment alternative to enhance the water quality and to diminish the

tendency of the water to produce copper sulfide in the customers' homes. The utility's interim working capital allowance does not include the costs associated with the above pilot project. Therefore, consistent with the last rate proceeding, we have increased working capital by \$190,000.

COST OF CAPITAL

In its interim request, Aloha used an 8.93% return on equity (ROE), which is the minimum of the range of its last authorized ROE from Order No. PSC-01-1374-PAA-WS. The utility's cost of capital calculation appears to be consistent with its last rate proceeding and the interim statute. As such, we have made no adjustments, and the interim weighted average cost of capital is 8.87%.

NET OPERATING INCOME

Based on our review of the utility's interim net operating income, we note one inconsistency with Aloha's last rate proceeding. In its MFRs, Aloha reduced its interim Operation and Maintenance (O&M) expenses by \$15,559, which represents the excess revenues for overearnings in 2000 for this system that was determined in the utility's last rate proceeding. However, pursuant to Order No. PSC-01-1374-PAA-WS, we required that interest be calculated on the \$15,559 of excess revenues. Further, we determined that those excess revenues plus interest amounted to \$16,860 as of June 30, 2001. By applying the monthly average commercial paper rates from July 2001 to November 2001, we calculate that the excess revenues plus interest is \$17,091. Therefore, consistent with Aloha's last rate proceeding, the interim O&M expenses shall be decreased by an additional \$1,532 (the difference between the utility's reduction of \$15,559 and the appropriate reduction, with interest, of \$17,091).

Based on the utility's filing and the above adjustments, test year operating income, before any revenue increase, is a negative \$27,445. This represents a negative achieved rate of return of 1.81%.

REVENUE REQUIREMENT

Based on the above, the interim revenue requirement is \$2,009,292. This represents an interim increase in annual revenues of \$272,206 or 15.67%, and will allow the utility the opportunity to recover its operating expenses and earn an 8.87% required rate of return on its rate base.

INTERIM RATES

Based on all the above, interim rates shall be designed to allow the utility the opportunity to generate annual operating revenues of \$2,009,292, which represents an increase of \$272,206 for its Seven Springs water system. To determine the appropriate increase to apply to the service rates, miscellaneous service and other revenues are removed from the test year revenues. The calculation is as follows:

1 Total Test Year Revenues	\$1,737,086
2 Less: Miscellaneous & Other Revenues	<u>30,839</u>
3 Test Year Revenues from Service Rates	<u>\$1,706,247</u>
4 Revenue Increase	<u>\$272,206</u>
5 % Service Rate Increase (Line 4/Line 3)	<u>15.95%</u>

This increase of 15.95% in rates shall be applied as an across the board increase to service rates in effect as of June 30, 2001.

On July 24, 2001, Aloha implemented a price index rate adjustment of 1.33% for the Seven Springs water system. Section 367.082(5)(b)1., Florida Statutes, states that to determine the achieved rate of return, any rate changes that occur during the interim test year shall be annualized. For interim purposes, Aloha chose the test year ending June 30, 2001. Therefore, the interim increase shall be applied to the rates in effect as of June 30, 2001, not to the rates that are currently in effect.

The interim rates shall be implemented for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code, provided customers

have received notice. The revised tariff sheets shall be approved upon our staff's verification that the tariff sheets are consistent with our decision, that the proposed notice to the customers is adequate, and that the required security has been filed. The utility shall provide proof to staff of the date notice was given within 10 days after the date of the notice.

Schedule 4 reflects the utility's rates as of June 30, 2001, the utility's current rates, the utility's requested interim rates, and our approved interim rates.

SECURITY FOR INTERIM RATES

Pursuant to Section 367.082, Florida Statutes, revenues collected under interim rates shall be placed under bond, escrow, letter of credit, or corporate undertaking subject to refund with interest at a rate ordered by this Commission. Based on a total annual interim increase of \$272,206, and in accordance with Rule 25-30.360, Florida Administrative Code, we calculate the potential refund of revenues and interest collected to be \$183,669. This amount is based on an estimated eight months of revenue being collected subsequent to our approval of interim rates.

In determining whether a utility can support a corporate undertaking, we consider the following criteria: sufficient liquidity, ownership equity, profitability, and interest coverage to guarantee any potential refund. Our staff has reviewed the 1998, 1999 and 2000 annual reports of Aloha to determine the financial condition of the utility. Analysis of these reports shows that Aloha has minimal liquidity for two of the three periods. Moreover, the utility shows a declining equity ratio and minimal interest coverage. Finally, the average annual net income amount over the three-year period is below the corporate undertaking of \$183,669. Based upon this analysis, we find that Aloha cannot support a corporate undertaking in the amount of \$183,669. Therefore, the utility shall provide a letter of credit, bond or escrow agreement to guarantee the funds collected subject to refund.

This brief financial analysis is only appropriate for our determination as to whether the utility can support a corporate

undertaking in the amount noted, and is not a finding regarding our position on other issues in the rate case.

If the security provided is an escrow account, said account shall be established between the utility and an independent financial institution pursuant to a written escrow agreement: This Commission shall be a party to the written escrow agreement and a signatory to the escrow account. The written escrow agreement shall state the following: that the account is established at the direction of this Commission for the purpose set forth above; that no withdrawals of funds shall occur without the prior approval of the Commission through the Director of the Division of the Commission Clerk and Administrative Services; that the account shall be interest bearing; that information concerning that escrow account shall be available from the institution to the Commission or its representative at all times; that the amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt; and that pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla 3d DCA 1972), escrow accounts are not subject to garnishments.

The utility shall deposit the 15.95% of interim revenue increases collected each month into the escrow account each month to secure for possible refund. The escrow agreement shall also state the following: that if a refund to the customers is required, all interest earned on the escrow account shall be distributed to the customers; and if a refund to the customers is not required, the interest earned on the escrow account shall revert to the utility.

If the security provided is a bond or a letter of credit, said instrument shall be in the amount of \$183,669. If the utility chooses a bond as security, the bond shall state that it will be released or shall terminate only upon subsequent order of the Commission. If the utility chooses to provide a letter of credit as security, the letter of credit shall state that it is irrevocable for the period it is in effect and that it will be in effect until a final Commission order is rendered releasing the funds to the utility or requiring a refund.

Irrespective of the type of security provided, the utility shall keep an accurate and detailed account of all monies it

ORDER NO. PSC-01-2199-FOF-WU
DOCKET NO. 010503-WU
PAGE 8

receives. Pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility shall provide a report by the 20th day of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund shall be with interest and undertaken in accordance with Rule 25-30.360, Florida Administrative Code.

In no instance shall maintenance and administrative costs associated with any refund be borne by the customers. The costs are the responsibility of, and shall be borne by, the utility.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the request for an interim rate increase for water rates by Aloha Utilities, Inc. is hereby granted to the extent set forth in the body of this Order. It is further

ORDERED that each of the findings made in the body of this Order is hereby approved in every respect. It is further

ORDERED that all matters contained in the schedules attached hereto are incorporated herein by reference. It is further

ORDERED that Aloha Utilities, Inc. shall either provide a bond or letter of credit in the amount of \$183,669, or establish an escrow account pursuant to the terms and conditions set forth in this Order. It is further

ORDERED that irrespective of the type of security provided, Aloha Utilities, Inc., shall keep an accurate and detailed account of all monies it receives. It is further

ORDERED that prior to implementation of the interim rates approved herein, Aloha Utilities, Inc. shall file and have approved tariff pages revised in accordance with the provisions of this Order, the appropriate security for the refund, a proposed customer notice, and proof that the customers have received notice of the rate increase. It is further

ORDERED that the approved interim rates shall become effective for service rendered on or after the stamped approval date on the

ORDER NO. PSC-01-2199-FOF-WU
DOCKET NO. 010503-WU
PAGE 9

tariff sheets, provided customers have received notice. It is further

ORDERED that the utility shall provide proof to staff of the date notice was given within 10 days after the date of the notice. It is further

ORDERED that the tariff sheets will be stamped approved upon verification that they are consistent with our decision herein, that the proposed customer notice is adequate, and that the appropriate security is provided. It is further

ORDERED that during the time the interim rates are in effect, Aloha Utilities, Inc. shall file a report by 20th of each month indicating the monthly and total revenue collected subject to refund pursuant to Rule 25-30.360(6), Florida Administrative Code. It is further

ORDERED that in the event a refund is required, the refund shall be with interest and undertaken in accordance with Rule 25-30.360, Florida Administrative Code. It is further

ORDERED that this docket shall remain open pending our final action on the utility's requested final rate increase.

By ORDER of the Florida Public Service Commission this 13th day of November, 2001.

BLANCA S. BAYÓ, Director
Division of the Commission Clerk
and Administrative Services

By: Kay Flynn
Kay Flynn, Chief
Bureau of Records and Hearing
Services

(S E A L)

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ORDER NO. PSC-01-2199-FOF-WU
DOCKET NO. 010503-WU
PAGE 10

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by this order, which is non-final in nature, may request (1) reconsideration within 15 days pursuant to Rule 25-22.060, Florida Administrative Code, or (2) judicial review by the Florida Supreme Court, in the case of an electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or wastewater utility. A motion for reconsideration shall be filed with the Director, Division of the Commission Clerk and Administrative Services, in the form prescribed by Rule 25-22.060, Florida Administrative Code. Citizens of the State of Florida v. Mayo, 316 So.2d 262 (Fla. 1975), states that an order on interim rates is not final or reviewable until a final order is issued. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.

ALOHA UTILITIES, INC. - SEVEN SPRINGS SYSTEM						SCHEDULE 1
SCHEDULE OF WATER RATE BASE						DOCKET 010503-WU
INTERIM TEST YEAR ENDED 6/30/01						
DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	COMM. ADJUST- MENTS	COMM. ADJUSTED TEST YEAR	
1 UTILITY PLANT IN SERVICE	\$9,710,384	\$0	\$9,710,384	\$0	\$9,710,384	
2 LAND & LAND RIGHTS	41,257	0	41,257	0	41,257	
3 ACCUMULATED DEPRECIATION	(2,179,616)	0	(2,179,616)	0	(2,179,616)	
4 CIAC	(9,429,535)	0	(9,429,535)	0	(9,429,535)	
5 AMORTIZATION OF CIAC	2,000,330	0	2,000,330	0	2,000,330	
6 DEFERRED INCOME TAXES	828,979	0	828,979	0	828,979	
7 WORKING CAPITAL ALLOWANCE	<u>356,135</u>	<u>0</u>	<u>356,135</u>	<u>190,000 (1)</u>	<u>546,135</u>	
RATE BASE	<u>\$1,327,934</u>	<u>\$0</u>	<u>\$1,327,934</u>	<u>\$190,000</u>	<u>\$1,517,934</u>	

Note: (1) To adjust working capital consistent with last rate proceeding.

ALOHA UTILITIES, INC. - SEVEN SPRINGS WATER SYSTEM							SCHEDULE 2	
CAPITAL STRUCTURE							DOCKET 010503-WU	
INTERIM TEST YEAR ENDED 6/30/01								
DESCRIPTION	TOTAL CAPITAL	SPECIFIC ADJUSTMENTS (EXPLAIN)	PRO RATA ADJUSTMENTS	CAPITAL RECONCILED TO RATE BASE	RATIO	COST RATE	WEIGHTED COST	
PER UTILITY 2000 - 13-MONTH AVERAGE								
1 LONG TERM DEBT	\$8,721,367	\$0	(\$7,733,118)	\$988,249	74.42%	9.03%	6.72%	
2 SHORT-TERM DEBT	0	0	0	0	0.00%	0.00%	0.00%	
3 PREFERRED STOCK	600,000	0	(532,010)	67,990	5.12%	8.93%	0.46%	
4 COMMON EQUITY	1,832,681	0	(1,624,992)	207,689	15.64%	8.93%	1.40%	
5 CUSTOMER DEPOSITS	564,702	0	(500,696)	64,006	4.82%	6.00%	0.29%	
6 DEFERRED INCOME TAXES	0	0	0	0	0.00%	0.00%	0.00%	
7 DEFERRED ITC'S-ZERO COST	0	0	0	0	0.00%	0.00%	0.00%	
8 TOTAL CAPITAL	<u>\$11,718,750</u>	<u>\$0</u>	<u>(\$10,390,816)</u>	<u>\$1,327,934</u>	<u>100.00%</u>		<u>8.87%</u>	
PER COMMISSION 2000 - 13-MONTH AVERAGE								
9 LONG TERM DEBT	\$8,721,367	\$0	(\$7,591,684)	\$1,129,683	74.42%	9.03%	6.72%	
10 SHORT-TERM DEBT	0	0	0	0	0.00%	0.00%	0.00%	
11 PREFERRED STOCK	600,000	0	(522,282)	77,718	5.12%	8.93%	0.46%	
12 COMMON EQUITY	1,832,681	0	(1,595,293)	237,388	15.64%	8.93%	1.40%	
13 CUSTOMER DEPOSITS	564,702	0	(491,556)	73,145	4.82%	6.00%	0.29%	
14 DEFERRED INCOME TAXES	0	0	0	0	0.00%	0.00%	0.00%	
15 DEFERRED ITC'S-ZERO COST	0	0	0	0	0.00%	0.00%	0.00%	
16 TOTAL CAPITAL	<u>\$11,718,750</u>	<u>\$0</u>	<u>(\$10,200,815)</u>	<u>\$1,517,934</u>	<u>100.00%</u>		<u>8.87%</u>	
					LOW	HIGH		
					RETURN ON EQUITY	8.93%	10.93%	
					OVERALL RATE OF RETURN	8.87%	10.07%	

ALOHA UTILITIES, INC. - SEVEN SPRINGS SYSTEM							SCHEDULE 3-A	
STATEMENT OF WATER OPERATIONS							DOCKET 010503-WU	
INTERIM TEST YEAR ENDED 6/30/01								
DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	COMM. ADJUST- MENTS	COMM. ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT	
1 OPERATING REVENUES	\$1,737,086	\$290,138	\$2,027,224	(\$290,138)	\$1,737,086	\$272,206	\$2,009,292	15.67%
OPERATING EXPENSES:								
2 OPERATION & MAINTENANCE	\$1,467,332	\$48,458	\$1,515,790	(\$1,532)	\$1,514,258		\$1,514,258	
3 DEPRECIATION	63,960	0	63,960	0	63,960		63,960	
4 AMORTIZATION	(30,691)	0	(30,691)	0	(30,691)		(30,691)	
5 TAXES OTHER THAN INCOME	298,985	11,828	310,813	(13,056)	297,757	12,249	310,006	
6 INCOME TAXES	49,564	0	49,564	(130,317)	(80,753)	97,822	17,069	
7 TOTAL OPERATING EXPENSES	\$1,849,150	\$60,286	\$1,909,436	(\$144,905)	\$1,764,531	\$110,071	\$1,874,602	
8 OPERATING INCOME	(\$112,064)	\$229,852	\$117,788	(\$145,233)	(\$27,445)	\$162,135	\$134,690	
9 RATE BASE	\$1,327,934		\$1,327,934		\$1,517,934		\$1,517,934	
10 RATE OF RETURN	(8.44%)		8.87%		(1.81%)		8.87%	

ALOHA UTILITIES, INC. - SEVEN SPRINGS SYSTEM		SCHEDULE 3-B
ADJUSTMENTS TO OPERATING INCOME		DOCKET 010503-WU
INTERIM TEST YEAR ENDED 6/30/01		
EXPLANATION		WATER
<u>OPERATING REVENUES</u>		
Remove requested interim revenue increase.		<u>(\$290,138)</u>
<u>OPERATION & MAINTENANCE EXPENSE</u>		
Reflect appropriate interest on deferred revenues for overearnings.		<u>(\$1,532)</u>
<u>TAXES OTHER THAN INCOME</u>		
RAFs on revenue adjustments above.		<u>(\$13,056)</u>
<u>INCOME TAXES</u>		
To adjust to test year income tax expense		<u>(\$130,317)</u>

ALOHA UTILITIES, INC. - SEVEN SPRINGS SCHEDULE 4
 SYSTEM
 WATER MONTHLY SERVICE RATES DOCKET 010503-WU
 INTERIM TEST YEAR ENDED 6/30/01

	Rates As of 6/30/01	Current Rates	Utility Requested Interim	Comm. Approved Interim
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Residential and General
Service

Base Facility Charge:
 Meter Size:

5/8" x 3/4" (3,000 gallons minimum)	\$7.17	\$7.32	\$8.37	\$8.31
1" (8,000 gallons minimum)	\$19.06	\$19.46	\$22.24	\$22.10
1-1/2" (15,000 gallons minimum)	\$35.75	\$36.49	\$41.72	\$41.45
2" (24,000 gallons minimum)	\$57.61	\$58.80	\$67.23	\$66.80
3" (48,000 gallons minimum)	\$114.46	\$116.83	\$133.57	\$132.72
4" (75,000 gallons minimum)	\$179.14	\$182.85	\$209.06	\$207.72
6" (150,000 gallons minimum)	\$277.03	\$282.76	\$323.29	\$321.23
8" (240,000 gallons minimum)	\$565.96	\$577.67	\$660.48	\$656.25
10" (345,000 gallons minimum)	\$824.55	\$841.62	\$962.25	\$956.09

Gallonage Charge, per 1,000 Gallons	\$1.28	\$1.32	\$1.49	\$1.48
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Typical Residential Bills

5/8" x 3/4" Meter
 Size

3,000 Gallons	\$7.17	\$7.32	\$8.37	\$8.31
5,000 Gallons	\$9.73	\$9.96	\$11.35	\$11.28
10,000 Gallons	\$16.13	\$16.56	\$18.80	\$18.70