DOCKET NO. 010503-WU: Petition for increase in water rates for Seven Springs System in Pasco County by Aloha Utilities, Inc.

WITNESS: **Direct Testimony Of Vincent C. Aldridge,** Appearing On Behalf Of Staff

DATE FILED: November 20, 2001

DIRECT TESTIMONY OF VINCENT C. ALDRIDGE

Q. Please state your name and business address.

A. My name is Vincent C. Aldridge and my business address is 4950 West Kennedy Blvd., Suite 310, Tampa, Florida, 33609.

Q. By whom are you presently employed and in what capacity?

A. I am employed by the Florida Public Service Commission as a Regulatory Analyst II in the Division of Regulatory Oversight.

Q. How long have you been employed by the Commission?

A. I have been employed by the Florida Public Service Commission since August, 1998.

Q. Briefly review your educational and professional background.

A. In 1993, I received a Degree in Accounting from Michigan State University. I received a Juris Doctor degree from the University of Florida in 1997. I also received a Masters in Accounting from the University of South Florida in 2000. I am also a member of the Florida Bar.

Q. Please describe your current responsibilities.

A. Currently, I am a Regulatory Analyst II with the responsibilities of managing a financial audit using a standard audit program.

Q. What is the purpose of your testimony today?

A. The purpose of my testimony is to sponsor the staff audit report of Aloha Utilities, Inc, the Seven Springs water system, Docket No. 010503-WU. The audit report is filed with my testimony and is identified as VCA-1.

Q. Was this audit report prepared by you?

A. Yes, I was the audit manager in charge of this audit.

Q. Please review the work you and the audit staff performed in this audit.

A. We audited Rate Base, reviewed invoices for plant additions, and tested accumulated depreciation using the currently approved rates. We also tested Contributions in Aid of Construction (CIAC) and Amortization of CIAC and calculated a working capital allowance using the balance sheet method. For the Net Operating Income schedule, we compiled revenue and expenses, tested specific customer bills to verify that the approved rates were in use, recomputed revenues using approved tariffs and company-provided gallonage sales and verified Operating and Maintenance (O&M) expenses. We also performed audit test work of payments to vendors to verify booked expenses, recalculated depreciation expense and analyzed taxes other than income. We also audited the capital structure of Aloha Utilities.

Q. Please review the audit disclosures in the audit report.

A. Audit Disclosure No. 1 discusses the accumulated depreciation related to computers. The utility made adjustments to account 340.5- Office Furniture and Equipment to separate computer equipment (which has a depreciable life of 5 years) from the other office furniture and equipment (which has a depreciable life of 15 years). This separation is in accordance with Rule 25-30.140, Florida Administrative Code, and is required by Commission Order No. PSC-01-1374-PAA-WS, issued June 27, 2001, in Docket No. 000737-WS. The utility also made corresponding adjustments to its accumulated depreciation account. Although the utility made an adjustment to its accumulated depreciation account, it did so incorrectly. I recommend that the utility reduce the December 31, 1999 balance for Accumulated Depreciation - Office Furniture, by $586 and increase the balance for Accumulated Depreciation - Computer Equipment, by $2,848.

Audit Disclosure No. 2 discusses items that were expensed during the test year ended December 31, 2000, that should have been capitalized in the Seven Springs water division. These items total $11,552 and consist of a well head check valve for $1,200 (Pumping Equipment, Account 311), a pump for $4,124 (Pumping Equipment, Account 311), a pump motor for $4,116 (Pumping Equipment, Account 311), and office file cabinets for $2,112 (Office Furniture, Account 340). Because these assets provide benefit to future periods, I recommend that they be recorded in the appropriate plant accounts at historical cost and then depreciated over the service life as provided in Rule 25-30.140, Florida Administrative Code. The utility should also record additional depreciation expense of $306 for the reclassification.

Audit Disclosure No. 3 discusses the allocation of the working capital allowance. The utility allocated working capital using the O&M expenses for the four water and wastewater systems. The company calculation resulted in 34.1086% of the working capital allowance being allocated to the Seven Springs water system. The company calculation allocated working capital using O&M amounts from Commission Order No. PSC-01-1245-PAA-WS, issued June 4, 2001, in Docket No. 000737-WS, for the Aloha Gardens water and wastewater systems and the utility's 2000 annual report for the Seven Springs wastewater system. I could not determine where the utility derived its Seven Springs water system O&M expense amount.

I believe that the <u>methodology</u> used by the utility to allocate working capital among its four systems is appropriate. However, I believe that the O&M expense figure for the Seven Springs water system should be changed to reflect the audited balance of O&M expense. That change would result in working capital being allocated to the Seven Springs water system based on $1,428,758 of O&M expenses. This results in 31.8829% of the working capital, or $259,412 being allocated to the Seven Springs water system. This is a $50,364 decrease to the MFR amount.

Audit Disclosure No. 4 discusses the amortization of loan costs. During the year 1999, the utility acquired a construction loan from Bank Of America in the amount of $5,200,000 at 9.00% interest for 15 years. The loan settlement date was July 30, 1999. The closing expenses on the loan were $39,829, paid to the bank at closing, and $23,541 for legal fees paid. The total loan cost is $63,370 (39,829 + 23,541). The monthly amortization amount is $352 (63,370 / 180 months).

In its MFR Schedule D-5(B), the utility indicated a test year 2000 expense of $5,984 for amortization of Issuing Expense. This amount represents amortization from August 1, 1999 through December 31, 2000. I recommend that the five months of amortization for 1999, in the amount of $1,760, be removed from the cost of capital computation for ratemaking purposes.

Audit Disclosure No. 5 discusses the Long Term Debt included in the Capital Structure. Schedule D-2 of the MFRs indicates two debt items to LL Speer. The audit found four additional debt items totaling $3,179,132 on a thirteen-month average basis. I recommend that the utility include all of its long term debt issues in its capital structure for the calculation of its cost of capital.

Audit Disclosure No. 6 discusses Interest Income. Schedule B-4(B) of the utility's MFRs indicates $10,139 of interest income for the year 2000. A review of the utility's general ledger revealed that the utility's interest income had not been properly allocated to its four systems. An allocation of interest income based upon ECRs results in $17,293 of interest income for the Seven Springs water system. I recommend that the interest income be increased by $7,154.

Audit Disclosure No. 7 discusses Taxes Other Than Income. The utility allocates its real estate taxes based on the land's original cost per books. The utility allocates its tangible personal property taxes based on taxable plant balances. Taxable plant, as used by the utility, is total plant less land and vehicles. The utility did not net accumulated depreciation against its plant balances for this allocation.

Because the tax paid on each particular piece of property is known, and we know to which system each piece of property applies, I recommend that the Commission allocate real estate taxes to the system where the particular piece of property is located. This results in an increase of $253 to the Seven Springs water system.

Pursuant to Commission Order No. PSC-99-1917-PAA-WS, issued September 28, 1999, in Dockets Nos. 980245-WS and 970536-WS, I recommend that the tangible personal property taxes be allocated based on plant balances less land and transportation equipment, net of accumulated depreciation. This results in an increase of $627 to the Seven Springs water system.

Previously, I recommended revenues be increased for the correct interest income. I also recommend that a corresponding change to Regulatory Assessment Fees be made. This results in an increase of $322 to the Seven Springs water system.

These adjustments result in a total increase to Taxes Other Than Income of $1,202.

Audit Disclosure No. 8 discusses the deferred rate case expense included in the working capital adjustment. During the test year ended December 31, 2000, the utility recorded amounts for deferred rate case expense under Docket No. 991643-SU in its general ledger in two separate accounts: 186.04 and 187.03. This docket was for the Seven Springs Wastewater rate case. In December of 2000, the amount recorded in account 187.03 was reclassified and transferred to account 186.04.

The thirteen-month average for these accounts was computed as $103,459 for account 186.04 and $61,702 for account 187.03. Even though account 187.03 had a zero balance at December 31, 2000, it still had a thirteen-month average balance because dollars were recorded in that account throughout the year. Because these costs were incurred in a wastewater rate case, they should not be included in the computation of working capital in the current water rate case. In its MFR filing the utility removed the $103,459 from the average working capital computation, but did not remove the $61,702. The $61,702 should also be removed as it was also related to the wastewater case.

Audit Disclosure No. 9 discusses the Pilot Project for water quality. By Order No. PSC-00-1285-FOF-WS, issued July 14, 2000, in Docket No. 960545-WS, the Commission ordered the utility to implement a pilot project using the best available treatment alternative to enhance the water quality and to diminish the tendency of the water to produce copper sulfide in customers' homes. By Order No. PSC-01-1374-PAA-WS, issued June 27, 2001, in Docket No. 000737-WS, the Commission found that a $380,000 estimate of the cost of the pilot project was reasonable and that it was appropriate to recognize these costs in working capital. It also noted that the appropriate final treatment for these costs can be addressed in the upcoming rate case (which is the subject of this audit). Finally, the Commission instructed the working capital for Seven Springs water system to be increased by $190,000 ($380,000 divided by two) the average balance of the estimated cost of the pilot project. The utility included an adjustment of $190,000 to its working capital on Schedule A-4(B) of its MFRs. The utility is currently accounting for costs related to the pilot project in CWIP account 105-02-0. The balance in this account at December 31, 2000 was $3,826 and at June 30, 2001 it was $57,579. This information is provided to assist in determining the appropriate final treatment for these costs.

Audit Disclosure No. 10 discusses the purchase of the new building. During the test year ended December 31, 2000 the utility purchased a building to use as its main office. At present the utility is not using the whole building. The purchase price was $774,115 for the building and land ($765,000 sales price and $9,115 for closing costs).

By Order No. PSC-01-1245-PAA-WS, issued June 4, 2001, in Docket No. 000737-WS, the Commission recognized the $765,000 sales price and found the following adjustments appropriate for the Aloha Gardens systems: 1) the value of land associated with the new building was $64,409, 2) the non-utility percentage was 29.4%, and 3) the appropriate allocation to the Seven Springs water system was 36% for the building related costs.

The utility allocated the building and associated land based on 12.5% each to Aloha Gardens water and wastewater and 37.5% each to Seven Springs water and wastewater. Aloha also recorded a $82,830 value for the associated land related to the building. In addition, the utility recorded a 28.19% non-utility adjustment to the total cost of the building and associated land. By Order No. PSC-01-1374-PAA-WS, the Commission directed plant to be increased by $1,019 and land reduced by $970 for the Seven Springs water system to reflect the difference between the valuation and allocation percentages used by the utility and those approved in the order. These adjustments were made by the utility in its MFR filing.

During the current audit, the adjustment amounts contained in Commission Order No. PSC-01-1374-PAA-WS were found to be in error. We calculated the appropriate balances for the building and land as of December 31, 2000, using the valuation ($765,000 + $9,115 of closing costs), non-utility percentage (29.4%) and system allocation percentage (36%) directed by Order No. PSC-01-1245-PAA-WS.

Based on our calculation, the allocation of the new office building and land for the Seven Springs water division should be reduced by $5,776 for the building and $5,935 for the land.

Audit Disclosure No. 11 discusses regulatory commission expense. By Order No. PSC-01-1374-WS, the Commission found that $328,672 of regulatory commission expense associated with Docket No. 960545-WS was a reasonable amount. It also found that it was appropriate to begin amortizing these costs in 2000. The company recorded the $328,672 as a deferred asset in account 186.01 and included this in its working capital computation.

The utility adjusted its O&M expense by $65,735 to recognize one year's amortization of this regulatory commission expense on Schedule B-3(A) of its MFRs. However, a corresponding adjustment was not made to reduce the $328,672 deferred asset for one year of amortization. I recommend that the utility's working capital be reduced by $65,735 at December 31, 2000. The thirteen-month average effect of this adjustment is $32,868.

Q. Does this conclude your testimony?

A. Yes, it does.

DOCKET NO.: Petition for increase in water rates for Seven Springs System in Pasco County by Aloha Utilities, Inc.

WITNESS: **Direct Testimony Of Vincent C. Aldridge,** Appearing On Behalf Of Staff

EXHIBIT: VCA-1 - Staff Audit Report

FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF REGULATORY OVERSIGHT
BUREAU OF AUDITING SERVICES

TAMPA DISTRICT OFFICE

ALOHA UTILITIES, INC.

RATE CASE

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2000

Docket No. 010503-WU

AFA Control # 01-207-2-1

Joseph Rohrbacher, Audit Staff

Simon Ojada, Audit Staff

Vincent C. Aldridge, Audit Manager

James A. McPherson, Tampa District Supervisor

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DIVISION OF REGULATORY OVERSIGHT
AUDIT REPORT

OCTOBER 10, 2001

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the accompanying schedules of Rate Base, Net Operating Income and Capital Structure for the historical twelve month period ended December 31, 2000, for Aloha Utilities, Inc. These schedules were prepared by the utility as a part of the mimimum filing requirements for a rate case of the Seven Springs water system. There is no confidential information associated with this audit, and there are no audit staff minority opinions.

This is an internal accounting report prepared after performing a limited scope audit. Accordingly, this report should not be relied upon for any purpose except to assist the Commission staff in the performance of their duties. Substantial additional work would have to be performed to satisfy generally accepted auditing standards and produce audited financial statements for public use.

SUMMARY OF SIGNIFICANT FINDINGS

The utility had several O & M expense accounts that should have been capitalized. This changed the working capital allocations. The utility did not remove from its working capital the amortization of rate case expenses as stated in Order No. PSC-01-1374-PAA-WS. The utility did not include all of its long term debt issues in its capital structure for the calculation of cost of capital. The land and plant accounts related to the utility's recent purchase of a new office building need to be adjusted to properly reflect the valuation, non-utility percentage and system allocation directed by Order No. PSC-01-1374-PAA-WS.

SUMMARY OF SIGNIFICANT PROCEDURES

Our audit was performed by examining, on a test basis, certain transactions and account balances which we believe are sufficient to base our opinion. Our examination did not entail a complete review of all financial transactions of the company. Our more important audit procedures are summarized below. The following definitions apply when used in this report:

Compiled - The exhibit amounts were reconciled with the general ledger, and accounts were scanned for error or inconsistency.

Verified - The item was tested for accuracy, and substantiating documentation was examined.

RATE BASE: Compiled Rate Base. Reviewed plant addition invoices on a judgmental basis. Tested accumulated depreciation using currently approved rates. Tested Contributions in Aid of Construction (CIAC) and Amortization of CIAC. Calculated a working capital allowance on the balance sheet method.

NET OPERATING INCOME: Compiled revenue and expenses. Tested specific customer bills to verify that approved rates were in use. Recomputed revenues using approved tariffs and company-provided gallonage sales. Verified Operating and Maintenance (O&M) expenses on a judgmental basis. Performed audit test work of payments to vendors to verify booked expenses. Calculated depreciation expense. Analyzed taxes other than income.

CAPITAL STRUCTURE: Compiled the capital structure of Aloha Utilities.

OTHER: Performed analytical review on O&M expense. Received a copy of the utility's 2000 audited financial statements. Reviewed the independent auditor's workpapers.

Disclosure No. 1

Subject: Accumulated Depreciation Related to Computers

Statement of Fact: The utility made adjustments to account 340.5- Office Furniture and Equipment to separate computer equipment (which has a depreciable life of 5 years) from the other office furniture and equipment (which has a depreciable life of 15 years). It also made corresponding adjustments to its accumulated depreciation account. This separation is in accordance with Rule 25-30.140, Florida Administrative Code and was directed to be done by FPSC Order 01-1374-PAA-WS.

Recommendation: The utility did make an adjustment to its Accumulated Depreciation account to reflect the separation of its computer equipment from its other office furniture and equipment. However, it did so incorrectly as shown below:

UTILITY'S ADJUSTMENT

		Before Adj. 12/31/99	Adjustment	After Adj. 12/31/99
Accum Dep	Office Furniture	$46,660	($2,262)	$44,398
Accum Dep	Computer Equip	0	4,273	4,273
		$46,660	$2,011	$48,671

CORRECT ADJUSTMENT

		Before Adj. 12/31/99	Adjustment	After Adj. 12/31/99
Accum Dep	Office Furniture	$46,660	($2,848)	$43,812
Accum Dep	Computer Equip	0	7,121	7,121
		$46,660	$4,273	$50,933

The utility needs to make another adjustment to its accumulated depreciation account to reflect the differences noted above as follows:

CURRENT ADJUSTMENT NEEDED

		Per MFR 12/31/99	Adjustment	Per Audit 12/31/99
Accum Dep	Office Furniture	$44,398	($ 586)	$43,812
Accum Dep	Computer Equip	4,273	2,848	7,121
		$48,670	$ 2,262	$50,933

Disclosure No. 2

Subject: Items Expensed That Should Have Been Capitalized

Statement of Fact: During the test year ended December 31, 2000, the utility expensed items that should have been capitalized in the Seven Springs Water division.

Recommendation: The following items are fixed or plant assets and should be reclassified from an expense account to a plant account. Plant assets generally are acquired for use in operations and have relatively long lives. Because these assets provide benefit to future periods, they should be recorded in the appropriate plant accounts at historical cost and then depreciated over the service life as provided in Rule 25-30.140, Florida Administrative Code.

Item	Account	Description	Debit	Credit
Well head check valve	311.xxx	Pumping Equipment	$1,200	
Pump		Pumping Equipment	4,124	
40 hp pump motor		Pumping Equipment	4,116	
Office file cabinets	340.xxx	Office Furniture	2,112	
	620.xxx	Material/Supplies		$11,552
		Total:	$11,552	$11,552

The utility also needs to record additional depreciation expense of $306 for the above adjustment.

Disclosure No. 3

Subject: Allocation of Working Capital

Statement of Fact: The utility allocated working capital as follows:

	Aloha Gardens		Seven Springs		
	Water	Sewer	Water	Sewer	Total
O&M Expenses	$433,987	$841,036	$1,580,130	$1,777,490	$4,632,643
Percent	9.3680%	18.1546%	34.1086%	38.3688%	100%
Working Capital	$85,081	$164,881	$309,776	$348,468	$908,206

The utility allocated working capital using O&M amounts from FPSC Order No. 01-1245-PAA-WS for the Aloha Gardens water and wastewater systems and the utility's 2000 annual report for the Seven Springs wastewater system. It is unclear where the utility derived its Seven Springs water system O&M expense amount.

Recommendation: The methodology used by the utility to allocate working capital among its four systems appears to be appropriate. However, the O&M figure for Seven Springs Water should be changed to reflect the audited balance of O&M expense. That change would result in working capital being allocated as follows:

	Aloha Gardens		Seven Springs		
	Water	Sewer	Water	Sewer	Total
O&M Expenses	$433,987	$841,036	$1,428,758	$1,777,490	$4,481,271
Percent	9.6845%	18.7678%	31.8829%	39.6649%	100%
Working Capital	$78,797	$152,702	$259,412	$322,729	$813,640

The resulting adjustment would be:	$309,776	---Utility's working capital figure
	259,412	---Working capital per audit
	$ 50,364	---Adjustment

Disclosure No. 4

Subject: Amortization of Loan Cost

Statement of Fact: During the year 1999 the utility acquired a construction loan from Bank Of America in the amount of $5,200,000 at 9.00% interest for 15 years. The loan settlement date was July 30, 1999. The closing expenses on the loan were $39,829, paid to the bank at closing, and $23,541 for legal fees paid. The total loan cost is $63,370 (39,829 + 23,541). The monthly amortization amount is $352 (63,370 / 180 months).

Recommendation: In its MFR Schedule: D-5(B), the utility recorded $5,984 for Annual Amortization of Issuing Expense on the loan for the test year 2000. This amount represents amortization from August 1, 1999 through December 31, 2000.

The five months of amortization for 1999 in the amount of $1,760 should be removed from the cost of capital computation for ratemaking purposes.

Disclosure No. 5

Subject: Long Term Debt Included in Capital Structure

Statement of Fact: The utility did not include all of its long term debt issues in its capital structure for the calculation of its cost of capital on Schedule D-2 of its MFRs.

Recommendation: The utility should include all of its long term debt issues in its capital structure for the calculation of its cost of capital. The differences are noted below:

Long Term Debt in Capital Structure per MFRs:

Description	Principal Amount	13 month Average
L.L. Speer (Line of Credit)	$3,042,000	$3,000,787
L.L. Speer (DOT)	$715,144	$545,079
		$3,545,866

Long Term Debt in Capital Structure per Audit:

Description	Principal Amount	13 month Average
Bank of America (Const. Loan)	$5,200,000	$2,982,200
Vehicle Notes	$63,153	$42,615
Vehicle Notes	$19,690	$13,086
Bank of America (Bldg Loan)	$612,000	$141,231
L.L. Speer (Line of Credit)	$3,042,000	$3,000,787
L.L. Speer (DOT)	$715,144	$545,079
		$6,724,998

Disclosure No. 6

Subject: Interest Income

Statement of Fact: Schedule B-4(B) of the utility's MFRs indicates $10,139 of interest income for the year 2000.

Recommendation: A review of the utility's general ledger revealed that the utility's interest income had not been properly allocated to its four systems. An allocation of interest income based upon ECRs results in $17,293 of interest income for the Seven Springs water system. An adjustment to revenues should be made as follows:

Interest Income per Audit:	$17,293
Interest Income per MFR and G/L:	10,139
Increase in Interest Income:	$ 7,154

Disclosure No. 7

Subject: Taxes Other Than Income

Statement of Fact: The utility allocates its real estate taxes based on the land's original cost per books. The utility allocates its tangible personal property taxes based on taxable plant balances. Taxable plant, as used by the utility, is total plant less land and vehicles. The utility did not net accumulated depreciation against its plant balances for this allocation.

Recommendation: Because the tax paid on each particular piece of property is known, and we know to which system each piece of property applies, we allocated real estate taxes to the system where the particular piece of property is located. This results in an increase of $253.

As per Order No. PSC-99-1917-WS, we have allocated tangible personal property taxes based on plant balances less land and transportation equipment, net of accumulated depreciation. This results in an increase of $627.

In Disclosure No. 6, an audit adjustment to revenues was recommended. A corresponding change to Regulatory Assessment Fees should be made. This results in an increase of $322.

Taxes other than income should be increased as follows:

Real Estate Tax	$ 253
Personal Property Tax	627
RAF	322
Total Increase	$1,202

Disclosure No. 8

Subject: Working Capital Adjustment

Statement of Fact: During the test year ended December 31, 2000 the utility recorded amounts for deferred rate case expense under Docket No. 991643-SU in its general ledger in two separate accounts- 186.04 and 187.03. This docket was for the Seven Springs Wastewater rate case. In December of 2000 the amount recorded in account 187.03 was reclassified and transferred to account 186.04.

Recommendation: The thirteen month average for these accounts was computed as $103,459 for account 186.04 and $61,702 for account 187.03. Even though account 187.03 had a zero balance at December 31, 2000, it still had a thirteen month average balance because dollars were recorded in that account throughout the year. Because these costs were incurred in a wastewater rate case, they should not be included in the computation of working capital in the current water rate case. In its MFR filing the utility removed the $103,459 from the average working capital computation, but did not remove the $61,702. The $61,702 should also be removed as it was also related to the wastewater case.

Disclosure No. 9

Subject: Working Capital Adjustment: Pilot Project

Statement of Fact: Order No. PSC-00-1285-FOF-WS, issued July 14, 2000 ordered the utility to implement a pilot project using the best available treatment alternative to enhance the water quality and to diminish the tendency of the water to produce copper sulfide in customers homes. Order No. PSC-01-1374-PAA-WS, issued June 27, 2001 found that a $380,000 estimate of the cost of the pilot project was reasonable and that it was appropriate to recognize these costs in working capital. It also noted that the appropriate final treatment for these costs can be addressed in the upcoming rate case (which is the subject of this audit). Finally, the order instructed the working capital for Seven Springs water system to be increased by $190,000 ($380,000 divided by two) the average balance of the estimated cost of the pilot project.

Recommendation: The utility included an adjustment of $190,000 to its working capital on Schedule A-4(B) of its MFRs. The utility is currently accounting for costs related to the pilot project in CWIP account 105-02-0. The balance in this account at December 31, 2000 was $3,826 and at June 30, 2001 it was $57,579. This information is provided to assist in determining the appropriate final treatment for these costs.

Disclosure No. 10

Subject: Purchase of New Building

Statement of Fact: During the test year ended December 31, 2000 the utility purchased a building to use as its main office. At present the utility is not using the whole building. The purchase price was $774,115 for the building and land ($765,000 sales price and $9,115 for closing costs).

Order No. PSC-01-1245-PAA-WS recognized the $765,000 sales price and found the following adjustments appropriate for the Aloha Gardens systems: 1) the value of land associated with the new building was $64,409; 2) the non-utility percentage was 29.4%; and 3) the appropriate allocation to the Seven Springs water system was 36% for the building related costs.

Recommendation: The utility allocated the building and associated land based on 12.5% each to Aloha Gardens water and wastewater and 37.5% each to Seven Springs water and wastewater. Aloha also recorded a $82,830 value for the associated land related to the building. In addition, the utility recorded a 28.19% non-utility adjustment to the total cost of the building and associated land.

Order No. PSC-01-1374-PAA-WS directed plant to be increased by $1,019 and land reduced by $970 for the Seven Springs water system to reflect the difference between the valuation and allocation percentages used by the utility and those approved in the order. These adjustments were made by the utility in its MFR filing.

During the current audit, the adjustment amounts contained in Order No. PSC-01-1374-PAA-WS were found to be in error. We calculated the appropriate balances for the building and land as of December 31, 2000, using the valuation ($765,000 + $9,115 of closing costs), non-utility percentage (29.4%) and system allocation percentage (36%) directed by Order No. PSC-01-1245-PAA-WS.

Based on our calculation, the allocation of the new office building and land for the Seven Springs water division should be adjusted as follows:

	Building	Land
Balance per audit	$180,379	$16,370
Balance per utility	186,155	22,305
Adjustment	($ 5,776)	($ 5,935)

Likewise, an adjustment to the utility's MFR balances at December 31, 2000 should also be made to reduce Plant in Service by $5,776 and Land by $5,935.

Disclosure No. 11

Subject: Regulatory Commission Expense

Statement of Fact: Order No. PSC-01-1374-WS found that $328,672 of regulatory commission expense associated with Docket No. 969545-WS was a reasonable amount. It also found that it was appropriate to begin amortizing these costs in 2000. The company recorded the $328,672 as a deferred asset in account 186.01 and included this in its working capital computation.

Recommendation: The utility adjusted its O&M expense by $65,735 to recognize one year's amortization of this regulatory commission expense on Schedule B-3(A) of its MFRs. However, a corresponding adjustment was not made to reduce the $328,672 deferred asset for one year of amortization. The utility's working capital should be reduced $65,735 at December 31, 2000. The thirteen month average effect of this adjustment was calculated to be $32,868.

ichedule of Water Rate Base

Florida Public Service Commission

ompany: Aloha Utilities, Inc.; Seven Springs Water Division
locket No.: 010503-WU
chedule Year Ended: December 31, 2000
nterim [X] Final [ ]
listoric [X] Projected [ ]

Schedule: A-1 (B)
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Preparer: CJN & W

xplanation: Provide the calculation of average rate base for the test year, showing all adjustments. All non-used nd useful items should be reported as Plant Held For Future Use. If method other than formula approach (1/8 I&M) is used to determine working capital, provide additional schedule showing detail calculation.

Line No.	(1) Description	(2) Balance Per Books	(3) A-3 Utility Adjustments	(4) Adjusted Utility Balance	(5) Supporting Schedule(s)
1	Utility Plant in Service	$ 9,085,337		$ 9,085,337	A-6
2	Utility Land & Land Rights	31,410		31,410	A-6
3	Less: Non-Used & Useful Plant	-		-	A-7
4	Construction Work in Progress				-
5	Less: Accumulated Depreciation	(2,022,239)		(2,022,239)	A-10
6	Less: CIAC	(7,628,606)		(7,628,606)	A-12
7	Accumulated Amortization of CIAC	1,699,008		1,699,008	A-14
	Deferred Taxes (Net)	860,100	(32,703) (A)	827,397	G-6
9	Contributed Taxes	(1,175,890)		(1,175,890)	G-6
10	Accum Amort of Contrib Tax	206,854	(26,221) (B)	180,633	B-1(B)
11	Working Capital Allowance	309,776	190,000 (C)	499,776	A-17
12	Total Rate Base	$ 1,365,750	$ 131,076	$ 1,496,826	

chedule of Water Net Operating Income | Florida Public Service Commission

ompany: Aloha Utilities, Inc.; Seven Springs Water Division
ocket No.: 010503-WU
est Year Ended: December 31, 2000
iterim [X] Final [ ]
listoric [X] or Projected [ ]

Schedule: B-1 (B)
Page 1 of 1
Preparer: CJN & W

xplanation: Provide the calculation of net operating income for the test year. If amortization (Line 4) is related to any amount other ian an acquisition adjustment, submit an additional schedule showing a description and calculation of charge.

ine No.	(1) Description	(2) Balance Per Books	(3) Utility Test Year Adjustments	(4) Utility Adjusted Test Year	(5) Requested Revenue Adjustment	(6) Requested Annual Revenues	(7) Supporting Schedule(s)
1	OPERATING REVENUES	$ 1,794,660	$ 54,345 (A)	$ 1,849,005	$ 133,063 (H)	$ 1,982,068	B-4, E-13
2	Operation & Maintenance	1,380,691	144,504 (B)	1,525,195	(15,559) (E)	1,509,636	B-5, B-3(B)
3	Depreciation, net of CIAC Amort.	73,816		73,816		73,816	B-13, B-3(B)
4	Amortization (Contributed Taxes) (1)	(42,214)	11,523 (C)	(30,691)		(30 691)	B-3(B)
5	Taxes Other Than Income	246,175	3,895 (D)	250,070	5,922 (F)	255,992	B-15, B-3(B)
6	Provision for Income Taxes (2)	34,072	-	34,072	(412) (G)	33,660	C-1(B), B-3(B)
7	OPERATING EXPENSES	1,692,540	159,922	1,852,462	(10,049)	1,842,413	
8	NET OPERATING INCOME	$ 102,120	$ (105,577)	$ (3,457)	$ 143,112	$139 654	
9	RATE BASE	$ 1,365,750		$ 1,496,826		$ 1,496,826	
10	RATE OF RETURN	7.48 %		– %		9.33 %	

11	Notes: (1) Amortization of contributed taxes is as follows:	
12	Contributed tax collected	$ 1,175,890
13	Amortization rate	2.61
14	Annual amortization	$ 30,691
15	Average accumulated amortization	$ 206,854
16	(2) The provision for income taxes consists solely of deferred income tax required by Internal Revenue Code (IRC) Section 168	

chedule of Requested Cost of Capital
hirteen Month Average

Florida Public Service Commission

ompany: Aloha Utilities, Inc.; Seven Springs Water Division
ocket No.: 010503-WU
est Year Ended: December 31, 2000
chedule Year Ended: December 31, 2000
istoric [X] or Projected [ ]

Schedule: D-1
Page 2 of 2
Preparer: CJN & W

Subsidiary [ ] or Consolidated [ ]

xplanation: Provide a schedule which calculates the requested Cost of Capital on a 13-month average basis. If a ear-end basis is used, submit an additional schedule reflecting year-end calculations.

Line No.		(1) Total Capital	(2) Ratio	(3) Cost Rate	(4) Weighted Cost
1	Long-Term Debt	805,591	53.82 %	10.10 %	5.44 %
2	Short-Term Debt			-	
3	Preferred Stock	136,361	9.11	8.93	0.81
4	Customer Deposits	118,100	7.89	6.00	0.47
5	Common Equity	436,774	29.18	8.93	2.61
6	Tax Credits - Zero Cost				
7	Accumulated Deferred Income Tax				
8	Other (Explain)				
	Total	$ 1,496,826	100.00 %		9.33 %

Aloha Utilities, Inc.
Docket 010503-WU: Rate Case
Summary of Proposed Audit Adjustments
Historical Test Year Ended December 31, 2000

Disclosure No. 1 - Correct adjustments to Accumulated Depreciation related to computer purchases

Acct. No.	Account Title	Dr.	Cr.
108	Acc. Dep-Office Furn. and Equip.	586	
108	Acc. Dep-Office Furn. and Equip.- Computers		2,848
215	Unappropriated Retained Earnings	2,262	

Disclosure No. 2 - To show the effect of expense transactions which should be capitalized:

Acct. No.	Account Title	Dr.	Cr.
311	Pumping Equipment	9,440	
340	Office Furniture	2,112	
215	Unappropriated Retained Earnings		11,552

Disclosure No. 3-9: No adjustment to books necessary- Disclosure for ratemaking purposes only

Disclosure No. 10 - To correct cost and allocation of new building and land:

Acct. No.	Account Title	Dr.	Cr.
304 25 1	Structures and Improvements: AGW	8,096	
354 27 3	Structures and Improvements: AGWW	8,096	
121 00 2	Non Utility Property- Plant	13,781	
304 25 3	Structures and Improvements: SSW		5,776
354 27 4	Structures and Improvements: SSWW		5,776
303 05 1	Land: AGW		1,069
303 05 3	Land: SSW		5,935
353 07 2	Land: AGWW		1,068
353 07 4	Land: SSWW		5,935
121 00 2	Non Utility Property- Land		4,414

Disclosure No. 11 - To record one year of amortization of rate case expense

Acct. No.	Account Title	Dr.	Cr.
215	Unappropriated Retained Earnings	65,735	
186	Miscellaneous Deferred Debit: Deferred Rate Case		65,735