

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: DECEMBER 7, 2001

COMMISSION STAFF'S PREHEARING STATEMENT

Pursuant to Order No. PSC-01-1680-PCO-WU, issued August 17, 2001, as revised by Order No. PSC-01-1752-PCO-WU, issued August 28, 2001, the Commission Staff (Staff) files its prehearing statement as follows:

A. All Known Witnesses

Staff intends to call the following witnesses:

Gerald Foster of the Department of Environmental Protection (DEP). He will testify as to the utility's compliance with the regulations and statutes administered by the DEP and to the problem that some customers are experiencing with "black water."

Van Hoofnagle of the Department of Environmental Protection. He will testify as to the problem that some customers are experiencing with "black water," and his involvement in the Interagency Copper Pipe Corrosion Project, and possible causes and remedies for the "black water" problem.

Richard Durbin of the Florida Public Service Commission, Division of Consumer Affairs. He will testify as to the number and type of consumer contacts and complaints received by the Commission concerning Aloha Utilities, Inc. (Aloha), the nature of the complaints received by the Commission, and the timeliness of Aloha's response to the complaints.

Vincent C. Aldridge of the Florida Public Service Commission, Division of Regulatory Oversight. He will testify as to the staff audit report.

Stephen B. Fletcher of the Florida Public Service Commission, Division of Economic Regulation. He will testify as to whether an

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adjustment to expenses should be made for related party purchased water transactions.

Frances J. Lingo of the Florida Public Service Commission, Division of Economic Regulation. She will testify to the appropriate method of projecting customers and consumption for the projected test year, respond to the calculation of inclining block rates, explain the Memorandum of Understanding between the Commission and the five Water Management Districts, discuss conservation programs, and develop a series of illustrative rate designs.

B. All Known Exhibits

Staff has identified and intends to sponsor the following exhibits:

- VH-1: Florida Statute 403.861
- VH-2: Interagency Copper Pipe Corrosion Project Final Report - May 2001
- JRD-1: Total Consumer Contacts Chart for Aloha Utilities, Inc. (January 1999 through October 2001)
- JRD-2: Total Complaints Filed Chart for Aloha Utilities, Inc. (January 1999 through October 2001)
- JRD-3: Chart showing Total Number of Complaints, Total Number of Water Customers, and Complaints Per 1,000 Customers for Aloha and Nine Other Utilities
- VCA-1: Staff Audit Report dated October 10, 2001
- SBF-1: List of dockets on which Stephen B. Fletcher worked
- SBF-2: History of Aloha's Purchased Water Agreements
- SBF-3: Analysis of Aloha's Purchased Water Agreements
- FJL-1: Test of Forecast Methodologies

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- FJL-2: Customer Growth Projections
- FJL-3: Analysis of Aloha's Consumption Projection
- FJL-4: Aloha's Projection Periods: Customer Growth v. Consumption Growth
- FJL-5: Aloha Service Area Drought Severity Classifications: 2000-2001
- FJL-6: Moisture Deficit Variables
- FJL-7: Weather Variables: Correlation to Average Monthly Residential Consumption per ERC
- FJL-8: Consumption Projections
- FJL-9: Comparison of Consumption Projections
- FJL-10: Analysis of Aloha's Requested Rate Design
- FJL-11: Illustrative Rate Designs

Staff reserves the right to identify additional exhibits at the Prehearing Conference and at hearing for purposes of cross-examination.

C. Staff's Statement of Basic Position

The information gathered through discovery and prefiled testimony indicates, at this point, that the utility is entitled to some level of increase. The specific level cannot be determined until the evidence submitted at hearing is analyzed. Except where Staff has testified, Staff's positions are preliminary and based on materials filed by the parties and on discovery. The preliminary positions are offered to assist the parties in preparing for the hearing. Staff's final positions will be based upon all the evidence in the record and may differ from the preliminary positions. Testifying staff's positions are set forth in their respective testimonies.

D. Issues & Staff's Respective Positions

The following are issues identified by Staff and its positions on these issues. Testifying staff's positions are set forth in their respective testimonies. Non-testifying staff's positions are preliminary, are based on materials filed by the parties or obtained through discovery, and are intended to inform the parties of Staff's preliminary positions. Staff's final positions will be based upon an analysis of the evidence presented at the hearing.

ISSUE 1: Is the quality of service satisfactory?

STAFF'S POSITION: For testifying Staff, the utility's Seven Springs water plant and distribution systems are in compliance with all applicable provisions of Title 62, Florida Administrative Code. Also, the water at the meter meets all drinking water quality standards. (Foster) For non-testifying Staff, the quality of service will depend on customer testimony and other evidence presented at the hearing.

ISSUE 2: Should the utility's rate increase request be denied due to poor quality of service?

STAFF'S POSITION: No, pursuant to Section 367.081(2), Florida Statutes, the Commission must fix rates which are just, reasonable, compensatory and not unfairly discriminatory. If the utility is in violation of any statute or rule, the Commission may institute a show cause proceeding in accordance with Section 367.161, Florida Statutes. Also, if the Commission determines that improvements are required, it may order the utility to make the necessary improvements. However, in setting rates, the Commission must give the utility the opportunity to earn within its authorized rate of return. The Commission may set rates at the low-end of the range if it determines that the utility provides poor quality of service.

RATE BASE

ISSUE 3: Should items erroneously expensed by the utility during the test year ended December 31, 2000 be capitalized to plant?

STAFF'S POSITION: Yes. For testifying Staff, plant and retained earnings as of December 31, 2000 should both be increased by

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\$11,522. (Aldridge) For non-testifying Staff, both plant and retained earnings should be increased by \$11,522 for the projected test year. Further, corresponding adjustments to operation and maintenance expense, accumulated depreciation, and depreciation expense should be made to the 2001 projected test year.

ISSUE 4: Should plant and land be reduced to properly allocate the utility's recent purchase of a new office building?

STAFF'S POSITION: Yes. Land and plant should be reduced by \$5,776 and \$5,935, respectively. (Aldridge)

ISSUE 5: What are the used and useful percentages for the water treatment plant and the water distribution system?

STAFF'S POSITION: The used and useful percentages for the water treatment plant and the water distribution system are both 100%.

ISSUE 6: Should an adjustment be made to accumulated depreciation to reflect the appropriate depreciation rate for computer equipment?

STAFF'S POSITION: Yes. Accumulated depreciation should be increased by \$2,262, and retained earnings should be decreased by \$2,262. (Aldridge)

ISSUE 7: Should contributions in aid of construction (CIAC) be increased to reflect the appropriate amount of contributed property?

STAFF'S POSITION: Yes. CIAC should be increased by \$27,236 to correct the amount of contributed property received from April through December 2001. Corresponding adjustments should be made to accumulated amortization of CIAC and test year amortization of CIAC.

ISSUE 8: What is the appropriate projected accumulated amortization of contributed taxes?

STAFF'S POSITION: No position pending receipt of rebuttal testimony and further development of the record.

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ISSUE 9: What is the appropriate cost of the Commission ordered pilot project to include in working capital for the Seven Springs water system?

STAFF'S POSITION: The utility's 13-month average balance of the actual cost incurred through December 31, 2001 is the appropriate balance to be included in working capital.

ISSUE 10: Should deferred rate case expense related to Docket No. 991643-SU be excluded from working capital?

STAFF'S POSITION: Yes. All deferred rate case expense related to Docket No. 991643-SU should be excluded from working capital because those costs were specifically allocated to Seven Springs wastewater system. Total company working capital that is allocated should be reduced by \$61,702. (Aldridge)

ISSUE 11: Should working capital be reduced to reflect the amortization of regulatory commission expense associated with Docket No. 960545-WS?

STAFF'S POSITION: Yes. Total company working capital that is allocated should be reduced by \$32,868. A corresponding reduction to retained earnings should also be made. (Aldridge)

ISSUE 12: What is the appropriate working capital allowance?

STAFF'S POSITION: The appropriate amount is subject to the resolution of other issues.

ISSUE 13: What is the appropriate projected rate base?

STAFF'S POSITION: The appropriate amount is subject to the resolution of other issues.

COST OF CAPITAL

ISSUE 14: What is the appropriate projected cost rate for variable-cost debt?

STAFF'S POSITION: The cost rate for variable-cost debt, which is tied to the prime rate of interest, should be based upon the prime

rate at the time Commission makes its final decision in this case.

ISSUE 15: Should the annual amortization of issuing expense for the construction loan from Bank of America be reduced?

STAFF'S POSITION: Yes. The annual amortization of issuing expense should be reduced by \$1,760. (Aldridge)

ISSUE 16: Should all long-term debt issues be included in the calculation of the utility's cost of capital?

STAFF'S POSITION: For testifying Staff, yes. (Aldridge) For non-testifying Staff, the total projected 13-month average balance of long-term debt should be \$9,267,979, as shown on minimum filing requirement Schedule D-5(A). The respective cost rates are those shown on that same schedule and subject to the resolution of other issues.

ISSUE 17: What is the appropriate return on equity (ROE) for Aloha?

STAFF'S POSITION: The ROE should be calculated using the current leverage formula at the time the Commission makes its final decision in this case.

ISSUE 18: What is the appropriate projected weighted average cost of capital for the projected test year ending December 31, 2001?

STAFF'S POSITION: The appropriate amount is subject to the resolution of other issues.

NET OPERATING INCOME

ISSUE 19: Should projected test year revenues be adjusted?

STAFF'S POSITION: Yes. For testifying Staff, historical December 31, 2000 test year revenues should be increased by \$7,154 to properly allocate interest income. (Aldridge) For non-testifying Staff, the interest income adjustment should be escalated by the customer growth factor for a total increase of \$7,490. In addition, projected test year revenues should be increased by \$4,176 to reflect the appropriate amount of revenues for residential vacation bills.

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ISSUE 20: What is the appropriate number of projected ERCs and gallons sold for the projected 2001 test year?

STAFF'S POSITION: The appropriate number of test year ERCs is 10,560. The appropriate consumption for the test year is 1,001,021,846 gallons. (Lingo)

ISSUE 21: What is the appropriate projected number of purchased water gallons from Pasco County, and what is the resulting expense?

STAFF'S POSITION: No position pending further development of the record.

ISSUE 22: Should projected chemicals and purchased power be adjusted?

STAFF'S POSITION: Yes. An adjustment should be made for the reduction in the quantity of water treated by Aloha to reflect compliance with the utility's water use permit. With regard to the escalation of chemicals and purchased power by customer growth and the escalation chemicals by inflation, Staff has no position pending receipt of rebuttal testimony and further development of the record.

ISSUE 23: Should an adjustment be made to employee salaries and wages for open positions?

STAFF'S POSITION: No position pending further development of the record. However, to the extent that the utility fails to demonstrate that any of these positions are reasonable and necessary, an adjustment may be appropriate.

ISSUE 24: Should an adjustment be made to employee salaries and wages to correct the annualized salary of the utility operations supervisor?

STAFF'S POSITION: Yes. Employee salary and wages should be decreased by \$21,268.

ISSUE 25: Should employee salaries and wages be adjusted to remove the double counting of certain employees?

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STAFF'S POSITION: Yes. Employee salary and wages should be decreased by \$8,769.

ISSUE 26: Is the utility's allocation of pension expense to the Seven Springs water system appropriate?

STAFF'S POSITION: Yes. The utility's 44.83% allocation is appropriate.

ISSUE 27: Should an adjustment be made to pension expense to reflect additional liability obligations estimated by the utility's pension plan administrator?

STAFF'S POSITION: Yes. Pension expense should be increased by \$40,509.

ISSUE 28: Does the utility have excessive unaccounted for water, and if so, what adjustments should be made?

STAFF'S POSITION: Based on the currently available nine months of water use data for 2001, the utility has 10.2% unaccounted for water. This is an excess of 0.2% and both purchased power and chemicals should be reduced by 0.2%.

ISSUE 29: Should an adjustment be made for related-party purchased water transactions?

STAFF'S POSITION: Yes. The royalty fee charged by the related parties should at a minimum be reduced to \$0.10 per thousand gallons. This would result in a minimum reduction of purchased water expenses of \$88,330. (Fletcher)

ISSUE 30: What is the appropriate amount of bad debt expense for the Seven Springs water system?

STAFF'S POSITION: No position pending receipt of rebuttal testimony and further development of the record.

ISSUE 31: What is the appropriate amount of rate case expense?

STAFF'S POSITION: Rate case expense for the utility's filing of an updated interim test period and for any other duplicate filings

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should be disallowed. The final amount is subject to further development of the record. However, only prudently incurred rate case expense should be allowed and amortized over four years.

ISSUE 32: What conservation programs are appropriate for this utility at this time?

STAFF'S POSITION: Other than the implementation of a conservation rate structure, Staff has no position at this time pending further development of the record.

ISSUE 33: What is the test year operating income before any revenue increase?

STAFF'S POSITION: The appropriate amount is subject to the resolution of other issues.

ISSUE 34: What is the appropriate revenue requirement?

STAFF'S POSITION: The appropriate amount is subject to the resolution of other issues.

RATES AND RATE STRUCTURE

ISSUE 35: What is the appropriate rate structure for this utility?

STAFF'S POSITION: The appropriate rate structure is a three-tiered inclining block rate structure with usage blocks for monthly consumption at: 1) 0 to 8 kgal; 2) 8 kgal to 15 kgal; and 3) over 15 kgal. The appropriate base facility charge cost recovery percentage is 25%. The determination of the appropriate usage block rate factors will be based on the evidence presented at the hearing. (Lingo)

ISSUE 36: Is repression of consumption likely to occur, and, if so, what is the appropriate adjustment and the resulting consumption to be used to calculate consumption charges?

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STAFF'S POSITION: Yes. The appropriate adjustments should be based on the following long-run price elasticities and gallonage charges.

<u>Gallonage Charge</u>	<u>Long-run Price Elasticities</u>
Below \$1.50	-0.398
\$1.51 to \$3.00	-0.682
Over \$3.00	-0.247

It is appropriate to assume that 50% of the long-run price impact will occur in the first year. (Lingo)

ISSUE 37: What are the appropriate monthly rates for service?

STAFF'S POSITION: The appropriate monthly rates for service are subject to the resolution of other issues.

ISSUE 38: What is the appropriate service availability charges for the Seven Springs water system?

STAFF'S POSITION: No position depending further development of the record.

ISSUE 39: Should this docket be closed?

STAFF'S POSITION: If the Commission's final order is not appealed, this docket should be closed upon the expiration of the time for filing an appeal.

E. Stipulated Issues

There are no issues that have been stipulated at this time.

F. Pending Matters

There are no matters pending at this time.


G. Pending Confidentiality Claims or Requests

There are no pending confidentiality claims or requests at this time.

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H. Requirements That Cannot Be Complied With

There are no requirements of Orders Nos. PSC-01-1680-PCO-WU and PSC-01-1752-PCO-WU that cannot be complied with at this time.



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CERTIFICATE OF SERVICE

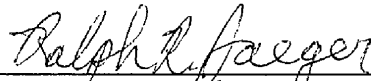
I HEREBY CERTIFY that a true and correct copy of the
COMMISSION STAFF'S PREHEARING STATEMENT has been furnished by U.S.
Mail, this 7th day of December, 2001, to the following:

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