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ORIGINAL

December 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

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COMMISSION
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RE: Docket No. 010503-*WU*

Dear Ms. Bayó:

Enclosed are an original and fifteen copies of Citizens' Prehearing Statement for filing in the above-referenced docket.

Also enclosed is a 3.5 inch diskette containing Citizens' Prehearing Statement 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
Stephen C. Burgess
Deputy Public Counsel

SCB/dsb
Enclosures

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DOCUMENT NUMBER-DATE
15320 DEC-7 01
FPSC-COMMISSION CLERK

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
DATED: December 7, 2001

CITIZENS' PREHEARING STATEMENT

The Citizens of the State of Florida, through their attorney, the Public Counsel, hereby file this Prehearing Statement for the above-referenced docket.

APPEARANCES:

STEPHEN C. BURGESS, ESQUIRE
Deputy Public Counsel
Office of Public Counsel
c/o The Florida Legislature
111 West Madison Street, Room 812
Tallahassee, Florida 32399-1400
On behalf of the Citizens of the State of Florida

A. WITNESSES:

The Citizens intend to call the following witnesses, who will testify on the respective subject matter:

Donna DeRonne - Recommends numerous adjustments which are primarily accounting in nature. Each adjustment is specified in the issue identification section.

Hugh Larkin - Basic ratemaking principals, rate case expense and quality of service.

Stephen Stewart - Projection of test year water consumption.

Ted L. Bidy - Quality of Water provided to the utility's customers especially related to the blackwater problem, engineering testimony on the future water use of Aloha's customers, Aloha's pilot test program, projection of test year water consumption.

DOCUMENT NUMBER: DATE
15320 DEC-7 2001
FPSC-COMMISSION CLERK

B EXHIBITS:

Through Ms. DeRonne, the Citizens intend to introduce the following schedules, which can be identified on a composite basis:

- Schedule A - Operating Income Statement
- Schedule B - Summary Schedule of Adjustments to Operating Income
- Schedules B-1 through B-8 - Detail of Adjustments to Operating Income
- Schedule C - Rate Base Schedule and Summary of Adjustments to Rate Base
- Schedules C-1 through C-2 - Detail of Adjustments to Rate Base
- Schedule D - Capital Structure and Rate of Return

Through Mr. Stewart, the Citizens intend to introduce the following schedules, which can be identified on a composite basis:

- Schedule 1 - Aloha Utilities' Projection Methodology
- Schedule 2 - Pasco County Rainfall Data & Aloha Customer Usage
- Schedule 3 - Yearly Rainfall Data and Analysis for Pasco County
- Schedule 4 - OPC Projection of Water to be Sold in Test Year 2001
- Schedule 5 - Comparison of 2001 Projections with Six Month Actuals
- Schedule 6 - Comparison of Projections with Extreme Values of Gallons/Day

Through Mr. Bidy, the Citizens intend to introduce the following exhibits, which can be identified on a composite basis:

- Exhibit TLB-1 - 1.2 Calculation of Historic Water Use Per ERC for Aloha Utilities
- Exhibit TLB-2 Comparison of Aloha and Public Counsel's Projected Purchased Water for the Test Year
- Exhibit TLB-3 Six month annualization factor for 5 year historical water sales
- Exhibit TLB-4 Aloha's Monthly Reports to PSC on Pilot Testing Program
- Exhibit TLB-5 Technical Paper From Miex Web Site
- Exhibit TLB-6 SWFWMD File on Enforcement Action and Proposed Consent Order
- Exhibit TLB-7 Aloha's Response to Staff Interrogatory No. 25
- Exhibit TLB-8 Aloha's Response to OPC P.O.D. No. 11
- Exhibit TLB-9 Excerpt from Response to Staff Interrogatory No. 25
- Exhibit TLB-10 Response to OPC Interrogatory No. 50

C. STATEMENT OF BASIC POSITION

The water rates sought by Aloha Utilities for its Seven Springs System should be disallowed until the utility can provide quality of water and quality of service acceptable to the utility's customers.

D. E. F. FACTUAL/POLICY/LEGAL ISSUES

The Citizens are not aware of any purely legal or purely policy issues to be resolved in this case. The following issues are in dispute. While primarily factual, some of the issues may encompass elements that could be considered as policy or legal in nature.

ISSUE 1: Is the utility's quality of service satisfactory?

POSITION: This issue will be developed further after customer testimony at the hearing. However, the issue of "black water" has not been resolved by the utility and therefore the probability that the customers are satisfied with the quality of service or the quality of water is highly unlikely. (Witnesses: Larkin, Bidy and utility customers)

ISSUE 2: Should the utility be granted a rate increase?

POSITION: No. (Witnesses: Larkin and DeRonne)

ISSUE 3: Has interest income been properly stated in the utility's filing?

POSITION: No. Revenue should be increased by \$7,490 to reflect the proper amount of interest income that should be allocated to the Seven Springs Water Division. (Witness: DeRonne)

ISSUE 4: Has vacation bill revenue been properly stated in the utility's filing?

POSITION: No. Revenue should be increased by \$4,176 to reflect vacation bill revenue. (Witness: DeRonne)

ISSUE 5: Has bad debt expense been properly stated in the utility's filing?

POSITION: No. Bad debt expense should be increased by \$1,237 to account for an allocation error.

ISSUE 6: Should salaries and benefits for open positions be reduced?

POSITION: Yes. Salaries and benefits should be reduced by \$107,850 and \$13,255 respectively to reflect positions that will likely stay unfilled. (Witness: DeRonne)

ISSUE 7: Should the salary for the Utility Operations Supervisor be reduced?

POSITION: Yes. Salary expense should be reduced by \$21,268 for an allocation error. (Witness: DeRonne)

ISSUE 8: Should salaries and wages expense be adjusted for a double count?

POSITION: Yes. Two employees were included in salaries and wages for officers as well as the annualization of employees salaries. Salaries and wages should be reduced by \$8,769. (Witness: DeRonne)

ISSUE 9: Should the company's projected cost of water to be purchased from Pasco County be adjusted?

POSITION: Yes. Purchased water expense should be reduced by \$222,910. (Witness: DeRonne)

ISSUE 10: What is the appropriate factor to use for unaccounted for water?

POSITION: The appropriate factor to use for unaccounted for water is 9.20%. (Witness: DeRonne)

ISSUE 11: Should chemical and purchased power expense be adjusted?

POSITION: Yes. The projection of gallons to be sold to the customers has been overstated by the company and should be reduced. Therefore, chemical and purchased power expense which is directly related should be reduced also. Chemical and purchased power expense should be reduced by \$8,303 and \$5,389 respectively. (DeRonne)

ISSUE 12: What should the projected number of gallons sold to the customers be for the test year 2001?

POSITION: 998,492,175 gallons of water sold to customers should be used for test year 2001. (Stewart)

ISSUE 13: What daily consumption for the projected ERCs should be used?

POSITION: 265gpd per ERC should be used for the projected ERCs included in the test year. (Stewart)

ISSUE 14: What is the appropriate number of gallons to use for water to be purchased from Pasco County?

POSITION: For purposes of setting rates for the test year, 300,077,936 gallons should be used as a projection of water to be purchased from Pasco County. This projection should be trued-up periodically. (DeRonne)

ISSUE 15: What is the cost of water to be purchased from Pasco County by the utility?

POSITION: For purposes of setting rates for the test year, \$2.35 per thousand gallons should be used which is the current rate charged by the county. Total projected cost of water to be included as O&M expense should be \$705,183 for the test year. This projection should be trued-up periodically. (DeRonne)

ISSUE 16: What adjustments should be made for expensed plant that should have been capitalized?

POSITION: Plant in Service and Accumulated Depreciation should be increased by \$11,552 and \$613 respectively, Depreciation Expense should be increased by \$613, and O&M expense should be decreased by \$12,396. This adjustment coincides with FPSC Staff Audit Report, Disclosure No. 2. (DeRonne)

ISSUE 17: Should Accumulated Depreciation be adjusted for computer equipment separated from other office equipment?

POSITION: Yes. Accumulated Depreciation should be increased by \$2,262 per FPSC Staff Audit Disclosure No. 1. (DeRonne)

ISSUE 18: Should the company be allowed to recover rate case expense for this current case?

POSITION: No. The company should have consolidated this current water rate case with its most recently filed wastewater case. Amortization expense of \$111,625 should be removed from O&M expenses and \$223,250 representing the average unamortized balance should be removed from the utility's working capital allowance. (Larkin, DeRonne)

ISSUE 19: Should the cost of the pilot project to enhance water quality be adjusted?

POSITION: Yes. This project has essentially been suspended and the company has spent much less than projected. The average cumulative balance of expenditures projected for the test year of \$54,270 should be used instead of \$190,000. Therefore, working capital should be reduced by \$135,730. (DeRonne, Bidy)

ISSUE 20: Should Accumulated Amortization of Contributed taxes be adjusted for the projected test year?

POSITION: Yes. The company adjusted its historic starting point for this account but did not carry the adjustment through to the projected test year. Rate base should be reduced by \$10,877 to reflect the correct 13 month average balance of Accumulated Amortization of Contributed Taxes. (DeRonne)

ISSUE 21: Should the debt component in the capital structure be adjusted?

POSITION: Yes. The capital structure debt component should be increased by \$5,742,933 to reflect the inclusion of two Bank of America Loans and various vehicle loans. Inclusion of all debt issues is consistent with the recommendation in the FPSC Audit Disclosure No. 5. (DeRonne)

ISSUE 22: Should the annual amortization of issuing expense for the Bank of America loan be adjusted?

POSITION: Yes. This expense should be reduced by \$1,760 to reflect 12 months of amortization instead of 17 months as calculated in the filing. This adjustment is consistent with the recommendation made in FPSC Staff Audit Disclosure No. 4. (DeRonne)

ISSUE 23: Should the cost rate for related party loans be adjusted?

POSITION: Yes. The loans from the utility's owner Lynnda Speer should be included in the capital structure at no more than prime rate plus 2%. Therefore the cost rate for this debt should be 7.5%. (DeRonne)

ISSUE 24: What should the overall rate of return be for purposes of setting rates?

POSITION: This issue depends on the resolution of several issues to be decided at the conclusion of the formal hearing.

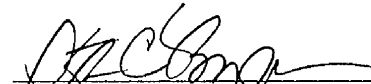
ISSUE 25: Should the commission accept the company's rate design?

POSITION: No. OPC is not recommending a specific rate design. However, OPC believes the commission should not approve the company's rate design as proposed because the resulting effect would be the collection of revenues in excess of the company's revenue requirement. (DeRonne)

ISSUE 26: Should the company be allowed to recover costs for conservation programs not yet proposed?

POSITION: No. The company has not presented evidence of plans and associated costs for conservation programs. (DeRonne)

Respectfully submitted,



Stephen C. Burgess
Deputy Public Counsel

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(850) 488-9330

Attorneys for the Citizens of the
State of Florida

CERTIFICATE OF SERVICE
DOCKET NO. 010503-WU

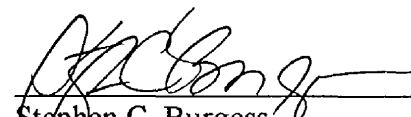
I HEREBY CERTIFY that a true and correct copy of the foregoing Citizens' Prehearing Statement has been furnished by hand-delivery(*) or U.S. Mail to the following parties on the 7th day of December, 2001:

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