

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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COMMISSION
CLERK

DATE: December 14, 2005

TO: Director, Division of the Commission Clerk & Administrative Services (Bayó)

FROM: Office of the General Counsel (Melson) *RM*
Division of Economic Regulation (Rendell) *W* *JOJ*

RE: Docket No. 050018-WU – Initiation of deletion proceedings against Aloha Utilities, Inc. for failure to provide sufficient water service consistent with the reasonable and proper operation of the utility system in the public interest, in violation of Section 367.111(2), Florida Statutes.

AGENDA: 12/20/05 – Regular Agenda – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Deason

CRITICAL DATES: Action Needed by 12/20/05 to Facilitate Further Settlement Negotiations

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\GCL\WP\050018.RCM.DOC

Case Background

Aloha Utilities, Inc. (Aloha or utility) is a Class A water and wastewater utility located in Pasco County. The utility consists of two distinct service areas: Aloha Gardens and Seven Springs. There are a number of active dockets, appeals or other cases involving Aloha's Seven Springs service area and the Commission. In this docket, the Commission has initiated deletion proceedings for a portion of the Seven Springs service area based on taste, odor, black water and customer service problems that ultimately stem from the presence of hydrogen sulfide in the water.

DOCUMENT NUMBER - DATE

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FPSC-COMMISSION CLERK

On August 17, 2005, the Commission deferred consideration of staff's recommendation to accept a comprehensive Offer of Settlement submitted by Aloha in an effort to resolve this docket and all other outstanding matters. At that time, the Commission decided to hold this deletion proceeding in abeyance and directed staff to undertake negotiations with Aloha, the Office of Public Counsel (OPC), customer representatives, and other interested parties in an attempt to reach a resolution that is satisfactory to all parties. Staff and the parties subsequently have held five negotiating meetings and have made substantial progress toward reaching a settlement agreement. Staff expects that a settlement agreement will involve the installation of anion exchange treatment facilities at several Aloha water plants to remove hydrogen sulfide from the water.

OPC and the customers have stated that before they can reach final agreement, they need to see a conceptual, non-binding capital cost estimate (expressed in dollars, with a range of plus or minus 30%) for the proposed treatment facilities. Aloha has agreed to provide such an estimate, provided that it is able to recover from its customers the cost (up to \$45,000) of preparing such estimate whether or not a settlement is ultimately achieved. OPC and the customers participating in the negotiations have agreed to such cost recovery.

This recommendation requests approval of a letter agreement between Aloha and OPC that formalizes their agreement regarding recovery of the cost of preparing the estimate.

Discussion of Issues

Issue 1: Should the Commission approve the attached letter agreement between Aloha and the Office of Public Counsel regarding the mechanism by which Aloha shall be entitled to recover the cost of preparing a conceptual, non-binding capital cost estimate for the installation of anion exchange facilities at several of Aloha's plant sites?

Recommendation: Yes. The letter agreement should be approved. (Melson, Rendell)

Staff Analysis: In order to facilitate further negotiations, Aloha and the Office of Public Counsel have entered into a letter agreement (Attachment A) that recognizes Aloha's right to recover the cost (up to \$45,000) of preparing a conceptual, non-binding capital cost estimate (expressed in dollars, with a range of plus or minus 30%) for the installation of anion exchange facilities. That letter agreement also specifies the method of recovery, as follows:

(1) In the event a settlement is achieved, Aloha will reduce the amount of the interim refund that will be required by the settlement agreement by the cost (up to \$45,000) of preparing the estimate.

(2) In the event a settlement is not achieved, Aloha will be entitled to recover the cost of preparing the estimate (up to \$45,000) through rates, over only a twelve month period, in the proceeding that Aloha files to increase rates to reflect the purchase of water from Pasco County.

Staff believes that these are appropriate mechanisms for allowing Aloha to recover the cost of preparing the anion exchange cost estimate, and recommends that the Commission approve this letter agreement.

Issue 2: Should this docket be closed?

Recommendation: No. (Melson, Rendell)

Staff Analysis: This docket should remain open to allow the parties additional time to negotiate a comprehensive settlement agreement. Failing agreement, staff expects that this docket will be taken out of abeyance and will proceed to hearing.

COMMISSIONERS:
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J. TERRY DEASON
BRAULIO L. BAEZ
LISA POLAK EDGAR
ISILIO ARRIAGA

STATE OF FLORIDA



GENERAL COUNSEL
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Public Service Commission

December 14, 2005

Stephen C. Reilly
Office of Public Counsel
111 West Madison Street
Tallahassee, FL 32399

F. Marshall Deterding
Rose Sundstrom & Bentley
2548 Blirstone Pines Drive
Tallahassee, FL 32301

Re: Letter Agreement re Preparation of Cost Estimate by Aloha Utilities

Dear Steve and Marty:

The purpose of this letter is to formalize the parties' understanding regarding cost recovery for the expense (up to \$45,000) that Aloha is incurring to prepare a capital cost estimate for anion exchange in support of the current settlement negotiations.

Given the progress in the negotiations to date, staff and the parties are optimistic that a settlement will be reached that will require the installation of anion exchange at all but two of Aloha's plants. The Office of Public Counsel (OPC) and the customers have stated that before they can reach final agreement, they need to see a conceptual, non-binding capital cost estimate (expressed in dollars with a range of plus or minus 30%) for the treatment facilities. Aloha has agreed to prepare such an estimate, provided that it is able to recover from its customers the cost of preparation (up to \$45,000) whether or not a settlement is ultimately achieved. OPC and the customers participating in the negotiations have agreed to such cost recovery.

I propose the following agreement to memorialize this verbal understanding:

Aloha and OPC agree that Aloha shall be entitled to recover from its customers the cost (up to \$45,000) of preparing a conceptual, non-binding capital cost estimate (expressed in dollars with a range of plus or minus 30%) for the installation of anion exchange facilities at Plants 2, 6, 8, 9 and Mitchell.

In the event a settlement is achieved, Aloha shall reduce the amount of the interim refund required by the settlement agreement by the cost (up to \$45,000) of preparing the estimate. In the event a settlement is not achieved, Aloha shall be entitled to recover the cost of preparing the estimate (up to \$45,000) through rates,

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Letter Agreement re Aloha
December 14, 2005
Page 2

over only a twelve-month period, in the proceeding that Aloha files to increase rates to reflect the purchase of water from Pasco County.

If this is an acceptable mechanism for implementing the parties' verbal understanding, please indicate your agreement by signing this letter agreement and returning it to me. If you have any questions, please give me a call.

Very truly yours,



Richard D. Melson

ACCEPTED AND AGREED TO:

Stephen C. Reilly
Office of Public Counsel
On behalf of the Citizens of Florida

Date: _____

F. Marshall Deterding
Rose Sundstrom & Bentley
On behalf of Aloha Utilities, Inc.

Date: _____

Letter Agreement re Aloha
December 14, 2005
Page 2

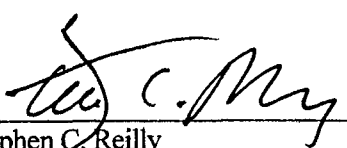
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Letter Agreement re Aloha
December 14, 2005
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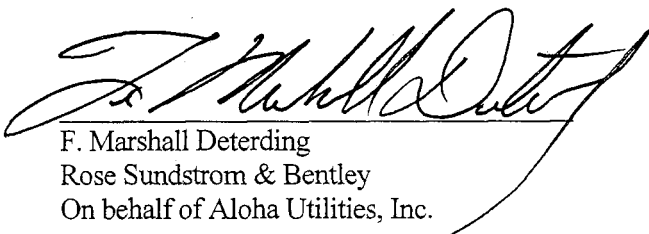
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