

State of Florida



Public Service Commission

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COMMISSION
CLERK

DATE: July 26, 2006
TO: Stephen B. Fletcher, Professional Accountant Specialist, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance
RE: **Docket No:** 060122-WU **Company Name:** Aloha Utilities, Inc.
Audit Purpose: Audit Costs Related to Settlement Agreement
Audit Control No: 06-109-2-1

Attached is the final audit report for the utility stated above. I am sending the utility a copy of this memo and the audit report. If the utility desires to file a response to the audit report, it should send the response to the Division of Commission Clerk and Administrative Services. There are no confidential work papers associated with this audit.

DNV:sbj
Attachments

Copy: Division of Regulatory Compliance and Consumer Assistance (Hoppe, District Offices, File Folder)
Division of Commission Clerk & Administrative Services (2)
Division of Competitive Markets and Enforcement (Harvey)
General Counsel
Office of Public Counsel (Steve Reilly)

Mr. Stephen G. Watford
Aloha Utilities, Inc.
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New Port Richey, FL 34655-3904

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DOCUMENT NUMBER-DATE

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FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE
BUREAU OF AUDITING*

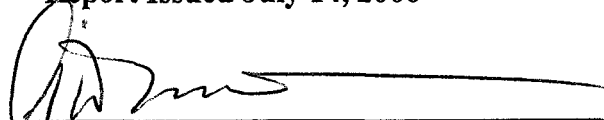
Tampa District Office

ALOHA UTILITIES, INC.

LIMITED SCOPE AUDIT

HISTORICAL YEAR ENDED DECEMBER 31, 2005


**DOCKET NO. 060122-WU
AUDIT CONTROL NO. 06-109-2-1
Report Issued July 14, 2006**



Simon O. Ojada, Audit Manager



Tomer Kopelovich, Audit Staff



Joseph W. Rohrbacher, District Audit Supervisor

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**DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE
AUDITOR'S REPORT**

July 14, 2006

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have performed the procedures enumerated later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request. We have applied these procedures to the attached schedules prepared by Aloha Utilities, Inc. in support of its limited proceeding in Docket No. 060122-WU.

This audit is limited to the actual cost for the utility's installation and operation of its chloramination facilities, the utility's reduction in water treatment expenses due to purchasing additional water from Pasco County, and the utility capital structure since its last rate proceeding.

This report is based on agreed upon procedures which are only for internal Commission use.

OBJECTIVES AND PROCEDURES

PLANT ADDITIONS

Objectives: To audit actual cost for the utility's installation of its chloramination facilities. To provide a breakdown, by primary account, of all supported plant installed necessary to operate the chloramination facilities.

Procedures: We traced all recorded plant additions associated with the chloramination facilities to vendor invoices. We reviewed all journal entries and AFUDC calculations associated with the plant additions and retirements. We reviewed a schedule of plant additions related to the chloramination facilities, by primary account numbers. (Exhibit 1, 2 & 3).

INCREMENTAL O&M EXPENSES

Objectives: To audit the actual cost of operation of the utility's chloramination facilities. To provide a breakdown, by primary account, of all supported O&M expenses necessary to operate the chloramination facilities.

Procedures: We prepared a schedule of all associated O&M expenses by primary account for 2005. We reviewed a schedule of expected increases or decreases in O&M expenses provided by the utility. We prepared a schedule of actual O&M expenses for January through April 2005 and compared the amount to January through April 2006 actual O&M expenses in order to determine the percentage increase or decrease in cost for the period after chloramination. We tested selected invoices for Chemicals and Purchased Power accounts for the calendar year 2005 and the period January through April 2006. We reconciled the invoices to supporting documentation and verified the proper account, amount, classification and period. (Exhibit 4).

INCREMENTAL COST OF WATER TO BE PURCHASED

Objectives: To audit the amount of incremental gallons of water the utility will purchase from Pasco County and to verify the rate or charges that the County will charge Aloha for the incremental gallons and the amount of any impact fees assessed by the County for the incremental gallons.

Procedures: We reviewed the utility prepared schedule of Pasco County Purchased Water costs. We compared the total water required to the total allowable withdrawal to arrive at the amount of water to be purchased from Pasco County. Also, we verified the rate that the County will charge Aloha for the incremental gallons.

O&M EXPENSE REDUCTION – CHEMICALS AND PURCHASED POWER

Objectives: To audit the 2005 calendar year-end amounts of chemicals, purchased power, and other O&M expenses affected by the utility's incremental amount of water purchased from the county. To audit the total gallons of water treated for the 2005 calendar year.

Procedures: We judgmentally selected invoices for inspection from Chemicals and Purchased Power accounts for the calendar year 2005 and the period January through April 2006. We prepared a schedule of expected O&M expense reduction due to the purchase of water from Pasco County.

CAPITAL STRUCTURE

Objective: To determine that capital structure represents utility debt, capital stock, retained earnings, deferred taxes, customer deposits and other funds available for investment in utility plant, inventory and operations

Procedures: We reconciled the individual component capital structure balances to the utility's general ledger as of December 31, 2005. We traced long-term debt balances to the original documents and verified the terms and interest rate of each note payable. (Exhibit 5).

Aloha Utilities, Inc.
Allocation of Soft Costs and AFUDC and
Total Chloramination System Costs

Line No.	NARUC Actl. Description	Hard Costs Before		Soft Costs	Total Costs Before		AFUDC	Ratio	AFUDC	Total Cost	Schedule Reference
		Allocation	Ratio		AFUDC	Ratio					
1	304.023	Structures & improvements - Source of supply & Pumping plant	\$ 50,913	1.78%	\$ 12,537	\$ 63,450	1.78%	\$ 5,085	\$ 68,535	7,8,9	
2	304.033	Structures & improvements - Water treatment plant	1,342,158	46.95%	330,684	1,672,842	46.95%	134,119	1,806,961	7,8,9	
3	320.033	Water treatment equipment	1,465,590	51.27%	361,111	1,826,701	51.27%	146,460	1,973,161	7,8,9	
4		Total	\$ 2,858,661	100.00%	\$ 704,331	\$ 3,562,992	100.00%	\$ 285,664	\$ 3,848,657		

Aloha Utilities, Inc.
 Schedule of Chloramination System Hard Costs by
 Primary Account & Vendor

Line No.	NARUC Acct.	Total Costs Description	Balance Hard Costs Per AP Detail Report	Adjustments Per GL Detail Report	Total Hard Costs
1	304.023	Structures & improvements - Source of supply & Pumping plant	\$ 41,843	\$ 9,070	\$ 50,913
2	304.033	Structures & improvements - Water treatment plant	1,343,990	(1,832)	1,342,158
3	320.033	Water treatment equipment	1,463,005	2,585	1,465,590
4		Total hard costs	\$ 2,848,838	\$ 9,824	\$ 2,858,661
5		<u>Costs by Vendor</u>			
6	304.023	Extreme Fence, Inc.	\$ 16,762	\$ 9,070	\$ 25,832
7		John Panichat Property Maintenance	1,200		1,200
8		Florida Fence	3,900		3,900
9		South Florida Fence, Inc.	19,981	-	19,981
10		Total account 304.023	41,843	9,070	50,913
11	304.033	A Southwest Concrete, Inc.	343		343
12		Ameritek Communications, Inc.	5,220		5,220
13		B.A.S.I.C. Rail & Fabrication Co.	500		500
14		Charles Moore - Relocate shed	500		500
15		C.L.C Trucking, Inc.	754		754
16		Dixie Tank Company	599,286		599,286
17		Flatworks, Inc.	183,743		183,743
18		Just A1 Quality Signs	116		116
19		Marolf Enviromental, Inc.	315,849		315,849
20		P.A.W. Trucking, Inc.	1,801		1,801
21		Pasco Pipe Supply, Inc.	226,174	(1,832)	224,343
22		Professional Service Industries, Inc. (PSI)	8,914		8,914
23		Secord Contracting Corp.	475		475
24		Tractor Supply Company	316	-	316
25		Total Account 304.33	1,343,990	(1,832)	1,342,158
26	320.033	A. Williams Electric Co.	13,904		13,904
27		Barney's pumps, Inc.	11,454		11,454
28		Bolt & Nut, Inc.	5,172		5,172
29		Complete Enviromental Products, Inc.	2,805		2,805
30		Custom Pump & Controls, Inc.	6,371		6,371
31		Davis Supply, Inc.	154		154
32		Ferguson Enterprises, Inc.	1,931		1,931
33		W.W. Grainger, Inc.	649	(595)	54
34		Hach Company	137,083		137,083
35		Home Depot	1,197	462	1,658
36		Hughes Supply, Inc	4,904		4,904
37		Instruments South Corporation	439,856		439,856
38		Komax Systems	56,549	3,374	59,923
40		Prominent Fluid Controls	252,020		252,020
41		Rexel Consolidated Electrical	57	80	138
42		Rocha Controls	518,451	(455)	517,996
43		Short Enviromental Laboratories, Inc.	2,950		2,950
44		Southern Metal Works, Inc.	193		193
45		Swartzsei's Ace Hardware	306	55	360
46		Tampa Rubber & Gasket Co., Inc.	3,249		3,249
47		USA Bluebook	3,750	(335)	3,414
48		Total Account 320.033	1,463,005	2,585	1,465,590
49		Total Hard Costs	\$ 2,848,838	\$ 9,824	\$ 2,858,661

Aloha Utilities, Inc.
Schedule of Chloramination System Allocable Soft Costs
by Vendor per Detail Reports

Line		Balance Soft Costs Per AP Detail Report	Adjustments Per GL Detail Report	Total Soft Costs
1	<u>General Costs</u>			
2	C&C Consultants (Crane Truck)	\$ 169		\$ 169
3	Department of Environmental Protection (Permitting)	4,100	(300)	3,800
4	Federal Express	215		215
5	Instant Printing & Copying	986		986
6	Jim & Slim's Tool Supply	71		71
7	Labor Ready Southeast	135		135
8	Media General	272		272
9	NAPA Auto Parts	28	182	210
10	Neff Rental, Inc.	27,914		27,914
11	Petty Cash	18		18
12	Portable Sanitation of Tampa, Inc.	4,440		4,440
13	Radio Shack	187		187
14	RSC - Rental Service Corporation	903		903
15	Sims Crane & Equipment Co., Inc.	12,490	(1,773)	10,716
16	St. Petersburg Times	794		794
17	Tucker/Hall, Inc.	14,607		14,607
18	U.S. Peroxide, LLC	4,375		4,375
19	Robar, Inc. - Ion Exchange	305		305
20	Pasco Blueprint	321		321
21	Harberston - Swanston	72	-	72
22		<u>72,400</u>	<u>(1,891)</u>	<u>70,509</u>
23	<u>Engineering, Surveying & Hydrology</u>			
24	Civil Engineering Associates, Inc.	171,032	20,638	191,669
25	David N. Gornberg PhD (Hydrology)	3,878		3,878
26	Frank A. Julian Surveying, Inc.	8,829		8,829
27	David W. Porter, P.E., C.O.	183,816		183,816
28	University of South Florida	232,764	-	232,764
29		<u>600,318</u>	<u>20,638</u>	<u>620,956</u>
30	<u>Legal & Accounting</u>			
31	Rose, Sundstrom & Bentley, LLP	8,907		8,907
32	Cronin, Jackson, Nixon & Wilson, CPA's	8,713	(4,753)	3,960
33		<u>17,619</u>	<u>(4,753)</u>	<u>12,867</u>
34	Total Soft Costs	<u>\$ 690,337</u>	<u>\$ 13,994</u>	<u>\$ 704,331</u>

Aloha Utilities, Inc.
Seven Springs Water Limited Proceeding
Increases in Operating Expenses

Line No.	Account No.	Description	Net Increase
1		<u>Increases due to chloramination and purchased water from Pasco County</u>	
2		<u>Operation and Maintenance Expense (note 1 page 3 of 3)</u>	
3	601	<u>Additional labor cost</u>	
4		Total Labor cost per Engineer's estimate after chloramination conversion	\$ 328,429
5		2005 actual labor cost before chloramination conversion	<u>(228,744)</u>
6		Incremental cost of labor	<u>99,685</u>
7	604	<u>Employee pensions & benefits</u>	
8		Incremental cost of labor	99,685
9		2005 burdened percentage for pensions & benefits	<u>41.27%</u>
10		Incremental cost of employee pensions & benefits	<u>41,140</u>
11	610	<u>Purchased Water</u>	
12		Total gallons to be purchased from Pasco County @ 1.5 MGD (000)	547,500
13		Pasco County rate effective 10-01-06 (without storage)	<u>3.65</u>
14		Total Pasco County purchased water cost	<u>1,998,375</u>
15		Total gallons from Aloha's wells replaced by Pasco County purchases (000)	547,500
16		Existing cost per 1,000 gallons	<u>0.10</u>
17		Reduction in current purchased water costs	<u>(54,750)</u>
		Net increase in purchased water costs	<u>1,943,625</u>
18	615	<u>Purchased Power</u>	
19		Actual 2005 purchased power costs before chloramination conversion	128,049
20		Projected power costs after chloramination conversion	<u>(88,976)</u>
21		Net decrease in purchased power costs	<u>(39,073)</u>
22	618	<u>Chemicals</u>	
23		<u>Ammonia Solution</u>	
24		Projected cost for ammonia solution after chloramination conversion	12,597
25		Ammonia solution cost before chloramination conversion	<u>-</u>
26		Net increase in ammonia solution	<u>12,597</u>
27		<u>Corrosion inhibitor</u>	
28		Projected corrosion inhibitor cost after chloramination conversion	18,792
29		Actual 2005 corrosion inhibitor cost before chloramination conversion	<u>(17,730)</u>
30		Net increase in corrosion inhibitor cost	<u>1,062</u>
31		<u>Gas & Liquid Chlorine</u>	
32		Liquid chlorine cost after chloramination conversion	135,643
33		Actual 2005 gas & liquid Chlorine cost before chloramination conversion	<u>(121,676)</u>
34		Net increase for liquid chlorine after chloramination conversion	<u>13,967</u>

Aloha Utilities, Inc.
Seven Springs Water Limited Proceeding
Increases in Operating Expenses

Line No.	Account No.	Description	Net Increase
1		<u>Increases due to chloramination and purchased water from Pasco County</u>	
2	618	<u>Chemicals (continued)</u>	
3		Net increase in chemical cost	<u>\$ 27,626</u>
4	620	<u>Materials & Supplies - Maintenance</u>	
5		Miscellaneous water sample pump repairs/parts (allowance)	4,000
6		Miscellaneous Reactor and Piping painting supplies (allowance)	4,000
7		Miscellaneous Electrical parts & supplies (allowance)	<u>4,500</u>
8		Total increase in materials & supplies after chloramine conversion	<u>12,500</u>
9	635	<u>Contract Services - Testing</u>	
10		<u>New testing not included in 2005 expenses before chloramination conversion</u>	
11		Hydrogen Sulfide (H2S) - commercial laboratory	8,280
12		Total/Free/Combined chlorine - field staff (exclusive of Aloha labor costs)	14,700
13		Total/Free/Ammonia - field staff (exclusive of Aloha labor costs)	10,348
14		HPC - commercial laboratory	10,560
15		Lead and Copper - commercial laboratory	3,000
16		WQP - commercial laboratory	9,504
17		Nitrate and Nitrite - commercial laboratory	<u>10,560</u>
18		Total additional testing after chloramination conversion	<u>66,952</u>
19	636	<u>Contract Services - Other</u>	
20		<u>Instrument Maintenance</u>	
21		Hach Company - contract	31,649
22		Hach Company - Buffers & reagents	<u>17,789</u>
23			<u>49,438</u>
24		<u>Controllers & Chemical Feed Equipment Maintenance</u>	
25		AMJ Company (formerly Instruments South Corporation (ISC)) - contract	64,927
26		Less: Costs incurred in 2005	<u>(8,640)</u>
			<u>56,287</u>
27		<u>Raw Water Line Maintenance</u>	
28		PPS Company - Mitchell Plant raw water line pigging	<u>17,120</u>
29		Net increase in contract services - other after chloramination conversion	<u>122,845</u>
30	666	<u>Amortization of rate case expense</u>	
31		Estimated cost of this proceeding assuming completion through PAA process	
32		without any unusual circumstances or occurrences that would drastically	
33		increase costs	<u>\$ 175,000</u>
34		Annual amortization over 4 years	<u>43,750</u>
35		Total increase in O&M expenses after chloramination conversion and	
36		purchased water from Pasco County	<u>\$ 2,319,050</u>
37		<u>Taxes Other Than Income Taxes</u>	
38	408.12	<u>Payroll taxes after chloramination conversion</u>	
39		Increase in payroll costs	\$ 99,685
40		Payroll tax rate	<u>7.65%</u>
41		Increase in payroll taxes	<u>7,626</u>

ALOHA UTILITIES, INC.
DOCKET 060122-WU
CAPITAL STRUCTURE
AS OF DECEMBER 31, 2005

DESCRIPTION	(a) BALANCE PER T/B @12/31/04	(b) BALANCE PER T/B @12/31/05	(c) SIMPLE AVERAGE PER T/B	(d) AUDIT ADJUST- MENTS	(e) BALANCE PER AUDIT @12/31/05	(f) SIMPLE AVERAGE PER AUDIT	(g) RATIO	(h) COST RATE	(i) WEIGHTED COST OF CAPITAL
COMMON EQUITY (A)	1,942,130	801,194	1,371,662	0	801,194	1,371,662	5.29%	10.46%	0.55%
PREFERRED STOCK	600,000	600,000	600,000		600,000	600,000			
RETAINED EARNINGS	1,300,530	159,594	730,062		159,594	730,062			
PD IN CAPITAL	41,600	41,600	41,600	0	41,600	41,600			
<hr/>									
BONDS	20,600,000	20,045,000	20,322,500		20,045,000	20,322,500	78.41%	6.92%	5.43%
L/T DEBT- SPEER- Line of Credit	2,827,766	2,782,208	2,804,987	0	2,782,208	2,804,987	10.82%	9.25%	1.00%
L/T DEBT- SPEER- DOT Loan	513,651	505,375	509,513		505,375	509,513	1.97%	9.25%	0.18%
CUSTOMER DEPOSITS	743,721	1,072,401	908,061		1,072,401	908,061	3.50%	6.00%	0.21%
OTHER	0	0	0		0	0	0.00%	0.00%	0.00%
<hr/>									
TOTAL	26,627,268	25,206,178	25,916,723	0	25,206,178	25,916,723	100.00%		7.37%

(2) Equity cost based on FPSC Order No. 97-0660-FOF-WS issued 6/10/97.