



Public Service Commission

-M-E-M-O-R-A-N-D-U-M-

DATE: NOVEMBER 22, 1999
TO: CHAIRMAN GARCIA
FROM: DAN HOPPE, DIRECTOR, DIVISION OF WATER AND WASTEWATER
RALPH JAEGER, BUREAU CHIEF, DIVISION OF LEGAL SERVICES
RE: DOCKET NO. 991643-SU, APPLICATION OF ALOHA UTILITIES, INC. FOR AN INCREASE IN WASTEWATER RATES FOR ITS SEVEN SPRINGS SYSTEM IN PASCO COUNTY - TEST YEAR APPROVAL

By letter dated October 22, 1999, Aloha Utilities, Inc. (Aloha) has requested approval to use a projected test year ended July 31, 2001, with a historical test year ended July 31, 1999. This rate increase application will be for its Seven Springs wastewater system only. By telephone and written correspondence, the utility has notified staff that it has not decided which test year it wishes to use for interim purposes. Given this indecision, staff believes that the Commission can address the appropriateness of the utility's interim test year request after the utility has filed its application. Further, the utility did not request to file its application using the Proposed Agency Action provision in Section 367.081(8), Florida Statutes.

The utility has indicated that the proposed base year ended July 31, 1999 is representative of the current operations, except for the required changes in operations that have already begun to occur and will be fully implemented in about nine months. The utility is requesting the projected test year ended July 31, 2001 in order to fully recognize the costs of additional wastewater plant construction imposed upon the utility by the consent agreement with the Florida Department of Environmental Protection (DEP). The first major plant change that will occur is the construction of a major reuse transmission line. The construction cost of this main will be \$1,800,000, of which one half will be funded by the Southwest Florida Water Management District. Additionally, the utility will construct an expansion and upgrade of the wastewater treatment plant from 1.2 to 1.6 million gallons per day. The estimated cost for this expansion will be \$4,700,000 and construction will be completed around July 2000. The utility also states that it will incur increased operating costs of approximately \$535,000 annually. Finally, the utility states that these improvements will be financed by a new \$5.2 million loan from NationsBank. After these operational changes have been incorporated into the filing, the projected test year ended July 31, 2001 will be a representative period to measure the cost of service and establish new rates.

The utility states that it is not currently requesting increased rates for its Seven Springs water system. The utility is anticipating substantial additional water treatment requirements to be imposed upon it in the very near future. Since the exact nature of those requirement have not been established, the utility cannot estimate the nature, cost or timing of any plant or operational changes at this time. When the wastewater expansion is completed, Aloha will evaluate the possible need for filing a rate case for that system.

The last rate case for the Seven Springs wastewater system was in Docket No.

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Memo to Chairman Garcia

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770720-WS, with Order No. 9278 issued on March 11, 1980. The Commission approved a reuse project plan in Docket No. 950615-SU, with the issuance of Order No. PSC-97-0280-FOF-WS, issued on March 12, 1997. By Order No. PSC-99-1917-PAA-WS, issued September 28, 1999, the Commission denied the utility's request for two limited proceedings, required the utility to implement envelope billing, established a new rate of return on equity and AFUDC rate. The test year for that proceeding was the year ended December 31, 1998.

Staff believes that the requested test year will be representative because of the reasons stated above. Staff has reviewed the utility's annual reports for the calendar years 1996 through 1998. Based on our review, we believe that the requested test year should be approved. Receipt of the application by February 29, 2000, will be acceptable.

The test year letter filename is I:\PSC\WAW\WP\ALOHATYA.PWM

- c: Dr. Mary Bane, Deputy Executive Director/Technical  
Division of Water and Wastewater (Willis, Crouch, Merchant)  
Division of Legal Services (Gervasi)  
Division of Auditing and Financial Analysis (Vandiver)  
Division of Records and Reporting  
Jackie Edwards

STATE OF FLORIDA

JOE GARCIA  
CHAIRMAN



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## Public Service Commission

November 22, 1999

F. Marshall Deterding  
Rose, Sundstrom & Bentley, LLP  
2548 Blairstone Pines Drive  
Tallahassee, Florida 32301

Dear Mr. Deterding:

Re: Docket No. 991643-SU, Application of Aloha Utilities, Inc. for Increased Wastewater Rates for its Seven Springs System in Pasco County - Test Year Approval

We have received your letter dated October 22, 1999, requesting approval for Aloha Utilities, Inc. (Aloha) to use a projected test year ended July 31, 2001 for final rates, with an historical base year ended July 31, 1999. This test year request is for the Seven Springs wastewater system only. Additionally, by telephone and written correspondence, the utility has notified staff that it has not decided which test year it wishes to use for interim purposes. As such, the Commission will address the appropriateness of the utility's interim test year request after the utility has filed its application. Further, you have stated that the utility will not file its application using the Proposed Agency Action (PAA) provision in Section 367.081(8), Florida Statutes. The utility's test year request for final rate purposes as outlined above is hereby approved. You should also be aware that prefiled direct testimony must be filed with the minimum filing requirements (MFRs).

For administrative purposes only, Docket No. 991643-SU has been assigned to the forthcoming case. Your petition will be deemed filed on the date that the Division of Records and Reporting receives the complete petition, revised tariff sheets, the MFRs, testimony and the filing fee. To minimize any regulatory lag that may occur, we request that you file the above no later than February 29, 2000. Because of the difficulty in scheduling hearing dates it is not anticipated that an extension of this filing date will be granted.

Under the file and suspend law, the time period for processing the request will begin on the date that all of the required data is completely filed. If not complete, the official filing date will be the date the complete corrections to the deficiencies are filed. The utility is instructed to file all information it wishes the Commission to consider when arriving at a decision on its rate case application with its original filing. Because of the time limitations contained in Section 367.081, Florida Statutes, and the lengthy auditing and investigation required, information not filed with the original application may not be considered. Lastly, the utility should be prepared to justify all

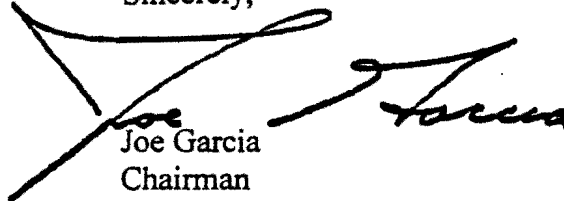
Mr. F. Marshall Deterding

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increased operation and maintenance expenses, particularly those in excess of customer growth and inflation, above those approved by the Commission for the year ended December 31, 1998, from Dockets Nos. 970536-WS and 980245-WS.

Sincerely,



Joe Garcia  
Chairman

JG/pwm

cc: Commissioners  
Mr. Talbott  
Dr. Bane  
Division of Water and Wastewater (Willis, Merchant)  
Division of Legal Services (Jaeger)  
Division of Records and Reporting  
Division of Auditing and Financial Analysis (Vandiver)  
Jack Shreve, Office of Public Counsel