

MEMORANDUM

August 12, 1999

TO: DIVISION OF RECORDS AND REPORTING (BAYO)
FROM: RALPH JAEGER, DIVISION OF LEGAL SERVICES
RE: DOCKET NO. 970536-WS - APPLICATION FOR LIMITED PROCEEDING
INCREASE IN WATER AN WASTEWATER RATES BY ALOHA UTILITIES,
INC.

Please place the utility's response to Staff's Second Data Request, dated January 15, 1999, in the docket file.

RRJ/lw

Attachment

cc: Division of Water and Wastewater (Willis, Merchant, Fletcher,
T. Davis, Crouch)

AFA _____
APP _____
CAF _____
CMU _____
CTR _____
EAG _____
LEG _____
MAS _____
OFC _____
PAI _____
SEC _____
WAW _____
OTH _____

DOCUMENT NUMBER-DATE

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REC'D-RECORDS AND REPORTING

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January 15, 1999
VIA HAND DELIVERY

Bobbie Reyes, Esquire
Division of Legal Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0873

Re: Aloha Utilities, Inc.
PSC Docket No. 970536-WS
Application for Limited Proceeding - State Road 54 and Envelope
Billing
Our File No. 26038.19

Dear Bobbie:

I am providing this answer to your December 1, 1998 second data request of the Commission staff.

I should start by noting that as we at Aloha have maintained throughout this proceeding, that there is a substantial distinction between this docketed limited proceeding case and the ongoing informal investigation and audit of Aloha Utilities. Your first three questions deal exclusively with questions about the Utility's choice to utilize the services of an outside CPA firm to perform certain functions for the Utility. These issues are wholly unrelated to Aloha's Application for a Limited Proceeding to recover the investment in additional Utility lines required by the Florida Department of Transportation, which is a relatively simple and straightforward issue.

While Aloha has done no analysis comparing the possibility of hiring in-house staff to perform some of the functions performed by its outside CPAs, it is clear that Aloha provides water and wastewater service at some of the lowest rates, not only in the area generally surrounding its service territory, but also in this state. It is therefore apparent that its management has done an outstanding job in the overall management of the Utility and in making decisions regarding what expenses should be "outsourced" versus those for which full time employees are utilized.

2 Memos To R&R in
1. Docket No. 980245-WS
+
2. Docket No. 970536-WS

Please place the utility's
response dated

1. April 20, 1999

2. January 15, 1999

to staff's second data
request in the docket file.
cc: Rits of Aloha, Callis, Merhart, Fletcher,
Davis, Crowder

JAN 15 1999
REGISTRATION

LEGAL DIVISION

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With the above caveats, I have attempted to provide whatever information the Utility has readily available in answer to your first three questions:

1. With regard to work performed by Cronin, Jackson, Nixon & Wilson, CPAs, PA. (CJNW) for Aloha, please provide a schedule listing the type of services performed and the total corresponding fees for each of these duties on an annual basis for the years 1997 and 1998. Of these types of services listed, explain whether these are annually recurring and whether they are general financial, bookkeeping or write-up work, or specialized accounting services, such as auditing, tax services, PSC annual report preparation or regulatory consulting.

Utility Response - Generally speaking, Aloha Utilities, Inc. employs the accounting firm of Cronin, Jackson, Nixon & Wilson in order to provide services related to general and regulatory accounting/regulation by the PSC, tax related issues, and general management advisory services. The outside accountants prepare the annual reports and all of the various tax returns filed by Aloha. Included among the services provided both in 1997 and 1998 and for many years prior to those dates, are: preparation of the annual report; preparation of the federal income tax return; preparation of state income tax return; preparation of tangible and intangible tax returns and preparation of any documents required by the Florida Public Service Commission outside of responses to customer complaints: preparation of book and tax depreciation schedules; all closing journal entries; calculation of AFUDC and closing CWIP and index and pass-through rate adjustments, etc. The functions performed by Cronin, Jackson, Nixon & Wilson, other than these recurring costs, change each year with the requirements of the PSC and other regulatory bodies. As requested, enclosed is a breakdown of the accounting services provided by Cronin, Jackson, Nixon & Wilson.

Cronin, Jackson, Nixon & Wilson provides expertise in general utility accounting in regulatory matters, and in state and local tax matters. Cronin, Jackson, Nixon & Wilson provides services on those areas which are performed by at least 3 to 4 separate individuals. As such, it is very unlikely that the Utility could employ someone to perform these functions in-house without hiring 2 to 3 employees and then those employees would likely be much less experienced and knowledgeable in those areas which would, of necessity, require the Utility to continue to employ outside accountants for various functions. In addition, those people could not be kept busy on a full-time basis and, therefore, it is likely that the total cost would be substantially higher than the utilization of outside CPAs as needed (the current situation).

The Commission's auditors were at the Utility's office for approximately 2 to 3 months and have just completed their audit and

submitted their audit report within the last 40 days. As part of their audit, they reviewed all of the bills for Cronin, Jackson, Nixon & Wilson and specifically requested additional information concerning the functions performed by these outside CPAs and the cost of such services. I would recommend that the staff review the audit workpapers, audit requests, and the responses from the Utility if further analysis of these costs is needed. It should be noted that no exceptions, or even concerns, were raised relative to the employment of Cronin, Jackson, Nixon & Wilson by the auditors.

Aloha's day to day accounting and bookkeeping type functions related to operation of the Utility are handled by one person, the company's treasurer. Aloha employs outside accountants for general accounting services and all regulatory duties other than responses to fact based customer complaints. Even if the Utility were able to find someone with the expertise of Cronin, Jackson, Nixon & Wilson to hire in-house to assist in the performance of these duties currently performed by these outside CPAs, the annual costs would be substantially higher to Aloha and therefore its customers in order to have staffing sufficient to meet the deadlines imposed by regulatory bodies and to hire persons sufficiently knowledgeable in these areas.

2. With regard to financial and/or accounting work performed by Aloha employees, please provide a schedule listing the type of duties performed and the total corresponding dollar amount of the employees' salary and/or wages for each of these duties on an annual basis for the years 1997 and 1998.

Utility Response - Aloha Utilities utilizes in-house employees for its day to day accounting functions related to customer billing and accounting. However, these individuals are not conversant in PSC regulatory issues outside of the day to day customer bookkeeping required by Commission rules. The general ledger and accounting functions are handled by the Treasurer, Ms. Yvonne Haller. The individuals employed by Aloha to perform customer accounting functions are primarily clerical employees.

In addition, all of the accounting staff, including Ms. Haller and the individuals who are primarily clerical, are fully utilized in performing their day to day accounting functions. As such, any change in attempting to shift a workload from outside CPAs to in-house employees would not only require the hiring of highly specialized and knowledgeable (and therefore expensive) accounting personnel, but would require the hiring of at least five or more such employees in addition to the current personnel and at substantial cost. The difficulty is in finding persons willing to become full-time employees who are knowledgeable at a cost that makes their employment cost-effective, and to provide them with sufficient duties requiring their skill to keep them busy and efficient.

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It should be noted that the auditors from the Commission who were recently reviewing both calendar year 1997 and half of 1998 have fully reviewed and demanded information concerning all of the Utility's employees, their salaries and duties, and that information is readily available from the audit workpapers and responses to audit inquiries and should be more than sufficient to respond to the information sought by staff in this question.

3. Please provide a cost-benefit analysis to explain whether it is more cost effective for Aloha to outsource all work performed by CJNW or to hire additional accounting personnel for Aloha. Include in this analysis how many additional employees Aloha would require and a detailed breakdown of the corresponding costs that would be incurred.

Utility Response - Aloha has not performed any cost benefit analysis along the lines of that suggested by this question. Such an analysis would be a rather costly endeavor and very subjective at best. In addition, it is unlikely the Utility would be able to find employees with the expertise and the ability to perform the functions currently performed by CJNW without incurring very substantial cost, if such persons even exist.

As noted above, however, Aloha operates its water and sewer utilities and provides services at a cost equal to, if not less than, the great majority if not all of the utilities within its immediate area and is one of the lower cost water and sewer utilities operating within the state. These facts alone speak very highly of Aloha's managements' decisions regarding allocation of work between outside accountants and in-house employees and we at Aloha are at a loss to understand why this issue has come to light with regard to Aloha Utilities, given those facts. The nature of the inquiry suggests that some portion of a "management audit" or review is being conducted on Aloha Utilities, despite the fact that its efficiency of operations and its ability to provide services to the public extremely efficiently is apparent from the comparison of the rates charged as noted above and the length of time since the Utility's last rate case on three out of its four systems (1976).

4. With regard to Aloha's responses to staff's first data request, Aloha provided a January 8, 1998 letter from Bernard M. Telatovich to John R. Jenkins, which was included in Aloha's Exhibit C. According to this letter, John R. Jenkins sent Sylvia Young a letter dated December 19, 1997. Please provide a copy of John R. Jenkins' December 19, 1997 letter to Sylvia Young.

Utility Response - Attached is a copy of John Jenkins' letter dated December 19, 1997 to Sylvia Young as requested.

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We at Aloha do not mean to be uncooperative in responses to your first three questions. However, we are somewhat surprised, not only that the Commission staff is proposing to review these questions with regard to Aloha given its very high level of efficiency in comparison to other utilities (both those regulated by the Commission and those which are unregulated), based on its ability to provide service at very low rates in comparison to others throughout the state. In addition, we are concerned that the Commission staff is proposing to investigate these issues in the context of a limited proceeding which has nothing whatsoever to do with accounting services or accounting functions of the Utility, but instead is based simply on a government required investment and line relocation.

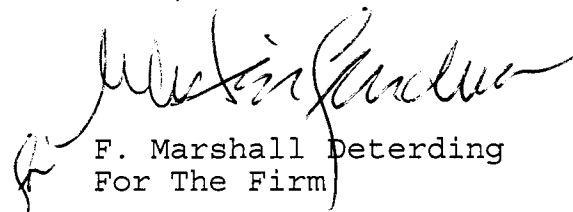
The Commission is in the process of conducting an investigation of the rates of Aloha Utilities, Inc. and, in fact, has (just in the last two months) had auditors at the Utility's offices investigating all facets of the Utility proposed by the staff, including specifically those items requested in questions 1 and 2 above. To the extent the Commission staff feels that accumulation of even more of the type of detailed information suggested by the above three questions than has been provided by their auditors (and especially question three), it should be undertaken in that docket rather than this limited proceeding and should be performed by the Commission's auditors.

Aloha wishes to fully cooperate with the Commission staff and to provide whatever information is necessary in order to conclude this limited proceeding. However, we believe that the issues discussed within the context of this specific limited proceeding, should relate to it more directly than do the three questions outlined above. However, we have attempted to provide that information readily available to us in order to help reassure the staff as much as possible on these issues.

If you have any further questions in this regard, please let me know.

Sincerely,

ROSE, SUNDBSTROM & BENTLEY, LLP



F. Marshall Deterding
For The Firm

FMD/tmg

Enclosure

cc: Mr. Stephen Watford

Robert C. Nixon, CPA

aloha\19\2reyes.ltr

Rose, Sundstrom & Bentley, LLP

2548 Blairstone Pines Drive, Tallahassee, Florida 32301

Aloha Utilities, Inc.
 Breakdown of Normal and Recurring Accounting Services
 Provided by Cronin, Jackson, Nixon & Wilson, CPA's
 1998 and 1997

| 1998 | Annual Report | Miscellaneous Regulatory Commission Expense | Out-of-Pocket Expenses | Tax Returns | General Accounting | Management Advisory Service |
|--------------|------------------|---|------------------------|------------------|--------------------|-----------------------------|
| Jan. | | | \$ 17 | \$ 23 | \$ 2,610 | |
| Feb. | \$ 788 | \$ 150 | | | 750 | |
| March | | 325 | 87 | 109 | 3,862 | \$ 975 |
| April | 5,887 | | 202 | 90 | | 300 |
| May | | 788 | 34 | 938 | | 2,100 |
| June | 150 | 150 | 58 | 1,143 | | |
| July | | | 46 | 2,711 | | |
| August | | 219 | 58 | 2,971 | | 300 |
| Sept. | | | 27 | | | 1,275 |
| Oct./Nov. | | | 351 | 85 | | |
| Dec. (Est.) | | 750 | 103 | 4,050 | 650 | |
| Total | \$ 6,825 | \$ 2,382 | \$ 983 | \$ 12,120 | \$ 7,872 | \$ 4,950 |
| 1997 | | | | | | |
| Jan. | | \$ 756 | | \$ 150 | \$ 413 | \$ 1,650 |
| Feb. | \$ 2,925 | | \$ 378 | 388 | 3,000 | 1,350 |
| March | | 2,481 | | 85 | 4,556 | |
| April | 3,731 | 225 | | 225 | | |
| May | 7,613 | 450 | | | | |
| June | | 1,200 | | 1,351 | | 750 |
| July | | 813 | 85 | 562 | | 375 |
| August | | | | 235 | | |
| Sept. | | | 139 | 916 | | 1,800 |
| Oct. | | 1,919 | 130 | 375 | 999 | |
| Nov. | | | 146 | | 1,350 | |
| Dec. | | | 21 | | 2,440 | |
| Total | \$ 14,269 | \$ 7,844 | \$ 899 | \$ 4,287 | \$ 12,758 | \$ 5,925 |

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TELECOPIER (850) 656-4029

December 19, 1997

The Honorable Sylvia Young
Chairman, Board of County Commissioners
Pasco County, Florida
7530 Little Road, Suite 340
New Port Richey, Florida 34654

Re: Aloha Utilities, Inc.;
Little Road Line Relocation
Our File No. 26038.25

Dear Ms. Young:

On December 5, you provided a letter to Steve Watford, President of Aloha Utilities, providing a 30-day notice for relocation of utility facilities. The letter also states that the Company has been attempting to work out a Joint Project Agreement with Adam Smith Enterprises. Since this firm has been primarily responsible for the Joint Project Agreement, the Company has requested that we respond to your letter on its behalf.

In your letter you state that since October 2, the attorneys for Aloha, Adam Smith and the County have been attempting to work out a Joint Project Agreement (JPA). Unfortunately, this is not a correct statement as to Adam Smith Enterprises. The following are the events which have occurred since October 2nd:

- October 2: Bernard Telatovich of your County Attorney's Office provided me with a letter and proposed three-party JPA.

- October 15: By letter to Mr. Telatovich I advised that the proposed JPA was deficient for a number of reasons and proposed the use the same JPA negotiated by the County with Adam Smith Enterprises for relocation of County utility lines. Mr. Aldridge of Adam Smith Enterprises was copied on the letter.

- October 24: Mr. Telatovich sent me a letter advised me that he had discussed with Adam Smith's lawyer, Mr. Armstrong Aloha's proposal to use the County JPA. No response to the proposal was received from Mr. Armstrong. By telephone, Mr. Telatovich advised that he did not believe the County would have any objection to Aloha using the same JPA.

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- November 7: Since I had not heard from Mr. Armstrong, I took the initiative, drafted a JPA like the County's, and sent it to Adam Smith Enterprises and the County and provided it to Mr. Armstrong by letter dated November 7. Adam Smith Enterprises did not respond to the draft.

- November 20: I followed up with a letter dated November 20 to Mr. Armstrong inquiring about the status of this matter. No response was received.

- December 5: You sent a letter to Aloha stating that the County had received a letter from Mr. Armstrong advising that no agreement on the JPA could be reached. Neither I nor Aloha Utilities was provided a copy of Mr. Armstrong's letter.

- December 9: The County Commission meets on the Aloha line relocation matter as a "emergency" item. No notice of the meeting is providing to Aloha Utilities.

- December 10: Aloha Utilities is lambasted in the press for delaying the Little Road project.

These events certainly do not qualify as "attempting to work out a JPA." The net effect of these actions is that Aloha is blamed for delaying the Little Road Project, the County is stuck trying to figure out how to pay to relocate Aloha's lines, and Adam Smith Enterprises does nothing.

Ms. Young, the purpose of a Joint Project Agreement is essentially: (1) to ensure that the cost of the line relocation is prudent, including some assurance as to the bid process (a Public Service Commission requirement); (2) indemnifying the Utility against damages caused in the line relocation which are beyond the Utility's control; and (3) to ensure the relocation is handled in a way which minimizes disruption of service to its customers, and is coordinated with the Utility's provision of that service. These are reasonable requirements. These are the same assurances the County required for its line relocation. Why can't Aloha receive the same fair treatment? Are Aloha's customers second rate citizens not entitled to the same protections as County utility customers?

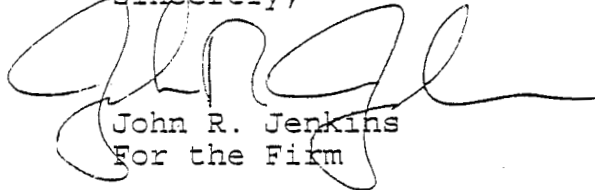
Aloha Utilities believes these issues are capable of resolution, and stands ready to relocate its lines as requested by the County. Pursuant to Section 337.404(1), Florida Statutes, we

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hereby contest the reasonableness of the County's Order to remove lines. Such an order should have identified the cost to be incurred by Aloha Utilities as a result of the County's order. This is the same thing we have called for in the JPA. Please provide reasonable notice of the date you wish Aloha to appear in to address this issue. Perhaps at that time, reasonable costs and terms for the line relocation can finally be established.

Thank you for your attention to this matter.

Sincerely,



John R. Jenkins
For the Firm

JRJ:sn

cc: Mr. Steve Watford
Dale Ernsberger, P.E.
Bipin Parikh, P.E.
Mr. William G. Munz
E.D. Armstrong, Esquire
Bernard Telatovich, Esquire
All County Commissioners