

STATE OF FLORIDA

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DIVISION OF WATER & WASTEWATER  
DANIEL M. HOPPE, DIRECTOR  
(850) 413-6900

Public Service Commission

March 2, 2000

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

Re: Docket No. 991643-SU, Application for increase in wastewater rates in Seven Springs System in Pasco County by Aloha Utilities, Inc.

Dear Mr. Deterding:

We have reviewed the minimum filing requirements (MFRs) submitted on February 9, 2000, on behalf of the above-mentioned utility. We find the minimum filing requirements to be deficient. The specific deficiencies are identified below:

A. MFR SCHEDULE DEFICIENCIES

Rule 25-30.437, Florida Administrative Code, states that a Class A utility applying for a rate increase shall provide the information required by Commission Form PSC/WAW 19.

- 1. Schedules A-18(A & B), Schedule of Comparative Balance Sheet - Assets

The instructions require the utility to provide a balance sheet for years requested and to provide same for historical base or intermediate years, if not already shown. On Schedule A-18(C) below Notes Receivable - Associated Companies, the utility listed Income Tax Deposits. However, on Schedules A-18(A & B) below Notes Receivable - Associated Companies, the utility listed Accounts Receivable - Other. The account names should be consistent for each of the three test years.

- 2. Schedules B-2(A through C), Schedules of Net Operating Income

The instructions for this schedule require the utility to submit an additional schedule showing a description and calculation of amortization (Line 4) if the charge is related

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any amount other than an acquisition adjustment. The utility failed to submit this additional schedule.

3. Schedule B-8, Operation & Maintenance Expense Comparison

The instructions for this schedule require the utility to provide a comparison of the applicant's current and prior test year Operation & Maintenance (O&M) expenses. The utility provided information for the historical base year, instead of the final projected September 30, 2001 test year as required.

4. Schedules D-5(A through C), Cost of Long-Term Debt

The instructions for this schedule require the utility to provide the specified data on long-term debt issues on a 13-month average basis for the test year. The utility failed to include the following long-term debt issues: L.L. Speer (Line of Credit) for 30 years and L.L. Speer (DOT) for 30 years.

5. Schedule F-10, Equivalent Residential Connections

Page 1 of 2 - The instructions shown on the utility's submitted schedule are incorrect; the utility used total customers and total gallons treated instead of single family residential (SFR) customers. The instructions for this schedule require the utility to provide the beginning, ending, and average balances of single family residential (SFR) customers in Columns 2 through 4, respectively. The utility is also required to provide SFR gallons treated in Column 5, and Gallons per SFR in Column 6. The utility has failed to provide the above information. The schedule also requires the utility to provide a calculation of the average growth in ERCs for the last five years, including the test year. The last year provided does not match the utility's historical September 30, 1999 test year. The utility used the ERCs for the twelve months ended December 31, 1999. Further, the schedule requires the utility to calculate the simple average growth through the 5-year period. The utility states that it used the average yearly percentage increase by linear regression. Staff notes that the information submitted on this schedule will need to remain in the MFRs if the utility continues to use this methodology currently reflected on Schedule F-10 to support its projected growth.

Page 2 of 2 - The utility should provide an accurate description of the purpose of the current Schedule F-10, page 2 of 2 and how it is used.

## B. DETAIL OF PROJECTED METHODOLOGIES

Rule 25-30.437 (3), Florida Administrative Code, states, in part, "A schedule shall also be included which describes in detail all methods and bases of projection, explaining the

justification for each method or basis employed.” Staff has reviewed the utility’s Schedule G-1 of Exhibit I entitled “Basis of Projections” and has found that the utility’s explanations of its bases of projection for numerous items lack sufficient detail. The utility should submit the following in order to provide sufficient detail of its bases of projection.

1. With regard to the projected intermediate and final test years, provide a schedule showing the account number, amount, and month each projected plant addition is projected to be placed into service. Staff also notes that the utility’s current filing does not provide any explanation or basis of projection for capital infiltration and inflow costs that was outlined in the utility’s letter to Ralph Jaeger dated February 16, 2000.
2. The utility stated that it received \$908,563 matching funds from Southwest Florida Water Management District (SFWMD) which it booked as CIAC. The utility further stated that \$197,799 of this amount was associated with the reuse force main extension to Heritage Springs. Provide a description of the specific construction project(s) for the remaining \$710,764 of the total amount. Provide a schedule of the projected monthly additions for each year that collectively total \$908,563 in matching funds from SFWMD.
3. Provide the calculation of the utility’s 5-year average for the \$390,527 of donated property for its Seven Springs wastewater system.
4. Provide a schedule that shows the projected plant capacity fees/charges added by month for the intermediate projected September 30, 2000 test year and the final projected September 30, 2001 test year. For each month, include the dollar amount and number of ERCs added.
5. For each account in the utility’s MFRs, the utility is required to provide a detailed description of how the base year amounts are projected to the intermediate and final projected test years. The description should allow the user of the MFRs to start with the historical balance and calculate both intermediate and final projected test year amounts. This should include any escalation factors used as well as specific adjustments necessary to each account. Detail should be provided to support each escalation factor and why that factor is justified. For any specific adjustments to a projected account balance, provide the amount, descriptions of what specific types of services are included, and why this adjustment is appropriate. Based on staff’s review of the MFRs, the projections for the following accounts are not sufficient: Cash, Customer Accounts Receivable, Deferred Tax Assets, Deferred Tax Liabilities, Accounts Payable - Trade, Salaries and Wages - Employees, Salaries and Wages - Officers, Employee Benefits, Sludge Removal, Purchased Power, Chemicals, Materials and Supplies, Contract Services - All Accounts Separately, Rental of Equipment, Transportation Expense, Insurance - Vehicle, Insurance - General Liability, Regulatory Commission Expense - Other, Common Stock, Preferred Stock, Additional Paid in Capital, Contributed Taxes, Unamortized Debt Discount & Exp., and Other Miscellaneous Deferred Income Taxes.

6. Provide an explanation showing what accounts were used to make the balance sheets balance for the intermediate and final projected test years, after specific projections were made to other accounts.

#### C. ERRORS IN THE HEADINGS OF SCHEDULES

In addition to the above-mentioned deficiencies, there were numerous schedules with errors in the headings that should also be corrected. These errors are listed below:

1. Schedule A-19(C) - The utility did not list a test year in the heading; it should have listed September 30, 1999.
2. Schedule B-3(B) - The test year listed is incorrect. The utility has September 30, 2001, and it should be September 30, 2000.
3. Schedule B-3-(C) - The test year listed is incorrect. The utility has September 30, 2001, and it should be September 30, 1999.
4. Schedule C-1(A) - The utility has the September 30, 2001 test year listed has as historic, and it should be listed as projected.
5. Schedule C-2(B) - The utility has the September 30, 2000 test year listed has as historic, and it should be listed as projected.
6. Schedule C-2(C) - The test year listed is incorrect. The utility has September 30, 2001, and it should be September 30, 1999.
7. Schedule C-4 - The utility has the September 30, 2001 test year listed has as historic, and it should be listed as projected.
8. Schedule E-8 - The utility listed "99 Page 1 of 2" as the docket number. The utility should submit a revised schedule with the correct docket number.
9. Schedule E-11 - The utility has the September 30, 2001 test year listed has as historic, and it should be listed as projected.
10. Volume II, Schedule E-14, pages 1 through 20 - The utility listed an incorrect docket number for this docket. The utility should submit revised schedules with the correct docket number.

#### D. POSSIBLE ERRORS BETWEEN THE UTILITY'S DESCRIPTIONS OF PROJECTION METHODOLOGIES AND THE DOLLAR AMOUNTS PROJECTED

Based on our review of the MFRs, staff has found several possible errors. While these errors are not MFR deficiencies, we are addressing them in case the utility wishes to make any corrections before the filing is accepted as complete. The possible errors are as follows:

1. On Schedule G-1, Page 4 of 5, the utility stated that the Salaries and Wages - Employees account was annualized for new employees hired during the historical test year. The utility stated the annual salary increase for these employees was \$89,804 and that no provision for salary increases was made. In staff's review of the MFRs, we were unable to reconcile the utility's intermediate and final projected balances on Schedules B-6(A & B) with the utility's described basis of projection. The final projected test year amount for Salaries and Wages - Employees was \$171,416 greater than the base year, or almost double the utility's described change.
2. With regard to Contract Services - Other, the utility stated that it projected this account by the GNP Price Deflator Index of 1.21% and its calculated customer growth rate of 1.04812%. The utility stated that it further increased this account by \$6,708 in 2001. However, the utility's intermediate and final projected balances on Schedules B-6(A & B) fail to reconcile with the utility's basis of projection. Using the utility's described basis of projection, staff calculated a final projected balance of \$124,963 compared to the utility's final projected test year balance of \$347,820 on Schedule B-6(A).
3. On Schedule G-1, Page 2 of 3, the utility stated that it allocated working capital among its four divisions based on O&M expenses. On Schedules A-17(A through C), Page 2 of 2, there is a discrepancy with the Seven Springs O&M expenses on each schedule; it does not match the O&M expenses listed on column 6 of Schedules B-2(A through C), respectively. If the utility chooses to correct this error, Schedules A-17(A through C) should be submitted along with any resulting change to other schedules.
4. Based on staff's review, other possible errors exist between the utility's descriptions of projection methodologies and the dollar amounts projected for the cash and accounts receivable accounts.

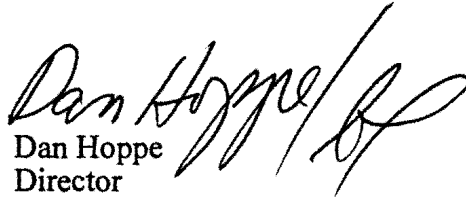
#### E. OTHER CONCERNS

Based on the utility's current filing, staff is unable to determine if all the Commission adjustments per Order No. PSC-99-1917-PAA-WS, issued September 28, 1999, in Dockets Nos. 970536-WS and 980245-WS, have been made to the historical September 30, 1999 test year. For interim purposes, staff will have to determine whether these adjustments have been made to the utility's interim test year. If the filing does not contain sufficient information to show that the appropriate adjustments have been made, staff will have to assume that the adjustments have not been made. If the utility intends to provide this data, it should be submitted with the other MFR deficiencies.

F. Marshall Deterding, Esq.  
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Lastly, your petition will not be deemed filed until we have received the required information mentioned above. These corrections should be submitted no later than March 31, 2000.

Sincerely,

  
Dan Hoppe  
Director

By Certified Mail *P 174 240 485*  
Return Receipt

DH/sbf

cc: Division of Records and Reporting  
Division of Auditing and Financial Analysis (Vandiver)  
Division of Legal Services (Jaeger, Fudge)  
Division of Water and Wastewater (Willis, Merchant, Crouch, Wetherington, Binford, Fletcher)

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