



# Public Service Commission

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RECORDS AND REPORTING  
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**DATE:** JUNE 29, 2000

**TO:** DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

**FROM:** DIVISION OF ECONOMIC REGULATION (DRAPER, FLETCHER, MAUREY, MERCHANT, DIVISION OF LEGAL SERVICES (FUDGE, JAEGER)

**RE:** DOCKET NO. 000737-WS - INVESTIGATION OF RATES OF ALOHA UTILITIES, INC. IN PASCO COUNTY FOR POSSIBLE OVEREARNINGS FOR THE ALOHA GARDENS WATER AND WASTEWATER SYSTEMS AND THE SEVEN SPRINGS WATER SYSTEM  
COUNTY: PASCO COUNTY

**AGENDA:** JULY 11, 2000 - REGULAR AGENDA - DECISION ON SETTING REVENUES SUBJECT TO REFUND - ON ISSUE NO. 1, INTERESTED PERSONS MAY PARTICIPATE - ON ISSUES NOS. 2, 3, AND 4, PARTICIPATION IS LIMITED TO COMMISSIONERS AND STAFF

**CRITICAL DATES:** NONE

**SPECIAL INSTRUCTIONS:** NONE

**FILE NAME AND LOCATION:** I:\PSC\ECR\WP\000737I.RCM

### CASE BACKGROUND

Aloha Utilities, Inc. (Aloha or utility), is a Class A water and wastewater utility in Pasco County. The utility consists of two distinct service areas, Aloha Gardens and Seven Springs. These service areas are physically divided by U.S. Highway 19, the major north/south highway through Pinellas and Pasco County. The utility's service area is located within the Northern Tampa Bay Water Use Caution Area as designated by the Southwest Florida Water Management District (SWFWMD). Critical water supply concerns have been identified by SWFWMD within this area.

In its 1999 annual report, Aloha reported the following:

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<u>System</u>	<u>Water Customers</u>	<u>Wastewater Customers</u>	<u>Water Operating Revenues</u>	<u>Wastewater Operating Revenues</u>
Aloha Gardens	3,103	2,822	\$517,032	\$1,009,285
Seven Springs	<u>9,242</u>	<u>8,866</u>	<u>\$1,726,029</u>	<u>\$2,518,899</u>
Total Company	<u>12,345</u>	<u>11,688</u>	<u>\$2,243,061</u>	<u>\$3,528,184</u>

In the utility's last rate proceeding, rate base was established for each of the utility's systems by Order No. PSC-99-1917-PAA-WS, issued September 28, 1999, in Dockets Nos. 970536-WS and 980245-WS. This order was consummated by Order No. PSC-99-2083-CO-WS. Return on Equity of 10.12% with a range of 9.12% to 11.12% was also established. The utility's Seven Springs wastewater system is not included in this docket because Aloha filed an application for an increase in rates for that system. Docket No. 991643-SU was established to process that application, which is set for hearing.

This recommendation addresses: 1) opening a formal overearnings investigation of the utility's Aloha Gardens water and wastewater systems and the Seven Springs water system; and 2) holding revenues subject to refund under an appropriate security.

**DISCUSSION OF ISSUES**

**ISSUE 1:** Should the Commission initiate an overearnings investigation of the utility's Aloha Gardens water and wastewater systems and the Seven Springs water system?

**RECOMMENDATION:** Yes. The Commission should initiate an overearnings investigation of the utility's Aloha Gardens water and wastewater systems and its Seven Springs water system. (FLETCHER)

**STAFF ANALYSIS:** The utility's 1999 annual report was received on May 15, 2000. Staff's preliminary analysis indicates that the Aloha Gardens water and wastewater system achieved returns on equity of 5,589.70% and 43.30%, respectively. Further, our preliminary analysis indicates that the Seven Springs water system achieved a return on equity of 19.37%. By Order No. PSC-99-1917-PAA-WS, the Commission established a return on equity of 10.12% with a range of 9.12% to 11.12%. Based on the above, staff believes that Aloha is exceeding the range of its authorized return on equity for these systems. Further, because the Seven Springs wastewater system has filed a rate case, any underearnings for that system may no longer be utilized to offset any overearnings for these other systems. Accordingly, staff believes that a formal investigation of the utility's Aloha Gardens water and wastewater systems and its Seven Springs water system should be initiated.

**ISSUE 2:** Should any amount of annual water and wastewater revenues be held subject to refund?

**RECOMMENDATION:** Yes. Aloha should hold the following amounts subject to refund:

<u>System</u>	<u>Test Year Revenues</u>	<u>Amount Subject To Refund</u>	<u>% Subject To Refund</u>
Aloha Gardens Water	\$519,976	\$133,977	25.77%
Aloha Gardens Wastewater	\$1,001,716	\$84,076	8.39%
Seven Springs Water (FLETCHER)	\$1,723,085	\$52,378	3.04%

**STAFF ANALYSIS:** As stated in Issue 1, staff believes that the utility's Aloha Gardens water and wastewater systems and the Seven Springs water system may be overearning. Staff's recommended adjustments for interim purposes are discussed below.

Pursuant to Section 367.082(5)(b)(1), Florida Statutes, the achieved rate of return for interim purposes shall be calculated by applying appropriate adjustments consistent with those used in the utility's most recent rate proceeding. As addressed in Order No. PSC-99-1917-PAA-WS, the utility disagreed with three of the Commission's adjustments in that case. Those adjustments included the disallowance of capitalized invoices previously expensed, the removal of an interest bearing cash operating account from working capital, and the reduction of officers' salaries and associated benefits and payroll taxes. The utility requested, and the Commission agreed, that the utility should be allowed to fully litigate its objections to those adjustments in its next rate case. However, the Commission specifically stated that those adjustments should be used for the calculation of interim rates and any earnings investigation pending the conclusion of any rate case.

The attached accounting schedules illustrate staff's recommended rate base, capital structure, and test year operating income amounts, which are discussed below. Aloha Gardens water and wastewater rate bases are shown on Schedules Nos. A(1-A) and A(1-B), respectively. Adjustments to rate base for these systems are shown on Schedule No. A(1-C). Seven Springs water rate base is shown on Schedule No. B(1-A), and adjustments to this rate base are shown on Schedule No. B(1-B). The cost of capital schedule that reconciles capital to the rate bases of Aloha Gardens water and wastewater systems and Seven Springs water system is shown on

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Schedule No. 2. Aloha Gardens water and wastewater operating statements are shown on Schedules Nos. A(3-A) and A(3-B), respectively. Adjustments to the operating statements for these systems are shown on Schedule No. A(3-C). The Seven Springs water operating statement is shown on Schedule No. B(3-A), with adjustments to the operating statement shown on Schedule No. B(3-B).

#### RATE BASE

Pursuant to Rule 25-30.433, Florida Administrative Code, the averaging method used by the Commission to calculate rate base and the cost of capital for Class A utilities is the 13-month average. The utility's 1999 annual report only reflects Aloha's year-end financial data. As such, staff has used the simple average of 1998 and 1999 to analyze the utility's Aloha Gardens water and wastewater systems and the Seven Springs water system.

#### Capitalized Invoices Previously Expensed

In Aloha's last rate proceeding, the Commission reduced plant to disallow the capitalization of invoices previously expensed. The Commission also reduced accumulated depreciation and depreciation expense associated with these plant reductions. According to our review of Aloha's 1999 annual report, the utility did not make these adjustments. In accordance with the interim statute, staff recommends that plant, accumulated depreciation, and depreciation expense be reduced as follows:

<u>System</u>	<u>Plant</u>	<u>Accumulated Depreciation</u>	<u>Depreciation Expense</u>
Aloha Gardens Water	3,669	\$1,064	\$122
Aloha Gardens Wastewater	\$1,567	\$917	\$87
Seven Springs Water	\$99,794	\$30,064	\$3,077

#### Working Capital Allowance

Based on our analysis of the utility's working capital, staff was able to determine that the utility included its interest bearing cash operating account to calculate working capital. In the utility's last rate proceeding, the cash operating account was excluded from working capital and the interest income from the cash operating account was recorded below-the-line. Being consistent

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with those adjustments made in the last rate proceeding, staff recommends that the cash operating account be excluded from working capital and the interest income from the cash operating account be recorded below-the-line.

In addition, working capital in the last rate proceeding was allocated to Aloha's systems based on the prorata share of the total company operation and maintenance (O&M) expenses. As discussed below in the net operating income section of our analysis, staff has recommended adjustments to officers' salaries and benefits that are consistent with the utility's last rate proceeding. Although Aloha's Seven Springs wastewater system rates are being addressed in Docket No. 991643-SU, staff believes it is appropriate to make the consistent interim adjustments to this system's O&M expenses, before allocating the total working capital to each system. Based on the above, staff recommends that the appropriate working capital for the Aloha Gardens water and wastewater systems and Seven Springs water system are as follows:

<u>System</u>	<u>Utility's Working Capital</u>	<u>Staff's Adjustment</u>	<u>Recommended Working Capital</u>
Aloha Gardens Water	\$81,806	(\$62,309)	\$19,497
Aloha Gardens Wastewater	\$161,805	(\$118,138)	\$43,667
Seven Springs Water	\$252,264	(\$179,962)	\$72,301

#### Rate Base Summary

Rate base for interim purposes, as recommended by staff, is \$4,164 for Aloha Gardens water, \$453,002 for Aloha Gardens wastewater, and \$1,100,871 for Seven Springs water.

#### COST OF CAPITAL

Consistent with Section 367.082(5)(b), Florida Statutes, the required rate of return shall be calculated using the last authorized rate of return on equity, and the test year cost rates of other sources of capital. Further, adjustments should be made which are consistent with those made in the last rate proceeding. This section also requires that the return on equity for an interim decrease shall be calculated using the maximum of the range of the utility's last authorized return on equity. Staff has reviewed the utility's capital structure and we believe adjustments are necessary for interim purposes.

According to its 1999 annual report, the utility used a prime rate of 7.75% plus 3% (10.75%) for variable cost long-term debt issued by Linda L. Speer, a related party. In the utility's last rate proceeding, the Commission approved a cost rate of prime plus 2 percent for this related party debt. Prime interest rates are reported on the first day of each month. Since the test year is the year ended December 31, 1999, staff believes that the prime rate of 7.98% should be used. This is a weighted cost of the prime rate during the test year. As such, staff recommends a cost rate of 9.98% for this related party debt. Thus, staff calculated a weighted average cost of long-term debt of 9.85% which is 73 basis points lower than the utility's calculated cost rate of 10.58%.

In Aloha's last rate proceeding, the utility's return on equity was established at 10.12%, with a range of 9.12% to 11.12%. Staff has utilized the 11.12% maximum of the range to calculate any potential overearnings. Based on the above, staff recommends that Aloha's overall rate of return for interim purposes should be 9.36%.

#### NET OPERATING INCOME

##### Test Year Revenues

Section 367.082(5)(b)(1), Florida Statutes, states that any rate changes which occurred during the interim test year must be annualized in order to calculate the achieved rate of return. On January 18, 2000, the Commission approved an index and pass through for the utility's Aloha Gardens water and wastewater systems and its Seven Springs water system. There was no index or pass through implemented in the 1999 test year. Because the price index and pass through were implemented after the end of the test year, staff recommends that no other adjustments are necessary to the test year revenues. Further, according to Section 367.081(4)(d), Florida Statutes, the index and pass through rate adjustments remain subject to refund 15-months after the filing of the utility's 2000 annual report.

##### Operation & Maintenance Expense

In Aloha's last rate proceeding, Linda L. Speer, the vice-president, spent only 20 percent of her time on utility business but was paid \$65,488. The president's salary was \$112,110 for 100% of his time spent on Aloha business. The Commission found Ms. Speer's salary excessive for the amount of time she spent as vice-president and limited her salary to 20 percent of the president's salary. Further, the Commission found that the secretary/

treasurer's salary of \$50,005 was excessive and set this compensation at \$42,000. The Commission also reduced benefits and payroll taxes related to these salary reductions. According to its 1999 annual report, the utility did not make any of these adjustments. To comply with the interim statute, staff recommends that officers' salaries, benefits, and payroll taxes be reduced as follows:

<u>System</u>	<u>Officers' Salaries</u>	<u>Benefits</u>	<u>Payroll Taxes</u>
Aloha Gardens Water	\$8,560	\$626	\$398
Aloha Gardens Wastewater	\$7,770	\$572	\$364
Seven Springs Water	\$8,489	\$1,848	\$1,176

Taxes Other Than Income

In the utility's last rate proceeding, the Commission reduced Aloha's tangible personal property tax expense because the utility waited until December to pay its taxes, and did not take advantage of available discounts. According to the audit completed for Docket No. 991643-SU, the utility paid its 1999 taxes in December, 1999. As such, staff believes the same adjustment is required, for interim purposes, because the utility did not take available discounts.

In the last rate proceeding, the Commission also allocated tangible personal property taxes based on net depreciable plant less transportation equipment. The utility had used an old allocation method. Based on our analysis, it appears that the utility did not use the method approved in the last rate proceeding. Therefore, staff utilized the same method to comply with the interim statute.

Based on the above, staff recommends that the utility's tangible personal property taxes should be adjusted as follows:

<u>System</u>	<u>Tangible Personal Property Taxes</u>
Aloha Gardens Water	(\$3,126)
Aloha Gardens Wastewater	\$1,698
Seven Springs Water	\$1,039



**REVENUE REQUIREMENT**

Based on staff's recommended rate base, cost of capital, and operating expense, we believe the following amounts should be held subject to refund:

<u>System</u>	<u>Test Year Revenues</u>	<u>Amount Subject To Refund</u>	<u>% Subject To Refund</u>
Aloha Gardens Water	\$519,976	\$133,977	25.77%
Aloha Gardens Wastewater	\$1,001,716	\$84,076	8.39%
Seven Springs Water	\$1,723,085	\$52,378	3.04%

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**ISSUE 3:** What is the appropriate security to guarantee the amount subject to refund?

**RECOMMENDATION:** A corporate undertaking in the amount of \$161,140 guaranteed by Aloha, shall be accepted as security. Further, an accurate and detailed account of all monies received should be kept by the utility. By no later than the twentieth (20th) day of each month, the utility shall file a report showing the amount of revenues collected each month subject to refund. Should a refund be required, the refund should be with interest and undertaken in accordance with Rule 25-30.360, Florida Administrative Code. In no instance shall maintenance and administrative costs associated with any refund be borne by the customers. These costs are the responsibility of, and should be borne by the utility. (Draper, Fletcher)

**STAFF ANALYSIS:** Pursuant to Section 367.082(2)(b), Florida Statutes, in an interim decrease, the utility shall be authorized to continue collecting its previously authorized rates provided that the revenues held subject to refund are secured. The amount held subject to refund with interest shall be placed under bond, escrow, letter of credit or corporate undertaking pending the Commission's final action in the docket. As recommended in Issue No. 2, the amount of potential overearnings is \$133,977 for Aloha Gardens water, \$84,076 for Aloha Gardens wastewater, and \$52,378 for Seven Springs water. Assuming a 7-month time frame, the potential refund amount is \$157,751. The interest component is \$3,389, making the total \$161,140 that should be subject to refund with interest.

The criteria for a corporate undertaking include sufficient liquidity, ownership equity, profitability, and interest coverage to guarantee any potential refund. The 1997, 1998, and 1999 annual reports were used to determine the financial condition of Aloha. Based on staff's analysis, a corporate undertaking signed by Aloha would be sufficient to protect the potential refund. Therefore, staff recommends that the utility be allowed to provide a corporate undertaking in the amount of \$161,140 as a guarantee of any potential refund of water and wastewater revenues collected under the interim conditions.

Further, an accurate and detailed account of all monies received shall be kept by the utility. By no later than the twentieth (20th) day of each month, the utility shall file a report showing the amount of revenues collected each month subject to refund. Should a refund be required, the refund shall be with

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interest and undertaken in accordance with Rule 25-30.360, Florida Administrative Code.

Staff also recommends that in no instance shall maintenance and administrative costs associated with any refund be borne by the customers. These costs are the responsibility of, and should be borne by the utility.

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**ISSUE 4:** Should this docket be closed?

**RECOMMENDATION:** No, this docket should remain open pending staff's investigation of the utility's earnings for 1999. (FLETCHER, JAEGER)

**STAFF ANALYSIS:** If the Commission approves Issue No. 1 of this recommendation, this docket should remain open pending staff's investigation of the utility's earnings for 1999.

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**ALOHA UTILITIES, INC. - ALOHA GARDENS  
 SCHEDULE OF WATER RATE BASE  
 SIMPLE AVERAGE TEST YEAR ENDED 12/31/99**

**SCHEDULE NO. A(1-A)  
 DOCKET NO. 000737-WS**

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	STAFF ADJUST- MENTS	STAFF ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$882,636	\$0	\$882,636	(\$3,669)	\$878,966
2 LAND & LAND RIGHTS	\$5,000	\$0	\$5,000	\$0	\$5,000
3 NON-USED & USEFUL COMPONENTS	\$0	\$0	\$0	\$0	\$0
4 ACCUMULATED DEPRECIATION	(\$751,282)	\$0	(\$751,282)	\$1,064	(\$750,218)
5 CIAC	(\$438,245)	\$0	(\$438,245)	\$0	(\$438,245)
6 AMORTIZATION OF CIAC	\$289,164	\$0	\$289,164	\$0	\$289,164
7 ALLOCATED PLANT	\$0	\$0	\$0	\$0	\$0
8 ADVANCES FOR CONSTRUCTION	\$0	\$0	\$0	\$0	\$0
9 UNFUNDED POST-RETIRE. BENEFITS	\$0	\$0	\$0	\$0	\$0
10 DEFERRED INCOME TAXES	\$0	\$0	\$0	\$0	\$0
11 WORKING CAPITAL ALLOWANCE	\$81,806	\$0	\$81,806	(\$62,309)	\$19,497
12 OTHER	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<b>RATE BASE</b>	<u>\$69,079</u>	<u>\$0</u>	<u>\$69,079</u>	<u>(\$64,915)</u>	<u>\$4,164</u>

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**ALOHA UTILITIES, INC. - ALOHA GARDENS SYSTEM  
SCHEDULE OF WASTEWATER RATE BASE  
SIMPLE AVERAGE TEST YEAR ENDED 12/31/99**

**SCHEDULE NO. A(1-B)  
DOCKET NO. 000737-WS**

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	STAFF ADJUST- MENTS	STAFF ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$1,365,743	\$0	\$1,365,743	(\$1,567)	\$1,364,175
2 LAND	\$3,220	\$0	\$3,220	\$0	\$3,220
3 NON-USED & USEFUL COMPONENTS	\$0	\$0	\$0	\$0	\$0
4 ACCUMULATED DEPRECIATION	(\$809,545)	\$0	(\$809,545)	\$917	(\$808,629)
5 CIAC	(\$324,586)	\$0	(\$324,586)	\$0	(\$324,586)
6 AMORTIZATION OF CIAC	\$175,154	\$0	\$175,154	\$0	\$175,154
7 ACQUISITION ADJUSTMENTS - NET	\$0	\$0	\$0	\$0	\$0
8 ADVANCES FOR CONSTRUCTION	\$0	\$0	\$0	\$0	\$0
9 UNFUNDED POST-RETIRE. BENEFITS	\$0	\$0	\$0	\$0	\$0
10 DEFERRED INCOME TAXES	\$0	\$0	\$0	\$0	\$0
11 WORKING CAPITAL ALLOWANCE	\$161,805	\$0	\$161,805	(\$118,138)	\$43,667
12 OTHER	\$0	\$0	\$0	\$0	\$0
<b>RATE BASE</b>	<u>\$571,791</u>	<u>\$0</u>	<u>\$571,791</u>	<u>(\$118,789)</u>	<u>\$453,002</u>

**ALOHA UTILITIES, INC. - ALOHA GARDENS SYSTEM  
ADJUSTMENTS TO RATE BASE  
SIMPLE AVERAGE TEST YEAR ENDED 12/31/99**

**SCHEDULE NO. A(1-C)  
DOCKET NO. 000737-WS**

<b>EXPLANATION</b>	<b>WATER</b>	<b>WASTEWATER</b>
<b><u>PLANT IN SERVICE</u></b>		
Reduce plant per Order No. PSC-99-1917-PAA-WS.	<u>(\$3,669)</u>	<u>(\$1,567)</u>
<b><u>LAND</u></b>		
None	<u>\$0</u>	<u>\$0</u>
<b><u>NON-USED AND USEFUL</u></b>		
None	<u>\$0</u>	<u>\$0</u>
<b><u>ACCUMULATED DEPRECIATION</u></b>		
Reduce accum. depr. per Order No. PSC-99-1917-PAA-WS.	<u>\$1,064</u>	<u>\$917</u>
<b><u>CIAC</u></b>		
None	<u>\$0</u>	<u>\$0</u>
<b><u>ACCUM. AMORT. OF CIAC</u></b>		
None	<u>\$0</u>	<u>\$0</u>
<b><u>WORKING CAPITAL</u></b>		
To adjust working capital consistent with the last rate proceeding.	<u>(\$62,309)</u>	<u>(\$118,138)</u>

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**ALOHA UTILITIES, INC. - SEVEN SPRINGS SYSTEM  
SCHEDULE OF WATER RATE BASE  
SIMPLE AVERAGE TEST YEAR ENDED 12/31/99**

**SCHEDULE NO. B(1-A)  
DOCKET NO. 000737-WS**

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	STAFF ADJUST- MENTS	STAFF ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$8,045,699	\$0	\$8,045,699	(\$99,794)	\$7,945,905
2 LAND & LAND RIGHTS	\$21,563	\$0	\$21,563	\$0	\$21,563
3 NON-USED & USEFUL COMPONENTS	\$0	\$0	\$0	\$0	\$0
4 ACCUMULATED DEPRECIATION	(\$1,798,978)	\$0	(\$1,798,978)	\$30,064	(\$1,768,914)
5 CIAC	(\$6,679,030)	\$0	(\$6,679,030)	\$0	(\$6,679,030)
6 AMORTIZATION OF CIAC	\$1,509,046	\$0	\$1,509,046	\$0	\$1,509,046
7 ALLOCATED PLANT	\$0	\$0	\$0	\$0	\$0
8 ADVANCES FOR CONSTRUCTION	\$0	\$0	\$0	\$0	\$0
9 UNFUNDED POST-RETIRE. BENEFITS	\$0	\$0	\$0	\$0	\$0
10 DEFERRED INCOME TAXES	\$0	\$0	\$0	\$0	\$0
11 WORKING CAPITAL ALLOWANCE	\$252,264	\$0	\$252,264	(\$179,962)	\$72,301
12 OTHER	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<b>RATE BASE</b>	<u>\$1,350,564</u>	<u>\$0</u>	<u>\$1,350,564</u>	<u>(\$249,693)</u>	<u>\$1,100,871</u>



**ALOHA UTILITIES, INC. - SEVEN SPRINGS SYSTEM  
ADJUSTMENTS TO RATE BASE  
SIMPLE AVERAGE TEST YEAR ENDED 12/31/99**

**SCHEDULE NO. B(1-B)  
DOCKET NO. 000737-WS**

EXPLANATION	WATER
<p><b><u>PLANT IN SERVICE</u></b> Reduce plant per Order No. PSC-99-1917-PAA-WS.</p>	<p><u>(\$99,794)</u></p>
<p><b><u>LAND</u></b> To reflect the appropriate land balance per last rate proceeding.</p>	<p><u>\$0</u></p>
<p><b><u>NON-USED AND USEFUL</u></b> None</p>	<p><u>\$0</u></p>
<p><b><u>ACCUMULATED DEPRECIATION</u></b> Reduce accum. depr. per Order No. PSC-99-1917-PAA-WS.</p>	<p><u>\$30,064</u></p>
<p><b><u>CIAC</u></b> None</p>	<p><u>\$0</u></p>
<p><b><u>ACCUM. AMORT. OF CIAC</u></b> None</p>	<p><u>\$0</u></p>
<p><b><u>WORKING CAPITAL</u></b> To adjust working capital consistent with the last rate proceeding.</p>	<p><u>(\$179,962)</u></p>

**ALOHA UTILITIES, INC. - ALOHA GARDENS WATER & WASTEWATER AND SEVEN SPRINGS WATER SYSTEMS**

**SCHEDULE NO. 2**

**CAPITAL STRUCTURE**

**DOCKET NO. 000737-WS**

**SIMPLE AVERAGE TEST YEAR ENDED 12/31/99**

	DESCRIPTION	TOTAL CAPITAL	SPECIFIC ADJUSTMENTS (EXPLAIN)	PRO RATA ADJUSTMENTS	CAPITAL RECONCILED TO RATE BASE	RATIO	COST RATE	WEIGHT COST
<b>PER</b>								
1	LONG TERM DEBT	\$3,714,686	\$0	(\$2,886,068)	\$828,618	53.18%	9.85%	5.24%
2	SHORT-TERM DEBT	\$0	\$0	\$-0	\$0	0.00%	0.00%	0.00%
3	PREFERRED STOCK	\$600,000	\$0	(\$466,161)	\$133,839	8.59%	11.12%	0.96%
4	COMMON EQUITY	\$1,799,660	\$0	(\$1,398,218)	\$401,442	25.77%	11.12%	2.87%
5	CUSTOMER DEPOSITS	\$346,925	\$0	(\$269,538)	\$77,387	4.97%	6.00%	0.30%
6	DEFERRED INCOME TAXES	\$523,394	\$0	(\$406,643)	\$116,751	7.49%	0.00%	0.00%
7	DEFERRED ITC'S-ZERO COST	\$0	\$0	\$-0	\$0	0.00%	0.00%	0.00%
8	DEFERRED ITC'S-WTD. COST	\$0	\$0	\$-0	\$0	0.00%	0.00%	0.00%
9	OTHER	\$0	\$0	\$-0	\$0	0.00%	0.00%	0.00%
10	<b>TOTAL CAPITAL</b>	<u>\$6,984,664</u>	<u>\$0</u>	<u>(\$5,426,627)</u>	<u>\$1,558,037</u>	<u>100.00%</u>		<u>9.36%</u>
<b>PER</b>								
11	LONG TERM DEBT	\$3,714,686	\$0	(\$2,886,068)	\$828,618	53.18%	9.85%	5.24%
12	SHORT-TERM DEBT	\$0	\$0	\$-0	\$0	0.00%	9.03%	0.00%
13	PREFERRED STOCK	\$600,000	\$0	(\$466,161)	\$133,839	8.59%	11.12%	0.96%
14	COMMON EQUITY	\$1,799,660	\$0	(\$1,398,218)	\$401,442	25.77%	11.12%	2.87%
15	CUSTOMER DEPOSITS	\$346,925	\$0	(\$269,538)	\$77,387	4.97%	6.00%	0.30%
16	DEFERRED INCOME TAXES	\$523,394	\$0	(\$406,643)	\$116,751	7.49%	0.00%	0.00%
17	DEFERRED ITC'S-ZERO COST	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
18	DEFERRED ITC'S-WTD. COST	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
19	OTHER	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
17	<b>TOTAL CAPITAL</b>	<u>\$6,984,664</u>	<u>\$0</u>	<u>(\$5,426,627)</u>	<u>\$1,558,037</u>	<u>100.00%</u>		<u>9.36%</u>
							<b>LOW</b>	<b>HIGH</b>
							<u>9.12%</u>	<u>11.12%</u>
							<u>8.84%</u>	<u>9.36%</u>

RETURN ON EQUITY  
OVERALL RATE OF

**ALOHA UTILITIES, INC. - ALOHA GARDENS SYSTEM  
STATEMENT OF WATER OPERATIONS  
SIMPLE AVERAGE TEST YEAR ENDED 12/31/99**

**SCHEDULE NO. A(3-A)  
DOCKET NO. 000737-WS**

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	STAFF ADJUST- MENTS	STAFF ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	<u>\$517,032</u>	<u>\$0</u>	<u>\$517,032</u>	<u>\$2,944</u>	<u>\$519,976</u>	<u>(\$133,977)</u> -25.77%	<u>\$385,999</u>
<b>OPERATING EXPENSES:</b>							
2 OPERATION & MAINTENANCE	<u>\$355,549</u>	<u>\$0</u>	<u>\$355,549</u>	<u>(\$9,186)</u>	<u>\$346,363</u>		<u>\$346,363</u>
3 DEPRECIATION	<u>\$12,157</u>	<u>\$0</u>	<u>12,157</u>	<u>(122)</u>	<u>12,035</u>		<u>12,035</u>
4 AMORTIZATION	<u>\$0</u>	<u>\$0</u>	<u>0</u>	<u>0</u>	<u>0</u>		<u>0</u>
5 TAXES OTHER THAN INCOME	<u>\$36,364</u>	<u>\$0</u>	<u>\$36,364</u>	<u>(\$3,219)</u>	<u>\$33,145</u>	<u>(\$6,029)</u>	<u>\$27,116</u>
6 INCOME TAXES	<u>\$4,345</u>	<u>\$0</u>	<u>\$4,345</u>	<u>\$43,898</u>	<u>\$48,243</u>	<u>(\$48,147)</u>	<u>\$96</u>
7 TOTAL OPERATING EXPENSES	<u>\$408,415</u>	<u>\$0</u>	<u>\$408,415</u>	<u>\$31,370</u>	<u>\$439,785</u>	<u>(\$54,176)</u>	<u>\$385,609</u>
8 OPERATING INCOME	<u>\$108,617</u>	<u>\$0</u>	<u>\$108,617</u>	<u>(\$28,426)</u>	<u>\$80,191</u>	<u>(\$79,801)</u>	<u>\$390</u>
9 RATE BASE	<u>\$69,079</u>		<u>\$69,079</u>		<u>\$4,164</u>		<u>\$4,164</u>
10 RATE OF RETURN	<u>157.24%</u>		<u>157.24%</u>		<u>1925.94%</u>		<u>9.36%</u>

**ALOHA UTILITIES, INC. - ALOHA GARDENS SYSTEM  
STATEMENT OF WASTEWATER OPERATIONS  
SIMPLE AVERAGE TEST YEAR ENDED 12/31/99**

**SCHEDULE NO. A(3-B)  
DOCKET NO. 000737-WS**

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	STAFF ADJUST- MENTS	STAFF ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	<u>\$1,009,285</u>	<u>\$0</u>	<u>\$1,009,285</u>	<u>(\$7,569)</u>	<u>\$1,001,716</u>	<u>(\$84,076)</u> -8.39%	<u>\$917,640</u>
OPERATING EXPENSES							
2 OPERATION & MAINTENANCE	<u>\$784,101</u>	<u>\$0</u>	<u>\$784,101</u>	<u>(\$8,342)</u>	<u>\$775,759</u>	<u>\$0</u>	<u>\$775,759</u>
3 DEPRECIATION	<u>\$31,016</u>	<u>\$0</u>	<u>\$31,016</u>	<u>(\$87)</u>	<u>\$30,929</u>	<u>\$0</u>	<u>\$30,929</u>
4 AMORTIZATION	<u>\$1,380</u>	<u>\$0</u>	<u>\$1,380</u>	<u>\$0</u>	<u>\$1,380</u>	<u>\$0</u>	<u>\$1,380</u>
5 TAXES OTHER THAN INCOME	<u>\$59,151</u>	<u>\$0</u>	<u>\$59,151</u>	<u>\$1,374</u>	<u>\$60,525</u>	<u>(\$3,783)</u>	<u>\$56,742</u>
6 INCOME TAXES	<u>\$2,118</u>	<u>\$0</u>	<u>\$2,118</u>	<u>\$38,538</u>	<u>\$40,656</u>	<u>(\$30,214)</u>	<u>\$10,442</u>
7 TOTAL OPERATING EXPENSES	<u>\$877,766</u>	<u>\$0</u>	<u>\$877,766</u>	<u>\$31,483</u>	<u>\$909,249</u>	<u>(\$33,997)</u>	<u>\$875,252</u>
8 OPERATING INCOME	<u>\$131,519</u>	<u>\$0</u>	<u>\$131,519</u>	<u>(\$39,052)</u>	<u>\$92,467</u>	<u>(\$50,078)</u>	<u>\$42,389</u>
9 RATE BASE	<u>\$571,791</u>		<u>\$571,791</u>		<u>\$453,002</u>		<u>\$453,002</u>
10 RATE OF RETURN	<u>23.00%</u>		<u>23.00%</u>		<u>20.41%</u>		<u>9.36%</u>

**ALOHA UTILITIES, INC. - ALOHA GARDENS SYSTEM  
ADJUSTMENTS TO OPERATING INCOME  
SIMPLE AVERAGE TEST YEAR ENDED 12/31/99**

**SCHEDULE NO. A(3-C)  
DOCKET NO. 000737-WS**

EXPLANATION	WATER	WASTEWATER
<b><u>OPERATING REVENUES</u></b>		
To record interest income from cash operating acct. below-the-line.	<u>(\$2,944)</u>	<u>(\$7,569)</u>
<b><u>OPERATION &amp; MAINTENANCE EXPENSE</u></b>		
1 Reduce officers salaries.	(\$8,560)	(\$7,770)
2 Reduce benefits.	<u>(626)</u>	<u>(\$572)</u>
Total	<u>(\$9,186)</u>	<u>(\$8,342)</u>
<b><u>DEPRECIATION EXPENSE-NET</u></b>		
Reduce depreciation expense for disallowed invoices.	<u>(\$122)</u>	<u>(\$87)</u>
<b><u>TAXES OTHER THAN INCOME</u></b>		
1 Reduce payroll taxes consistent with last rate proceeding.	(\$398)	(\$364)
2 To reflect tangible property taxes consistent with last rate proceeding.	<u>(2,819)</u>	<u>1,738</u>
Total	<u>(\$3,217)</u>	<u>\$1,374</u>
<b><u>INCOME TAXES</u></b>		
To adjust to test year income tax expense.	<u>\$43,898</u>	<u>\$38,538</u>

**ALOHA UTILITIES, INC. - SEVEN SPRINGS SYSTEM  
 STATEMENT OF WATER OPERATIONS  
 SIMPLE AVERAGE TEST YEAR ENDED 12/31/99**

**SCHEDULE NO. B(3-A)  
 DOCKET NO. 000737-WS**

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	STAFF ADJUST- MENTS	STAFF ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$1,726,029	\$0	\$1,726,029	(\$2,944)	\$1,723,085	(\$52,378) -3.04%	\$1,670,707
<b>OPERATING EXPENSES:</b>							
2 OPERATION & MAINTENANCE	\$1,294,788	\$0	\$1,294,788	(\$10,337)	\$1,284,451		\$1,284,451
3 DEPRECIATION	\$70,284	\$0	70,284	(3,077)	67,207		67,207
4 AMORTIZATION	(\$29,397)	\$0	(29,397)	0	(29,397)		(29,397)
5 TAXES OTHER THAN INCOME	\$223,699	\$0	\$223,699	(\$1,282)	\$222,417	(\$2,357)	\$220,060
6 INCOME TAXES	\$35,984	\$0	\$35,984	\$8,214	\$44,198	(\$18,823)	\$25,375
7 TOTAL OPERATING EXPENSES	\$1,595,358	\$0	\$1,595,358	(\$6,482)	\$1,588,876	(\$21,180)	\$1,567,696
8 OPERATING INCOME	\$130,671	\$0	\$130,671	\$3,538	\$134,209	(\$31,198)	\$103,011
9 RATE BASE	\$1,350,564		\$1,350,564		\$1,100,871		\$1,100,871
10 RATE OF RETURN	9.68%		9.68%		12.19%		9.36%

**ALOHA UTILITIES, INC. - SEVEN SPRINGS SYSTEM  
ADJUSTMENTS TO OPERATING INCOME  
SIMPLE AVERAGE TEST YEAR ENDED 12/31/99**

**SCHEDULE NO. B(3-B)  
DOCKET NO. 000737-WS**

EXPLANATION	WATER
<b><u>OPERATING REVENUES</u></b>	
To record interest income from cash operating acct. below-the-line.	<u>(\$2,944)</u>
<b><u>OPERATION &amp; MAINTENANCE EXPENSE</u></b>	
1 Reduce officers salaries.	(\$8,489)
2 Reduce benefits.	(1,848)
Total	<u>(\$10,337)</u>
<b><u>DEPRECIATION EXPENSE-NET</u></b>	
Reduce depreciation expense for disallowed invoices.	<u>(\$3,077)</u>
<b><u>TAXES OTHER THAN INCOME</u></b>	
1 Reduce payroll taxes consistent with last rate proceeding.	(\$1,176)
2 To reflect tangible property taxes consistent with last rate proceeding.	(97)
Total	<u>(\$1,273)</u>
<b><u>INCOME TAXES</u></b>	
To adjust to test year income tax expense.	<u>\$8,214</u>