

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application of ALOHA)
UTILITIES, INC. for an increase)
in water rates for its Seven) DOCKET NO. 010503-WU
Springs System in Pasco County,)
Florida.)
_____)

ALOHA UTILITIES, INC.'S PREHEARING STATEMENT

Pursuant to Order No. PSC-01-1680-PCO-WU, issued August 17, 2001, as revised by Order No. PSC-01-2328-PCO-WU, issued November 29, 2001 and Order No. PSC-01-1752-PCO-WU, issued August 28, 2001, Aloha Utilities, Inc., by and through its undersigned counsel, files its prehearing statement as follows:

A. All Known Witnesses

Aloha intends to call the following witnesses:

Bob Nixon of Cronin, Jackson, Nixon & Wilson, CPAs. He will testify on the issues of rate base, rate of return, operating expenses income, rates, and rate model, growth projections, rate case expense and revenue requirements and projections.

Stephen G. Watford, President of Aloha Utilities, Inc. He will testify on matters to the Utility and the requirements imposed upon it by regulatory authorities, as well as the issues related to internal operating costs, staffing levels, rate case expense, rate model, conservation plan, and quality of service.

David Porter, P.E., He will testify on issues related to regulatory requirements, Aloha's construction costs, pilot project status, expenses related thereto, quality of service, growth projection and demographic shifts, and rate case expense.

F. Marshall Deterding. Attorney with Rose, Sundstrom & Bentley law firm. He will testify on legal rate case expenses.

Aloha reserves the right to call additional witnesses, witnesses to respond to Commission inquiries not addressed in direct or rebuttal testimony and witnesses to address issues not presently designated but that may be designated by the Prehearing Officer at the prehearing conference on December 20, 2001.

DOCUMENT NUMBER-DATE

15359 DEC-76

FPSC-COMMISSION CLERK

B. All Known Exhibits

Aloha has identified and intends to sponsor the following exhibits:

David Porter and Robert Nixon will sponsor Schedules F-1 through F-10 of Aloha's application as well as Exhibit 5.

Bob Nixon will sponsor the financial, rate, and engineering schedules required as MFRs, including Exhibit 1, Exhibit 2, Exhibit 3, Exhibit 4, Exhibit 6 and Exhibit 7 of the MFRs.

Aloha has not yet filed its rebuttal testimony and reserves the right to file such rebuttal exhibits as appropriate. Additionally, Aloha may utilize other documents as exhibits at the time of hearing, either during cross examination or as further impeachment or rebuttal exhibits and the precise identification of such documents cannot be determined at this time.

C. Aloha's Statement of Basic Position

The utility is entitled to a rate increase as contained within its revised and final application and MFRs presented with the initial application and the increased water revenues as specified therein.

D. Issues & Aloha's Respective Positions

The following are issues identified by Aloha and its positions on these issues.

QUALITY OF SERVICE

ISSUE 1: Is the quality of service satisfactory?

POSITION: Yes.

ISSUE 2: Should the Utility's rate increase request be denied due to poor quality of service?

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POSITION: No. Such denial is contrary to law and contrary to the facts concerning the quality of water service provided.

RATE BASE

ISSUE 3: What are the used and useful percentages for the water treatment plant and the water distribution system?

POSITION: 100%

ISSUE 4: Does the Utility have excessive unaccounted for water, and if so, what adjustments should be made?

POSITION: No.

ISSUE 5: What is the appropriate projected accumulated amortization of contributed taxes?

POSITION: Agree with DeRonne's proposed adjustment.

ISSUE 6: What is the appropriate cost of the Commission ordered pilot project to be included in working capital?

POSITION: 50% of the total estimated cost as authorized pursuant to Order No. PSC-00-1285-FOF-WS.

ISSUE 7: What is the appropriate working capital allowance?

POSITION: The balance sheet approached working capital. This is a fallout number which results from the conclusions reached on other issues.

ISSUE 8: What is the appropriate projected rate base?

POSITION: This is a fallout number based upon the resolution of other issues.

COST OF CAPITAL

ISSUE 9: What is the appropriate projected cost rate for variable related party debt?

POSITION: The cost rate (prime plus 2%) as last established prior to the Commission's Final Order in this case. In accordance with the loan agreement, the last time that rate will be established will be December 31, 2001.

ISSUE 10: What is the appropriate projected weighted average cost of capital for the projected test year ending December 31, 2001?

POSITION: That weighted cost which results from resolution of the other issues in this case, including the component parts of capital structure, cost rates at the time of the Commission's Final Order and rate base as established in this case.

NET OPERATING INCOME

ISSUE 11: What is the appropriate method of projecting customers and consumption for the projected test year ending December 31, 2001, and what are the resulting projected numbers of customers and consumption for the 2001 projected test year before any adjustments are made:

POSITION: The calendar year 2000 historical consumption plus projected consumption for new customers as per the MFRs.

ISSUE 12: What adjustments, if any, are necessary to the 2001 projected test year revenues and expenses to reflect the appropriate number of water customers, bills, and consumption?

POSITION: None, as per the MFRs.

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ISSUE 13: What is the appropriate projected number of purchased water gallons from Pasco County, and what is the resulting expense?

POSITION: As per the MFRs and specifically the methodology contained on Schedule G-9.

ISSUE 14: Should an adjustment be made to employee salaries and wages for open positions?

POSITION: No. These will have been filled by the date of hearing and will remain filled throughout the period of time rates will be in effect.

ISSUE 15: Should any additional adjustments be made to employee salaries and wages to remove the double counting of certain employees?

POSITION: Yes, \$37,016.00.

ISSUE 16: Is the Utility's 44.83% allocation of pension expense to the Seven Springs water system appropriate?

POSITION: Yes.

ISSUE 17: Should an adjustment be made to chemicals and purchased power to remove the escalation of inflation and customer growth?

POSITION: No. As per the MFRs, these expenses should be adjusted for these factors.

ISSUE 18: Should an adjustment be made for related party purchased water transactions?

POSITION: No. This is not only a method previously approved by the Commission as an appropriate method for acquiring water, but is also the cheapest alternative available to the Utility.

ISSUE 19: What is the appropriate amount of rate case expense?

POSITION: The total as per the rebuttal update and the most recent information to be provided as a late-filed exhibit in this case.

ISSUE 20: Are conservation programs appropriate for this Utility, and if so, what are the resulting conservation expenses and the anticipated gallons conserved?

POSITION: Yes. They are appropriate and should be fully considered and rates authorized which include such costs. Conservation effect expected is 5% and that amount has been incorporated into the MFR calculations.

ISSUE 21: What is the test year operating income before any revenue increase?

POSITION: This is a result of the conclusions reached on other issues in this case and is a fallout number.

ISSUE 22: What is the appropriate revenue requirement?

POSITION: This is a result of the conclusions reached on other issues in this case and is a fallout number.

RATES AND RATE STRUCTURE

ISSUE 23: What are the appropriate rate structure for this Utility?

POSITION: A two-tiered inclining block rate structure per the SWFWMD requirements and as stated in the MFRs.

ISSUE 24: Is repression of consumption likely to occur, and, if so, what is the appropriate adjustment and the resulting consumption to be used to calculate consumption charges?

POSITION: Yes. The appropriate adjustment is that contained which will be detailed in the rebuttal testimony after deposition of the staff witnesses and formulation of that rebuttal.

ISSUE 25: What are the appropriate monthly rates for service?

POSITION: This is a result of the conclusions reached on other issues and is a fallout number.

ISSUE 26: What are the appropriate service availability charges for the Seven Springs water system?

POSITION: No change in these charges is appropriate in this case. Those are being considered in a separate proceeding currently pending before the PSC and awaiting further clarification of the intended changes to treatment process in the coming years.

ISSUE 27: Should this docket be closed?

POSITION: After granting of the request proposed in the MFRs, this docket should be closed.

ISSUE 28:

ADDITIONAL ISSUES FROM ALDRIDGE & DERONNE TESTIMONY

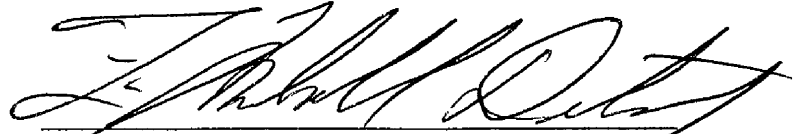
- a) Should items expensed by the Utility during the test year ended December 31, 2000 be capitalized to plant?
- b) Should an adjustment be made to accumulated depreciation to reflect the appropriate depreciation of computer equipment?
- c) Should contributions in aid of construction be increased to reflect the appropriate amount of contributed property?
- d) Should deferred rate case expense related to Docket No. 991643-SU be excluded from working capital?
- e) Should working capital be reduced to reflect the amortization of regulatory commission expense associated with Docket No. 960545-WS?

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- f) Should the annual amortization of issuing expense for the construction loan from Bank of America be reduced?
- g) Should all long-term debt issues be included in the calculation of the Utility's cost of capital?
- h) Should projected test year revenues be increased to properly allocate interest income?
- i) Should projected test year revenues be increased to reflect the appropriate amount of revenues for residential vacation bills?
- j) Should an adjustment be made to pension expense to reflect additional liability obligations estimated by the Utility's pension plan administrator?
- k) What is the appropriate amount of bad debt expense for the Seven Springs water system?
- l) Should plant and land be reduced to properly allocate the Utility's recent purchase of a new office building?

POSITION:

The Utility is in agreement with the proposed adjustments outlined in each of the sub issues a) through l), as testified to by DeRonne and Aldridge, with the exception of j). The Utility agrees an adjustment is necessary, as noted in j), but that adjustment should be made in accordance with Mr. Nixon's revised schedule, which will be a part of his rebuttal testimony.



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CERTIFICATE OF SERVICE

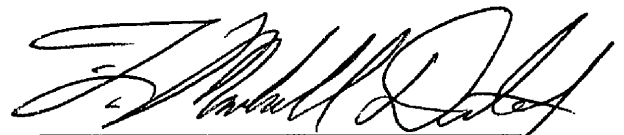
I HEREBY CERTIFY that a true and correct copy of the **ALOHA'S PREHEARING STATEMENT** has been furnished via Hand Delivery (*) or Facsimile to the following on this 24 day of December, 2001:

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