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COMMISSION
CLERK

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

DATE: January 9, 2008
TO: Ann Cole, Commission Clerk - PSC, Office of Commission Clerk
FROM: Stephen B. Fletcher, Professional Accountant Specialist, Division of Economic Regulation *SBF*
RE: Docket No. 060122-WU, Aloha Utilities Limited Proceeding - Purchased Water

Attached is a document for inclusion in the docket file for Docket No. 060122-SU, Limited Proceeding for rate increase in Pasco County by Aloha Utilities.

The document is a letter from Marshall Deterding to Troy Rendell, dated December 21, 2007, in response to removing the capital costs related to chloramination from the application for rate increase in Pasco County that was filed.

DOCUMENT NUMBER-DATE

00211 JAN-9 8

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(LICENSED IN NEW YORK ONLY)

December 21, 2007

Mr. Troy Rendell
Division of Economic Regulation
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Aloha Utilities, Inc.; PSC Docket No. 060122-WU; Limited Proceeding - Purchased Water
Our File No. 26038.49

Dear Troy:

As promised, Bob Nixon has prepared the attached group of schedules, in order to remove all impacts of the chloramination capital costs from the rate request filed in the above-noted Application. All other costs remain, including capital costs for the purchased water facilities, operating costs for both the purchased water and chloramination facilities.

As you can see, the effect of removal of the capital costs related to chloramination is not substantial, primarily because much of the new chloramination facilities were offset in the original filing by related CIAC.

It is my understanding that the staff intends to grant full recognition of those excluded chloramination capital costs within two months. While the Utility does not agree with the staff's proposal to exclude recognition of the chloramination facilities in the initial rate setting that the Commission committed to grant within 120 days of the filing, the Utility will accept the staff's informally proposed two phase establishment of rates in this proceeding, and begin purchasing water as soon as Phase I rates are finalized, if the Commission will evaluate and complete review and recognition of all prudent chloramination capital costs within two months of the first phase being recognized in late January, as staff has promised, and if all other costs are recognized in the first phase.

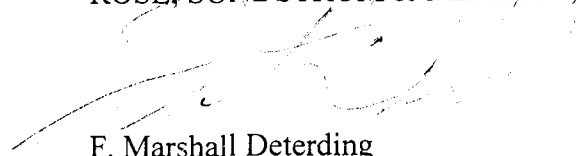
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If you have any questions in this regard, please let me know. Otherwise, we need to decide how to proceed if the staff intends to do something other than what was originally intended, or what is outlined above and attached.

Sincerely,
ROSE, SUNDSTROM & BENTLEY, LLP



F. Marshall Deterding
For The Firm

FMD/tms

cc: Jean Hartman, Esq.
Thomas Walden
Cheryl Bulecza - Banks
Bart Fletcher
Stephen Watford
Robert C. Nixon, CPA

Aloha Utilities, Inc.
 Seven Springs Water Limited Proceeding
 Summary of Revenue Required for Taking Purchased Water Excluding Capital Costs
 of Chloramination Facility Upgrade

| Line No. | Revenue Components |
|---|-----------------------|
| 1 Increase in operating income - Capital tie-in facilities only | <u>\$ 99,534</u> |
| 2 Increase in operating expenses: | |
| 3 O&M | 3,524,116 |
| 4 Depreciation expense on tie-in facilities & County capacity charges | 191,636 |
| 5 Amortization of CIAC | (138,558) |
| 6 Taxes other than income (payroll & tie-in labor) | <u>21,960</u> |
| 7 Total increase in operating expenses | <u>3,599,154</u> |
| 8 Total increase in operating income & expenses before Regulatory | |
| 9 Assessment Fees (RAF's) | 3,698,689 |
| 10 Divide by factor for RAF's | <u>0.955</u> |
| 11 Total revenue requirement excluding chloramination capital costs | <u>\$ 3,872,972</u> |

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Aloha Utilities, Inc.
Seven Springs Water Limited Proceeding
Revenue Required for Taking Purchased Water Excluding Capital Costs
of Chloramination Facility Upgrade

| Line No. | | | Special Report Schedule Reference |
|-------------|---|-----------------------------|--|
| 1 | (A) <u>Capital Costs & Rate of Return</u> | | |
| 2 | Plant | | |
| 3 | Estimated cost of tie-in facilities | \$ 903,593 | 12 |
| 4 | Capacity Charges paid to Pasco County for 2.4 mgd | <u>4,136,675</u> | 11 |
| 5 | Total capital tie-in costs | <u>\$ 5,040,268</u> | |
| 6 | Actual cost of chloramination system | 43.30% \$ 3,848,657 | 6 |
| 7 | Total tie-in costs per above | <u>56.70% 5,040,268</u> | |
| 8 | Total capital costs in Company filing | <u>100.00% \$ 8,888,925</u> | |
| 9 | <u>CIAC</u> | | |
| 10 | Total CIAC per Company filing | \$ 6,282,000 | 17 |
| 11 | Percent related to capital tie-in costs | <u>56.70%</u> | |
| 12 | CIAC related to capital tie-in facilities | <u>\$ 3,561,894</u> | |
| 13 | <u>Accumulated Amortization of CIAC</u> | | |
| 14 | Total accumulated amortization per Company filing | \$ 393,162 | 17 |
| 15 | Percent related to tie-in facilities | <u>56.70%</u> | |
| 16 | Accumulated amortization of CIAC related to capital tie-in facilities | <u>\$ 222,923</u> | |
| 17 | <u>Accumulated Depreciation</u> | | |
| 18 | Accumulated depreciation on Pasco County capacity charges | \$ (248,201) | 13 |
| 19 | Accumulated depreciation on capital tie-in costs | <u>(39,254)</u> | |
| 20 | Accumulated depreciation related to tie-in costs | <u>\$ (287,455)</u> | |
| 21 | <u>Net Investment and Rate of Return</u> | | |
| 22 | Total capital tie-in costs | \$ 5,040,268 | |
| 23 | Accumulated depreciation | (287,455) | |
| 24 | CIAC related to tie-in | (3,561,894) | |
| 25 | Accumulated amortization of CIAC related to tie-in costs | <u>222,923</u> | |
| 26 | Net Investment in tie-in facilities | 1,413,842 | |
| 27 | Rate of return requested per Company filing | <u>7.04%</u> | 16 |
| 28 | Rate of return (operating income) required on capital tie-in costs | <u>\$ 99,534</u> | |

Aloha Utilities, Inc.
Seven Springs Water Limited Proceeding
Revenue Required for Taking Purchased Water Excluding Capital Costs
of Chloramination Facility Upgrade

| Line No. | (B) <u>Operating Expenses</u> | | Special Report Schedule <u>Reference</u> |
|-------------|---|---------------------|---|
| 1 | <u>O&M</u> | | |
| 2 | Additional labor cost - chloramination | \$ 99,685 | 14 - line 6, Pg. 1 |
| 3 | Additional labor cost - tie in facilities | <u>12,486</u> | 14 - line 14, Pg. 3 |
| 4 | Total additional labor cost | <u>112,171</u> | |
| 5 | Additional employee pension & benefits - chloramination | 41,140 | 14 - line 10, Pg. 1 |
| 6 | Additional employee pension & benefits - tie-in | <u>5,153</u> | 14-line 18, Pg. 3 |
| 7 | Total additional employee benefits | <u>46,293</u> | |
| 8 | Purchased water costs | <u>3,136,080</u> | 14 - line 18, Pg. 1 |
| 9 | Purchased power - chloramination | (39,073) | 14 - line 21, Pg. 1 |
| 10 | Purchased power - tie-in | <u>26,937</u> | 14 - line 20, Pg. 3 |
| 11 | Total decrease in purchased power | <u>(12,136)</u> | 14 - line 3, Pg. 1 |
| 12 | Additional chemicals - chloramination | <u>27,626</u> | |
| 13 | Additional materials & supplies maintenance - chloramination | 12,500 | 14 - line 8, Pg. 2 |
| 14 | Additional materials & supplies maintenance - tie-in | <u>11,785</u> | 14 - line 22, Pg. 3 |
| 15 | Total additional materials & supplies - maintenance | <u>24,285</u> | |
| 16 | Additional contract services - testing - chloramination | <u>66,952</u> | 14 - line 18, Pg. 2 |
| 17 | Additional contract services - other maintenance - chloramination | <u>122,845</u> | 14 - line 29, Pg. 2 |
| 18 | Total additional O&M expense | <u>\$ 3,524,116</u> | |
| 19 | <u>Depreciation Expense</u> | | |
| 20 | Depreciation Expense - Pasco County Capacity charges & tie-in | <u>\$ 191,636</u> | 13 - lines 9&18 |
| 21 | <u>Amortization of CIAC</u> | | |
| 22 | Total amortization - chloramination & tie-in facilities | \$ 244,370 | 17, line 25 |
| 23 | Percentage related to tie-in facilities (page 1 this schedule) | <u>56.70%</u> | |
| 24 | CIAC amortization related to tie-in facilities | <u>\$ 138,558</u> | |

Aloha Utilities, Inc.
 Seven Springs Water Limited Proceeding
 Revenue Required for Taking Purchased Water Excluding Capital Costs
 of Chloramination Facility Upgrade

| Line No. | (B) <u>Operating Expenses</u> | | <u>Special Report Schedule Reference</u> |
|-------------|---|------------------|--|
| 1 | <u>Taxes Other Than Income</u> | | |
| 2 | Additional payroll taxes - chloramination | \$ 7,626 | 14 - line 41, Pg. 2 |
| 3 | Additional payroll taxes - tie-in | <u>955</u> | 14 - line 28, Pg. 3 |
| 4 | Total additional payroll taxes | <u>8,581</u> | |
| 5 | Additional property taxes - tie-in plant only | <u>13,379</u> | 14 - line 33, Pg. 3 |
| 6 | Total additional taxes other than income | <u>\$ 21,960</u> | |