BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Joint petition for approval of stipulation on procedure with Office of Public Counsel, and application for limited proceeding increase in water rates in Pasco County, by Aloha Utilities, Inc.	DOCKET NO. 060122-WU ORDER NO. PSC-08-0137-PAA-WU ISSUED: March 3, 2008

The following Commissioners participated in the disposition of this matter:

MATTHEW M. CARTER II, Chairman
LISA POLAK EDGAR
KATRINA J. McMURRIAN
NANCY ARGENZIANO
NATHAN A. SKOP

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING INCREASE IN WATER RATES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code (F.A.C.).

BACKGROUND

Aloha Utilities, Inc. (Aloha or utility) is a Class A water and wastewater utility located in Pasco County. The utility consists of two distinct service areas: Aloha Gardens and Seven Springs. In February 2005, we initiated deletion proceedings in Docket No. 050018-WU for a portion of the Seven Springs service area based on a number of problems that ultimately resulted from the presence of hydrogen sulfide in the water. On March 9, 2006, after several months of extensive negotiations in which Commission staff participated, a Settlement Agreement was executed by Aloha, the Office of Public Counsel (OPC), and individual intervenors. The Settlement Agreement resolved all outstanding dockets and court proceedings between Aloha and the Commission, and was approved by the Commission by Order No. PSC-06-0270-AS-WU[1]. A key element of the Settlement Agreement is the acknowledgement of the parties that it

[1] Issued April 5, 2006, in Docket No. 050018-WU, In Re: Initiation of deletion proceedings against Aloha Utilities, Inc. for failure to provide sufficient water service consistent with the reasonable and proper operation of the utility system in the public interest, in violation of Section 367.111(2), Florida Statutes, Docket No. 050183-WU, In Re: Request by homeowners for the Commission to initiate deletion proceedings against Aloha Utilities, Inc. for failure to provide sufficient water service consistent with the reasonable and proper operation of the utility system in the public interest, in violation of Section 367.111(2), Florida Statutes, and Docket No. 010503-WU, In Re: Application for increase in water rates for Seven Springs System in Pasco County by Aloha Utilities, Inc.

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is prudent for Aloha to implement a new water treatment method – anion exchange – to address the current problems that stem from the presence of hydrogen sulfide in the water.

In addition to the hydrogen sulfide issue, Aloha has been exceeding its Southwest Florida Water Management District water use permit (WUP) limits. To address Aloha's excess withdrawals, on October 26, 2004, Aloha entered into a Bulk Water Agreement with Pasco County (County), wherein it contracted to purchase water from the County in order to meet the needs of current and future customers and eliminate excess withdrawals from its wells. The water was to be purchased in three Phases; Phase I – 0.5 million gallons per day (mgd), Phase II – 1.0 mgd and Phase III to be negotiated at a later date. Aloha was entitled to receive Phase I within 30 days after the County's implementation of chloramination of their West Pasco System, or approximately in February 2005. The Phase II water could not be received until January 1, 2006, with additional water to be received later following subsequent negotiations.

Significant costs are expected to be associated with the purchase of this water and the installation and operation of related chloramination facilities. Aloha is converting its disinfection process from chlorine to chloramines, in order to make its potable water compatible with water purchased from the County. On February 13, 2006, as part of the negotiations between the parties towards reaching the Settlement Agreement, OPC and Aloha filed a Joint Petition to Approve Stipulation on Procedure, which formalized an agreement between Aloha and OPC regarding the procedure to be followed and the issues to be addressed in the event Aloha filed a future limited proceeding to recover the costs of the additional 1.5 mgd of purchased water and related chloramination facilities. We approved the Stipulation on Procedure by Order No. PSC-06-0169-S-WU, issued March 1, 2006, in this docket.

However, at that time, there were several issues between the County and Aloha that needed to be resolved before any water could be delivered. Aloha indicated, by letter to the County dated October 4, 2006, that not only would 1.5 mgd of Phase I and II purchased water be needed immediately, but an additional 1.6 mgd, or 3.1 mgd in total, would be needed gradually until build-out. To this end, and with OPC's stipulated approval, on December 19, 2006, Aloha paid the impact fees for Phases I, II, and III, for a total of 3.1 mgd for bulk water service to the County. The stipulation entered into on November 30, 2006, between Aloha and OPC, discussed later, recognizes the need for 3.1 mgd which supersedes the 1.5 mgd included in the February 13, 2006, settlement. We approved that Stipulation by Order No. PSC-07-0023-S-WU, issued January 8, 2007, in this docket.

By letter dated April 11, 2007, from the County to Aloha, the County is now willing to provide the 3.1 mgd in two Phases rather than three. Because of the time that has expired between the original request for the 0.5 mgd from the County in Phase I, Aloha has estimated that due to growth it will now need approximately 2.4 mgd in order to meet the needs of current and future customers and eliminate the excess withdrawals from its wells. Phase I will now be for 2.4 mgd, with the remaining Phase II of 0.7 mgd to be supplied at a later date. Phase II will also require Aloha to construct storage facilities.

On July 26, 2006, our staff issued its audit report related to the chloramination facilities. At the time the audit was being conducted, the timing of the bulk water delivery,[2] including points of connections with the County's water system, was not resolved. In addition, Aloha had not yet paid the associated impact fees for any additional bulk water. Conversion from chlorination to chloramination could not take place until both the timing of the bulk water delivery was resolved and the impact fees paid. As a result, the staff auditors' examination consisted of a review of a schedule of plant additions related to the chloramination facilities by primary account numbers. Specifically, the staff auditors traced all recorded plant additions associated with the chloramination facilities to vendor invoices and reviewed all journal entries and AFUDC calculations associated with the plant additions and retirements. However, the auditors did not determine whether the amounts recorded by the utility were solely for the chloramination facilities.

Effective December 20, 2006, the County began collecting substantially higher impact fees to be charged for plant capacity, including the plant capacity that Aloha contracted to reserve by way of the Bulk Water Agreement. On November 30, 2006, Aloha and OPC entered into a Stipulation and Joint Petition to Approve Stipulation, specifying, among other things, that the impact fees paid by Aloha to the County on or before December 19, 2006, at the County's lower impact fees, for the purchase of Phases I, II, and III [total of 3.1 million gallons per day (mgd)] for bulk water service, should be considered prudent and that no used and useful adjustments should be made to those impact fees. We approved that Stipulation by Order No. PSC-07-0023-S-WU, and Aloha paid the lower County impact fees on December 19, 2006.

Also, by the terms of the November 30, 2006, Stipulation, Aloha and OPC agreed to work toward gaining immediate approval of a stipulated increase in water service availability charges for Aloha to a minimum level of $3,000 per equivalent residential connection, by entering into an additional stipulation and request to the Commission. To that end, on February 7, 2007, Aloha and OPC entered into a Stipulation to Increase Service Availability Charges, which was filed in this docket on February 9, 2007, along with a Joint Petition to approve it. We approved that Joint Petition by Order No. PSC-07-0281-S-WU, issued April 2, 2007.

On September 28, 2007, Aloha filed its application for a limited proceeding to recover the costs for the chloramination and purchased water from the County. Due to timing and the level of costs related to the interconnection with the County, impact fees, and purchased water, the merits of applying a phased-in rate approach was evaluated.

This order addresses the costs associated with the tie-in facilities, the impact fees paid to the County, the utility's purchased water gallons needed in 2008 and 2009, and the operation and maintenance costs for the utility's chloramine conversion. We have jurisdiction pursuant to Sections 367.081 and 367.0822, Florida Statutes (F.S.)

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[2] See Document No. 09083-06 (Aloha's Quarterly Report), filed October 2, 2006, in Docket No. 060606-WS, In re: Progress reports on implementation of Anion Exchange in Pasco County, filed by Aloha Utilities, Inc. pursuant to Order PSC-06-0270-AS-WU.

DECISION

A Phased-in Approach

We find that this limited proceeding should be trifurcated into three phases as set forth in the analysis below.

Phase One

As part of phase one, the tie-in facilities, the payment of impact fees, and the prospective payments of the County bulk water rates are needed in order to receive the purchased water. Further, according to its response to discovery requests, the utility now plans on leasing land instead of purchasing land as originally contemplated in its application. Because the utility has not signed an agreement for the required land, we find it is appropriate to include the land cost as initially proposed for phase one and true up the actual cost of securing the land in phase two through the utility's submission of a cost benefit analysis for its decision to lease rather than purchase the land. The tie-in facilities, impact fees, purchased water, and the chloramine conversion costs will be determined in phase one.

Phase Two

The other items to be considered in the limited proceeding are the plant costs and property taxes associated with the chloramination facilities, a true up for the actual costs of the tie-in facilities, and rate case expense, as well as the revenue reduction to adjust the 2009 required rate of return to the appropriate weighted cost of capital for the utility. There are several reasons why these costs will be considered in phase two. First, during the audit, the utility provided 572 invoices related to the hard and soft costs for the chloramination facilities. The hard costs are the actual construction and materials costs, and the soft costs are the remaining associated costs (i.e. overhead, engineering, supervision, and other costs). As discussed above, auditors did not determine whether all these invoices related to the chloramination facilities. Based on review of these invoices from the time the audit was issued to shortly after the utility filed its application, we continue to discover that Aloha requested some hard and soft costs that are not related to the chloramination facilities. Based on Aloha's response dated November 19, 2007, to a staff discovery request, it was disclosed that there were additional costs unrelated to the chloramination facilities.

Second, the members of the Committee for Better Water Now, which consists of a group of Aloha customers, have expressed several concerns regarding the utility's requested costs of its chloramination facilities. Consideration of these other items in phase two will allow for more thorough review by this Commission, as well as OPC.

Phase Three

The last items to be considered relate to the utility's additional purchase of approximately 0.71 mgd of water, including any associated water storage facilities and impact fees paid to the County. In a response to a data request, Aloha asserted that its additional purchase of approximately 0.71 mgd of water will not take place until late 2009 or 2010. As such, our consideration of phase three should not be necessary until approximately two years from now.

Phase One Costs

Rate Base Additions

Pasco County Tie-In Facilities

The utility requested $903,593 in plant costs related to the tie-in facilities. In response to a staff data request, Aloha provided an itemized cost breakdown from its engineer to support its requested amount. The utility has not completed the permitting process to date. Because the facilities are needed in order to begin purchasing water from the County, we find that the cost should be trued-up. Even though the actual cost of the tie-in facilities are not known at this time, it is reasonable to include these estimated costs in phase one because these costs can be trued-up in phase two.

Impact Fees Paid to the Pasco County

Aloha requested $4,136,675 of plant costs for the payment of impact fees to the County in 2006. This request was based on the projected need to purchase 2.4 mgd in 2009 from the County. As mentioned previously, the utility paid impact fees of $4.9 million, for the ability to purchase 3.1 mgd of water, before the County's fees tripled on December 20, 2006. In exchange for this advanced payment, OPC and Aloha stipulated that those impact fees should be considered prudent and that no used and useful adjustments should be made to those impact fees. We later approved that stipulation between OPC and the utility. However, as discussed more fully below, the 2007 actual gallons should be used to determine the projected gallons required to be purchased from the County. Based on the required 2008 and 2009 gallons of 2.06 mgd and 2.29 mgd, respectively, we find that the impact fees associated with 2008 and 2009 are $3,552,267 and $3,946,796, respectively.

Accumulated Depreciation

In its application, Aloha reflected accumulated depreciation of $39,254 and $248,201 for the tie-in facilities and impact fees to the County, respectively. As discussed above, phase one rates will initially be based on the projected 2008 costs, and later adjusted for the projected 2009 costs. As such, we find that the 2008 and 2009 projected year-end accumulated depreciation for the tie-in facilities and impact fees to the County should be $84,130 and $260,281, respectively.

CIAC and Accumulated Amortization of CIAC

In its application, the utility reflected $6,282,000 and $393,162 for CIAC and accumulated amortization of CIAC, respectively. By Order No. PSC-07-0023-S-WU, approving the stipulation, future limited proceedings designed to recover the costs associated with chloramination for the purchase of bulk water and the anion exchange facilities will recognize in rates the CIAC collected from the date of the stipulation through the approved test year of each limited proceeding. Based on responses to staff data requests and discussions with the utility, it appears that phase three in this docket and the final phase of the anion exchange limited proceeding will not occur until late 2009 or 2010. Thus, we find that it is appropriate to allocate the CIAC projected amounts through 2009 between the gross plant ratios of phase one and phase two plant.

The following table illustrates the gross plant ratios for the tie-in facilities, the impact fees paid to the County, and the chloramination facilities.

Gross Plant Additions	Gross Plant	Ratio	Phase One	Phase Two
Chloramination Facilities	$3,848,657	44.24%	N/A	44.24%
Pasco County Water Tie-In Facilities	903,593	10.39%	10.39%	N/A
Impact Fees Paid to Pasco for Purchased Water	3,946,796	45.37%	45.37%	N/A
Total Gross Plant Additions	$8,699,046	100.00%	55.76%	44.24%

To maintain consistency with the use of 2007 actual gallons to project the impact fees and purchased water expense, we find that the actual ERCs in 2007 shall be used to project CIAC balances. Because the utility has two billing cycles with one in mid month, Aloha could only provide the ERCs by customer class and meter size through November 2007. Based on the gross plant ratio of 55.76% and the actual ERCs through November 2007, we find that the 2008 and 2009 year-end CIAC balances for phase one are $1,472,004 and $2,233,096, respectively. Correspondingly, we find the 2008 and 2009 year-end accumulated amortization of CIAC balances for phase one shall be $34,291 and $106,356, respectively.

Summary of Rate Base Additions

Based on the above, we find that the appropriate 2008 and 2009 rate base additions are $2,934,017 and $2,463,368, respectively. The rate base additions through 2009 decreased primarily from the increases in accumulated depreciation and CIAC in 2009.

Operating Expenses

In its filing, the utility requested a net increase of Operations and Maintenance (O&M) expenses, net depreciation expense, and Taxes other Than Income (TOTI) of $3,567,866, $91,980, and $71,191, respectively. As discussed previously, phase one excludes rate case expense and the associated depreciation expense and property taxes for the chloramination facilities. With those exclusions and adjusting the CIAC amortization expense based on a 55.76% gross plant ratio for the tie-in facilities and impact fees paid to the County, Aloha's requested a net increase of O&M expenses, net depreciation expense, and TOTI are $3,524,116,

$55,381, and $21,960, respectively. Based on a review of the requested costs, we find that adjustments are necessary to O&M expenses and net depreciation expense.

O&M Expenses

Account No. 601, Salary and Wages – Employees

In its filing, the utility included incremental labor costs of $99,685 and $12,486 related to the chloramine conversion and the tie-in facilities with the County, respectively. This represents a total incremental increase of $112,171. First, Aloha determined the $99,685 amount by taking the difference between the utility's engineer's estimate of labor costs after the completion of the chloramine facilities and its 2005 actual labor cost before the chloramine facilities were completed. Aloha provided a detailed description of the incremental labor required and determined the incremental labor costs by applying the 2005 hourly rates by its engineer's estimated incremental hours. Second, the $12,486 amount was determined by applying the utility engineer's estimated incremental hours by blended 2007 hourly rates. Upon review, we find that the requested labor costs are reasonable.

Account No. 604, Employee Pensions and Benefits

According to its application, Aloha requested $46,293 in employee pensions and benefits associated with the incremental labor costs discussed above. The utility utilized the ratio of these costs to total salary and wages in 2005 which was 41.27%. Given the constant rise in health care costs, we find that Aloha's use of the 2005 ratio is reasonable to equate the incremental employee pensions and benefits.

Account No. 610, Purchased Water

In its filing, the utility reflected a net purchased water increase of $3,136,080. Using simple linear regression, Aloha projected total 2009 required pumped and purchased gallons of 4.44 mgd, which equates to 1.620 billion gallons annually. By subtracting the total allowable WUP withdrawal limit of 2.04 mgd or 744,600,000 gallons, the utility reflected a total of 2.40 mgd or 876,000,000 gallons required to be purchased by 2009. By applying the County's rate of $3.68 per 1,000 gallons rate, Aloha projected a purchased water increase of $3,223,680. The utility currently purchases raw water associated with a few of its well sites at a cost of $0.10 per 1,000 gallons. Multiplying the $0.10 per 1,000 gallons rate by the utility's 2009 projected gallons of 876,000,000 yields a purchased water expense reduction of $87,600. Aloha's adjustment here reflects the utility's removal of the pumped raw water gallons above its WUP limits.

Upon review, we find that four adjustments are necessary to Aloha's purchased water increase of $3,223,680. First, based on its annual reports, the utility used the historical gallons from 2002 to 2006 to project its 2007, 2008, and 2009 pumped and purchased gallons. Aloha's projection work papers reflect 2006 pumped and purchased gallons of 1.408 billion gallons while the utility's annual report reflects 1.406226 billion gallons. As such, the 2006 historical gallons which Aloha used to project were overstated by 1.774 million gallons.

Second, members of the Better Water Now committee expressed concerns that the residential and commercial growth has significantly declined and, as a result, the utility projections are overstated. To respond to this concern, the utility was asked to provide the actual 2007 gallons of water pumped. The actual 2007 gallons were 86.606 million gallons less than the utility's projected 2007 amount. As such, we used the actual gallons from 2003 to 2007 in order to project the required gallons in 2008 and 2009. Third, based on the recommended 2008 and 2009 required gallons of 2.06 mgd and 2.29 mgd, respectively, we find the utility's purchased water expense reduction of $87,600 shall be adjusted to $75,224 for 2008 and to $83,579 for 2009.

Attachment A illustrates the calculations of the required 2008 and 2009 gallons necessary to bring Aloha within its WUP limits, and also reflects the resulting net purchased water expense reduction of $147,971 from the utility's purchased water increase of $3,223,680. Based on the above, we find that the appropriate purchased water expense for 2008 and 2009 are $2,768,255 and $3,075,709, respectively.

Account No. 615, Purchased Power

In its filing, the utility reflected a net purchased power decrease of $12,136. First, Aloha determined a purchased power decrease of $39,073 related to the chloramination facilities by subtracting the actual 2005 purchased power cost by its engineer's projected power cost. Second, based on its engineer's estimated power needs for the tie-in facilities, the utility projected a purchased power increase of $26,937. We find that Aloha's net purchased power decrease is reasonable.

Account No. 618, Chemicals

According to its application, the utility requested an increase of $27,626 for chemicals. First, based on Aloha's engineer estimated amount of ammonia solution needed, the utility projected a $12,597 increase in chemicals. Second, Aloha determined the chemical increase of $1,062 by subtracting the actual 2005 corrosion inhibitor cost by its engineer's projected corrosion cost after the chloramine conversion. Third, the utility determined a chemicals increase of $13,967 by subtracting the actual 2005 gas and liquid chlorine costs by its engineer's projected liquid chlorine cost after the chloramine conversion. We find that Aloha's chemicals increase is reasonable.

Account No. 620, Materials and Supplies

In its filing, the utility reflected an increase of $24,285 to materials and supplies expense. First, Aloha's engineer estimated a $12,500 allowance for miscellaneous parts, repairs, and supplies for the chloramine facilities. This allowance represents 0.32% of its requested gross chloramine conversion plant. The historical ratios of total materials and supplies and total gross plant in 2004 and 2005 were 1.07% and 1.77%, respectively. The utility's requested gross chloramine plant would have to be reduced by approximately $2.748 million or 71.41% before the $12,500 allowance would exceed the historical 1.07% ratio in 2004. Second, Aloha's engineer estimated an $11,785 maintenance allowance for the tie-in facilities. This allowance represents 1.30% of its requested gross Pasco County tie-in plant. Because the 1.30% ratio is within the range of the 2004 and 2005 historical ratios, we find that the requested materials and supplies expenses are reasonable.

Account No. 635, Contractual Services – Testing

According to its application, the utility requested an increase of $66,952 for Contractual Services – Testing. Aloha provided an itemized breakdown of the additional testing needed which was prepared by the utility's engineer. Upon review, we find that the requested testing expenses are reasonable.

Account No. 636, Contractual Services – Other

In its filing, Aloha requested an increase of $122,845 for Contractual Services – Other. First, based on service quotes, the utility included $49,438 for instrument maintenance. Second, Aloha determined an increase of $56,287 by subtracting the actual 2005 controllers and chemical feed equipment maintenance cost by its engineer's projected contracted cost after the chloramine conversion. Third, the utility included $17,120 for pigging and disinfection of the raw water line to its Mitchell plant. Upon review, we find that the pigging and disinfection of the raw water line is needed on occasion but is unrelated to the chloramine conversion and shall therefore be removed. Based on the above, we find that the appropriate Contractual Services – Other expense shall be $105,725 ($49,438 plus $56,287).

Net Depreciation Expense

Consistent with our findings on accumulated depreciation and accumulated amortization of CIAC, the corresponding net depreciation expense for 2008 and 2009 shall be $52,669 and $104,086, respectively.

Summary of Total Operating Expenses

Based on the above, we find that the total operating expenses for 2008 and 2009 shall be $3,138,576 and $3,489,092, respectively.

Cost of Capital

In its filing, Aloha requested a 7.04% weighted cost of capital. In the utility's last rate proceeding, we approved a weighted cost of capital of 8.52%.[3] Using our current leverage formula to determine Aloha's return on equity and the current cost rates for the remaining capital structure components, we calculate a rate of 7.03% for weighted cost of capital.

Section 367.0822, F.S., states:

[3] See Order No. PSC-02-0593-FOF-WU, pp. 47-48, issued April 30, 2002, in Docket No. 010503-WU, In re: Application for increase in water rates for Seven Springs System in Pasco County by Aloha Utilities, Inc.

> [U]nless the issue of rate of return is specifically addressed in the limited proceeding, the commission shall not adjust rates if the effect of the adjustment would be to change the last authorized rate of return.

Since the utility's last rate case, Aloha's long-term debt has increased by approximately $41 million, which resulted in a significant change in the utility's equity ratio. As such, we find the return on equity for this utility shall be reestablished in this proceeding to 12.01% with an allowed range of plus or minus 100 basis points to be recognized for ratemaking purposes. The calculated overall rate of return of 7.03% is 149 basis points lower than our previously authorized overall rate of return of 8.52%. Therefore, based on the return of equity of 12.01% with an allowed range of plus or minus 100 basis points to be recognized for ratemaking purposes, we find that the appropriate weighted cost of capital is 7.03%.

2008 and 2009 Revenue Increases for Phase One

Based on the adjustments discussed previously, we find that the appropriate 2008 and 2009 revenue increases for phase one shall be $3,502,447 and $332,387, respectively, as shown on Schedule No. 1.

2008 and 2009 Rates for Phase One

We find that the allocation between the base facility charge (BFC) and gallonage charge shall be calculated so the purchased water expense is recovered solely through the gallonage charge because of the variable nature of this expense. Schedule Nos. 2 and 3 reflect the 2008 and 2009 BFC and gallonage charge allocation, respectively. We find that rates shall be designed to allow the utility the opportunity to generate additional 2008 and 2009 annual operating revenues discussed above, as reflected on Schedule No. 4. However, we find that the 2008 and 2009 rates shall not be implemented until Aloha provides proof that the Florida Department of Environmental Protection (FDEP) has certified the completion of the tie-in facilities with Pasco County, and the utility begins purchasing water from the County.

The utility shall file revised tariff sheets and a proposed customer notice to reflect the rates approved, pursuant to Rule 25-22.0407(10), F.A.C. The approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C., provided the customers have received notice. The rates shall not be implemented until proper notice has been received by the customers. The utility shall provide proof of the date that notice was given within 10 days after the date of the notice.

A comparison of the utility's present rates, Aloha's requested rates, and the 2008 and 2009 rates for phase one are shown on Schedule No. 4.

True-Up of Costs

In this limited proceeding, we have granted Aloha a rate increase associated with its purchase of bulk water from Pasco County. We find that it is in the best interests of customers and the Company to grant this rate increase to help ensure that the purchase of bulk water from Pasco County will come to fruition.

We have allowed the Company to recover estimated costs and estimated expenses associated with its purchase of bulk water from Pasco County. The nature and significance of these estimates require that customers are completely protected in our three phase limited proceeding. Our review of these costs shall include, but is not limited to:

- determining the capital costs of the interconnection with Pasco County;
- determining the operating and maintenance costs of the interconnection with Pasco County;
- determining the amount of water that will actually be purchased by Aloha from Pasco County for the years 2008 and 2009, and the resulting costs of the purchased water for those years;
- determining the capital costs of the chloramination facilities;
- determining the operating and maintenance costs of the chloramination facilities.

We find that Aloha shall be provided with an opportunity to recover its prudently incurred capital costs and expenses. We also find it appropriate that OPC and Commission staff have the opportunity to scrutinize these capital, purchased water, and operating and maintenance costs after they have been incurred.

We will review for reasonableness and prudence and true-up all estimated costs with the actual costs incurred twelve months after the implementation of Phase I, 2009, rates. No later than 90 days after the twelve-month period ends, Aloha shall provide all documentation to support its actual costs. The utility shall also file its calculation of the true-up of all estimated costs that were not previously addressed in the development of Phase II rates, such as the actual plant costs for the tie-in facilities. We will adjust rates on a prospective basis. Any over-recovery will be refunded with interest pursuant to Rule 25-30.360, F.A.C. Any under-recovery will be recovered over a twelve month period.

Because our consideration of phase three will not be necessary until approximately two years from now, this docket shall remain open pending the resolution of truing-up costs and phase two and phase three requested costs.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that this limited proceeding shall be trifurcated into three phases as set forth in greater detail herein. It is further

ORDERED that phase one costs requested in Aloha's limited proceeding application are approved as set forth in further detail herein. It is further

ORDERED that the appropriate weighted cost of capital is 7.03%. It is further

ORDERED that the appropriate 2008 and 2009 revenue increases for phase one shall be $3,502,447 and $332,387. It is further

ORDERED that the appropriate 2008 and 2009 rates for phase one shall be as set forth in greater detail in Schedule No. 4. It is further

ORDERED that the 2008 and 2009 rates shall not be implemented until Aloha provides proof that the Florida Department of Environmental Protection has certified the completion of the tie-in facilities with Pasco County and Aloha begins purchasing water from Pasco County. It is further

ORDERED that utility shall file revised tariff sheets and a proposed customer notice to reflect the rates approved, pursuant to Rule 25-22.0407(10), F.A.C. The approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C., provided the customers have received notice. The rates shall not be implemented until proper notice has been received by the customers. The utility shall provide proof of the date that notice was given within 10 days after the date of the notice. It is further

ORDERED that after the implementation of Phase I, 2009 rates, Aloha shall provide all documentation to support its actual costs as set further in greater detail herein. The utility shall also file its calculation of the true-up of all estimated costs that were not previously addressed in the development of Phase II rates, such as the actual plant costs for the tie-in facilities.

By ORDER of the Florida Public Service Commission this 3rd day of March, 2008.

Ann Cole

ANN COLE
Commission Clerk

(S E A L)

JEH

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing that is available under Section 120.57, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on March 24, 2008.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

Any objection or protest filed in this/these docket(s) before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

Unaccounted for Water Analysis — **Attachment A**

A	B	C	D	E	F	G	H	I
Year	Total Gallons Pumped and Purchased (000)	Accounted for Water Gallons (2)	Gallons of Water Sold (000)	Unaccounted For Water (UFW) [(B-C-D)/B]	Allowable UFW	Excessive UFW [E-F]	UFW Adjustment Gallons of P & P (000) [B*G]	W/ UFW Adj. Gallons of P & P (000) [B-H]
2003	1,047,747	33,022	919,302	9.107%	10.00%	0.000%	0	1,047,747
2004	1,196,048	63,605	1,011,972	10.072%	10.00%	0.072%	87	1,195,961
2005	1,220,593	69,171	1,029,346	10.001%	10.00%	0.001%	2	1,220,591
2006	1,406,226	52,103	1,222,935	9.329%	10.00%	0.000%	0	1,406,226
2007	1,360,394	61,626	1,182,201	8.569%	10.00%	0.000%	0	1,360,394
2008	1,496,843		1,294,180					1,496,926
2009	1,580,390		1,367,856					1,580,560

Purchased Water Expense	Per Utility	2008 Per Staff	2009 Per Staff
Total Amount Required	1,620,600	1,496,843	1,580,390
Total Allowable Well Withdrawals	744,600	744,600	744,600
Amount Required From County	876,000	752,243	835,790
Cost per 1,000 gallons	$3.68	$3.68	$3.68
Purchased Water Expense	$3,223,680	$2,768,255	$3,075,709
2008 and 2009 Purchased Water Adjustments		($455,425)	$307,454
Net Reduction of 2008 and 2009 Adjustments		($147,971)	

Month	2007 Gallons Actual Pumped	2007 Gallons Sold (1)
January	103,472,400	87,919,176
February	91,240,300	82,423,723
March	118,098,500	96,090,412
April	119,315,200	112,634,049
May	139,913,300	118,358,549
June	118,162,200	109,649,854
July	114,864,000	95,969,120
August	114,612,700	97,077,616
September	104,284,200	93,659,265
October	110,968,100	90,334,352
November	115,772,800	99,364,084
December	109,690,300	98,721,270
Total	1,360,394,000	1,182,201,470

Note:

(1) Because Aloha has two billing cycles with one in mid-month, the utility was unable to provide the actual gallons sold for the month of December, 2007. However, based on the Commission's practice of 10% allowable unaccounted for water, the utility estimated the gallons of water sold by multiplying the December of 2007 pumped gallons by 90%.

(2) The accounted for water gallons from 2003 to 2006 were reflected on the utility's annual reports, which were for line flushing, fighting fires, etc. We used the average gallons from 2004 to 2006 in order to estimate the 2007 accounted for gallons.

Aloha Utilities, Inc. — **Schedule No. 1**
Phase One Revenue Requirement Calculations — **Docket No. 060122-WU**

Rate Base	2009 Utility	2008 Commission Adjustments	2008 Commission Approved	2009 Commission Adjustments	2009 Commission Approved
Plant Additions					
Pasco County Water Tie-In Facilities (Including Land)	$903,593	$0	$903,593	$0	$903,593
Capacity Charges Paid to Pasco for Purchased Water	4,136,675	(584,408)	3,552,267	394,529	3,946,796
Total Additions	$5,040,268	($584,408)	$4,455,860	$394,529	$4,850,389
Accumulated Depreciation					
Pasco County Water Tie-In Facilities	($39,254)	$26,169	($13,085)	($26,169)	($39,254)
Capacity Charges Paid to Pasco for Purchased Water	(248,201)	177,156	(71,045)	(149,981)	(221,027)
Total Accumulated Depreciation	($287,455)	$203,325	($84,130)	($176,150)	($260,281)
Contributions in Aid of Construction (CIAC)					
Gross Plant Ratio of 55.76%	($3,502,699)	$2,030,696	($1,472,004)	($761,093)	($2,233,096)
Accumulated Amortization of CIAC					
Gross Plant Ratio of 55.76%	$219,218	($184,927)	$34,291	$72,064	$106,356
Total Rate Base Additions	$1,469,332	$1,464,686	$2,934,017	($470,649)	$2,463,368
Total Increase to Rate Base	$1,469,332	$1,464,686	$2,934,017	($470,649)	$2,463,368
Rate of Return	7.03%	7.03%	7.03%	7.03%	7.03%
Increase in Rate of Return	$103,294	$102,967	$206,261	($33,087)	$173,175
Operating Expenses					
Operation and Maintenance (O&M) Expenses					
Salary & Wages - Employees	$112,171	$0	$112,171	$0	$112,171
Employee Pensions and Benefits	46,293	0	46,293	0	46,293
Purchased Water	3,223,680	(455,425)	2,768,255	307,454	3,075,709
Purchased Water Reduction from Related Party Wells	(87,600)	12,376	(75,224)	(8,355)	(83,579)
Purchased Power Reduction Due to Purchased Water	(39,073)	0	(39,073)	0	(39,073)
Purchased Power for Tie-in Facilities	26,937	0	26,937	0	26,937
Chemicals	27,626	0	27,626	0	27,626
Materials and Supplies	24,285	0	24,285	0	24,285
Contractual Services - Testing	66,952	0	66,952	0	66,952
Contractual Services - Other	122,845	(17,120)	105,725	0	105,725
Total O&M Expenses	$3,524,116	($460,169)	$3,063,947	$299,099	$3,363,046
Net Depreciation Expense					
Specific Depr. Exp. and 55.76% Ratio for Amort. Exp.	$55,381	($2,712)	$52,669	$51,417	$104,086
Taxes Other Than Income (TOTI)					
Payroll Taxes	$8,581	$0	$8,581	$0	$8,581
Property Taxes	13,379	0	13,379	0	13,379
Total TOTI	$21,960	$0	$21,960	$0	$21,960
Total Operating Expenses	$3,601,457	($462,881)	$3,138,576	$350,516	$3,489,092
Total Revenue Increase Before RAFs	$3,704,751	($359,914)	$3,344,837	$317,430	$3,662,266
RAF Expansion Factor	0.955	0.955	0.955	0.955	0.955
Additional Revenue Requirement	$3,879,320	($376,873)	$3,502,447	$332,387	$3,834,834

Aloha Utilities, Inc. **2008 Allocation of Base Facility and Gallonage Charges**		**Schedule No. 2** **Docket No. 060122-WU**
Allocation of Additional 2008 Revenue Requirement		
Total Additional Revenue Requirement Increase		$3,502,447
Total Cost of Purchased Water from Pasco County	$2,768,255	
Divide by factor for RAFs	0.955	
Total Purchased Water Cost in Approved Revenue Increase	$2,898,696	(2,898,696)
Approved Revenue Increase Related to Base Facility Charges		$603,751
Percentage increase in Base Facility Charges		
Total 2008 Annualized Revenues Using Existing Rates		$2,897,764
Less 2008 Annualized Gallonage Revenue Using Existing Rates		(2,123,011)
Annualized Base Facility Charge Revenue Using Existing Rates		$774,753
Total Base Facility Charge Revenue Increase		$603,751
Divide by 2008 Annualized Base Facility Charge Revenue		$774,753
Percentage Increase in Base Facility Charges		77.93%
2008 Increase in Gallonage Charges		
Approved Revenue Increase Related to Gallonage Charges		$2,898,696
Divide by Projected 2008 Gallons Sold (000)		1,367,856
2008 Approved Gallonage Charge Increase		$2.12

Aloha Utilities, Inc. **2009 Allocation of Base Facility and Gallonage Charges**		**Schedule No. 3** **Docket No. 060122-WU**
Allocation of Incremental Decrease of 2009 Revenue Requirement		
Total Incremental Revenue Requirement Increase		$332,387
Total Cost of Purchased Water from Pasco County	$307,454	
Divide by factor for RAFs	0.955	
Total Purchased Water Cost in Approved Revenue Increase	$321,941	(321,941)
Approved Revenue Decrease Related to Base Facility Charges		$10,446
Percentage increase in Base Facility Charges		
Total 2009 Annualized Revenues Using Existing Rates		$3,041,745
Less 2009 Annualized Gallonage Revenue Using Existing Rates		(2,243,925)
Annualized Base Facility Charge Revenue Using Existing Rates		$797,820
Total Base Facility Charge Revenue Increase		$10,446
Divide by 2009 Annualized Base Facility Charge Revenue		$797,820
Percentage Increase in Base Facility Charges		1.31%
2009 Increase in Gallonage Charges		
Approved Revenue Increase Related to Gallonage Charges		$321,941
Divide by Projected 2009 Gallons Sold (000)		1,367,856
2009 Approved Gallonage Charge Increase		$0.24

Aloha Utilities, Inc. | **Schedule No. 4**
Schedule of Monthly Water Rates | **Docket No. 060122-WU**

	Present Rates	Utility Requested Rates	Commission Approved 2008 Rates	Commission Approved 2009 Rates
Residential				
Base Facility Charges By Meter Size				
5/8 x 3/4"	$4.47	$7.30	$7.95	$8.06
3/4"	$6.70	$10.94	$11.92	$12.08
1"	$11.18	$18.26	$19.89	$20.15
1-1/2"	$22.38	$36.56	$39.82	$40.34
Gallonage Charges per 1,000 Gallons				
Gallonage Charge - (0 - 10,000 gallons)	$1.53	$4.01	$3.65	$3.88
Gallonage Charge - (over 10,000 gallons)	$1.90	$4.38	$4.02	$4.25
General Service				
Base Facility Charges By Meter Size				
5/8/ x 3/4"	$4.47	$7.30	$7.95	$8.06
1"	$11.18	$18.26	$19.89	$20.15
1-1/2"	$22.38	$36.56	$39.82	$40.34
2"	$35.79	$58.46	$63.68	$64.51
3"	$71.60	$116.96	$127.40	$129.06
4"	$111.87	$182.74	$199.05	$201.65
6"	$223.73	$365.46	$398.08	$403.29
8"	$357.95	$584.71	$636.89	$645.23
10"	$514.56	$840.53	$915.55	$927.53
Gallonage Charge per 1,000 Gallons	$1.67	$4.15	$3.79	$4.02
	Typical Residential Bills 5/8" x 3/4" Meter			
3,000 Gallons	$9.06	$19.33	$18.90	$19.70
5,000 Gallons	$14.35	$31.00	$26.20	$27.46
10,000 Gallons	$26.48	$58.36	$44.45	$46.86