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FILE COPY

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MAILING ADDRESS
POST OFFICE BOX 1567
TALLAHASSEE, FLORIDA 32302-1567
TELECOPIER (904) 856-4029

March 11, 1997

VIA HAND DELIVERY

Tricia Merchant, CPA
Division of Water and Wastewater
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399

770000-PL1

Re: Aloha Utilities, Inc.
Undocketed Audit
Our File No. 26038.22

Dear Tricia:

Attached is a copy of a letter forwarded to Denise Vandiver today in response to her letter received by the Utility yesterday which is also attached.

It is my understanding that during your recent discussions with Bob Nixon, concerning the Utility's 1996 Annual Report filing, you agreed that the Utility should be given additional time in which to file the new consolidated report form given that it was the first year it was being applied to Aloha Utilities. As a result, we were somewhat surprised to have recently received Denise's proposal for audit of 1996 year for this Utility so soon after your discussions with Bob.

ACK _____ If there is anything you can do to assist us in ensuring that
AFA _____ this audit does not go forward, if at all, at least until the books
APP _____ of the Utility are closed for 1996 and the annual report is filed,
CAF _____ we would sincerely appreciate it.

CMU _____ In addition, please consider this letter to be our request to
CTR _____ you, and by carbon copy to Chuck Hill, for a thirty day extension
EAG _____ above and beyond the automatic extension authorized by Commission
rule. The reasons for this needed extension are stated below:

LEG _____ 1. As you well know, this is the first year the Utility will
LIN _____ be filing the consolidated report form which is all new to this
OPC _____ company. Because it is new for this company and because the
RCH _____ Utility has not had a general rate setting proceeding in many years
SEC _____ for its systems, the records will have to be brought forward

WAS _____
OTH _____

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Tricia Merchant, CPA
March 11, 1997
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1976, the test year in the last general rate proceeding. This will require substantial work to accomplish separation of those records by system in order to complete the new report form.

2. The Public Service Commission has recently completed action after over 1 1/2 years on the reuse plan proposed by the Utility. The adjustments that will be in the final order which was to be issued on March 10, 1997, will most likely require substantial adjustment to the 1996 figures prior to submittal of that annual report. In addition, it is not expected that this order will become final without at least a request for reconsideration and, as such, at the best we hope that order and therefore those adjustments to be final in late April.

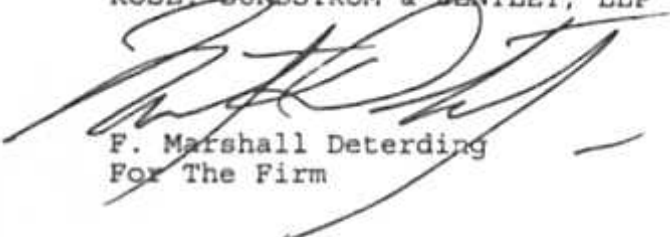
3. Because of the Utility's involvement with the reuse plan, responding to customer concerns raised in that case, negotiations with DEP related to both this and the water quality issues raised, and the filing of the new limited proceeding for the FDOT line relocation, the resources of the Utility and its in-house and consulting accountants have been greatly taxed in the last few months.

Based upon these points, we believe that an extension up to and through May 31, 1997 for the filing of the 1996 Annual Report of Aloha Utilities, Inc. is appropriate.

If you have any questions or if we can provide any further information in support of this request, please let me know.

Sincerely,

ROSE, SUNDSTROM & BENTLEY, LLP



F. Marshall Deterding
For The Firm

FMD/lts
Enclosures
cc: Charles H. Hill
Blanca Bayo

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March 11, 1997

VIA HAND DELIVERY

Ms. Denise Vandiver
Division of Auditing & Financial Analysis
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399

Re: Aloha Utilities, Inc.
Undocketed Audit
Our File No. 26038.22

Dear Denise:

Aloha Utilities, Inc. received your letter concerning an undocketed audit request yesterday, March 10, 1997. While the Utility's books and records are (in conformance with Commission rule requirements), open for inspection by the PSC Staff during business hours, we are concerned with the proposal for audit as outlined in your letter at this time.

First of all, the Utility has not yet filed their 1996 Annual Report. We do not understand how the Staff can conclude that an audit is appropriate or the purpose of an audit at this time when the Commission Staff has not even had an opportunity to review the annual report which will form the initial basis for the audit proposed.

Secondly, the Utility's general ledger has not been completed and the books are not closed for calendar year 1996 at this time. In addition, the Florida Public Service Commission's order dealing with the Utility's proposed reuse project plan was due out yesterday and it is anticipated that that report, based upon a reading of the Staff Recommendation which was approved, will have substantial impact on the books and records of the Utility for 1996. Therefore, further adjustment to the existing books will be necessary before those 1996 figures can be finalized, booked and included within the Utility's annual report. The fact that the books and records of the Utility are not yet closed for 1996 makes it virtually impossible for the Commission Staff to perform an adequate inquiry into the calendar year 1996 at this time.

Third, the Utility is being required, for the first time this year, to file an annual report using the Commission's new consolidated reporting format. In order to file such a report, the Utility will be required for the first time to separate operations

Ms. Denise Vandiver
March 11, 1997
Page 2

of its four systems on the report, as well as to keep those figures on a going-forward basis. While the Utility had received the annual report form approximately a month ago, we are not far enough along with finalizing 1996 accounting records to have begun work with the report form itself. Therefore, we had not noticed the new format. Within the last two weeks, we were informed by Tricia Merchant of the PSC Staff that the new consolidated format was being required. In her discussions with Bob Nixon, the Utility's outside accounting consultant, Ms. Merchant informed Mr. Nixon that it was understandable that preparation of the annual report for 1996 would require additional time and that the Staff would be amenable to an additional extension of time above and beyond the 30 days which is automatically granted. Based upon these conversations with Ms. Merchant, the Utility had intended to request an extension of time to file its annual report up through May 31, 1997.

Fourth, as noted above, the new consolidated annual report will require a separation of operating information for each system for the first time. Until that is done, the Staff's analysis of the rate base and operating expenses of the Utility on a system by system basis cannot be performed. While the Utility has had one of its four systems involved in a rate case which required separation of that system, the other three will require separation back to the last full rate proceeding based upon a 1976 test year. As you can appreciate much of the supporting documents relating back to that period of time, and necessary for separation of the individual system accounts, are in off-site storage and must be located, analyzed, and broken out by system. Separating the one system took a substantial amount of time on the part of the Utility's outside accountants and we envision that the same will be true as to the other three. Therefore, the May 31st projected date for completion of the annual report is an optimistic one under these circumstances.

Fifth, Aloha Utilities, Inc. has been, throughout the 1996 test year, involved in the first reuse project plan processed by the Commission under the new Section 367.0817, Florida Statutes. In addition, the Utility has been negotiating on a going-forward basis with the DEP concerning later phases of this project and has been negotiating with DOT concerning a major line relocation at State Road 54, which is the subject of a limited proceeding which will be filed within the next few days. As such, the 1996 test year has involved substantial expenditure on major capital projects by the Utility for which the company has yet to see one penny of additional revenue available to it. While the reuse plan interim rates have been in effect for approximately one year now, they have been entirely tied up in escrow and because of the cash shortfall to the Utility, it has had to fund all payments for improvements and changes in mode of operating from existing operations. Funds

Ms. Denise Vandiver
March 11, 1997
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normally available for general maintenance, upgrades and purchase of new facilities and materials have been almost non-existent. For all of these reasons, the Staff could not have picked a less representative year for audit of Aloha Utilities, Inc. in its history.

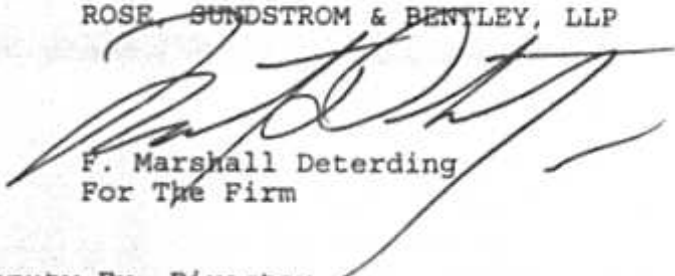
In conclusion, while it is unclear what the purpose of the Commission Staff's undocketed audit is, we believe at the very least it should be delayed several months until the annual report for 1996 is filed. This will at least give the Utility the opportunity to finalize its books from 1996 and to separate out the operations of the several systems which we assume the Staff will want to review separately. As noted, we do not believe that the year 1996 is at all representative or an appropriate one for review of the company's operations in total. However, in conformance with Commission rules, the books and records of the Utility are available for review. Given the above circumstances, if that is to occur at all for 1996, it should at least be delayed until summer.

I appreciate your consideration of these facts and circumstances and I look forward to hearing from you concerning our request that this matter be placed in abeyance at least pending finalization of the closing of the Utility's books and the filing of the annual report for 1996.

Should you have any questions in this regard, please let me know.

Sincerely,

ROSE, SUNDSTROM & BENTLEY, LLP



F. Marshall Deterding
For The Firm

FMD/lts

cc: Mary Andrews Bane, Deputy Ex. Director
Lila Jaber, Esquire
Mr. Charles H. Hill
Mr. Bill Lowe
Mr. Marshall Willis
Tricia Merchant, CPA
Jim McPherson, Tampa District Audit Supervisor
Mr. Steve Watford
Robert C. Nixon, CPA

State of Florida

Commissioners:
 JULIA L. JOHNSON, CHAIRMAN
 SUSAN F. CLARK
 J. TERRY DEASON
 JOE GARCIA
 DIANE K. KESLING



TIMOTHY DEVLIN, Director
 Auditing & Financial Analysis
 (904) 413-6480

Public Service Commission



March 5, 1997

Aloha Utilities, Inc.
 Stephen G. Watford
 2514 Aloha Place
 Holiday, FL 34691-3499

Dear Mr. Watford:

Undocketed - Aloha Utilities, Inc.
Audit Request - Establish Rate Base

The Florida Public Service Commission will compile and audit the rate base, capital structure, and net operating income for the test year ended December 31, 1996 in accordance with Commission audit procedures. Jim McPherson, the district office supervisor, (813) 542-6638, will coordinate this audit.

Rule 25-30.110(b), F.A.C., states that, "Unless otherwise authorized by the Commission, each utility shall maintain its records at the office or offices of the utility within this state and shall keep those records open for inspection during business hours by Commission staff".

Rule 25-22.006, F.A.C., promulgates the procedure to exempt confidential and proprietary business information from Public Records Law 119.07(1), Florida Statutes. Excerpts from this rule are attached to this letter however, the rule should be read in its entirety when an exemption is claimed. Write or call the Florida Public Service Commission's Office of the General Counsel for additional information, (904) 413-6248.

Aloha Utilities, Inc.

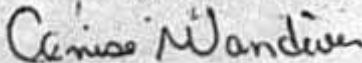
March 5, 1997

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A formal report will be issued for internal official use only by the Commission on or about May 30, 1997. A copy of the final report will be mailed to the company liaison officer listed in the Commission Mailing Directory. Comments should be mailed to the Bureau Chief of Auditing within ten days after receipt.

Questions regarding the audit or staff conduct should be directed to Jim McPherson or myself at (904) 413-6487.

Sincerely,



Denise H. Vandiver

DNV/sp

Enclosure: (1) Excerpts from Rule 25-22.006, F.A.C. and
366.093, F.S.

cc: Mary Andrews Bane, Deputy Executive Director/Tech. (w/o enclosure)
Field Audit Supervisor
Legal Services (w/o enclosure)
Public Counsel

Attachment 1

EXCERPTS FROM RULE 25-22.006, F.A.C. AND 366.093, F.S.

These excerpts do not provide complete information necessary for a utility to safeguard confidential material from public disclosure. See the complete text of Rule 25-22.006, F.A.C.

If the utility ... believes information requested by staff is confidential, the utility may require that the staff request be in writing. Prior to staff obtaining any material (See definition) a utility ... may receive temporary exception from Section 119.07 (1), F.S., by filing a notice of intent to request confidential classification. The notice of intent ... shall be filed with the Division of Records and Reporting and shall have appended to it a copy of any written request for the material to which it relates. To maintain continued confidential handling ... the utility ... must, within 21 days after staff has obtained the material, (or ... after the field audit exit conference), file a request for confidential classification with the Division of Records and Reporting. Rule 25-22.006 (3) (a), F.A.C.

The burden of proof shall be on the utility A request ... that fails to identify the material for which confidential classification is sought in sufficient detail to permit a reasoned analysis or which fails to provide the required justification for classification may be denied Rule 25-22.006 (4) (e), F.A.C.

Proprietary confidential business information includes, but is not limited to: (a) Trade secrets, (b) Internal auditing controls and reports of internal auditors, (c) Security measures, systems or procedures, (d) Information concerning bids or other contractual data, the disclosure of which would impair the efforts of the public utility or its affiliates to contract for goods and services on favorable terms, (e) Information relating to competitive interests, the disclosure of which would impair the competitive business of the provider of the information, (f) Employee personnel information unrelated to compensation, duties, qualifications, or responsibilities. 366.093 (3), F.S.

Requests for confidential classification ... shall be ruled upon expeditiously by the prehearing officer Rule 25-22.006 (3) (c), F.A.C.

Definition: "Obtaining Material" means receiving material pursuant to filing or taking physical control of material by removing the original material or a copy of it from the utility or other person's premises. Obtaining material also means the extraction of data from material for inclusion in working papers or memoranda. Rule 25-22.006 (1) (e), F.A.C.