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ROBERT M. C. ROSE
OF COUNSEL

April 16, 2001

The Honorable E. Leon Jacobs
Chairman, Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: 2001 General Rate Increase Application
Seven Springs Water System
Our File No. 26038.35

010503-Will

Dear Chairman Jacobs:

This letter requests approval of a test year for Aloha Utilities, Inc. The Company intends to submit an application for general rate relief to the Florida Public Service Commission for its Seven Springs water system (Certificate No. 136-W) in Pasco County, Florida. The Company intends to submit the minimum filing requirements (MFRs) on or before August 15, 2001 or no more than ninety days after the requested test year is approved, whichever is shorter. We will need to receive your approval as quickly as possible.

Aloha's last general rate case initiated by the Company for this system was in Docket No. 770720-WS. After appeal, the Commission's Final Order establishing rates in that proceeding was Order No. 9278, issued on March 11, 1980.

Since the issuance of the orders in the rate proceedings over 20 years ago outlined above, the Utility has also implemented numerous pass-through and indexing adjustments pursuant to the provisions of Section 367.081(4)(a) and (b), Florida Statutes.

The Company believes that the proposed base year ended December 31, 2000, is representative of current operations, except for the required changes in operation which will have already begun to occur and which should be fully implemented in approximately nine months. These changes necessitate this rate filing and the use of the projected test year ended December 31, 2001.

The Utility is filing for recognition of the projected test year ended December 31, 2001 in

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order to fully recognize the additional costs of purchased water imposed upon the Utility by compliance with its Water Use Permit, along with a few other less material increases in the cost of providing water service.

Starting in the last few months, the Company has begun experiencing major changes in operational expenses, which necessitate their seeking this rate relief. These changes to the Seven Springs water system include the following:

1. The Company has been ordered by the Southwest Florida Water Management District to reduce its pumping from wells substantially from the pumping levels of the last several years, in order to come into compliance with its Water Use Permit. The only alternative source of water available to the Utility at this time, are purchases of treated water from Pasco County through an existing bulk service arrangement and connection. The cost of water from Pasco County substantially exceeds the cost of pumping and treating water from Aloha's own wells. Based upon reducing pumpage from wells necessary in order to comply with the Utility's existing Water Use Permit, and purchasing the remaining water needs from Pasco County, the Utility estimates that the additional cost (net of cost savings from reduced well pumping) will be approximately \$621,000 based upon 1999 usage figures. With recognition of growth during the projected test year, this number will be slightly higher. The Utility cannot afford to purchase the additional water necessary in order to come into compliance with these reduced pumpage requirements until rate relief to cover these substantial additional expenses is granted.
2. In the years leading up to the conclusion of the year 2000, the Utility determined that it would need to add additional staff in order to provide quality administrative and customer services to the Utility's growing customer base. Because of space limitations within its old office building, the Utility was unable to house the additional staff needed until the relocation to the new offices in December of 2000 was complete. The Utility has now undertaken the task of interviewing and hiring additional staff and continues to add additional staff, in order to meet the needs of its existing customer base. In addition, the Florida Public Service Commission recently undertook a management audit of Aloha Utilities and among its recommendations were several areas of changes to improve customer service through additional functions that would require additional staffing. Aloha is in agreement with those recommendations and the additional staffing currently underway, is in part to allow those recommended changes. A prorata portion of the additional cost of this labor will be in a range of \$45,000 to \$60,000, depending upon how quickly the Utility can add the additional staff needed.

3. As the Commission is well aware from the recent wastewater rate increase case considered by the Commission in Docket No. 991643-SU, the Utility has recently purchased a new office building, and the prorata cost of that office building must be considered in this case. The allocated portion of this total office building cost is approximately \$26,000 additional expense to the Seven Springs water system.
4. The Commission has recently completed a water quality investigation that has been ongoing for several years and Aloha Utilities has been told repeatedly that it should not begin to amortize the cost of that proceeding, nor seek rate relief related to the cost of that proceeding, until it was completed. As of the end of the year 2000, that case was finally completed, and the Utility is now amortizing these costs over a four year period. The annual impact of this is \$82,169 per year in additional expense.
5. In addition to the actual out-of-pocket costs related to the water quality case, the Utility was also required to undertake a pilot project for the removal of hydrogen sulfide from its water. The Utility is currently in the middle of that project, preparing to bring the necessary facilities on site for testing. While the Utility does not currently have an exact figure for the overall cost of that pilot project, it is expected to be completed by the year ended December, 2001, and the total cost is estimated to be somewhere in the neighborhood of \$100,000 to \$200,000. Those costs too should be recognized in future rate setting, as they are the result of tests and analysis undertaken as ordered by the Commission.
6. The Southwest Florida Water Management District, as part of its requirements imposed on Pasco County as the bulk supplier of water for Aloha Utilities, has ordered both Pasco County and Aloha Utilities to undertake a change in rate structure in order to implement an inclining block rate structure, or other conservation measures. The effects of this, both on the price of purchased bulk water and the potential sales of such water at retail, will be incorporated into the proposed rates submitted with the filing in this case.

While a projected test year is proposed in this case, several of the items requested for consideration above, are not expected to be completed until late in the projected test year (calendar year 2001). As such, some proforma recognition of the total cost of those items will likely be requested as an adjustment to the projected test year.

Please note that all estimates of cost and expense may change once final prices are determined and arrangements are made. The dollar figures as outlined above are represented in order

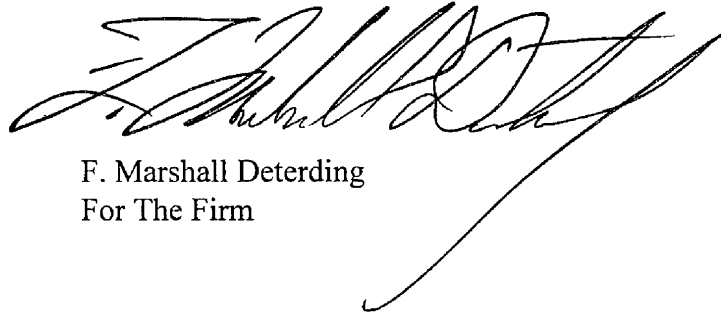
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to provide an estimate of each item's effect.

Should you or any members of your staff have any questions with regard to this application, please do not hesitate to contact me.

Sincerely,

ROSE, SUNDSTROM & BENTLEY, LLP

A handwritten signature in black ink, appearing to read 'F. Marshall Deterding', written in a cursive style. The signature is positioned to the right of the typed name and firm name.

F. Marshall Deterding
For The Firm

FMD\atmg

cc: Blanca S. Bayo, Director
Stephen G. Watford
David Porter, P.E.

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