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January 10, 2007
VIA HAND DELIVERY

ROBERT M. C. ROSE, (1924-2006)

Blanca S. Bayo, Director
Division of the Commission Clerk
and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: Aloha Utilities, Inc.; Anion Exchange Report; PSC Docket No. 060606-WS
Our File No. 26038.51

Dear Ms. Bayo:

Attached, in accordance with the requirements of Order No. PSC-06-0270-AS-WU and the Settlement Agreement attached thereto, is the second quarterly report on the progress of implementation of the anion exchange facilities.

In our first status report dated October 2, 2006, we noted that the 24 month timetable had been delayed by causes outside the control of Aloha, based upon action or inaction of Pasco County. We noted at that time that those delays were already at 60 days and it would likely rise only to 90 days, if the information then promised of the County was provided when expected. However, the County did not provide all of the information, or at the date promised. There are still portions of that needed information which have not been provided by the County.

Through the efforts of Aloha and its consultants, they have been able to work around deficiencies in information from the County thus far, such that the 90 day delay reported at the time of filing that last report still appears to be a reasonable estimate of the delays that have occurred to the present date. However, until these issues are resolved, additional delays may occur, unless all of the necessary information to allow moving forward on all fronts, is received in relatively short order.

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

Sincerely,
ROSE, SUNDSTROM & BENTLEY LLP

F. Marshall Deterding
For The Firm

CTR _____
ECR _____
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OPC _____
RCA _____
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SGA _____
SEC 1
OTH Kim P.

FMD/tms

cc: Rosanne Gervasi, Esquire
Steve Reilly, Esquire
Troy Rendell
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Bart Fletcher

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**Aloha Utilities, Inc.
Seven Springs Water System
Anion Exchange Implementation Project**

**Project Status Report Number 2
October 3, 2006 – January 5, 2007**

Overview of Project Status

- Moving this project forward continues to be Aloha's top priority.
- The design team has completed process diagrams, site layout drawings and detail drawings for the five plants to be upgraded with anion exchange equipment to the extent possible with the information known at this time.
- Financing for the project has been undertaken and obtained.
- Bulk water supply service application has been submitted and impact fees paid to the County.
- Permitting of the regeneration system waste disposal system (Major Modification to the existing Wastewater Permit for the WWTP and reuse system) and the water system modifications have been discussed with FDEP at a pre-application meeting. To the extent possible, the development of the permit support documents needed to obtain these permits is underway.

The lack of definitive information on the timing, quantity and rates of delivery of the County bulk water supply continues to impact the overall timing of the project. In particular, the design of critical project elements (brine preparation and waste brine holding tanks and disposal

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systems, electronic monitoring and controls, additional land needs identification and acquisition, specialty engineering design such as electrical, geotechnical, structural, and controls), permitting and project bidding and construction project elements have been and continue to be affected. Proceeding in the absence of such definitive information would be contrary to the interests of our customers and inconsistent with sound engineering and management practice.

It has been determined during detailed design work that the brine preparation systems will not fit on the existing plant sites due to limited site acreage. During the conceptual phases of the project this possibility was specifically identified as a potentiality. Since the brine make-up facilities must be located centrally on a site remote from each of the existing plants, it will most likely be economically advantageous (both from a capital cost and O&M cost standpoint) for those facilities to be sited along with any bulk water storage facilities. This will minimize the cost of land, cost of building construction and cost of the operation of the facilities due to more efficient labor use. However, until the location of any such storage facilities is known the schedule for the design and permitting of the overall project will be impacted.

Since both the brine waste disposal system tanks and pump sizes (located at each upgraded plant) are dependent on the quantity of water to be treated each day, the final design of this portion of the upgraded plants cannot be completed until maximum day flows and number of maximum days expected to be experienced consecutively is determined. These values are dependent on the quantity and pattern of bulk water supply provided by the County. Until this data is known, the brine waste system final design cannot be completed. To date, the Utility has tried to move forward with some work on the design of these facilities, but given the continued uncertainty of the factors, only rough estimated data has been used to size and site these facilities on the site drawings.

Electronic monitoring and control systems will be required to balance Aloha's production of water from each of its plants and that taken into its system from the County as bulk water. The design of these systems is delayed until the above-noted quantity, timing, and delivery location issues associated with the bulk water supply have been resolved.

Permit applications cannot be submitted until all the major design elements have been identified and finalized. The completion of the detailed brine waste quantity, rate and strength analysis and the resultant analysis of the impacts of this waste on the reuse water and the groundwater in the areas where reuse water is applied is being hampered and will not be finalized until the bulk water issues are addressed and the other project design work is completed.

Other specialty engineering work (geotechnical, electrical power, structural, etc.) is normally the final design work to be completed since all other project elements must be completed and finalized to allow this work to be completed. Since there are outstanding issues associated with the earlier project elements discussed above, the specialty engineering work is delayed at this time.

Until the remaining engineering work has been completed and permits have been received, it is not possible to proceed with the bidding and construction work.

Therefore, at this time, the bulk water supply issues must be resolved for this project to move forward.

Work In-Progress and/or Completed This Period

The major tasks that the design and project management team has been working on this period includes:

- A. The week of October 6, 2006 the design/management project team completed the first quarterly project progress report and attended the first project status meeting with Public Service Commission/Office of Public Council/Customers and Aloha. In addition, the management/legal and design team reviewed a letter received from Pasco County in which they provided their understanding of the bulk water supply needs of Aloha. Dr. Levine prepared and the management and design team members reviewed an updated design summary based solely on the original design concept based on each of the water plants

treating the SWFWMD WUP permitting quantities of water on an annual average daily basis (as discussed at the first project status meeting). The management, financial, legal and engineering teams conferred by email and conference calls to discuss the steps necessary and work needed to develop the data needed to obtain funding for the project (by Bond issue).

- B. The week of October 13, 2006 Tonka Equipment Company was contacted and asked for additional data needed for continued design and drawing preparation for the five water treatment plants to be upgraded with anion exchange. The design team continued working on the design and drawings preparation for those portions of the project which could be undertaken without the final resolution of the Pasco County Bulk Water supply issues discussed in the first status report and at the first project status meeting. The management, financial, legal and engineering teams continued to confer by email and conference calls to discuss the steps necessary and work needed to develop the data needed to obtain funding for the project (by Bond issue) and the engineering team and financial teams began preparation of the data needed. Dr. Gomberg and Dr. Levine began the necessary study, data collection and analysis necessary to determine the current impacts of brine waste disposal at the existing WWTP on the quality of the reuse water produced and the potential for impact on the existing reuse application areas and ground water monitoring system. Continued discussions with Tonka related to possible alternate regeneration brine chemical use (KCl) and the potential impacts of same.
- C. During the week of October 20th, the design and management teams met to discuss project status. The financing support work continued as did the design and drawing preparation as described earlier.
- D. The week of October 27, 2006 the design and management teams worked with Tonka to begin preparation of updated project cost projections that were needed for the financing efforts. The legal and management teams discussed the lack of submission, by the County, of the detailed information related to the provision of bulk water. The County had promised to provide Aloha with this data on September 25th at a meeting held September 15 (as reported in the first status report). It was our management and design teams' hope that this data would be provided when promised so that the project could move swiftly ahead and minimize any additional time delays being added to those already encountered due to the

bulk water supply issues. Aloha's legal and management teams contacted Pasco County requesting the data ASAP. In anticipation of the receipt of the positive information from the County regarding supply of bulk water, Aloha's design and management teams had previously arranged for permit pre-application meetings with the FDEP which were scheduled for October 30th. Since these meetings were already scheduled, Aloha met with the FDEP staff (Drinking Water and Wastewater Sections) on the 30th even though the bulk water data had not been received. Since this data was not available, the discussions with the FDEP were based on the information known at that time. Therefore, the pre-application meeting with FDEP was only able to produce "general" guidelines regarding permit application requirements. The major item that was revealed at this meeting was that the Department would require the submission of a Major Permit Modification application for the WWTP as part of the project permitting effort. This WWTP permit modification would need to be obtained prior to the Department beginning permitting of the actual water system modifications. One of the elements of the WWTP permit modification application is a report which will be prepared by Dr. Gomberg and Dr. Levine which provides detailed information of the quantities of regeneration waste expected, its impact on the quality of the reuse water and the impact of the change in reuse water quality on the ground water in the areas where reuse water is applied. The development of this data is underway, however, its finalization is dependent on the resolution of the bulk water issues that can impact the type (KCL or NaCl), quantity and timing of regeneration waste produced and therefore the resultant reuse water and potential groundwater impacts.

- E. During the weeks of November 3 2006 the management and legal teams continued to contact the County and request the data promised ASAP in an attempt to minimize project delays. The financial, legal and engineering teams worked on the development of the financing documents. The engineering teams continued to work on the development of design drawings where possible for those project elements where sufficient data was known or could be assumed with minimal risk.
- F. During the week of November 10, 2006 Aloha received a letter with minimal support information from the County which provided limited answers to Aloha's questions regarding what bulk water quantities at what rates would be supplied by the County. In addition, no dates were provided related to when the County would be able to begin supply

of bulk water to Aloha. During this week, the legal team met with PSC and OPC staff to discuss the content of the County letter and to inform them that additional project delays were now certain and beyond the control of Aloha.

- G. The week of November 17 Aloha's management, legal and engineering teams prepared a response to the County's most recent letter informing them that the data provided was not what was promised previously and pleaded for additional information that would allow for a resolution to the bulk water supply problems. Aloha's financial, legal, management and engineering teams continued preparation of the documents needed to obtain financing for the project. The design team continued to prepare design drawings where possible. Aloha's legal and management team began work on development of a Stipulation with the PSC and OPC staff that would allow Aloha to pay the County Impact Fees prior to a scheduled three fold increase in same that would take place on December 20th.
- H. The weeks of December 1, 8 and 15, 2006 Aloha's legal and management teams continued working with PSC and OPC staff on the development of the needed Stipulation. The legal, financial, management and engineering teams finalized the project financing documents and obtained the necessary financing for the project. The design team continued to work on the design drawings where possible. The legal, management and engineering teams worked and communicated with the County to attempt to resolve the bulk water supply issues. On December 14th the management, legal and engineering teams met with the County and its engineers and SWFWMD to discuss the technical details provided in the County's letter of November 9th. At this meeting the County agreed to provide Aloha with copies of its consultants' data for review by Aloha's engineers. Also, the County was informed that if it could not provide peak flows as provided for in its existing bulk water agreement with Aloha and if Aloha was to be required to provide its own storage and high service pumping facilities, then the three anticipated interconnect locations would most likely not be practical and that the bulk water would most likely need to be provided at one or two locations instead. The County agreed to have its consultant re-run their computer hydraulic models to determine the impacts of providing only one interconnect point in the vicinity of the Industrial Park. The County promised to have their consultants complete this modeling as quickly as possible.

- I. The week of December 22 Aloha applied for Bulk Water Service for all three phases of supply and on December 19th paid the approximately \$5M impact fee to the County even though the bulk water supply issues had not yet been resolved so as to protect its customers from massive increases in impact fees that would be applicable for payments beginning December 20th.
- J. The weeks of December 29, 2006 and January 5, 2007 the engineering team received the County's hydraulic modeling data and began review of same. The data provided was not documented sufficiently to allow for a complete analysis by Aloha's engineers, therefore, Aloha engineers are preparing a list of questions for the County's engineers to answer to allow them to complete their analysis. The County's analysis of the impacts of supplying all bulk water to one storage and high service pumping location has not been received by Aloha to date, however, it will be reviewed ASAP once it arrives.

Timetable for Future Activities

In the first project status report, we stated that as of the date of the submittal of the report, delays that would impact the time requirements agreed to in the Settlement Agreement had reached approximately 60 days. We further stated that if Pasco County provides the Utility, within 30 days of date of the first report, information that will assure Aloha of the availability of supplemental water sufficient to meet all of the needs of Aloha above its permitted WUP capacity, and that such supplemental water will be available by the date that the anion exchange facilities are scheduled to go online, the total delay would be approximately 90 days. We also stated that hopefully, in 30 days Aloha would have a better handle on the overall delays resulting from the County's inability to provide definitive answers about timing and quantities of supplemental water.

Unfortunately, the data from the County hoped for did not arrive in 30 days as promised. In addition, the data that has been provided to date does not provide the information necessary for Aloha to determine how much, at what rate, on what schedule and under what conditions bulk water would be supplied to Aloha by Pasco County. A number of additional discussions have transpired with the County and other parties with an interest in these issues (SWFWMD, FDEP,

etc) which have also taken time. To date, the bulk water issues are only slightly better defined than they were when the first status report was provided to you three months ago.

Therefore, at this time, it is still not possible to determine the future timetable for the project due to the uncertainty of the timing of supply, location, and quantity of the County supplemental water supply. Based on the engineering and permitting work delays alone, we estimate that the overall project has been delayed by at least 90 days. Overall project delays have been minimized by continuing to complete design work on those elements of the project where limited data was available. However, the overall project delays will continue as long as the bulk water issues remain unresolved. Aloha has made, and will continue to make, its best effort to minimize these delays.

After these issues are resolved we will be able to make a better determination about the total project timing impacts experienced and a timetable of future activities and we will then notify the PSC accordingly.