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June 5, 1998

ROBERT M. C. ROSE
OF COUNSEL

VIA HAND DELIVERY

Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Docket No. 960545-WS;
Investigation of Aloha Utilities, Inc.

Dear Ms. Bayo:

As the Commission and its staff know, there has been an investigation of the quality of water service delivered by Aloha Utilities, Inc. in the above-referenced docket for over two years. The Utility has demonstrated in formal administrative hearings, and through various other means, that it is fully in compliance with all regulatory requirements concerning water quality.

Partly in response to customer concerns, the Commission has taken the unprecedented step of imposing two requirements on Aloha Utilities, Inc., despite full compliance with all regulatory requirements for water quality.

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The first of these was a requirement that the Utility undertake an analysis of the possible improvements that could be made to the utility system to improve water quality. On June 10, 1997, the Utility submitted its Water Facilities Upgrade Report ("Report") outlining in great detail possible system improvements, the benefits of each, and cost of such improvements. Despite requiring the Report, the Commission has not ordered that any identified improvements be undertaken or any other alternatives be considered.

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The second requirement imposed on the Utility by the Commission was a customer satisfaction survey of all of its customers within the Seven Springs system. That survey has now been completed and the results are now being analyzed. However, it seems clear that a substantial number of customers responding to the survey had some water quality concerns with taste, odor, color, or pressure. The

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next step will be a visit by the Commission to view facilities and customer homes tentatively scheduled for July 13.

Since filing the Report, EPA regulatory requirements related to the disinfection by-product rule (THM, etc.) have become clearer and more immediate. In addition, the recent survey results indicate that there is some dissatisfaction with current water taste, odor and pressure. In order to satisfy these two concerns, over the next several years, the Utility proposes to undertake improvements similar to, if not exactly the same as, those proposed in "Alternative 2 - Centralized Facilities" of the June 10, 1997 Report.

In order to address customer concerns and comply with the fast approaching disinfection by-product regulatory requirements, Aloha Utilities, Inc. has determined that it is appropriate to immediately begin construction of three packed-tower aeration type water treatment plants. The Utility intends to immediately begin permitting, design and construction of these new plant facilities as follows:

Phase I

Pilot testing, design and permitting of the initial water treatment plant ("Mitchell plant"); and

Pilot testing and design of the second water treatment plant ("Wyndtree plant") (completion March, 1999).

Phase II

Construction of Mitchell plant; permitting of Wyndtree plant; and pilot testing, design and permitting of the third water treatment plant ("Industrial Park plant") (completion - December, 1999).

Phase III

Construction of Wyndtree and Industrial Park plants (completion - March, 2001).

However, in light of the lengthy, on-going investigation into the Utility's water quality, and the unprecedented requirements of this docket, it is reasonable for the Utility to require some assurance from this Commission that this course of action is considered prudent, and that no alternative or conflicting course of action will subsequently be ordered by the Commission.


Blanca S. Bayo, Director
June 5, 1998
Page 3

To that end, the Utility is requesting that the Commission issue its order recognizing that the proposed improvements outlined in Section 7 of the Report are appropriate, and that it will recognize the reasonable cost thereof upon the Utility's filing of appropriate Applications for Limited Proceedings. Our proposal would be to file a limited proceeding for each of the 3 phases in sufficient time prior to the completion of each phase such that increased rates can be effective immediately after each phase is completed. We believe this phasing of rates would minimize rate shock and reduce overall carrying costs significantly over the life of the projects.

We look forward to meeting with the staff to discuss the details of this capital improvement plan. We would also be willing to provide the Commissioners and staff with a very brief overview of this plan at July 13th visit to the Utility office.

Sincerely,

ROSE, SUNDSTROM & BENTLEY, LLP



F. Marshall Deterding
For The Firm

FMD/lm
cc. Ralph Jaeger, Esq.
Bob Crouch, P.E.
James McRoy
John Starling

aloha\17\62bayo.let

Project Schedule

Task	1998												1999												2000																
	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12							
Pilot Testing/Mitchell Plant						■	■	■																																	
Design of Mitchell Plant																																									
Permitting (FDEP, SWFWMD, County, Etc.)																																									
Bidding and Construction																																									
Prep. O&M Manual/Start-Up																																									
Certification																																									
Warranty Inspection																																								■	
Pilot Testing/Wyndree Plant																																									
Design of Wyndree Plant																																									
Permitting (FDEP, SWFWMD, County, Etc.)																																									
Bidding and Construction																																									
Prep. O&M Manual/Start-Up																																									
Certification																																									
Warranty Inspection																																									
Pilot Testing/Industrial Park Plant																																									
Design of Industrial Park Plant																																									
Permitting (FDEP, SWFWMD, County, etc.)																																									
Bidding and Construction																																									
Prep. O&M Manual/Start-Up																																									
Certification																																									
Warranty Inspection																																									
Pilot Testing Costs							\$75,000																																		
Engineering							\$33,125	\$53,100	\$53,100	\$53,100	\$53,100	\$53,100	\$53,100	\$53,100	\$53,100	\$53,100	\$53,100	\$53,100	\$53,100	\$53,100	\$53,100	\$53,100	\$53,100	\$53,100	\$53,100	\$53,100	\$53,100	\$53,100	\$53,100	\$53,100	\$53,100	\$53,100	\$53,100	\$53,100	\$53,100	\$53,100	\$53,100				
Construction																																									
Total Cost Per Period							\$75,000	\$88,225	\$141,325	\$194,425	\$247,525	\$300,625	\$353,725	\$406,825	\$459,925	\$513,025	\$566,125	\$619,225	\$672,325	\$725,425	\$778,525	\$831,625	\$884,725	\$937,825	\$990,925	\$1,044,025	\$1,097,125	\$1,150,225	\$1,203,325	\$1,256,425	\$1,309,525	\$1,362,625	\$1,415,725	\$1,468,825	\$1,521,925	\$1,575,025	\$1,628,125				
Cumulative Cost							\$75,000	\$108,125	\$161,250	\$214,375	\$267,500	\$320,625	\$373,750	\$426,875	\$480,000	\$533,125	\$586,250	\$639,375	\$692,500	\$745,625	\$798,750	\$851,875	\$905,000	\$958,125	\$1,011,250	\$1,064,375	\$1,117,500	\$1,170,625	\$1,223,750	\$1,276,875	\$1,330,000	\$1,383,125	\$1,436,250	\$1,489,375	\$1,542,500	\$1,595,625					

Total Project Cost \$10,867,285

