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February 12, 2002
VIA HAND DELIVERY

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.; PSC Docket No. 010503-WU
Our File No. 26038.35

Dear Ms. Bayo:

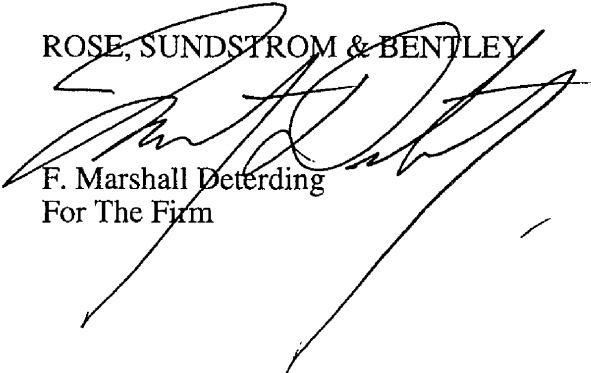
Attached in accordance with the instructions of the Chairman at the hearing in the above-referenced matter held on January 9-11, 2002, is Late-Filed Exhibit No. 36, the Consent Agreement and attached Compliance Plan negotiated between the Southwest Florida Water Management District and Aloha Utilities, Inc.

As noted at hearing, this is the version agreed to between Aloha Utilities, Inc. and the Southwest Florida Water Management District staff. We do not have back an executed copy by the Executive Director as of yet. However, this is the version that has been agreed to between the parties and which the Southwest Florida Water Management District staff will take before their Board at their regularly scheduled meeting at the end of February.

If you or any members of the Commission staff have any questions in this regard, please let me know.

Sincerely,

ROSE, SUNDSTROM & BENTLEY


F. Marshall Deterding
For The Firm

FMD/tms

cc: Ralph Jaeger, Esq.
Mr. Edward Wood
Stephen Burgess, Esq.
Michael Fasano
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Mr. Stephen Watford
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FPSC-COMMISSION CLERK

BEFORE THE SOUTHWEST FLORIDA WATER MANAGEMENT DISTRICT

ORDER NO. SWF 02-

IN RE: ALOHA UTILITIES, INC.
WUP No. 203182.004/CT No. 55948
PASCO COUNTY, FLORIDA

CONSENT ORDER

Pursuant to Sections 120.57(4) and 373.083, Florida Statutes (F.S.), this Consent Order is entered into between the Southwest Florida Water Management District, hereinafter referred to as the "District", and Aloha Utilities, Inc., hereinafter referred to as the "Permittee", to settle certain matters at issue between the parties. The parties hereby voluntarily agree to the following findings of fact, conclusions of law and corrective actions.

FINDINGS OF FACT

1. The District is the administrative agency charged with the responsibility to conserve, protect, manage and control water resources within its boundaries and to administer and enforce Chapter 373, F.S., and the rules promulgated thereunder as Chapter 40D, Florida Administrative Code (F.A.C.).
2. Permittee's mailing address is 6915 Perrine Ranch Road, New Port Richey, Florida 34655-3904. Permittee is a private utility company, incorporated in the State of Florida.
3. On September 29, 1992, the District issued Water Use Permit (WUP) No. 20003182.002 (the ".002 Permit") to Permittee, authorizing water withdrawals of 2,040,000 gallons per day (gpd) on an annual average basis from eight wells for public supply use in Permittee's Seven Springs Service Area. The Seven Springs Service Area is located in southwestern Pasco County, Florida, and is within the Northern

Tampa Bay Water Use Caution Area, hereinafter "NTBWUCA".

4. On April 27, 1999, the District issued WUP No. 20003182.004 (the ".004 Permit") to Permittee renewing the .002 Permit. The .004 Permit continued to authorize Permittee to make annual average withdrawals of 2,040,000 gpd. Permittee currently serves a population of approximately 24,452 people. The .002 Permit and the .004 Permit will hereinafter be referred to collectively as "the Permits".

5. Between November 1995, and the date of preparation of this Consent Order, Permittee has consistently exceeded the annual average withdrawals authorized under the Permits, as follows:

MONTH/ YEAR	ANNUAL AVERAGE DAILY PUMPAGE	PERCENTAGE OVERPUMPED
11/95	2,047,870	0.40%
12/95	2,064,714	1.20%
01/96	2,086,703	2.30%
02/96	2,104,129	3.10%
03/96	2,097,675	2.80%
04/96	2,110,548	3.50%
05/96	2,143,731	5.10%
06/96	2,199,298	7.80%
07/96	2,232,490	9.40%
08/96	2,265,207	11.00%
09/96	2,290,399	12.30%
10/96	2,328,269	14.10%
11/96	2,362,283	15.80%
12/96	2,367,801	16.10%
01/97	2,390,236	17.20%
02/97	2,413,370	18.30%
03/97	2,446,106	19.90%
04/97	2,448,756	20.00%
05/97	2,444,687	19.80%
06/97	2,454,370	20.30%
07/97	2,460,133	20.60%

MONTH/ YEAR	ANNUAL AVERAGE DAILY PUMPAGE	PERCENTAGE OVERPUMPED
08/97	2,495,844	22.30%
09/97	2,549,630	25.00%
10/97	2,570,969	26.00%
11/97	2,553,280	25.20%
12/97	2,522,920	23.70%
01/98	2,484,245	21.80%
02/98	2,431,797	19.20%
03/98	2,390,309	17.20%
04/98	2,448,713	20.00%
05/98	2,486,261	21.90%
06/98	2,527,897	23.90%
07/98	2,555,726	25.30%
08/98	2,553,353	25.20%
09/98	2,484,315	21.80%
10/98	2,493,370	22.20%
11/98	2,531,705	24.10%
12/98	2,593,422	27.10%
01/99	2,612,634	28.10%
02/99	2,686,686	31.70%
03/99	2,758,752	35.20%
04/99	2,764,050	35.50%
05/99	2,782,148	36.40%
06/99	2,721,232	33.40%
07/99	2,707,556	32.70%
08/99	2,737,043	34.20%
09/99	2,777,452	36.10%
10/99	2,778,617	36.20%
11/99	2,781,201	36.30%
12/99	2,777,208	36.10%
01/00	2,795,862	37.10%
02/00	2,809,800	37.70%
03/00	2,796,139	37.10%
04/00	2,767,378	35.70%
05/00	2,770,537	35.80%
06/00	2,829,833	38.70%
07/00	2,833,959	38.90%

MONTH/ YEAR	ANNUAL AVERAGE DAILY PUMPAGE	PERCENTAGE OVERPUMPED
08/00	2,808,538	37.70%
09/00	2,791,682	36.80%
10/00	2,864,716	40.40%
11/00	2,885,176	41.50%
12/00	2,804,601	39.00%
01/01	2,706,565	33.00%
02/01	2,670,938	30.90%
03/01	2,681,989	31.50%
04/01	2,719,705	33.30%
05/01	2,764,828	35.50%
06/01	2,759,801	35.30%
07/01	2,727,397	33.70%
08/01	2,756,645	35.10%
09/01	2,788,770	36.70%
10/01	2,750,241	34.80%

6. The NTBWUCA is delineated by Rule 40D-2.801(3)(c), F.A.C., as an area where groundwater withdrawals have resulted in the lowering of lake levels, destruction or deterioration of wetlands, reduction in streamflow, and salt water intrusion. Permittees within the NTBWUCA are required to take special measures to conserve water and protect the water resource.

7. During the review of Permittee's application for the .004 Permit, the District advised Permittee in a letter dated November 19, 1998, that due to the location of its withdrawals in the NTBWUCA no additional quantities would be permitted. Permittee was further advised that it should seek alternative sources to groundwater to address increased demand from its customers.

8. In a Compliance Notice dated April 2, 1999, the District informed Permittee that it was exceeding its permitted withdrawals, and advised Permittee to

take action to reduce on-site well withdrawals.

9. On June 6, 2000, District staff issued Permittee a second Notice of Noncompliance, advising Permittee that it continued to exceed its permitted withdrawals.

10. On November 21, 2000, the District issued Permittee a Notice of Violation, again informing Permittee that it was exceeding its permitted withdrawals. The Notice of Violation advised Permittee to bring its water withdrawals into compliance with the .004 Permit within 30 days of the notice. As of the date of preparation of this Consent Order, Permittee remains in violation of the .004 Permit.

11. The parties herein have discussed this matter and resolved all disputed issues regarding the violations set forth above.

CONCLUSIONS OF LAW

12. The District has jurisdiction over the Permittee pursuant to Sections 373.069(2)(d), 373.103(1), 373.216 and 373.219(1), F.S., and Rule 40D-2.041, F.A.C.

13. Making withdrawals in excess of the quantity of water authorized by the Permits, as described in paragraph 5, constitute violations of Section 373.219(1), F.S., Rule 40D-2.381, F.A.C., and the terms of the Permits.

PENALTY

14. The Permittee shall pay to the District a penalty of Four Hundred Thirty-nine Thousand Five Hundred Fifty-four and 45/100 dollars (\$439,554.45).

CORRECTIVE ACTIONS

15. Attached hereto as Exhibit "A" to this Consent Order is a Compliance Plan which has been mutually agreed to by the parties. The Compliance Plan demonstrates

how and when Permittee will come into compliance with state law, District rules, and the terms of the .004 Permit. The Compliance Plan is subject to modification to ensure its effectiveness, upon mutual agreement of the parties. Full compliance with the .004 Permit must be achieved within one hundred eighty (180) days of approval of this Consent Order by the District's Governing Board. This requirement does not confer any authorization or approval by the District of any continued violation of the .004 Permit by Permittee. The Compliance Plan shall be complied with by the Permittee. Any failure of Permittee to comply with any provision of the approved Compliance Plan shall constitute a violation of this Consent Order.

16. The Permittee may request an extension of time for any due date specified in this Consent Order or in the Compliance Plan, in writing, at least five (5) days before such due date. The District shall grant the requested extension in writing, for good cause which is defined as any act, event or condition that adversely affects the ability of the Permittee to perform any obligation hereunder, or comply with any condition hereunder, if such act, event or condition is beyond the reasonable control of Permittee and is not the result of a lack of reasonable diligence by Permittee including, but not limited to, an act of God, hurricane, landslide, lightning, earthquake, flood, drought, sabotage, vandalism, aircraft accidents or incidents, or similar occurrence, acts of a public enemy, extortion, war, blockade or insurrection, riot, civil disturbance, change of law, the failure of any contractor, subcontractor or supplier to timely furnish labor, services, materials or equipment if such failure is caused by an uncontrollable circumstance and substitute labor, services, materials or equipment on terms and conditions no less favorable to the affected party are not readily available, strikes, work

stoppages or other labor disputes or disturbances, the order, injunction, judgment, action or failure to act, by any court.

17. The District acknowledges that development of an alternative water source project by Permittee would be a benefit to water resource management within the NTBWUCA. The District will use its best efforts to process and consider granting cooperative funding for a proposed project, which consideration shall be on a uniform basis with other projects in the District.

18. Payment of the penalty set forth in Paragraph 14 herein will be suspended while Permittee conducts a feasibility study for a reverse osmosis plant, as described in Section III B of the Compliance Plan. The suspension of the penalty will be effective for no more than five (5) years from the date of approval of this Consent Order by the District's Governing Board. If the feasibility study indicates that a reverse osmosis plant is technically and economically feasible, Permittee will construct the plant, and the District will waive the penalty at such time as Permittee begins operation of the reverse osmosis plant. If Permittee does not conduct the feasibility study in good faith as determined by the District, Permittee will be required to pay the penalty to the District within thirty (30) days of notification to Permittee of such a determination. The District's determination of whether the study was conducted in good faith shall be considered an agency action subject to challenge by the Permittee pursuant to Sections 120.569 and 120.57, F.S. The Permittee asserts that the feasibility study for the reverse osmosis plant which is referenced herein will cost an amount in excess of Four Hundred Fifty thousand and 00/100 dollars (\$450,000.00), and shall provide to the District verification of the actual amount spent. The estimated cost of this feasibility study is a

material provision of this Consent Order, and if the study does not meet or exceed the estimated cost, the penalty shall not be reduced as described hereinafter.

If the Permittee has conducted the feasibility study in good faith, but the conclusion of the study is that a reverse osmosis plant is not technically and economically feasible, the District will reduce the penalty to One Hundred Thousand and 00/100 dollars (\$100,000.00). This reduced penalty will be suspended while the District and Permittee identify a mutually acceptable potential alternative water supply project. The suspension of the reduced penalty will be effective for no more than five (5) years from the date of approval of this Consent Order by the District's Governing Board. When the parties have agreed upon an alternative project, Permittee will conduct a feasibility study of that alternative project. If the feasibility study indicates the alternative project is technically and economically feasible, Permittee will implement the project, and the District will waive the penalty at such time as Permittee begins operation of the alternative project. If Permittee does not conduct the feasibility study in good faith as determined by the District, Permittee will be required to pay the reduced penalty of One Hundred Thousand and 00/100 dollars (\$100,000.00) to the District within thirty (30) days of notification to Permittee of such a determination. The District's determination of whether the study was conducted in good faith shall be considered an agency action subject to challenge by the Permittee pursuant to Sections 120.569 and 120.57, F.S. The Permittee asserts that the feasibility study for the alternative water supply project which is referenced herein will cost an amount in excess of Fifty Thousand and 00/100 dollars (\$50,000.00), and shall provide to the District verification of the actual amount spent. The estimated cost of this feasibility study is a material

provision of this Consent Order, and if the study does not meet or exceed the estimated cost, the penalty shall not be reduced as described hereinafter.

If Permittee has conducted the feasibility study in good faith, but the conclusion of the study is that the alternative project is not technically and economically feasible, the District will reduce the penalty to Fifty Thousand and 00/100 dollars (\$50,000.00). This penalty will be paid to the District within thirty (30) days of submission to the District of the study indicating the alternative project is not feasible.

19. Permittee shall additionally pay to the District compensation for District enforcement costs in the amount of One Thousand and 00/100 dollars (\$1,000.00), within 10 days of approval of this Consent Order by the District's Governing Board. If mailed, the address for payment is:

Finance Department
Southwest Florida Water Management District
2379 Broad Street
Brooksville, Florida 34604-6899

20. For each day of delay beyond any due date specified in this Consent Order or the approved Compliance Plan, the Permittee shall pay to the District an additional One Hundred and 00/100 dollars (\$100.00) per day. This additional sum shall be paid by the Permittee upon the District's mailing to the Permittee of a demand letter for payment. This provision shall not be construed to preclude the District's right to undertake other administrative, civil or criminal action as appropriate in the event any due date is not met.

21. The Permittee further agrees to henceforth fully comply with all of the terms and conditions of the .004 Permit. The Permittee acknowledges by the execution of this Consent Order that any future violation of Chapter 373, F.S., District rules, or the

terms of the .004 Permit or subsequent permits may subject it to any or all of the following: criminal prosecution, administrative action, or civil suit in which civil penalties of up to Ten Thousand and $\frac{1}{100}$ dollars (\$10,000.00) per day per offense may be imposed.

22. The Permittee hereby waives any right to an administrative hearing or judicial review of the terms of this Consent Order.

23. This Consent Order shall not relieve the Permittee of the need to comply with all other applicable federal, state and local laws, regulations, or ordinances.

24. The terms and conditions set forth in this Consent Order may be enforced in a court of competent jurisdiction pursuant to Sections 120.69, 373.083(1) and 373.129, F.S.

25. The District expressly reserves and retains the right to initiate appropriate legal action against the Permittee to prevent or prohibit the future violation of any applicable statutes, rules, orders, or permit conditions, except as specifically addressed in this Consent Order.

26. For and in consideration of the complete and timely performance by the Permittee of its obligations under this Consent Order, the District waives its right to pursue civil or administrative action for any violations described in this Consent Order.

27. The Permittee shall allow authorized representatives of the District access to the Property at all reasonable times without prior consent or notice for the purpose of determining compliance with this Consent Order, Chapter 373, F.S., the rules of the District, and the terms of the Permit.

28. The effectiveness of this Consent Order is subject to review and approval

by the District Governing Board. In the event the District Governing Board shall not approve this Consent Order, this Consent Order shall be null, void and of no legal effect. After this Consent Order has been executed by the Permittee and the Executive Director of the District, the Permittee may not withdraw its approval or terminate this Consent Order under any circumstances unless the District Governing Board fails to approve this Consent Order.

Pamela Jacobelli
Witness Pamela Jacobelli

ALOHA UTILITIES, INC

By: [Signature]
Stephen G. Watford, President

01/31/02
Date

SOUTHWEST FLORIDA WATER
MANAGEMENT DISTRICT

Witness

By: _____
E. D. Vergara
Executive Director

Approved as to legal form and
content

Attorney

Date

Approved by the Governing Board of the Southwest Florida Water Management District this _____ day of _____ 2002, in Brooksville, Hernando County, Florida.

By: _____
Ronnie E. Duncan, Chair

Attest: _____
Janet D. Kovach, Secretary

(Seal)

Filed this _____ day of
_____ 2002

Deputy Agency Clerk

CONSENT ORDER
ALOHA UTILITIES, INC.

ALOHA UTILITIES, INC.

GROUNDWATER WITHDRAWAL COMPLIANCE PLAN

Pursuant to discussions with the Southwest Florida Water Management District ("District"), Aloha Utilities, Inc. ("Aloha" or "Company") submits this Groundwater Withdrawal Compliance Plan. The purpose of the Plan is to demonstrate how and when the Utility will come into compliance with the strict pumping limitations set forth in the Company's Water Use Permit No. 203182.04 ("WUP"). The Plan is divided into four sections: an overview, demand and supply side conservation measures, environmental impact study and summary and a compliance schedule.

SECTION I - OVERVIEW

Aloha Utilities, Inc. is a PSC regulated water, wastewater and reuse service provider. The Company has eight production wells which draw from the floridan aquifer. The Company primarily provides residential potable water service to a population of approximately 25,000. The per capita gross usage as identified in the WUP is 121 gpd/person. The Utility has no central treatment facilities at this time. Its well fields are located between the Eldridge/Wilde and Pasco County ("County") well fields.

On April 27, 1999, the District issued its WUP to Aloha, for public service water supply. The permitted withdrawals included an annual average quantity of 2,040,000 gallons per day ("gpd") and peak monthly quantity of 2,470,000 gpd. Referencing these quantities the WUP states:

... and the quantities are unchanged from the previously permitted quantities. The permitted withdrawals will serve a portion of the population of the service area, but the quantities do not meet all of the present demand or the future demand within the service area.

Based on per capita consumption, historical usage in the service area has been below that of other area utilities. In the past, the Utility has had a core customer base in its Seven Springs service area comprised of retirees in one and two person households. The principal development in the service area was Veterans Village which contained small, garden and multi-family homes with limited square footage.

Usage characteristics in the Utility's Seven Springs service area have changed with the population demographic. South Pasco County is now a bedroom community of the Tampa metropolitan area. The Trinity Development of Regional Impact has resulted in the construction of thousands of homes and millions of square feet of commercial

development in the service area. These homes are relatively larger than those added to the system in years past, with more square footage and more water fixtures. The houses are occupied by larger, younger, more active families. The lot sizes have increased, accompanied by irrigation demands. Small commercial and light industrial development is now taking place in the service area with varied usage patterns. The growth rate in the service area is approximately 5% per year. However, due to changes in demographics, the increase in consumption is even greater than 5% in the service area.

The Aloha Seven Springs service area is located within the Northern Tampa Bay Water Use Caution Area ("WUCA"). The Utility's service area is surrounded by Tampa Bay Water, a regional water supply authority with eleven well fields located in Pasco, Pinellas and Hillsborough Counties. In May of 1998, the District entered into a Partnership Agreement with Tampa Bay Water and its member governments to develop new water supplies and reduce withdrawals from certain well fields in an effort to promote recovery from adverse environmental impacts caused by over pumping from groundwater sources. The District recently determined that drought conditions, along with Tampa Bay Water's well field pumping, in excess of the quantities authorized by its Consolidated Permit for the eleven well fields, have together created an acute emergency affecting the public health, safety and welfare.

In addition to the substantial customer growth in its service area, rainfall amounts in the Seven Springs and the surrounding areas have been below normal levels since October 1998, shortly before the WUP was issued. Since 1998 there has been an approximate 28" rainfall deficit. On a District wide basis, the year 2000 was the driest calendar year on record since 1915, with rainfall at only 67% of normal levels.

SECTION II - DEMAND SIDE WATER CONSERVATION MEASURES

The Compliance Plan proposed by Aloha Utilities includes both demand side and supply side measures. On demand side, the Company has already implemented, or intends to undertake, certain activities to promote water conservation.

A. Customer Direct Mail Billing Inserts

In late 2000, Aloha Utilities, Inc. acquired the capability to provide billing inserts to its customers with each monthly customer bill. The Company has utilized the billing inserts to notify customers of various issues concerning utility service. Principal among these issues is the Company's efforts to educate customers about water supply and use including the current drought conditions, methods and devices for conserving water, and the importance of compliance with watering restrictions. A sample of the Company's billing inserts regarding conservation issues is enclosed as Exhibit "A". The Company is making District water conservation pamphlets and brochures available to its customers. The Company intends to continue its customer notice and information efforts to promote water conservation in an effort to reduce consumption and water pumpage.

B. Customer Conservation Programs

Conserving water provides a low-cost alternative to development of alternative water sources. The Company proposes to implement the following customer conservation programs to educate consumers, curtail additional increases in consumption, and achieve long term reductions in usage on an individual basis:

1. Retrofit Kit: The Company will initiate a program to make retrofit kits available to interested customers at no charge. The kit will include such items as low flow showerheads, low flow faucet aerators, leak detection tablets, replacement flapper valves, and educational materials regarding conservation. Customers will be informed of the program through billing inserts and other means. Annual Budgeted Cost: \$25,000.

2. Water Conservation Pilot Program: The Company will develop and implement a program to make available high efficiency water heaters and low flow toilets to utility customers. The program will provide for, or offer credits or other financial incentive toward, a selection of such devices to customers, monitor the water use of participants, and report to the District regarding the effectiveness of the program. An initial report concerning implementation of such program will be made within 60 days of implementation, a preliminary report within six months and a final report within one year of implementation. Annual Budgeted Cost: \$30,000. Thereafter, if the program is determined to provide substantive conservation benefits, the Company will fully implement the program. If the program is determined not to provide such benefits, it will be discontinued and the budgeted cost will be transferred to another conservation program hereunder or to a new program which will be subject to District approval.

3. Mixed Media Conservation Messages: Through radio, television and billing inserts, the Company will budget monthly for media advertising to promote conservation. Such advertising budget will be allocated 50% for billing inserts, 25% for radio and 25% for television mediums. Annual Budgeted Cost: \$15,000.

4. Water Auditor: A full time staff position will be created to interact directly with customers, perform water audits, irrigation audits and recommend and promote water conservation measures. Audits will initially target large volume users in which improvements in overall water use efficiencies will have the greatest impact on Utility water withdrawals. Annual Budgeted Cost: \$38,000.

5. Additional Staffing: Initially, the Company will budget for one new staff member to implement and promote consumer conversation programs. Budgeted Annual Cost: \$30,000.

6. Web Site: The Company is in the process of developing a web site to provide information to the general public about the Utility. The web site will include a section on conservation providing general information on the topic, specific information on Utility

programs, and links to other useful sites. Budgeted Annual Cost: \$12,000.

The Company will, within 30 days of the date of the Consent Order, meet to refine the details of this consumer conservation program in conjunction with the District's water shortage coordinator. The total cost of the program is estimated to be \$150,000 annually. It is anticipated that these conservation measures will result in an approximately 5% reduction in water demand in the service area.

The conservation program is to be paid for from revenues generated by the conservation rates implemented pursuant to Waterate 2001 discussed below. The Company will develop these programs in the first quarter of 2002 and should be in a position to implement them by June 30, 2002. These programs will proceed unless the Public Service Commission denies recognition of the funding for these programs as proposed by the Company in its pending rate case. The Company will nevertheless be required to comply with water conservation requirements of the WUP. Aloha will use its best efforts to secure PSC approval for the water conservation programs in this §2. In the event funding for these programs is recognized, but Conservation Revenues in a given year based on Waterate 2001 are less than projected, adjustments to the program budgets will be made accordingly.

C. Implementation of Conservation Rates

The Utility's rates and charges are established by the Florida Public Service Commission. Rates and charges cannot be modified without the prior consent of the Commission. Historically, the Commission has done very little to promote the use of conservation rates, having approved such rates for less than ten utilities statewide. As a result of several issues arising from District WUP enforcement, including the purchase of water from Pasco County and the implementation of a conservation rate structure, the Public Service Commission is conditioning rate relief for the Company on the filing of a full rate case.

On April 2, 2001, representatives of Aloha attended the Waterate 2001 Workshop hosted by the District. At that time, the District provided information and training on software designed to assist in establishing a conservation or inverted block rate structure, the goal of which is to reduce water usage by at least 5% in the Company's service area. The Company utilized this software in preparing a conservation rate structure for its Application for Increase in Water Rates which was filed with the PSC on August 10, 2001.

The time frame required for completing a rate case is 13-19 months from test year approval, as discussed in more detail below. At such time as the PSC authorizes a change in Aloha's rates, the Company will implement the conservation rate structure. According to the Waterate 2001 model, the Company can expect a substantial reduction in potable water use, estimated at 28%, over the use which would otherwise be expected for the same period. Unlike traditional rate setting in the water industry in Florida, use of a conservation rate structure will cause greater variability in system revenues. The Company

estimates that, based on the District's model, revenues may exceed the approved revenue requirement by up to \$288,900 annually ("Conservation Revenues"). The Company has proposed to the PSC that, to the extent they occur, the Company should use such Conservation Revenues to further the conservation programs, with the balance going toward costs associated with the development of the reverse osmosis water treatment facility, or such other alternative water source project or objective as the Company may determine, subject to District approval, which approval shall not be unreasonably withheld.

D. Wastewater Reuse System

Over the past three years, Aloha Utilities, Inc. has invested approximately \$5,000,000 in upgrading its wastewater treatment facilities to provide public access irrigation quality effluent to the public, and to construct a backbone transmission system to deliver effluent to commercial and residential property owners in the Seven Springs service area. This investment represents the single largest financial and operational undertaking in the Company's history. The construction of the Aloha reclaimed water facility has proceeded in two phases.

In 1997 the Company installed filters at its wastewater plant to improve treatment standards to provide effluent quality suitable for irrigation purposes. In January 1998, Aloha entered into a Cooperative Funding Agreement with the District for the design and construction of a portion of its reuse system. The purpose of the Agreement was a 50% cost sharing arrangement for the \$1,800,000 phase 1 wastewater project being undertaken by Aloha. The project consisted of the design and construction of approximately 5 miles of water transmission main and appurtenant facilities extending from the existing terminus of the transmission system at the intersection of Mitchell Ranch Road and Little Road into the heart of its service area and terminating at the Fox Hollow Golf Course. The reuse system was also extended to commercial properties in close proximity to the wastewater plant. As stated in the Cooperative Funding Agreement, the project was a key component in a program to provide 800 million gallons per year of reclaimed water to offset ground water withdrawals in the Northern Tampa Bay WUCA. A copy of the Agreement is attached hereto as Exhibit "B". At the completion of phase 1, the Company was generating public access irrigation quality effluent. However, due to certain Department of Environmental Regulation requirements regarding Class 1 reliability and redundancy of plant components, the Company was limited to irrigation on the Mitchell Ranch, which offset substantial, long duration, agricultural irrigation occurring on that property.

Phase 2 of the reclaimed water facility was facilitated through a \$5,200,000 financing completed on July 30, 1999. Loan proceeds were used to expand the wastewater treatment plant capacity from 1.2 to 1.6 mgd and to complete construction of the plant improvements necessary to achieve Class 1 reliability. As a result of the construction of the Aloha reclaimed water facility, and extension of the transmission system into the Seven Springs service area in the North Tampa Bay WUCA, the Department of

Environmental Protection recently approved reuse service to 19 commercial sites and subdivisions. Delivery of effluent by Aloha to the Fox Hollow Golf Course alone offsets a permitted groundwater withdrawal capacity of 427,000 gpd and numerous other withdrawals. A list of the properties currently receiving reuse service, or to which service is available, is attached hereto as Exhibit "C." The Company may rely in part on the District's cooperation in ensuring that all such customers replace their groundwater withdrawals with reuse effluent as required by contract with the Utility or by water use permit restrictions.

On April 10, 2001 Aloha submitted permit documentation to DEP for Master Reuse System designation to extend service to reuse customers in the Seven Springs service area without DEP approvals for each site. All of the groundwater withdrawals by Aloha pursuant to the WUP are either consumed by its utility customers or returned to the reclaimed water facility and the environment within the Seven Springs service area.

Aloha believes that investment in its reclaimed water facility and reuse transmission system was the single most effective means available to offset groundwater withdrawals for customer irrigation needs and mitigate environmental and water resource impacts caused by groundwater withdrawals for direct customer consumption. Acknowledgment by the District of the benefits of this program can be seen in the continued cooperative funding provided since the original Agreement. Aloha has sought, and continues to seek recognition by the District of the benefits of this program and the mitigation of groundwater withdrawals in the Company's service area in the North Tampa Bay WUCA.

E. Residential Reuse

For a number of years, Aloha Utilities has required developers in its service area to contractually obligate themselves to construct residential reuse distribution systems for new development within the service area. Aloha has been limited in its ability to enforce this requirement until public access irrigation quality effluent was in fact available to such projects. This has now occurred, and Aloha will continue to require new projects to construct reuse distribution systems and take back effluent as an alternative to potable water for irrigation purposes.

Aloha is now investigating the feasibility of retrofitting existing neighborhoods with reuse distribution facilities in an effort to offset potable water use with reuse for irrigation needs. While a number of governmental utilities have implemented such programs, very few PSC regulated utilities have been able to do so. Governmental utilities are free to establish compensatory rates for such programs, pass ordinances requiring usage or payment for irrigation water, and have broader access to grant funding, low interest loans and other favorable capital sources to finance these programs. Historically, even the District itself has not extended cooperative funding to finance the retrofitting of residential areas with reuse distribution systems. Aloha is willing to work with the District to pursue such programs based on financial feasibility under the PSC cost recovery and rate making guidelines.

SECTION III - SUPPLY SIDE CONSERVATION MEASURES

The Compliance Plan proposed by Aloha Utilities includes supply side measures to promote water conservation.

A. Purchased Water From Pasco County

Pursuant to prudent operating practices, and primarily as an emergency backup for the benefit of both systems, Aloha Utilities, Inc. and Pasco County established a water system interconnect a number of years ago. Since that time, Aloha has, on occasion, purchased relatively modest amounts of water from the County on an as-needed basis. One alternative to reduce the Utility's pumping to levels set forth in the WUP is to purchase water from Pasco County in a quantity which makes up the difference between the permit limits and the demand in its Seven Springs water system. This alternative presents several issues which must be addressed.

First, the Company currently purchases water from the County on as-needed basis, and it's unclear whether the County would commit to provide water to the Utility in quantities required to bring the Utilities pumpage within the limits set forth in the WUP. Second, the Utility has not yet determined the overall effect of purchased water from Pasco County on its water system and quality. The County employs different treatment processes, has a product with a different water chemistry, and is involved in a different corrosion control program. Material alterations to Aloha's water treatment processes, with the attendant costs, must be considered in order to accommodate large quantities of purchased water from the County or any other source.

The next issue to be addressed is the one of cost. The County charges \$2.20 per 1000 gallons for water purchased by Aloha Utilities. The County recently announced that the charge will be increased to \$2.35. The Utility currently has an approved commodity charge of \$1.25 per thousand gallons which it charges to its customers. Purchasing water from the County will increase the cost of water to Aloha, and therefore its customers, by over \$1,000,000. It also raises two relevant timing issues.

Until such time as Tampa Bay Water in general, in Pasco County in particular, have developed alternative water supply sources pursuant to the requirements of the Consolidated Permit, the customers of Aloha Utilities are simply replacing water drawn from Aloha Utilities with water drawn from a County well field a few miles away, both within the North Tampa Bay WUCA. Arguably, the additional demand placed on the Pasco County well fields as a result of the sale of water to Aloha will have a more deleterious effect on the environment than continued pumping by Aloha from its eight smaller, scattered wells. It short, purchasing water has not been demonstrated to benefit the environment, and may in fact be doing more harm. Therefore, until such time as alternative water sources are in place, it is questionable whether a compliance plan should

require purchased water from Pasco County.

The second timing issue is the requirement that the Utility obtain Public Service Commission approval for a rate increase in order to generate revenues sufficient to pay the higher cost of water purchased from Pasco County. Further to that goal, in February 2001, the Utility filed an Application for Limited Proceeding for Emergency, Temporary, and Permanent Increase in Water Rates with the Public Service Commission for the narrow purpose of increasing rates to pay for the higher cost of water purchased from Pasco County. The filing of a limited proceeding was intended to take advantage of the more streamlined and faster review and approval process available for certain types of cases at the Commission. However, on April 3, 2001, the Commission threw out the Utility's Application. The Commission's reasoning in part was that, notwithstanding the declaration of a water shortage emergency by the District's Executive Director in Executive Director Order No.SWF 01-14 ("Order"), the Order raised far too many issues, and resulting rate matters, to isolate and handle in the Limited Proceeding. Therefore, in order to establish the rates necessary to pay for purchased water from Pasco County, the Utility was required to file a traditional rate case with the Public Service Commission.

On April 16, the Utility filed with the PSC a request for a test year approval. On April 27, the Commission issued approval of the test year to be used in the rate case. The Utility, with its legal, engineering and accounting consultants then prepared the minimum filing requirements ("MFR's") set forth in the Commission rules to properly file the rate case. Since the Commission has insisted on the use of a projected test year, rather than a historic test year with pro forma adjustments for the purchased water from Pasco County, the MFR preparation period proposed required a minimum of 90 days. The Utility filed its rate case Application on August 10, 2001.

The Commission established August 10, 2001 as the official date of filing of the rate case. From that point, the Commission has, by statute, eight months to conduct the case. The Commission will utilize that entire period of time. After eight months, the Commission will issue an order granting some, or all, of the rate relief requested by the Company. Based on precedent, the Commission will fail to grant a portion of the requested rate increase, and certain issues will be identified as in dispute between the Commission and the Utility. Within 15 days of the issuance of the Commission order, the Utility or other parties may file a Motion for Reconsideration on the points in dispute. Other parties will have 12 days to respond. An additional 60 days is required for Commission consideration and ruling on the Motion. Thereafter, a 20 day period is required for issuance of a final order. The total time frame for the rate case is estimated to be at 16 months, with a range of between 13 and 19 months from test year approval. At that time, the Utility will be in a position to pay for water it purchases from Pasco County. If the PSC process can be accelerated, the Utility will be in a position to purchase water as soon as rates which will allow such purchases are granted and implemented.

On April 12, 2001, District General Counsel, William Bilenky appeared before the Public Service Commission to address the District's actions in this case in the context of

the requested rate increase by Aloha Utilities, Inc. Mr. Bilenky's comments indicated the District's willingness to work with the Utility over time to address the noncompliance with the WUP. The Utility appreciates the District's cooperative approach in this matter. However, the District's position contributes to relieving the Commission of any urgency in acting on the Utility's rate increase, a prerequisite to the purchase of water from Pasco County as an alternative to over pumping under its WUP. Therefore, to the extent the Compliance Plan focuses on the purchase of water from Pasco County, the schedule for compliance will be subject to the 13-19 month PSC approval process.

Public Service Commission procedures will not allow a Utility to establish interim rates to begin to collect all or a portion of the rate increase related to increased purchased water costs prior to completion of the rate case.

The Company will, subject to and at the time rate relief has been secured from the PSC, purchase water from Pasco County in quantities sufficient to make up the difference between the permit limits and the demand in its Seven Springs water system. The Company shall diligently pursue such rate relief. The Company will continue to purchase water, assuming compatibility between the Company's water quality and the County's water quality, until a suitable alternative water source, such as completion of the proposed R.O. water treatment plant, is available.

B. Alternative Water Sources

Over the past two years, the Utility's consulting engineers undertook a thorough search of existing WUPs in and around its existing water service area to ascertain whether any wells or water withdrawal permits remained unused. The Utility was unsuccessful in locating and/or negotiating for the transfer of an unused or underutilized water use permits. Further, assignment and transfer of ownership and location of WUPs is within the District's discretion. In discussions with the Utility representatives, District Staff have appeared unwilling to approve any such transfer of ownership or location, raising the question of whether any benefit may be expected from efforts to utilize a third party WUP.

In 1997, in conjunction with an engineering report required by the Public Service Commission with regard to construction of centralized water treatment facilities in the Seven Springs area, the Company's consulting engineers prepared a comprehensive report on the water demand in the service area. That report demonstrated that water demand will continue to increase with population in the service area. Such population growth, and resulting water demand, is not only outside the control of the Utility, it is the Utility's legal duty to provide potable water service to this expanding customer base. At the time of the Utility's WUP renewal in 1999, the District recognized that the failure to change previously permitted quantities would mean that such quantities would not meet all of the present or future demand within the service area. Neither the Utility nor the District can ignore the reality of population growth in this service area.

The Utility, through its consulting engineer, has undertaken a study of possible water

source alternatives. The Company has determined, on a preliminary basis, that it is feasible to construct a 2,500,000 gpd, average annual daily demand, reverse osmosis water treatment facility. Preliminary construction cost estimate for the system is approximately \$25,000,000. The steps necessary to undertake and complete such a project include conceptual engineering, hydro geologic data review, regulatory feasibility assessment, construction cost estimate, secure financing, engineering and hydrology studies, finalize implementation plan, detailed design, permitting, construction and startup. The time frame for these tasks is 60 months. The Company proposes to undertake a feasibility study according to the following timetable:

1. Within 60 days of approval of the Consent Order by the District's Governing Board, Aloha will hire a consultant specializing in RO projects to assist the Company, its engineers and hydrology consultants, in performing the Feasibility Study.

2. Within 120 days of the RO consultant's start date, Aloha will submit a Scope of Work to the District, outlining the Feasibility Study. The Scope of Work should, at a minimum, describe how Aloha will address the following:

- i. The anticipated water quality of source aquifer zones for RO withdrawals;
- ii. The proposed method of disposal of brine-water concentrate, and if injection is the intended method of disposal, describe the anticipated water quality of the disposal aquifer zones;
- iii. The anticipated number of RO wells, proposed well locations, proposed well construction details (e.g., casing and total depths, and pumping capacity), and projected well construction costs;
- iv. The anticipated schedule and details of proposed hydrogeological testing to determine the technical feasibility of the RO project (e.g., vertical water quality profiling, Aquifer Performance Testing, geophysical logging, and groundwater modeling of potential drawdown impacts), and estimated costs for hydrogeological testing;
- v. The anticipated RO treatment costs; and
- vi. The anticipated total costs for the RO facility.

3. Within 180 days of approval of the Scope of Work by the District's Governing Board, Aloha shall perform all necessary groundwater supply hydrogeological testing.

4. Within 180 days of completion of hydrogeologic testing, Aloha shall complete the Feasibility Study and submit the final results to the District.

5. Assuming the results identify the Project as feasible, within 60 days of completion of the Feasibility Study, Aloha will issue a Notice to Proceed to the Company's

consulting engineer to begin the design and permitting process. A copy of the Notice will be provided to the District.

6. Within 60 days of issuance of all required permits, Aloha will publish a Notice to Bid for construction of the Project.

Subject to financial feasibility and required regulatory approvals, the Company proposes to construct the reverse osmosis treatment plant. Financial feasibility shall include consideration of grant funding from the District earmarked for project feasibility and capital costs, and PSC rate relief for the cost of the feasibility study, design, permitting and capital cost of the project. The Company will also be seeking financial assistance from the District for this project. This is the type of project the District has funded for Tampa Bay Water and other water service providers to encourage use of alternative sources, especially in WUCA's. This alternative water source should prove sufficient to allow for continued withdrawal under the WUP within the permit limits. Amounts in excess of the permit may be required on an interim basis from time to time.

SECTION IV - ENVIRONMENTAL IMPACT STUDY BASED ON CURRENT PUMPING LEVELS

Over the course of the last two to three years, the Company has slowly increased its pumping levels over the limits set forth in the WUP as a result of the increased customer base within the service area and increased demand resulting from drought conditions. Given the relatively small and scattered well sites utilized by the Company, negative environmental impact as a result of pumping in excess of the WUP limits are not readily apparent. Nevertheless, District staff has indicated that no increase in the pumping limits under the WUP will be approved. This is due in part to the environmental impact of over pumping by Tampa Bay Water within the Northern Tampa Bay WUCA.

The Order calls for Tampa Bay Water to evaluate and update environmental and water resource impacts caused by pumping from the consolidated permit well fields. As certain of these well fields are located in close proximity to the Company's well fields, it may be reasonable to consider a study of the environmental impacts of the Utility's current pumping levels as a small part of this analysis. The Company would be interested in cooperating in such an evaluation. This may assist in determining whether recent pumping levels may be sustained without damage to the environment, which should be considered as a reasonable alternative to other water sources, including the purchase of water from Pasco County and Tampa Bay Water. Further discussions between the parties are necessary to determine the parameters and potential benefits of such a study.

SECTION V - SUMMARY AND COMPLIANCE SCHEDULE

The Compliance Plan and schedule for Aloha Utilities, Inc. may be summarized as follows:

PLAN COMPONENT

COMPLIANCE SCHEDULE

Customer Direct Mail and Education Efforts	Current and ongoing
Consumer Conservation Programs	June 30, 2002
Implementation of Conservation Rates	PSC approval expected in 13-19 months from test year approval
Wastewater Reuse System	Current and Ongoing
Residential Reuse	Current and Ongoing
Purchase Water from Pasco County	13-19 months from test year approval for PSC approval of rates to support purchased water
Alternative Water Sources	60 months

The Utility views the purchase of water from Pasco County to be one of several components of the Compliance Plan. The Utility does not view this as a single, long term solution to the water demand in the service area. In the short term, the purchased water has operational and cost problems, as well as, raising questions of the environmental impact of purchased water from Tampa Bay Water and Pasco County.

Subject to financial feasibility and regulatory approvals, the Company proposes to construct a 2.5 mgd reverse osmosis treatment plant. This alternative water source should provide a sufficient water source to allow for continued withdrawal under the WUP within the permit limits, without reliance on purchased water.