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August 20, 2002
VIA HAND DELIVERY

Bart Fletcher
Division of Economic Regulation
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0873

010156-WJ

Re: Aloha Utilities, Inc.
Application for Increase in Service Availability Charges
Our File No. 26038.32

Dear Bart:

After our discussions on Thursday and Friday of last week, I have talked at length with Bob Nixon and with Steve Watford of Aloha concerning establishing a service availability charge for Aloha's Seven Springs water system. As you and I discussed on Friday, we are of the belief that the current "interim" or "temporary" charges should be made permanent and final. At Aloha, we believe that making the current interim charges permanent is easily justified based upon a simple analysis of the information utilized to establish the \$500 charge in comparison to the new costs anticipated. I have outlined below the analysis that was undertaken to establish the \$500 charge and that which could easily justify doubling that charge on a going forward basis.

As you will recall, in the water quality docket, the \$500 interim charge was established for the water system. This was based on the \$10,124,000 cost estimate for the packed tower aeration facilities and the \$7,596,000 of additional investment that would be required in order for the Utility to reach build out of its current system. This total of \$17,720,000 was utilized in arriving at the \$500/ERC charge.

As you know, the Utility has agreed with the Water Management District to move forward with the construction of an RO facility if that technology proves to be feasible. The Utility must first undertake a \$1 million feasibility study, and even if RO proves not to be feasible, the Utility is required under the Consent Agreement with the Water Management District to move forward with an alternative technology feasibility study in order to seek another source for water supply.

Assuming that the RO facilities will be feasible, or some other technology at similar cost will be feasible and therefore implemented, it has been estimated (estimates were supplied in the recent rate proceeding), that the RO facilities are expected to cost between \$25 and \$30 million. I should emphasize that this is not a replacement to the packed tower or MIEX process that had been previously contemplated, but is in addition thereto.

If you add the cost of the RO facilities at a conservative figure of \$25 million to the previously filed estimates based upon packed tower and existing system improvements of \$17 million, you can see that a charge of \$1,000/ERC is a conservative estimate of the appropriate service availability charge on a going forward basis.

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Aloha believes that in order to move forward quickly with the construction of any system improvements which either the Water Management District or the Public Service Commission has envisioned as appropriate, the Utility will need access to the funding from the service availability charges collected and as such, we believe these charges should be made permanent. This is especially true in light of the fact that given the Commission's recent action in rate proceedings, the Utility's financial status is relatively precarious with its bankers and its ability to attract capital from other sources is of great concern at this time.

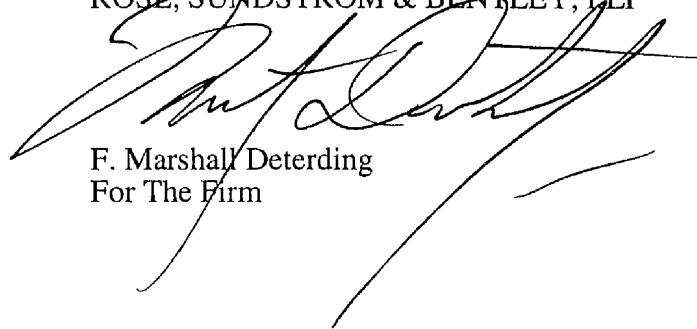
We believe the staff can reasonably approve the final service availability charge for the water system of \$1,000 and still feel as though they are being conservative from a long range viewpoint. Once it is clear what facilities the Utility will be building and when, this issue can be revisited, if needed. However, in the meantime, under collecting CIAC would not appear to be a wise alternative, either from a rate standpoint or from a Utility's ability to finance the improvements, required by either the Water Management District and/or the Public Service Commission.

If I can provide anything further in this regard, please let me know. However, we believe that this is ample indication that making the current interim charge of \$1,000/water ERC permanent is an appropriate course of action for the Commission to take at this time.

I understand that you and other members of the staff are in general agreement with our proposal as outlined above, but additional time is needed in order to take this matter to agenda, Aloha is willing to grant an extension of time for finalization of this case up through the October 1, 2002 agenda conference, so as to allow the Commission to act at that agenda. If you need anything further in this regard, please let me know.

Sincerely,

ROSE, SUNDBSTROM & BENTLEY, LLP



F. Marshall Deterding
For The Firm

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cc: Blanca S. Bayo
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