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October 2, 2006
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. 060606-WS
Anion Exchange Report
Our File No. 26038.01

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 quarterly report on the progress of implementation of the anion exchange facilities.

As noted in the report, compliance with the 24 month timetable has been delayed by a cause outside the control of Aloha and which is based upon an action or inaction of Pasco County, a governmental authority. As such, the timetable for completion of this project must be appropriately tolled and extended based upon those delays. To date, those delays have resulted in a need for a 60 day extension. However, if the County provides definitive information about the availability of appropriate water supplies within 30 days of the date of this report, to allow the Utility to move forward with design and permitting of the facilities so that they can go online at the anticipated capacity when currently scheduled for completion, then 90 days should be the only extension necessitated by this action or inaction of Pasco County.

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

Sincerely,
ROSE, SUNDSTROM & BENTLEY, LLP


F. Marshall Deterding
For The Firm

FMD/tms

cc: Rosanne Gervasi, Esquire
Steve Reilly, Esquire
Troy Rendell
Cheryl Bulecza-Banks
Bart Fletcher

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

Project Status Report Number 1
July 3, 2006 - October 2, 2006

Work In-Progress and/or Completed This Period

The design and project management team has been working this period to develop final design criteria for the treatment units and appurtenant equipment; process waste generation rates, disposal methods and waste storage and transport facilities; developing co-disposal methodologies to allow anion exchange waste and domestic waste at the existing Seven Springs Wastewater Treatment Plant and Reuse facilities; design drawings and specifications for the various process and appurtenant equipment; and developing permitting information and documentation.

Design and project management team members toured the Lantana WTP with Tonka Equipment Company, Inc., one of the potential suppliers of technology and equipment for the anion exchange process and equipment. Also, several design and project management team meetings were held to review and discuss design criteria under development and project management and timing issues.

Members of the project management team corresponded with and met with Pasco County Utility and County management, SWFWMD, OPC, PSC and BWN members to discuss supplemental water source and supply timing issues. These meetings were directly related to the anion exchange design and construction project as the quantity and timing of start-up of receipt of supplemental water from the County directly affects the entire anion exchange project. Without the supplemental water supply timing and quantities defined, the development of anion exchange waste disposal options; the preparation of layout drawings and specifications for each of the treatment plants; the development of permitting documentation, permitting; and construction efforts are all severely impacted and potentially substantially delayed.

Timetable for Future Activities

To date, delays that will impact the time requirements agreed to in the Settlement Agreement are approximately 60 days. Assuming that Pasco County provides the Utility, within 30 days of today, information that will assure Aloha of the availability of supplemental water sufficient to meet all of the needs of Aloha above its permitted WUP

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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 will be approximately 90 days. Barring receipt of information that provides these assurances to Aloha, the Utility is placed in the position of having to design the anion exchange facilities for several alternate scenarios and capacities, which will substantially impact both the timing and the costs related to such design activities. Hopefully, in 30 days Aloha will 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.

Our management and design team are working to minimize these impacts by developing alternative design criteria that can be utilized for various process units where possible so that work can move ahead on those elements (i.e., anion exchange reactor vessels) rapidly once the supply issues are resolved. However, layout of equipment on each plant site; waste disposal method development and disposal system design and layout; permitting documentation development and permitting; design drawings and specification preparation; and construction work will continue to be impacted until the issues related to the timing of all three phases of supplemental water supply are resolved.

Therefore, the design team will continue to work on those work elements which can proceed at this time (development of alternative design criteria for those project elements where it is appropriate, interfacing with equipment vendors to obtain detailed equipment drawings and cut-sheets, etc.). The project management team will continue to work diligently with Pasco County, SWFWMD, PSC, OPC and BWN to resolve the water supply issues so that the elements of the project currently delayed may move ahead again with as little impact on the overall project as possible.

At this time, it is not possible to determine the future timetable for the project due to the uncertainty of the timing of supply and quantity of the County supplemental water supply. It is anticipated, based on a meeting held with SWFWMD, PSC, OPC and BWN on September 15, 2006, that in approximately 30 days the County will provide detailed information that may allow the resolution of these issues in a timely manner. 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 shall notify the PSC accordingly.