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October 13, 2006

VIA HAND DELIVERY

WAYNE L. SCHIEFELBEIN, OF COUNSEL
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.; PSC Docket No. 060606-WS
Anion Exchange Report
Our File No. 26038.01

Dear Ms. Bayo:

As you know, Aloha Utilities, Inc. recently submitted its quarterly progress report on the implementation of the anion exchange project.

We have discussed the level of detail in the report with the Commission staff and we agree with the staff's conclusion that the report fully complies with the requirements of the Agreement and the Commission's Order. However, in hopes of providing greater information to the Commission and its staff and consistent with Aloha's continuing desire to foster a spirit of cooperation with its customers, Aloha has agreed to voluntarily supplement the original status report as filed. I am attaching that supplement to the Project Status Report with substantial additional information, to this letter.

Aloha will continue to voluntarily provide detail in these Project Status Reports in the expanded format of the attached, so long as doing so is beneficial and so long as all parties continue to cooperate in good faith consistent with both the letter and the spirit of the Settlement Agreement.

If you have any questions in this regard, please let me know. Otherwise, we hope that this

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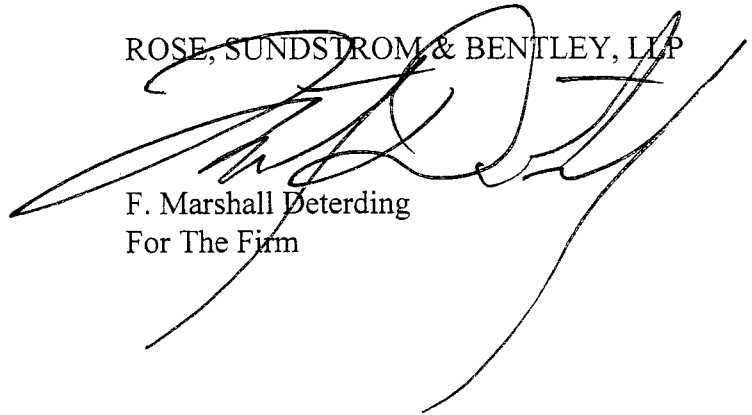
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Blanca Bayo, Director
October 12, 2006
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supplemental information is of assistance to the parties to the Settlement Agreement in understanding the status of the implementation of the anion exchange system.

Sincerely,

ROSE, SUNDBLUM & BENTLEY, LLP

A large, stylized handwritten signature in black ink, appearing to read 'F. Marshall Deterding', is written over the typed name and firm name.

F. Marshall Deterding
For The Firm

FMD/tms

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

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

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

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 May 26, 2006 the design/management project team held a project-planning meeting at the offices of Aloha Utilities, Inc. Attending this meeting were David W. Porter, P.E. (project leader, responsible for coordination of design team, project liaison to Aloha management, etc.); Dale Ernsberger, P.E. and Don Fenderson of Civil Engineering Associates, Inc. (engineering firm responsible for the design of the physical modifications to the existing water plants); Audrey Levine, PhD, P.E. of the University of South Florida and one of her subordinate research associates (responsible for process design criteria development, waste generation rate and treatment option design criteria development, post treatment water chemistry and wastewater reuse water quality projections, overall project scientific method/quality control compliance, etc.); and, Steve Watford, President of Aloha. At this meeting Dr. Levine presented the project design criteria she had developed and provided her recommendations for each process unit. The team discussed Dr. Levine's information and agreed to begin the project design effort on Dr. Levine's criteria. The team discussed project schedules (as they were understood at that time), discussed a preliminary overall design strategy, and, discussed which potential equipment and process equipment vendors would be used for the "basis of design" suppliers. The team discussed the value of touring an existing anion exchange facility based on the process and equipment supplied by

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Tonka Water Company who was selected as the “basis of design” company for anion exchange process and equipment. The team decided which dates would be agreeable for the tour of the Lantana Water Treatment Plant (where the Tonka process and equipment was used very recently) and David Porter agreed to coordinate the planning for the trip. Dale Ernsberger and Don Fenderson were tasked with contacting the remaining “basis of design” companies to begin a dialog with them about this project and to begin discussing the appropriate application of their products for use on this project.

- B. The week of June 9th David Porter coordinated the tour of the Lantana Water Treatment Plant with Tonka Water Company. In addition, it was decided that it would be cost effective to conduct the initial project team-Tonka process application and design meeting immediately following the tour at a hotel meeting room in the same general area since the Tonka engineering team would be willing to provide the tour and therefore would already be in Florida. The tour and meeting details were agreed upon and the team and Tonka provided details of the tour and an agenda for the meeting to be held thereafter.
- C. During the next two weeks, the project design/management team members began preparing base maps for each existing water plant site and began contacting the manufacturer’s representatives for the various appurtenant equipment that would be required to complete the project design (such as pumps, piping, control valves, etc.) to acquaint them with the project and to inform them that team members would be requesting engineering data from them in the near future as the design work progressed.
- D. The week of June 30th, members of the design/management team and Tonka’s applications engineering and management staff toured the Lantana Water Treatment Plant. The purpose of this tour was to allow the Tonka application engineers to provide to the project/management team members a hands-on familiarization with the Tonka anion exchange process and equipment of the type that will be used on the Aloha project. Attending the tour were David Porter, Dale Ernsberger and Don Fenderson (Civil Engineering Associates, Inc.), Dr. Audrey Levine and her subordinates (University of South Florida), Steve Watford (Aloha Utilities, Inc.), Tom Davis and Bill Wessel (Tonka Water Company, Inc.) and Ana Blanco (Town of Lantana Water Plant Chief Operator). After the tour ended, the same individuals (except for Ms. Blanco) participated in a meeting held at a meeting room at a hotel in Ft. Lauderdale. This meeting was held to

provide the Tonka Equipment Company application engineers with the most recent University of South Florida recommended design criteria for the anion exchange process and waste generation and disposal options. After the University of South Florida presentation, Tonka and the design/management team discussed the application of the Tonka anion exchange process and equipment based on the design criteria developed by Dr. Levine and her staff. The meeting ended with Tonka agreeing to develop a submittal of engineering design information related to the planned application of their process and equipment to project design/management team so that Mr. Ernsberger and Mr. Fenderson could begin developing alternate layouts for the modifications to the existing Seven Springs Water Plants.

- E. During the weeks of July 7 and 14, the project design/management team continued to conduct preliminary engineering analyses (i.e., evaluation of existing well pump hydraulics at the water plants to determine if higher pressure pumps would be required to force water through the anion exchange reactors and appurtenant equipment, estimation of impacts of the potential waste discharge to existing Seven Springs WWTP for disposal, location and layout of required equipment on existing water plant sites, etc.).
- F. During the week of July 21, members of the design team consulted with Tonka engineering staff (primarily Tom Davis) to answer additional questions and provide additional data they needed to prepare the data submittal agreed to at the prior meeting in Lantana. A conference call was scheduled and attended by Dale Ernsberger and Don Fenderson of Civil Engineering Associates, Dr. Audrey Levine of the University of South Florida, David Porter and Steve Watford of Aloha Utilities. This conference call was held to review and discuss the design data provided by Tonka that week.
- G. During the week of July 28 David Porter, Dr. Audrey Levine of the University of South Florida and Dr. David N. Gomberg, P.G. held a conference call to discuss Dr. Gomberg's participation in the project to assist with anion exchange waste disposal method development and project Florida Department of Environmental Protection permitting.
- H. During the week of August 4 Aloha received notice from Pasco County that the quantity, pressure, availability and overall timing of the supply of bulk water was uncertain. The design/management team members discussed the potential impacts associated with changes in the assumed conditions and timing of the supply of County's bulk water supply on the

project that might result from this development. Dr. Levine was asked to evaluate the effect on anion exchange process sizing and waste generation rates should the supply of Pasco County bulk water supply be reduced and/or delayed beyond that assumed when the project design criteria was initially developed. David Porter, Dale Ernsberger, Steve Watford and Aloha's legal consultants expended substantial effort to determine what the County notification actually stated so that the implications of the notice on the project could be better assessed. In an effort to expedite the process, Aloha, its legal team and David Porter and Dale Ernsberger immediately prepared a letter to the County requesting clarification.

- I. During the Weeks of August 11, 18, 25 and September 1 the project design and management team members evaluated the potential impacts of the County bulk water supply being delayed and/or being reduced in quantity and developed alternate design criteria based on these possibilities. Dr. Levine assessed the impacts on the process units sizing and waste disposal requirements. Dale Ernsberger and Don Fenderson evaluated the ability of the existing sites to support the process unit sizing changes based on Dr. Levine's analysis.
- J. The week of September 8, Counsel for Aloha attended a meeting it had arranged at the Public Service commission (with Commission staff and a representative of the Office of Public Council) in order to apprise the Commission staff and OPC as to the status of ongoing discussions with the County regarding the purchase of bulk water, including its possible effect on the progress of the anion exchange project. That meeting resulted in a subsequent meeting to discuss progress on the bulk water issues that took place in Pasco County on September 15, 2006 (see Paragraph K below). David Porter, Dr. Levine and Dr. Gomberg met at the Aloha offices to further discuss the potential impacts of an increase in waste disposal quantity (based on either a short term delay in the delivery of water beyond the anticipated original delivery date, or a reduction of bulk water delivered or a combination of both) on the ability of the Seven Springs Wastewater Treatment Plant to accept the waste and/or the quality of the reuse water produced at the plant. Also, the ability to go ahead with Florida Department of Environmental Protection Permitting Pre-Application meetings immediately as was originally planned was discussed. It was determined that holding a meeting with the Florida Department of Environmental Protection at this time, with all the outstanding issues unresolved, would not be prudent and

this task was delayed until more definitive information could be developed. During this time, David Porter, Steve Watford and Aloha's legal team were corresponding and/or meeting with Pasco County representatives in an attempt to expedite the resolution of the bulk water supply issues so that any adverse effect on the anion exchange project timing impacts could be minimized. Also, during this week David Porter, Dale Ernsberger and Don Fenderson met at Aloha's offices to discuss which project tasks could continue with minimal risk of wasted effort and costs. It was decided that preliminary alternate site layouts would continue to be worked on so that once the bulk water supply issues were resolved, the facility layouts could continue with all due haste. However, many tasks, especially those associated with anion exchange regeneration system design and layout, waste collection design and layout, waste disposal design and layout and project Florida Department of Environmental Protection permitting were seriously impacted and little, if any, progress could be made on these tasks until the bulk water supply issues were resolved.

- K. During the week of September 15, David Porter, Steve Watford and Aloha's legal team corresponded with and met with Pasco County Utility (Utilities Director and members of his engineering staff) and County management (County Manager and Commissioner Hildebrand), SWFWMD, OPC, PSC and certain 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 startup of receipt of bulk water from the County directly affects the entire anion exchange project. At this meeting, Aloha reported that without the bulk 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. That meeting facilitated progress on the bulk water issue, which relates directly to the progress of the anion exchange project. At that meeting Pasco County agreed to provide certain information to Aloha which would allow those particular aspects of the anion exchange project which are dependent upon the requested information to go forward (after such information was received). Pasco County has promised to produce the needed information no later than October 25, 2006. Another key matter that

was discussed at that meeting was Aloha's desire that any Impact Fees paid to Pasco be paid at the present rate as opposed to the increased fee which Pasco County will implement in December of 2006. During this week, David Porter, Dr. Levine and Tom Davis of Tonka Water Company participated in conference calls related to their analysis of using an alternate salt compound (Potassium Chloride rather than Sodium Chloride) as a means of limiting the impact on the reuse water quality due to anion exchange waste disposal at the Seven Springs Wastewater Treatment Plant. Dr. Levine began re-evaluating the design criteria based on the use of this alternate salt compound and taking into account the issues associated with the Pasco County bulk water supply.

- L. During the week of September 23, the design team received updated design data from Tonka Water Company which included information about the chemical feed equipment needed if potassium chloride were to be selected for use on the project,
- M. During the week of September 29, members of the design/management team prepared the first quarterly project progress report and prepared for the first project status meeting with Public Service Commission/Office of Public Council/Customers and Aloha.