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ROBERT M. C. ROSE
OF COUNSEL

October 17, 2000
VIA HAND DELIVERY

Jason Fudge, Esquire
Division of Legal Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0873

Re: Aloha Utilities, Inc.; PSC Docket No. 991643-SU
Petition for Wastewater Rate Increase for its Seven Springs System Customers in Pasco County, Florida
Our File No. 26038.30

Dear Jason:

As a result of our conversation this morning concerning costs related to the existing rental arrangement with Interphase, Inc. for office space, I have checked into the following categories of current expenses with Steve Watford, and he has reviewed the companies records, etc. I offer the following comments related to the items which you had mentioned:

1. Rental Expense - If you will review Mr. Nixon's recently filed calculation of the revenue requirement impact of the new building, you will note that he has included the current rental expense of $17,478 on an annual basis as an offset to the increased revenue requirement related to the new building. As such, this amount of rental expense has already been considered in calculating the net revenue affect of the new building.

2. Maintenance - Actual maintenance undertaken by the Utility on the rental premises it currently occupies for its offices have been insignificant to nothing over the years, and especially during the test year. In fact, Paragraphs 5 and 14 of the Lease between Aloha and Interphase, its landlord, specifically provides that the landlord will be responsible for all operating, janitorial, replacement repairs, and maintenance of the building and supplies including roof, foundation, electrical, plumbing, walls, etc.

   Therefore, based upon the above, no adjustment to existing maintenance expenses is necessary for the current rental property, as the Utility has incurred no such maintenance expense of any significance, and the landlord is responsible for all such maintenance under the terms of the Lease Agreement.

3. Insurance - As provided in Paragraph 11 of the Lease Agreement between the parties, all fire and lightning and windstorm insurance related to the building itself is the responsibility of the landlord, and has been maintained by the landlord.

   Therefore, since what little personal property the Utility owns within the leased building will be utilized at the new building in addition to furnishings and fixtures that the Utility will have to acquire (the majority of furnishings for the new building), the Utility has no property insurance related to the existing building (other than minor personal property insurance). Therefore, no adjustment is appropriate to current insurance expense related to the old building when replaced by the new office building.

4. Taxes - Under the terms of Paragraph 17 of the existing Lease, the landlord is responsible for all real estate taxes and assessments. The tenant is responsible only for taxes related to personal property. As noted above, the personal property that the Utility owns within the

existing building is only a small portion of the furnishings therein, and in addition, any such personal property will continue to be utilized in the new office building, along with new furnishings and fixtures as outlined above.

Therefore, no adjustment is necessary to recognize taxes paid on the existing leased building, since no real estate taxes are paid by the Utility on that property.

You had also inquired about the status of the appraisal on the new building. As I told you this morning, it is my understanding that the Utility is obtaining an appraisal as required for bank financing, and has specifically asked for an appraisal that will be of some use to the Utility in demonstrating to the Commission that the purchase price paid is a reasonable one for the property acquired. This is in addition to the information already supplied by various realtors for other available properties which the Utility examined as potential office space. We are hopeful that the appraisal will be available any day now, and I will provide it to you as soon as it is made available to us.

If you or any members of the staff have any further questions with regard to the above items or any other matters related to the new building, please do not hesitate to contact me.

Sincerely,

ROSE, SUNDSTROM & BENTLEY, LLP

F. Marshall Deterding
For The Firm

FMD/tmg
cc: Blanca S. Bayo, Director
Tricia Merchant, CPA
Stephen Burgess, Esq.
Mr. Stephen Watford, President
Mr. Robert C. Nixon, CPA

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