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April 4, 2007
VIA HAND DELIVERY

Ann Cole, Commission Clerk
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. 26038.51

Dear Ms. Cole:

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.

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
Stephen 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 3
January 6, 2007 – March 30, 2007

Overview of Project Status

- Moving this project forward continues to be Aloha's top priority.
- The design team has completed process diagrams, site layout drawings and detail drawings for the five plants to be upgraded with anion exchange equipment to the extent possible with the information known at this time.
- Financing for the project has been undertaken and obtained.
- Bulk water supply service application has been submitted and impact fees paid to the County.
- Permitting of the regeneration system waste disposal system (Major Modification to the existing Wastewater Permit for the WWTP and reuse system) and the water system modifications have been discussed with FDEP at a pre-application meeting. To the extent possible, the development of the permit support documents needed to obtain these permits is underway.

The lack of definitive information on the timing, quantity and rates of delivery of the County bulk water supply continues to impact the overall timing of the project. In particular, the design of critical project elements (brine preparation and waste brine holding tanks and disposal

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systems, electronic monitoring and controls, additional land needs identification and acquisition, specialty engineering design such as electrical, geotechnical, structural, and controls), permitting and project bidding and construction project elements have been and continue to be affected. Proceeding in the absence of such definitive information would be contrary to the interests of our customers and inconsistent with sound engineering and management practice.

It has been determined during detailed design work that the brine preparation systems will not fit on the existing plant sites due to limited site acreage. During the conceptual phases of the project this possibility was specifically identified as a potentiality. Since the brine make-up facilities must be located centrally on a site remote from each of the existing plants, it will most likely be economically advantageous (both from a capital cost and O&M cost standpoint) for those facilities to be sited along with any bulk water storage facilities. This will minimize the cost of land, cost of building construction and cost of the operation of the facilities due to more efficient labor use. However, until the location of any such storage facilities is known the schedule for the design and permitting of the overall project will be impacted.

Since both the brine waste disposal system tanks and pump sizes (located at each upgraded plant) are dependent on the quantity of water to be treated each day, the final design of this portion of the upgraded plants cannot be completed until maximum day flows and number of maximum days expected to be experienced consecutively is determined. These values are dependent on the quantity and pattern of bulk water supply provided by the County. Until this data is known, the brine waste system final design cannot be completed. To date, the Utility has tried to move forward with some work on the design of these facilities, but given the continued uncertainty of the factors, only rough estimated data has been used to size and site these facilities on the site drawings.

Electronic monitoring and control systems will be required to balance Aloha's production of water from each of its plants and that taken into its system from the County as bulk water. The design of these systems is delayed until the above-noted quantity, timing, and delivery location issues associated with the bulk water supply have been resolved.

Permit applications cannot be submitted until all the major design elements have been identified and finalized. The completion of the detailed brine waste quantity, rate and strength analysis and the resultant analysis of the impacts of this waste on the reuse water and the groundwater in the areas where reuse water is applied is being hampered and will not be finalized until the bulk water issues are addressed and the other project design work is completed.

Other specialty engineering work (geotechnical, electrical power, structural, etc.) is normally the final design work to be completed since all other project elements must be completed and finalized to allow this work to be completed. Since there are outstanding issues associated with the earlier project elements discussed above, the specialty engineering work is delayed at this time.

Until the remaining engineering work has been completed and permits have been received, it is not possible to proceed with the bidding and construction work.

Therefore, at this time, the bulk water supply issues must be resolved for this project to move forward.

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 January 8th the design/management project team finalized the second quarterly project progress report submitted it to the PSC. The engineering team reviewed Pasco County/Aloha water modeling data submitted by Pasco County (completed by King Engineering) and participated in conference calls with Aloha management team where the implication of the data was discussed. The engineering team was directed to prepare written comments and draft letter response to Pasco County related to data review.

- B. The week of January 15th AUI project team members participated in a project status meeting with PSC staff, OPC staff and customers where project status was discussed. The engineering team prepared a draft response to Pasco County which presented our team's review comments and reported that the data did not provide the data needed or requested previously.
- C. During the week of January 22nd, the design and management teams met to discuss the status of the project and to determine if any additional progress could be made with the data provided by Pasco County at this time. It was determined that complete and accurate Pasco County data was not available and that no additional project elements could be completed until this data was obtained; work had progressed as far as possible with the data available.
- D. The week of January 29th, AUI sent a letter to Pasco County which provided our comments on their last submittal of data and stressed the critical need to resolve all outstanding issues and obtain the needed data to allow AUI to design the facilities needed to receive the bulk water and be able to define when, and under what conditions (timing, flow, pressure, etc.) the water would be provided. This would allow AUI to move ahead on the Anion Exchange project. Aloha received additional modeling data from Pasco graphically showing the output from a water model run which assumed all Pasco water delivered to one location in the Marathon area (which will be required due to a change in the rates and quantities to be provided by Pasco from that agreed to in the Bulk Water Agreement previously). This data was promised to AUI at a December meeting with the County. The data provided however, did not include any indication or estimates of the modifications that would be required to Pasco's water system to enable the supply of the bulk water to the one AUI interconnect or the costs of same as was promised. In addition, no indication of when the water would be able to start flowing to the interconnection point or under what conditions (rates, pressures, total quantities, etc.).
- E. The week of February 5th, the engineering team reviewed that most recent graphical water system modeling data submitted by Pasco.
- F. The weeks of February 12th and 19th, the engineering and management teams conducted conference calls to discuss the most recent data submitted by Pasco and its lack of completeness and usefulness. In addition, the engineering and management teams

discussed alternate methods that could potentially be employed to resolve the bulk water supply issues since the currently conducted approach was not working. AUI management decided to implement one connection point in Marathon area and inform the County of that choice and request the data needed to AUI to move ahead with the design of the system improvements on its side of the interconnections without continuing to further insist that the County determine what improvements would be required on its side of the interconnection. In effect, Aloha stated that it was no longer willing to wait for the County to determine what they needed to do to their system or to determine where they would get the water necessary to meet its contractual obligation to supply bulk water to Aloha before Aloha began making preparations to receive the water. Aloha requested that the County provide clear, concise, accurate dates when certain quantities of bulk water would be provided, and the guaranteed maximum and minimum pressures, flow rates and daily quantities of bulk water that would be delivered on the dates provided by the County. Once obtained, AUI could begin design of bulk water receiving and appurtenant facilities and continue with the implementation of the anion exchange facility upgrades with due haste.

- G. The week of February 26th Aloha received what was purported to be a response to its January 30th letter requesting needed interconnection technical information from Pasco County via its consultant King Engineering. Aloha's engineering and managements teams reviewed the letter and determined that the requested data was not provided.
- H. The week of March 5th Aloha awaited a response to its February 14th letter to Pasco requesting detailed connection design information.
- I. The week of March 12th, Aloha's engineering and management teams drafted additional correspondence to Pasco County reminding the County that an answer to its February 14th letter had still not be received and that the data requested was needed immediately since it was delaying a number of Aloha projects.
- J. The week of March 19th, Aloha received a telephone call from Joe Richards (Attorney for Pasco County) stating that the County was preparing a response to Aloha's February 14th letter and suggesting a meeting with Aloha and its technical staff to "address pressures and numbers." Aloha has agreed to attend such a meeting. Aloha hopes that the County's reported agenda for this meeting indicates that they have real, concrete data to provide to Aloha on the County's actual ability to supply bulk water service to Aloha.

K. Week of March 26th, Aloha's management and engineering teams attended a meeting with SWFWMD to discuss water supply issues in general and the difficulties Aloha and Pasco are experiencing in finalizing a plan for Pasco to provide Aloha with bulk water service to meet its needs.

Timetable for Future Activities

In the first project status report, we stated that as of the date of the submittal of the report, delays that would impact the time requirements agreed to in the Settlement Agreement had reached approximately 60 days. We further stated that if Pasco County provides the Utility, within 30 days of date of the first report, information that will assure Aloha of the availability of supplemental water sufficient to meet all of the needs of Aloha above its permitted WUP 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 would be approximately 90 days. At that time, we also stated that hopefully, in 30 days Aloha would 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.

In the second progress report we reported that unfortunately, the data from the County hoped for did not arrive in 30 days as promised. In addition, the data that had been provided to date did not provide the information necessary for Aloha to determine how much, at what rate, on what schedule and under what conditions bulk water would be supplied to Aloha by Pasco County.

Since the second quarterly report, a number of additional discussions have transpired with the County and SWFWMD to try to resolve these issues so that the project could move ahead. To date, the bulk water issues are only slightly better defined than they were when the second status report was provided to you three months ago.

Therefore, at this time, it is still not possible to determine the future timetable for the project due to the uncertainty of the timing, location, and quantity of the County supplemental water supply. Based on the anion exchange process engineering and permitting work delays alone, we estimate

that the overall project has been delayed by at least 180 days. Overall project delays have been minimized by completing design work on those elements of the project even though only limited data was available that were deemed to have a low risk of major change. However, the overall project delays will continue as long as the bulk water issues remain unresolved. Aloha has made, and will continue to make, its best efforts to minimize these delays. In addition, our current understanding of Pasco's position on its ability to supply bulk water service to Aloha is that it is not capable of supplying Aloha with bulk water service to meet its peak rate needs as provided for in the present Aloha/Pasco Bulk Water Agreement. If this is correct, then Aloha will need to design, permit and construct water storage and high service pumping facilities that were not contemplated when the anion exchange project was conceived. These changes will materially effect the anion exchange project timing since the receipt of bulk water service directly affects the ability of Aloha to begin to operate the proposed anion exchange treatment facilities.

Pasco will need time to make any necessary modifications to its system to be able to provide the needed bulk water to Aloha. In addition, the lack of definitive bulk water service details (when it will be made available to Aloha, at what flow rates, at what pressures, in what daily quantities and with what variability in these parameters) makes it impossible for Aloha and its engineering team to determine what additional interconnection, storage, treatment, high service and water transport pipeline facilities will be required. Therefore, it is impossible to determine how long it will take to design, permit and construct these facilities. These currently undefined tasks and their associated timeframes must be determined in advance of calculating any future schedules and timelines for the implementation of the anion exchange project. After these issues are resolved we will be able to make a better determination of the scope of the tasks that must be completed based on these new realities. Once the scope of the tasks are known a formal project task schedule may be developed and the overall project timing impacts can be determined. Immediately after these unknowns are defined with specificity, we will prepare the project schedules and timelines and provide this information to the PSC.