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ORIGINAL

September 6, 2002

D. BRUCE MAY, JR.
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VIA HAND DELIVERY

Blanca S. Bayo
Division of Commission Clerk and
Administrative Services
Florida Public Service Commission
Capital Circle Office Center
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

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Re: In Re: Application for Limited Proceeding to Recover Costs of Water System Improvements In Marion County By Sunshine Utilities of Central Florida, Inc., Docket No. 992015-WU


Dear Ms. Bayo:

Enclosed for filing on behalf of Sunshine Utilities of Central Florida, Inc. ("Sunshine") are the original and seven (7) copies of Sunshine's Notice of Serving Answers to Staff's' First Set of Interrogatories and the original and fifteen (15) copies of Sunshine's Prehearing Statement.

For our records, please acknowledge your receipt of these filings on the enclosed copy of this letter. Thank you for your consideration.

Sincerely,

HOLLAND & KNIGHT LLP


D. Bruce May, Jr.

DBM:kjg
Enclosures

RECEIVED & FILED


FPSC-BUREAU OF RECORDS

Notice of Serving Answers
DOCUMENT NUMBER-DATE

09445 SEP-6 02

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09446 SEP-6 02

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Blanca Bayo
September 6, 2002
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cc: Ralph Jaeger
Stephen C. Reilly

TAL1 #255967 v1

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for Limited)
Proceeding to Recover Costs of Water) Docket No. 992015-WU
System Improvements In Marion County)
By Sunshine Utilities of Central Florida,) Filed: September 6, 2002
Inc.)
_____ /

SUNSHINE UTILITIES OF CENTRAL FLORIDA, INC.'S
PREHEARING STATEMENT

Sunshine Utilities of Central Florida, Inc. ("Sunshine"), by and through undersigned counsel, pursuant to the Order Establishing Procedure, Order No. PSC-02-0852-PCO-WU, issued on June 20, 2002, hereby submits its Prehearing Statement in this proceeding. Sunshine expressly reserves the right to supplement and revise the matters contained in this Prehearing Statement.

A. Witnesses

In identifying witnesses, Sunshine reserves the right to call rebuttal witnesses or such other witnesses as may be identified in the course of discovery and preparation for final hearing in this matter. At this time, Sunshine intends to call the following witnesses:

1. James H. Hodges. Mr. Hodges will describe his job responsibilities as founder, owner and president of Sunshine, and justify the salary that he receives from Sunshine in fulfilling those job responsibilities.

2. JoAnn Schneider. Ms. Schneider will explain entries she made to certain sections of Sunshine's 1990 and 1991 Annual Reports in fulfilling

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her job responsibilities as office manger of Sunshine at that time. Ms. Schneider will also describe the scope and responsibilities of Sunshine's president during her employment with Sunshine from 1984 through June of 1997.

3. Robert C. Nixon. Mr. Nixon will describe the Special Report titled "Limited Proceeding to Recover Used and Useful Water System Improvements" dated May 29, 2001 and submitted by Sunshine in support of its Second Amended Application for Limited Proceeding. Mr. Nixon will also testify regarding the events in this limited proceeding from the filing of the original application for limited proceeding in December of 1999 to date; the benefits of the water system improvements project to Sunshine's customers; the justification for applying the requested rate increase to all of Sunshine's customers under Sunshine's uniform rate structure; the prudence of the water system improvements project; the reasonableness of the salary paid by Sunshine to its president; and the reasonableness of the requested rate case expense.

4. Harold W. Barrineau. Mr. Barrineau will describe why Sunshine's water system improvements project is necessary to address water contamination, water quality and capacity problems. Mr. Barrineau will also explain the services provided to Sunshine by his engineering firm, H.W. Barrineau & Associates, in developing and designing a cost-effective solution to these problems.

5. Timothy G. Banks. Mr. Banks will testify regarding funding available from the Florida Department of Environmental Protection (“DEP”) through the Drinking Water State Revolving Fund Program (the “Program”), and Sunshine’s application for funding from the Program for its water system improvements project.

6. F. Marshall Deterding. Mr. Deterding will testify regarding the reasonableness of legal fees incurred by Sunshine in connection with this limited proceeding.

B. Exhibits

In identifying exhibits, Sunshine reserves the right to use such other exhibits, including rebuttal exhibits, as may be identified in the course of discovery and preparation for final hearing. Sunshine also reserves the right to use additional exhibits, not identified herein, in its cross-examination of any witnesses for the Citizens of the State of Florida or Florida Public Service Commission staff. At this time, Sunshine intends to use the following exhibits at hearing:

Witness Sponsoring

James H. Hodges

JoAnn Schneider

Exhibit

JHH-1: Copy of Order No. PSC-94-0738-FOF-WU and Opinion of the Florida First District Court of Appeal.

JHH-2: Revised Page E-6 and Attachment E-6A to Sunshine’s 2001 Annual Report.

JS-1: Copy of page E-6 from the

Sunshine Utilities 1991 Annual Report addressing compensation of officers.

JS-2: Copy of page E-6 from the Sunshine Utilities 1990 Annual Report addressing compensation of officers.

Robert C. Nixon, C.P.A.

RCN-1: Resume of Robert C. Nixon, C.P.A.

RCN-2: Special Report titled, "Limited Proceeding to Recover Used and Useful Water System Improvements," dated May 29, 2001.

RCN-3: Actual and Estimated Accounting Expense Through Hearing and Final Order, Docket No. 992015.

RCN-4: Indexing of President's Salary for Inflation Using GDP/GNP Price Deflator Index Approved By the Commission.

Harold W. Barrineau, P.E.

HWB-1: Resume of Harold W. Barrineau.

HWB-2: Letter from Jones Edmunds & Associates to DEP dated December 3, 2001.

HWB-3: Letter from Marion County Fire Marshal regarding fire flow.

HWB-4: Water Facilities Plan dated May, 2001.

HWB-5: Schedule showing used and useful calculation.

HWB-6: Copies of invoices showing actual engineering costs associated with limited proceeding.

Timothy G. Banks

TGB-1: Grant/Loan Agreement between DEP and Sunshine dated December 28, 1998.

TGB-2: DEP's estimate of the total funds available for Sunshine's water system improvements project.

F. Marshall Deterding

FMD-1: Copies of Holland & Knight LLP invoices for legal services rendered in connection with the limited proceeding beginning December 10, 1999, through and including April 23, 2002.

FMD-2: Holland & Knight LLP's estimate of legal fees to be incurred in connection with the hearing.

C. Basic Position

The Commission should approve an increase to Sunshine's rates to allow Sunshine to recover the costs of its water system improvements project in the amount set forth in the Commission's Notice of Proposed Agency Order Approving in Part and Denying in Part a Limited Proceeding for Increased Water Rates, Order No. PSC-02-0656-PAA-WU (the "PAA Order") as adjusted to remove any reduction to the president's salary and to allow for recovery of rate case expense incurred in this docket. The water systems improvements project and the requested rate increase is reasonable, prudent and justified.

The water system improvements are needed to address water contamination and other water quality issues and funding for the project will be provided through low interest loan and grant dollars from the DEP's Drinking Water State Revolving Fund.

The rate increase and revenue requirement proposed in the PAA Order should be adjusted to eliminate any reduction in the 2001 salary of Sunshine's president because the proposed reduction is based on a misinterpretation of information in Sunshine 2001 Annual Report which Commission staff construed to indicate that the president works part-time. Sunshine's president is now, and has always been, a full-time employee of the utility and should be compensated appropriately for the duties and responsibilities he performs as the founder, owner, and president of Sunshine. The president's salary should not be reduced from its 2001 level of \$91,731, which is entirely consistent with the 1990 president's salary established by the Commission when escalated for inflation.

The rate increase and revenue requirement proposed in the PAA Order should also be adjusted to eliminate any reduction in the rate case expense incurred by Sunshine in this docket. None of the rate case expense was incurred to duplicate Sunshine's original application. Rather, the rate case expense was incurred over more than two and a half years during which numerous meetings were held with Commission staff resulting in two amendments to Sunshine's original application specifically designed to

address staff's concerns or add additional information requested by staff. The rate case expense incurred is reasonable based on what has transpired in this proceeding and should be allowed in its entirety.

D. Questions of Fact

Sunshine is not aware of any issues in this proceeding that are purely questions of fact. However, there are four issues in this proceeding that are mixed questions of fact, law and policy as identified below.

E. Questions of Law

Sunshine is not aware of any issues in this proceeding that are purely questions of law. However, there are four issues in this proceeding that are mixed questions of fact, law and policy as identified below.

F. Questions of Policy

Sunshine is not aware of any issues in this proceeding that are purely questions of policy. However, there are four issues in this proceeding that are mixed questions of fact, law and policy as identified below.

G. Mixed Questions of Fact, Law and Policy

Issue 1: Should the Commission approve Sunshine's requested limited proceeding to increase its rates for all customers to interconnect five of its water systems?

Sunshine's Position:

Yes. The limited proceeding requested by Sunshine to recover the costs of Sunshine's water improvements plan, which will interconnect five of Sunshine's systems, is reasonable, prudent and justified. The water system improvements are needed to address water

contamination, water quality and capacity problems existing within the area served by Sunshine's Lake Weir, Lakeview Hills, Oklawaha, Belleview Oaks and Hilltop systems. In addition, the water system improvements will be funded with low interest loan and grant dollars from DEP's Drinking Water State Revolving Fund which will reduce the overall cost of capital and allow the benefits of the project to be achieved with only a modest rate increase to all customers.

Witnesses:

Robert C. Nixon
Harold W. Barrineau
Timothy G. Banks

Issue 2: Should an adjustment be made to the salary level of Sunshine's president?

Sunshine's Position:

No. Sunshine's president, James H. Hodges, is the founder, owner and operator of the utility. Mr. Hodges has always been a full-time employee of the utility. Mr. Hodges' 2001 salary of \$91,731 is entirely consistent with the 1990 president's salary established by the Commission when escalated for inflation. In the PAA Order, the Commission proposes to reduce the president's salary by 50% based upon an apparent misinterpretation of page E-6 of Sunshine's 2001 Annual Report Form, which has subsequently been amended by Sunshine to avoid future misinterpretation. The reference to 50% on page E-6 of Sunshine 2001 Annual Report Form for 2001 as originally submitted reflects the president's ownership interest in the company and does not, and was never intended to, indicate that the president is other than a full-time employee of Sunshine.

Witnesses:

James H. Hodges
JoAnn Schneider
Robert C. Nixon

Issue 3: What is the appropriate amount of rate case expense for this docket?

Sunshine's Position:

The appropriate amount of rate case expense for this docket is \$259,759.47, which include \$135,166.47 of actual and estimated legal expense, \$69,593 of actual and estimated accounting expense and \$55,000 of actual and estimated engineering expense. At the conclusion of this proceeding, the rate case expense will have been incurred over approximately a three year period of time, beginning in December of 1999. The rationale for a \$40,409 reduction to rate case expense proposed by the Commission in the Proposed Agency Action Order is that this amount represents legal and accounting fees "incurred to duplicate the original application." These fees, however, were not incurred to duplicate the original application, but were incurred to make modifications to Sunshine's filings to address staff's concerns or add information specifically requested by staff.

Witnesses:

Robert C. Nixon
Harold W. Barrineau
F. Marshall Deterding

Issue 4: Should the revenue requirement and monthly rates for Sunshine as set forth in the PAA Order be revised to reflect the elimination of any reduction in the president's salary and rate case expense?

Sunshine's Position:

Yes. For the reasons stated in Sunshine's position with respect to Issues 2 and 3 above, there should be no reduction in the president's salary or in the requested rate case expense. The appropriate values for the revenue requirement and the monthly rates will simply fall-out as Issues 1, 2 and 3 are resolved and integrated into the portions of the PAA Order which have not been protested, and therefore, are deemed stipulated.

Witness:

Robert C. Nixon

H. Issues Stipulated to by the Parties

Section 120.80(13)(b), Florida Statutes, states that a “hearing on an objection to proposed action of the Florida Public Service Commission may only address the issues in dispute. Issues in the proposed action which are not in dispute are deemed stipulated.” § 120.80(13)(b), Fla. Stat. (2001). The four issues identified above in Section G. of this Prehearing Statement are the only disputed issues raised in any protest of the PAA Order. Thus, pursuant to Section 120.80(13)(b), all issues addressed by the PAA Order, other than those issues identified in Section G. above, are deemed stipulated.

I. Pending Motions or Other Matters
Sunshine Seeks Action Upon

Sunshine seeks action upon its Motion for Temporary Protective Order Seeking Confidential Treatment of Tax Returns which was filed with the Commission on August 19, 2002.

Sunshine also intends to file a Motion to Strike certain portions of the testimony of Kimberly H. Dismukes and Ted L. Bidy, which will require action prior to the final hearing in this proceeding.

Sunshine further reserves the right to file additional motions, if necessary, during the course of discovery and preparation for final hearing in this matter, which motions may require action prior to final hearing.

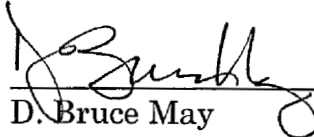
J. Pending Requests or Claims for Confidentiality

As noted above, Sunshine's Motion for Temporary Protective Order Seeking Confidential Treatment of Tax Returns is currently pending before the Commission.

K. Requirements of Order Establishing Procedure

At this time, Sunshine is not aware of any requirements of the Order Establishing Procedure, as amended by the First Order Establishing Procedure and Controlling Dates, Granting in Part and Denying in Part Expedited Discovery, and Setting Uniform Expedited Discovery Deadlines, with which Sunshine cannot comply.

Respectfully submitted,

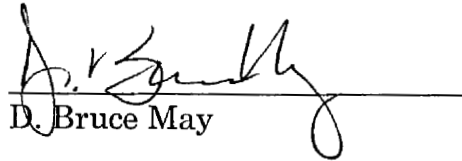


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**Attorneys for Sunshine Utilities of
Central Florida, Inc.**

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing was furnished by hand delivery to Ralph Jaeger, Esquire, Florida Public Service Commission, Division of Legal Services, Room 370, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850; and Stephen C. Reilly, Associate Public Counsel, Office of Public Counsel, c/o The Florida Legislature, 111 West Madison Street, Room 812, Tallahassee, Florida 32399-1400 all on this 6th day of September, 2002.


D. Bruce May