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November 12, 2002

**VIA HAND DELIVERY**

Mr. Tim Devlin, Director  
Division of Economic Regulation  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
1<sup>st</sup> Floor, Gunter Building  
Tallahassee, Florida 32399-0850

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COMMISSION  
CLERK

Re: Proposed Sale of Florida Water Services Corporation to the Florida Water Services Authority  
PSC Docket No. 021066-WS

Dear Mr. Devlin:

This letter is a follow-up to my letter to you dated October 4, 2002 regarding the "Information Request" that you transmitted to me on September 27, 2002 concerning the proposed sale of Florida Water Services Corporation ("Florida Water") to the Florida Water Services Authority ("the Authority"). It is our understanding that your request has been incorporated into the above-referenced docket.

At the outset, I must point out that the due diligence process for the sale is still underway. Accordingly, final financial and engineering investigations have not been completed. Moreover, it is our understanding that the Authority will be conducting a public hearing on November 18, 2002 to receive public comment and evaluate its intended course of action with respect to many of the issues raised by your information request. It would be premature to speculate as to what the Authority may ultimately decide. We will provide you with an update as to the Authority's plans after we have had an opportunity to confer with their counsel following the November 18 meeting.

In response to your specific information requests, we submit the following information which, of course, is subject to modification or clarification based upon the Authority's decisions. As stated in my earlier correspondence, the Authority is a governmental entity and, under statutory law and established Commission precedent, the sale must be approved as a matter of right under

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FPSC-COMMISSION CLERK

Section 367.071(4)(a), Florida Statutes. Accordingly, many of the Staff's information requests are not within the scope of discovery for a proceeding of this nature. Nonetheless, to facilitate Staff's understanding of the transaction, we have attempted to be fully responsive to the Information Request. By submission of these responses, we do not waive our position in this regard.

1. When was the Florida Water Services formed?

Answer: The Authority was formed by Interlocal Agreement between the City of Gulf Breeze and the City of Milton. The Interlocal Agreement was executed by the City of Gulf Breeze on September 16, 2002 and by the City of Milton on September 17, 2002. We have enclosed a copy of the Interlocal Agreement and the Resolutions of the two cities authorizing them to enter into the Interlocal Agreement.

2. How was the Authority formed?

Answer: The Authority was formed pursuant to the Interlocal Agreement referenced in response to Question No. 1, in accordance with Section 163.01(7)(g)1, Florida Statutes. The Authority was created under the same statutory provisions as the Applicant in Docket No. 990489-WS. See Order No. PSC-2351-FOF-WS.

3. Who will operate the utility systems after this sale is consummated?

Answer: The Asset Purchase Agreement between Florida Water and the Authority contemplates that the existing Florida Water workforce will be transitioned and become employees of the Authority. Thus, it is anticipated that there will be a seamless transition of ownership and the current workforce will remain intact and provide the services as employees of the public entity created under Chapter 163.

4. Please describe how the concerns of the customers in each individual county will be addressed by the government authority.

Answer: This question is best addressed by the Authority, who will be responsible for responding to those concerns, following completion of the public hearing process. As a public entity, the Authority has all of the powers and obligations imbued by state law.

5. Does Florida Water Services Corporation intend to file for any rate increases prior to the sale such as an index or pass through?

Answer: The sale is currently scheduled to close on or before December 15, 2002. Based upon this schedule, no such filings are anticipated by Florida Water.

6. How does the Authority plan on funding the purchase price? If it is to be done through bonding, who will be the bonding agent?

Answer: This question is best answered by the Authority following completion of its public hearing process. As reflected in the Asset Purchase Agreement, the Authority anticipates issuing revenue bonds to finance the purchase. Based upon our understanding, the Authority has been working with the underwriting firm of Salomon Smith Barney.

7. How was the purchase price determined and were any appraisals done to justify the purchase price?

Answer: The purchase price was determined through negotiations between the Authority's staff and Florida Water. We are uncertain as to what is included within the scope of the term "appraisals" used in your request. J.P. Morgan and Company prepared an analysis on behalf of the Authority which was presented to the Authority's Board at a meeting on September 19, 2002. In addition, there were public records available regarding prior negotiations between Florida Water and the Florida Governmental Utility Authority ("FGUA") which was part of the information available to both parties to the transaction.

8. Are there any conflicts of interest present in this proposed sale? If so, what are they?

Answer: To our knowledge, there are no conflicts of interest present in this proposed sale.

9. What fees will be paid to close the transaction and to whom will they be paid.?

Answer It is premature to answer to this question since financial and engineering due diligence is still underway. However, Florida Water anticipates that it will utilize many of the services of transactional counsel, Greenberg, Traurig; real estate counsel; Sobering, White & Luczak, P.A.; and regulatory counsel, Rutledge, Ecenia, Purnell & Hoffman, P.A. As part of the bond closing, there will be fees paid to the underwriter, bond counsel, the engineering

consultant, financial advisors, underwriters counsel, consultants, disclosure counsel, as well as other professionals necessary to complete the transaction.

10. What type of recurring fees and commissions will be paid by the Authority if the transaction is consummated?

Answer: This question is best answered by the Authority following completion of the public hearing process.

11. Will monthly service rates be reduced to reflect the fact that Florida Water Services Authority will not be paying, property taxes, regulatory assessment fees and federal and state income taxes?

Answer: This question is best answered by the Authority following completion of the public hearing process. The negotiations between Florida Water and the Authority were based upon a cash flow analysis using current revenues generated from existing rates without the need for future rate increases.

12. Are there any plans to increase service availability charges for any of the systems? If yes, identify the systems.

Answer: This question is best answered by the Authority following completion of the public hearing process. The cash flow projections utilized in arriving at the Asset Purchase Agreement contemplate uniform service availability charges for future customers which, in some instances, may increase from those charges currently imposed for certain systems.

13. What type of rate proceeding will be used to set the rates? Will rates be set on a County basis? Will systems be consolidated for ratemaking purchases?

Answer: This question is best answered by the Authority following completion of the public hearing process. The current terms of the Agreement do not anticipate the need for any rate proceedings or changes from existing rates for any system for the foreseeable future.

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14. Has the purchase price been allocated down to each individual system? If so, please provide the breakdown.

Answer: No

15. How will billing and collecting and complaints concerning bills and service be addressed under Florida Water Services Authority ownership?

Answer: This question is best answered by the Authority following completion of the public hearing process. It is anticipated that the Authority will provide an appropriate mechanism to address these matters.

16. What water and wastewater facilities have the Cities of Gulf Breeze and Milton owned and operated?

Answer: Milton and Gulf Breeze each own and operate public water and sewer utility systems within and outside their political boundaries.

17. What services will the Cities of Gulf Breeze and Milton provide for the two percent of gross revenue fee that will be collected by these Cities each year?

Answer: This question is best answered by the Authority following completion of the public hearing process. The Authority will be providing the oversight functions necessary to operate the state-wide utility system on a going forward basis.

18. Please provide copies of the following documents:

- a. Gulf Breeze Resolution No. 21-02: Establishing Florida Water Service Authority and Interlocal Agreement with Milton, Florida.

Answer: Copy is enclosed herewith.

- b. The actual signed Interlocal Agreement between Gulf Breeze and Milton, Florida.

Answer: A copy of the executed agreement was previously provided as an attachment to my letter to you dated October 4, 2002.

- c. The purchase agreement between Allete, Inc. and the Florida Water Services Authority.

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Answer: We assume you are referring to the purchase agreement between Florida Water and the Authority. A copy of the Asset Purchase Agreement is attached.

d. Minutes of the September 17, 2002 Gulf Breeze City Council Meeting.

Answer: We have requested the City of Gulf Breeze to provide those minutes directly to you.

e. Transcript or electronic recording of the September 17, 2002 Gulf Breeze City Council meeting and any other City Council meetings addressing the Florida Water Services Authority.

Answer: We have asked the City of Gulf Breeze to determine if any such transcript or recording exists.

f. Minutes of the applicable Milton City Council meetings addressing the Florida Water Services Authority.

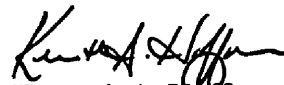
Answer: We have requested the City of Milton to provide those minutes directly to you.

g. Transcript or electronic recording the applicable Milton City Council meetings addressing the Florida Water Services Authority.

Answer: We have asked the City of Milton to determine if any such transcript or recording exists.

We have enclosed a copy of the transcript of the meeting of the Florida Water Services Authority on September 19, 2002, and the Resolution adopted by the Board approving the proposed transaction.

Sincerely,

  
Kenneth A. Hoffman

KAH/knb  
Enclosures

cc: Mr. Tony Isaacs

✓ Honorable Blanca S. Bayo, Director, Commission Clerk and Administrative Services