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Public Service Commission

June 9, 2015

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COMMISSION
CLERK

Carolee McReynolds
8144 CR 109 D-1
Lady Lake, FL 32159

Re: Docket No. 140217-WU - Application for increase in water rates in Sumter County by Cedar Acres, Inc.

Dear Ms. McReynolds:

Thank you for the utility bills you provided the Commission staff at the Cedar Acres, Inc. (Cedar Acres or Utility) customer meeting. To ensure that the Commission staff and the Commissioners have knowledge of your concerns, these bills has been placed on the correspondence side of the docket file for all to review.

With respect to the development of rates, the Commission is required to set rates that are just, reasonable, compensatory, and not unfairly discriminatory. To determine the appropriate rates for service, the Commission uses a rate of return methodology as set forth in Chapter 367, Florida Statutes. Under the rate of return methodology, a utility is allowed to earn a reasonable return on its prudently invested property that is used and useful in serving the public, less accrued depreciation, plus an allowance for operating capital. This ratemaking process is used for all water and wastewater companies and is also used in the electric and gas industry. It is the same approach used throughout the country by various state and federal utility regulatory bodies.

There are many factors that affect the cost of providing service and hence, the rate charged to customers. Some factors affecting the cost of providing service include: the size and age of the utility system, the quality of the water at its source, the number of customers, and the geographic spread of the service area. During a rate case, the Commission's accountants, engineers, and economists examine the financial and engineering information filed by the Utility as part of its rate increase application. The Commission's auditors also examine this information and publish the results of their findings in an audit report. All costs found to be imprudent or unreasonable are disallowed.

Ms. Carolee McReynolds

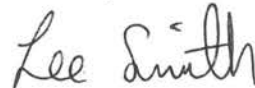
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There are also many differences between Commission-regulated water and wastewater utilities and municipally-owned utilities that affect rates. For example, municipally-owned systems do not have any income or property taxes and have access to low interest construction loans. Further, a city or county may issue bonds to finance capital improvements. Municipally-owned systems often serve a varied customer base and may structure rates which result in general service customers paying more than their fair share of costs than residential customers. Also, cities and counties may subsidize their water and wastewater operations through electric rates or other sources.

We appreciate your letter and understand your concerns regarding the Utility's proposed rate increase. I hope the above information has been helpful. If you have any additional questions, or require further assistance, please call me at (850) 413-7003 or email me at lsmith@psc.state.fl.us.

Sincerely,



Lee Smith
Public Utility Analyst
Florida Public Service Commission

cc: Division of Accounting and Finance (Norris, Fletcher, Galloway)
Division of Engineering (Mtenga, Rieger, Vickery)
Division of Economics (Thompson, Hudson)
Office of Commission Clerk (Docket No. 140217-WU)