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Public Service Commission

September 11, 2015

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COMMISSION
CLERK

Ms. Dorothy McNamara
13595 County Road 109H
Lady Lake, FL 32159

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

Dear Ms. McNamara:

Thank you for expressing your concerns about the rate increase petition filed by Cedar Acres, Inc. (Cedar Acres or utility). To ensure that the Commission staff and the Commissioners have knowledge of your concerns, your letter has been placed on the correspondence side of the docket file for all to review.

Many factors affect the cost of providing water service. They can 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. Moreover, for Cedar Acres, an additional component affecting the potential rate increase has to do with the length of time between initial rates being set and this rate proceeding.

Since its beginning (approximately 1986), Cedar Acres has had no rate adjustment. Unfortunately, due to the amount of time that has lapsed between the original rates being set and this rate proceeding, along with the factors mentioned above, the possible percentage increase is significant. However, the rates proposed in the staff report are preliminary.

During a rate case, the Commission's accountants, engineers, and economists examine the financial and engineering information that is gathered through the audit and data requests, etc. The Commission's auditors examine a utility's books and records and publish the results of their findings in an audit report. The engineers conduct a site visit along with research at other regulatory agencies. All of the information is processed and any costs found to be imprudent or unreasonable are disallowed.

Rates are increased relative to a utility's revenue requirement and are designed in order to allow a utility the opportunity to recover its reasonable and prudent costs for providing service and a reasonable rate of return on its investment in facilities necessary to provide such water service. The rates and revenue requirement do not include any past losses for a utility. Rates are set in a

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manner that will ensure that those customers who pay their bill timely will not be subsidizing any customers who do not pay their bill timely. On this topic, staff is considering implementing a late payment fee to deter customers from untimely payments of their bill.

Subsequent to the issuance of the staff report, much analytical work is performed, and additional information is obtained prior to staff making a determination that will be included in its recommendation submitted to the Commissioners for their consideration and vote. Staff is gathering additional information to make a final determination regarding the appropriate revenue requirement and rates for the utility. The Commission has not yet voted on the rate case. The Commission is tentatively scheduled to vote on the rate case on October 13, 2015.

In your letter, you also ask about the Health Department's approval of this increase. The Health Department is not involved in the present case. Along those lines however, our staff makes inquiries to the Florida Department of Environmental Protection (DEP) regarding complaints and compliance that fall under their jurisdiction. DEP is monitoring the utility and is aware that, recently, the utility has not used proper protocol for boil water notices. At this time, there is no enforcement plan of action. One additional point of clarity is that neither of these governmental entities has jurisdiction over the increase or decrease of rates. The Commission is the governmental entity with that jurisdiction.

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) 413-6922 or email me at cgallowa@psc.state.fl.us.

Sincerely,



Cecilia Galloway
Public Utility Analyst

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