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DIVISION OF ECONOMIC REGULATION
(850) 413-6900

Public Service Commission

March 1, 2004

Mr. Larry Thibodeau
303 Skipper Lane
St. James City, FL 33956

Re: Docket No. 030106-SU, Application for Staff Assisted Rate Case by Environmental Protection Systems of Pine Island, Inc.

Dear Mr. Thibodeau::

I am responding to your questions and comments received on February 10, 2004, regarding billing by Environmental Protection Systems of Pine Island, Inc. (EPS).

First, you asked whether you could pay the \$1,388 hookup fee from Lee County up front and what the interest rate is. The County loaned EPS the amount of the connection fees for all the current EPS customers. The loan will be amortized over 20 years at 4.50% interest per year. This loan is included in the current rates approved by the Commission for EPS. Therefore, if the connection fee is paid up front, rates must be changed to exclude the fee. In order to allow the fee to be paid up front, it will be necessary for all or a majority of the customers to agree to pay up front. If this agreement could be reached, it would then be necessary for the the customers to contact the utility who would have to renegotiate its contract with the County to include this provision. The utility would also be required to apply to the Public Service Commission for a change in rates.

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Next, you commented that the rates charged by Ft. Myers are lower than the rates charged by EPS. Let me take this opportunity to briefly explain how the Florida Public Service Commission established rates. Pursuant to Section 367.081, Florida Statutes, the Commission shall set rates which are just, reasonable, compensatory, and are not unfairly discriminatory. In determining the revenue requirements for the water and wastewater services, the Commission employs the rate of return methodology established in Chapter 367, Florida Statutes. 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 rates charged to customers. Some of the factors affecting the cost of providing service include the size and age of the utility system, the number of customers, the geographic spread of the service area, and the location of the plant in an environmentally sensitive area. During a rate case, the Commission's accountants, engineers and economists examine the financial and engineering information filed by companies as part of a rate increase application. The Commission's auditors also examine this information and publish the results of their findings in an audit report. Recovery of any costs found by the

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Commission to be imprudent or unreasonable is not allowed. Once the revenue requirement is set, the Commission must then establish service rates which will afford the utility the opportunity to earn the approved revenue requirement.

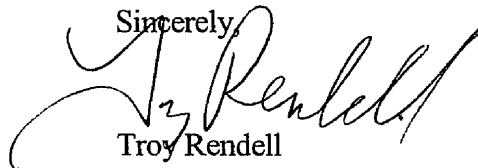
The rates of one utility can not fairly be compared to the rates of another. As described above, rates are designed to cover the cost of service plus a return on investment. Each utility has unique circumstances that dictate its investment and expenses. By statute, we do not regulate any municipal or county owned utilities, therefore, we do not have this information for them. However, there are 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.

Your third concern was that you believe that you are being charged for water that is not entering the wastewater system. It is Commission practice to base wastewater usage on metered water usage. Wastewater rates are based on the theory that 80% of the water used is returned to the wastewater system. The remaining 20% is believed to be used for irrigation, car washing, etc., and does not enter the wastewater system. Therefore, wastewater rates are designed to take into account that only 80% of metered water will be treated in the wastewater system.

Finally, you suggested that a second water meter, to measure outside usage, could be installed behind the main meter and this reading could be subtracted from the reading of the main meter to determine the amount of wastewater treatment the customer should be charged. In theory, this may work. However, EPS would not own the meter and therefore would not be responsible for reading the meter or the meter testing required by Rule 25-30.265, Florida Administrative Code. EPS does not currently employ a meter reader. The utility pays a fee to the Greater Pine Island Water Association (Association) to provide its meter readings. Utility expenses and eventually rates may be increased to cover the additional expense of hiring another employee or to cover the increase the Association would charge to read the second meters.

I hope this letter addresses your concerns. If you have any other questions, please contact me at (850) 413-6934.

Sincerely,



Troy Rendell
Public Utilities Supervisor

TR:sm