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CHAIRMAN



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Public Service Commission

February 18, 1998

John A. Nelli
10840 Norwood Ave.
Port Richey, FL 34668

Re: Florida Water Services Corporation

Dear Mr. Nelli:

Thank you for your letter dated February 10, 1998 concerning Florida Water Services Corporation. In your letter, you address two main concerns. Your first concern involves a comparison between Florida Water's rates and those of Pasco County Utilities. The Public Service Commission is bound by Florida law to consider the specific costs incurred in providing water and wastewater service for each regulated utility, not on a comparison of different rate levels in a given region. Those costs allowed, however, must be reasonable and prudent. Additionally, we have found that differences exist between private and publicly-owned utilities. Publicly-owned utilities do not pay income taxes, can receive lower interest rates, and other public services may cross-subsidize the full costs of providing water and wastewater service. Private utilities do not have these options available to them.

In determining the revenue requirements for the water and wastewater services, the Commission employed the rate of return methodology established in Chapter 367, Florida Statutes.

ACK This ratemaking process is used for all water and wastewater companies and is also used in the
AFA electric and gas industry. It is the same approach used throughout the country by various state and
APP federal utility regulatory bodies.

CAF In Florida Water's most recent rate case, the Commission prescribed a new rate structure for
CMU the utility called a "capband" rate structure. The Commission's decision is contained in Order No.
CTR PSC-96-1320-FOF-WS, issued October 30, 1996. The new rate structure, which is considered a
EAG natural step in the progression toward a long-range goal of uniform rates, combines the concept of
LEG a cap on monthly bills at a certain usage level for facilities that are more expensive to operate, with
a banding, or grouping, of rates paid by customers served by less-expensive facilities.

LIN Under the capband rate structure, water bills of customers served by more expensive facilities
OFC are designed to be \$52 per month for water at 10,000 gallons of monthly consumption. Wastewater
RCH bills are designed to be \$65 per month at 6,000 gallons. Of Florida Water's 141 facilities in Florida,

SEC 1

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56 service areas fall into the banded portion of the new rate structure, while the remaining 85 fall into the capped structure.

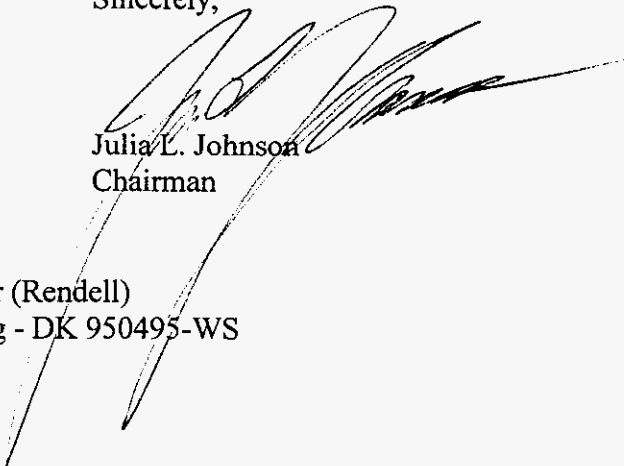
The capband rate design is an attempt to address affordability while mitigating the subsidies created by artificially lowering rates for some facilities. While affordability was able to be achieved due to this rate design, the Commission noted in its order that additional study of the more costly facilities of this utility is needed in order to ensure that the Commission is sending the proper signals to the utility in terms of operating efficiently and effectively.

During a rate case, the Commission considers sworn testimony of expert witnesses sponsored by the parties to the proceeding regarding the quality of service, prudent costs of providing service, and rate structure. 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 Commission to be imprudent or unreasonable is not allowed.

I can assure you that Florida Water's rate case application received the full attention of the staff and the Commission. The Commission had the benefit of testimony and evidence offered by customers testifying at the 23 customer service hearings held throughout Florida Water's service area. It also considered testimony and evidence offered by the Office of Public Counsel, who intervened in this case in opposition to the rate increase, during the two-week long technical hearing held in Tallahassee.

I hope that this letter has addressed your concerns. For your information, Order No. PSC-96-1320-FOF-WS may be reviewed on our website at <http://www.scri.net/psc>, at no charge. If you have any questions regarding any of the points I have raised in this letter or if we can be of help in any way, please feel free to contact Mr. Troy Rendell of the Division of Water and Wastewater at (850) 413-6934 or you may call The Division of Consumer Affairs at 1-800-342-3552.

Sincerely,



Julia L. Johnson
Chairman

cc: Division of Water and Wastewater (Rendell)
Division of Records and Reporting - DK 950495-WS