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November 12, 1998

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Ms. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Betty Easley Conference Center, Room 110
Tallahassee, Florida 32399-0850

Re: Docket No. 950495-WS

Dear Ms. Bayo:

Enclosed for filing are an original and fifteen copies of this letter reflecting Florida Water Services Corporation's ("Florida Water") modifications to the Joint Offer of Settlement and Proposal for Disposition of Mandate on Remand ("Offer of Settlement") filed on October 2, 1998. Florida Water is amending its Offer of Settlement in response to the two issues raised by Staff on pages 24-25 of Staff's revised recommendation filed October 21, 1998.

First, Staff maintains that the \$2.8 million annual revenue increase included in Florida Water's Offer of Settlement should be allocated among the service areas pursuant to the cap band rate structure approved by the Commission and affirmed by the court on appeal. Florida Water has no objection to this modification of its Offer of Settlement and accepts same.

Second, Staff asserts that the \$4.4 million in surcharge revenues should "apply only to customers of record during the time the incorrect rates were in effect." Florida Water disagrees. As part of its Offer of Settlement, Florida Water has agreed to recover considerably less than the total amount of surcharge revenue which would be due as well as applicable interest on such surcharges if Florida Water were to prevail at hearing (or, on appeal) on the lot count and wastewater treatment used and useful issues reversed and remanded by the court. The total amount of surcharges, including interest, that would be due under this scenario is approximately \$8.7 million through the hearing process and approximately \$11.9 million assuming an eighteen month period for appeals. The surcharges recoverable under Florida Water's proposal, as originally filed, were \$4.4 million which, due to the two deferrals, now amount to \$4,728,000. By creating a deferred, regulatory asset designed to recover these revenues, Florida Water maintains that the Commission has the authority

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to recover the \$4,728,000 regulatory asset from all ratepayers, similar to the recovery of other deferred assets, such as rate case expense.

However, in order to achieve settlement consistent with the Staff's recommendation, Florida Water hereby modifies its original Offer of Settlement as follows. The \$4,728,000 in surcharge revenues would be recovered only from customers of Florida Water who received service during the time the incorrect (pre-settlement) rates were in effect. Surcharges would be billed effective January 1, 2000 over a period of two years. The surcharges would be billed at the level of \$5.6 million which, when adjusted for Florida Water's annual attrition level of approximately 7%, should allow Florida Water to recover approximately \$4,728,000 in surcharges, consistent with its original Offer of Settlement as adjusted for the two deferrals. After the two year period, any under recovery or over recovery of surcharges would result in an appropriate adjustment to CIAC to bring the surcharge recovery level to \$4,728,000. We note that by billing the surcharges at the level of \$5.6 million, the maximum surcharges paid by customers would not exceed the amount paid had the correct, adjusted rates, per the settlement (\$2.8 million), been in effect.

Respectfully submitted,



Kenneth A. Hoffman

KAH/rl

cc: All Parties of Record, via telecopier and U. S. Mail
Ralph Jaeger, Esq., via telecopier and U. S. Mail
Brian P. Armstrong, Vice President and General Counsel, Florida Water Services Corp.
Mr. Joseph P. Cresse