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Public Service Commission

February 19, 2002

F. Marshall Deterding, Esquire
Rose, Sunstrom & Bentley, LLP
2548 Blainstone Pines Drive
Tallahassee, Florida 32301

Dear Mr. Deterding:

This letter is in response to your letter dated February 8, 2002, requesting a three week extension in which to file responses to Staff's First Data Request. Staff does not oppose an extension until March 11, 2002.

Staff has reviewed the draft Synopsis and has made changes to the attached draft Synopsis. Staff notes the addition of six issues to conform with the requirements of Order No. PSC-00-1165-PAA-WS, issued June 27, 2000, in Docket No. 990243-WS. In that Order the Commission stated "when the reuse plan is filed we anticipate allocating a portion of cost recovery to water customers to allow the design of inclining block rates."

In addition, the Commission decided, in part, not to implement an inclining-block rate structure because of the implementation of an aggressive, proactive conservation program. Now that the utility has supplied staff with conservation program reports over a one-year period, staff believes it is appropriate to evaluate the conservation programs concurrent with its consideration of an inclining-block rate structure.

The following issues should be added to the Synopsis:

1. Should the utility's conservation program be continued, and, if so, what are the appropriate conservation expenses?
- 2.* What is the appropriate allocation of reuse cost recovery between the utility's water, wastewater, and reuse customers?
3. Is an inclining-block rate structure appropriate for this utility, and, if so, what are the appropriate number of usage blocks, usage block rate factors, and the appropriate percentage of cost recovery allocated between the base facility charge (BFC) and the gallonage charge?

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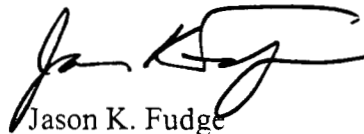
Mr. Deterding, Esquire
Page 2
February 19, 2002

4. Is an adjustment to reflect repression of consumption appropriate in this case, and, if so, what is the appropriate repression adjustment?
5. What are the appropriate monthly rates for service?
6. What is the appropriate disposition of deferred earnings?

**This issue replaces issue 8 of the draft Synopsis.*

If you have any further questions, please contact me at (850) 413-6236.

Sincerely,



Jason K. Fudge
Senior Attorney

JKF:lw

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SUN COMMUNITIES FINANCE, LLC D/B/A WATER OAK UTILITY
APPROVAL OF A REUSE PROJECT PLAN AND INCREASE IN WASTEWATER RATES

DOCKET NO. 010087-WS

SYNOPSIS

TABLE OF CONTENTS

Purpose 3

Comparison of the Present and Proposed Final Rates 3

General Reasons for Reuse Project Plan 4

Major Rate Case Issues 4

Description of the Ratemaking Process 4

Tentative Time Schedule 7

Location of Application for Review 7

I. Purpose

In accordance with the Florida Public Service Commission's Rule 25-22.0407 regarding Notice of and Public Information on General Rate Increase Requests; a synopsis of the rate request must be prepared and distributed by Sun Communities Finance, LLC d/b/a Water Oak Utility. The following information will provide the background on the rate request and the rate case process in general.

II. Comparison of the Present and Proposed Final Rates

On June 19, 2001, Sun Communities Finance, LLC d/b/a Water Oak Utility filed an application with the Florida Public Service Commission ("Commission") for approval of a Reuse Project Plan and increased wastewater rates for its customers in Lake County. The application is assigned Docket No. 010087-WS and December 27, 2001, was established as the official date of filing.

The utility has requested a permanent wastewater revenue increase of [?] The requested increase would produce annual revenues of \$320,523 for its operations. In addition to requesting an increase in its wastewater rates, Sun Communities Finance, LLC d/b/a Water Oak Utility has requested that the Commission approve establishment of a new rate for sale of reuse water which is projected to produce annual revenues of \$2,006. If approved, the proposed rates would go into effect at the time construction of the reuse project and facilities is completed and placed in service. That is projected to occur in October of 2003. A schedule of the utility's present, and proposed final rates are as follows:

SCHEDULE OF PRESENT AND PROPOSED WASTEWATER AND REUSE RATES:

<u>Class/Meter Size</u>	<u>Present Rates</u>	<u>Proposed Rates</u>
Residential Service		
All Meter Sizes	\$7.65	\$13.49
Gallage Charge - per 1,000 gallons (Max. 6,000 gallons per month)	\$2.07	\$2.45
General Service		
5/8" X 3/4"	7.65 \$7.56	\$13.49
3/4"	\$11.48	\$20.24
1"	\$19.12	\$33.73
1 1/2"	\$38.25	\$67.45
2"	\$61.21	\$107.92
3"	\$122.40	\$215.84
4"	\$191.26	\$337.25
6"	\$382.53	\$674.50
Gallage Charge - NO CAP (\$/000 gallons)	\$2.50	\$2.45

III. General Reasons for Reuse Project Plan

Sun Communities Finance, LLC d/b/a Water Oak Utility has filed a request for approval of a Reuse Project Plan and increase in wastewater rates and establishment of a reuse rate, because existing rates do not provide sufficient revenues to cover the costs of required expenses of operation and new capital costs related to implementation of a reuse system. The St. Johns River Water Management District and the DEP both concur that the reuse system is an appropriate change to the wastewater system operated by Sun Communities Finance, LLC d/b/a Water Oak Utility. The utility's rates were last reviewed and revised in PSC Docket No. 990243-WS and Order No. PSC-00-1165-PAA-WS issued on June 27, 2000. Specifically, the St. Johns River Water Management District has required that Sun Communities Finance, LLC d/b/a Water Oak Utility implement a reuse system for its wastewater operations in Lake County, Florida.

IV. Major Rate Case Issues

It is impossible to anticipate all the issues that may develop during a request for wastewater rate increase due to implementation of a Reuse Project Plan. However, the following issues are anticipated to be the major areas considered:

1. What is the test year rate base?
2. What is the test year net operating income?
3. What is the test year cost of capital?
4. What is the test year revenue requirement?
5. What is the proper rate design to recover the test year revenue requirement?
6. What are the appropriate capital costs for the Reuse Project Plan?
7. What are the appropriate additional operating costs for the Reuse Project Plan?
8. How much of the increased costs should be paid by water versus wastewater ratepayers?

V. Description of the Ratemaking Process

Participants

Many people are involved in a utility rate proceeding and/or a request for approval of a Reuse Project Plan. The following is a list of some of the main participants:

1. The Commission is composed of five Commissioners appointed by the Governor. ~~A panel of three Commissioners will hear this rate proceeding.~~ The Commissioners will make a ~~final~~ decision on all of the issues in the case.
2. The Commissioners are assisted by a Commission Staff, which includes attorneys, engineers, accountants, consumer affairs specialists, rate and financial analysts.
3. The Public Counsel is appointed by the Legislature to represent the citizens in rate proceedings before the Commission. Public Counsel also has a staff of attorneys,

accountants, rate and financial analysts. The Public Counsel may monitor the case or may participate.

4. The utility's officers and staff personnel may testify about the utility, its operation, revenue and expenses. The utility may also employ outside consultants as expert witnesses and an attorney or other specialists to assist them with the rate proceeding. The accountants, rate analysts and engineers compile information in support of the rate increase request and testify at hearings.
5. **Intervenors** representing organizations, local governments, consumer groups, and commercial organizations may participate. An intervenor is a party who legally intervenes in the rate proceeding through petition to the Commission to represent a specific interest or point of view in the rate proceeding. The intervenor has equal opportunity with other parties in the case to ask questions, present testimony, and cross examine witnesses.

Reuse Project Plan Requirements

Under the provisions of Section 367.0817, a utility may request approval of a Reuse Project Plan when a conversion to reuse of treated wastewater effluent is planned. The utility files an application outlining the increase in capital costs and operating costs in order to implement the reuse project and submits various financial, rate, and engineering schedules supporting that proposal. This application reflects the amount of money the utility has invested in its facilities to serve its customers. It also includes the utility's requested rate of return on its investment and the expenses the utility incurs to provide service for the test year. The data provides information about the operations of the company, supplies and expenses, taxes, construction, depreciation and all operating and financial matters that are crucial to a decision. The utility will also be requested to file additional information before the case is over. Among the things the Commission looks for are expenditures that could be considered unnecessary, improper, or imprudent. Expenditures of this kind are disallowed for ratemaking purposes.

The Commission and its staff review the application. The Commission staff performs an audit of the utility's books and records to see if they match the utility's application and the information provided therein, and that the utility is in compliance with Commission rules and policies. The staff auditors issue a report of their findings which is filed with the Commission. The staff also performs other examinations and document requests of the utility's personnel and the utility's quality of service. This includes an engineering physical inspection of the utility's facilities and a review of records filed with other regulatory agencies regarding the utility.

Hearings

The Commission staff will conduct an informal customer meeting to explain the Reuse Project Plan filing by the utility and the Commission's procedures for processing, reviewing and rendering a decision on that application. This meeting is conducted by the staff for the purposes of not only informing the customers of the specifics behind the application and the Commission procedures, but also to receive customer input concerning issues relevant to the case.

The Commission will utilize the Proposed Agency Action (PAA) process to decide this case. The Commission will issue a PAA Order which will become final if not protested by any interested party, including the utility, its customers, or any other Intervenor. If such a protest is received, the case will proceed to formal public hearings to decide the case. The hearings are governed by rules similar to those used by courts. Witnesses are sworn and subject to cross-examination, and the final decision must be based upon information presented to the Commission during the hearings. These hearings are scheduled in the local service area for the customers' convenience. At this time, customer testimony is given regarding quality of service. The customers also may testify about rates and charges they consider improper or unfairly discriminatory.

The Public Counsel provides legal representation for consumers in matters before the Commission. The Public Counsel often participates in major rate proceedings, has access to all the information filed by the utility, assists members of the public who wish to testify and may even provide expert witnesses on various issues in the case.

If this case proceeds to formal hearing, witnesses from the utility, the Commission staff, the Public Counsel and intervenors present testimony and are cross-examined. There are official transcripts of all hearings. Court Reporters record the hearings, just as they do in a courtroom.

Completing the Reuse Project Plan Rate Proceeding

If the case does not proceed to hearing, the Public Service Commission will complete its investigation after the customer meeting and audit, and will formulate a staff recommendation which will then be considered, accepted, rejected, or modified by the Commissioners. The Commission will then issue a PAA Order, which will become final if not protested by any interested party.

If the case is protested and therefore proceeds to hearing, several additional steps will be involved. After the hearings are completed, briefs are usually filed by all parties to the case. The briefs summarize each party's position on the issues. The Commission staff then makes recommendations to the Commissioners on each issue of the case. When the Commission makes its final decision there will be a "vote sheet" which is a listing of all the issues requiring a vote by the Commissioners. There are many issues in a major water rate proceeding, and it sometimes takes the Commissioners several hours to complete the final review of the case and to vote on each issue based on the evidence in the record.

Commission attorneys prepare a formal order containing the background of the case, the Commission decisions, the basis for the decisions, the new rates, and when they will be effective. After the Commission's order is issued, any party may ask the Commission to reconsider any decision on the issues. After reconsideration, the Public Counsel, the utility or any other party may appeal the Commission's decision to the courts.

VI. Tentative Time Schedule

The following tentative schedule was established by the Commission for the remaining major events in Sun Communities Finance, LLC d/b/a Water Oak Utility Reuse Project Plan case:

<u>Schedule Item</u>	<u>Due Dates</u>
Customer Meeting -	May 9, 2002 ✓
Public Service Commission Audit Complete -	May 17, 2002 ✓
Staff Recommendation due -	June 8, 2002 August 8
Commission Conference on PAA Rates -	June 20, 2002 August 20

VII. Location of Application for Review

All of the information on file at the Commission is open to the public and is available for review at the Commission offices in Tallahassee. The application filed by the utility and all of its exhibits are also available for inspection at the utility's office as follows:

Sun Communities Finance, LLC
d/b/a Water Oak Utility
106 Evergreen Lane
Lady Lake, FL 32159
Phone: 352-753-3000

Business Hours: 9:00 a.m. - 5:00 p.m.
Monday through Friday

Customer comments concerning Sun Communities Finance, LLC d/b/a Water Oak Utility's service and its request for approval of Reuse Project Plan and increase in wastewater rates should be addressed to Blanca Bayo, the Division of the Commission Clerk and Administrative Services, and a copy should be mailed to the utility's attorney at the following addresses:

Florida Public Service Commission
Division of the Commission Clerk and
Administrative Services
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0870

F. Marshall Deterding
2548 Blairstone Pines Drive
Tallahassee, Florida 32301

Complaints regarding service may be made to the Commission's Division of Consumer Affairs at the following phone number 1-800-342-3552.

All comments should include reference to Commission Docket No. 010087-WS which has been assigned to this case.

Wateroak\synopsis