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TIMOTHY DEVLIN, DIRECTOR
DIVISION OF ECONOMIC REGULATION
(850) 413-6900

Public Service Commission

February 19, 2003

Mr. Richard J. Holzschuh
Cypress Lakes Homeowners Association
10000 US Highway 98N #402
Lakeland, Florida 33809

Re: Docket No. 020407-WS, Application for Rate Increase in Polk County by Cypress Lakes Utilities, Inc.

Dear Mr. Holzschuh:

Thank you very much for your letter dated February 2, 2003, which covered several topics regarding the Cypress Lakes Utilities, Inc. (CLUI or Cypress Lakes) requested rate increase. I would like to follow-up on several of the items that we discussed by phone on Wednesday, February 12, 2003. Your letter addressed four items and I will address them individually.

First, your letter questioned why in the summer months the amount of wastewater treated was about equal to the amount of water sold, whereas in the peak season, the water flows were double the wastewater flows. You also asked why the amount of wastewater treated in June was higher than the amount of water sold and why the levels of wastewater in May and June are higher than the levels when the park is full. Regarding the comparative analysis of wastewater to water treated, it is common to have higher levels of water sold in high irrigation months and more equal levels in months when irrigation is less. Generally speaking, the months of June through September in central Florida have more rainfall than other months. As a result, fewer homes will irrigate their lawns and, thus, more water use is returned to the wastewater system. We have asked the utility why the treated levels of wastewater for May and June reflect peak flows when those are the non-peak months of the year, and why the wastewater treated in June exceeds the amount of water sold that month. Your questions are very valid and we will include the utility's response in our analysis.

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Your second and third questions dealt with water and wastewater plant capacity, plant additions made in 2000 and 2001 and whether those additions were growth related and appropriate to include in rates. We are currently reviewing the purpose and reasonableness of those plant additions made in 1999 through 2001. If any plant expenditures are deemed imprudent or unreasonable by the Commission, then those amounts will be removed from the rate setting equation. However, pursuant to Section 367.081, Florida Statutes, the Commission is required to consider prudently incurred plant in rates to the extent that those plant additions are used by current

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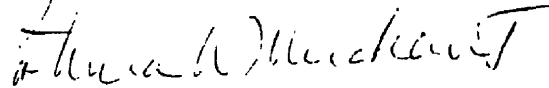
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customers, as well as growth requirements for 5 years after the test year. The growth requirements, per the statute, cannot exceed customer growth of 5% per year. Any growth related plant in excess of those allowed by statute are removed from the rate base calculation as non-used and useful plant. Thus, the utility does not recover through rates a return on investment or expenses associated with that plant. We are in the process of reviewing the utility's calculations of used and useful plant, which includes numerous sub-issues, such as the appropriate test year consumption in gallons, growth components, unaccounted for water allowances and capacity components. All of our analysis on used and useful will be included in staff's recommendation.

Your last topic addressed the negative acquisition adjustment that resulted from the sale of assets from Cypress Lakes Associates, Ltd. to Cypress Lakes Utilities, Inc. (CLUI). As you mention, the Commission addressed the rate base for transfer purposes in Docket No. 971220-WS. By Order No. PSC-00-0264-FOF-WS, issued February 8, 2000, the Commission established rate base as of December 31, 1997, and declined to include a negative acquisition adjustment related to the transfer. This was a final order that was issued after a full hearing specifically on the issues related to the acquisition adjustment, which was not appealed by any party. Thus, the Commission-approved rate base was not reduced by the negative acquisition adjustment for this company. I have attached a copy of that order to this letter for your review.

I hope that this letter addresses the concerns that you raised in your letter. Please feel free to call or e-mail me if you have any further questions. My phone number is (850) 413-6918 and my e-mail address is pmerchan@psc.state.fl.us.

Sincerely,



Patricia W. Merchant
Public Utilities Supervisor

PWM
Enclosure

cc: Division of Economic Regulation (Willis, Joyce)
Division of Legal Services (Echternacht)
Division of the Commission Clerk and Administrative Services