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Public Service Commission

June 9, 2015

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Charles Imhoff
8027 C.R. 109 D (Oakland Hills)
Lady Lake, FL 32159

Re: Docket No. 140217-WU - Application for increase in water rates in Sumter County by Cedar Acres, Inc.

Dear Mr. Imhoff:

Thank you for your letter expressing your concerns about the rate increase petition filed by Cedar Acres, Inc. (Cedar Acres or Utility). To ensure that the Commission staff and the Commissioners have knowledge of your concerns, your letter has been placed on the correspondence side of the docket file for all to review.

We are glad to know that since your years as President of the Homeowners Association and since installation of a new well, the disruptions to service, along with water quality and pressure complaints, have diminished.

In your letter, you suggest that "if the rate increase would have been set by the Commission in 2009, with subsequent normal increases, the rate would only be around \$17 per month." Under the rate of return methodology employed by the Commission, a utility is allowed an opportunity to earn a reasonable return on its prudently invested property that is used and useful in serving the public, less accrued depreciation plus an allowance for operating capital. 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.

No matter when a case is filed, rates are set on a cost to serve basis. While there are mechanisms in place for a utility to cover increases in expenses as a result of inflationary pressures, such as the price index and pass-through processes, these increases may not be sufficient to cover expenses that have increased above inflation.

Cedar Acres has had no rate adjustment since its beginning, approximately 1986. Unfortunately, due to the amount of time that has lapsed between the original rates being set and this rate proceeding, along with other factors, it is not surprising that the percentage increase is significant. Additional factors affecting the cost of providing service include: the size and age of the utility system; the quality of the water at its source; the number of customers; and the geographic spread of the service

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area. During a rate case, the Commission's accountants, engineers, and economists examine the financial and engineering information filed by the Utility as part of its rate increase application. The Commission's auditors also examine this information and publish the results of their findings in an audit report. All costs found to be imprudent or unreasonable are disallowed.

The staff report is also referenced in your letter. Keep in mind that the staff report is preliminary. Subsequent to the issuance of the staff report, much analytical work is performed, and additional information is obtained prior to staff making a determination that will be included in the recommendation submitted for the Commissioners consideration and vote. Further, with respect to your comments regarding salaries expense and other operating expenses allowed for this Utility, staff is gathering additional information to make a final determination regarding the appropriate salary and operating expenses for the Utility.

Rates are increased relative to a utility's revenue requirement and are designed in order to allow the utility the opportunity to recover its reasonable and prudent costs for providing service and a reasonable rate of return on its investment in facilities necessary to provide such water service.

We appreciate your letter and understand your concerns regarding the Utility's proposed rate increase. I hope the above information has been helpful. If you have any additional questions, or require further assistance, please call me at (850) 413-6922 or email me at cgallowa@psc.state.fl.us.

Sincerely,



Cecilia Galloway
Public Utility Analyst

cc: Division of Accounting and Finance (Norris, Fletcher, Smith)
Division of Engineering (Mtenga, Rieger, Vickery)
Division of Economics (Thompson, Hudson)
Office of Commission Clerk (Docket No. 140217-WU)