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DIVISION OF  
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Public Service Commission

June 9, 2015

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15 JUN -9 AM 10:56  
COMMISSION  
CLERK

Eugene and Rita Kolbe  
8014 CR 109 D  
Lady Lake, FL 32159

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

Dear Mr. and Mrs. Kolbe:

Thank you for the utility bills you provided the Commission staff at the Cedar Acres, Inc. (Cedar Acres or Utility) customer meeting. To ensure that the Commission staff and the Commissioners have knowledge of your concerns, these bills has been placed on the correspondence side of the docket file for all to review.

With respect to the development of rates, the Commission is required to set rates that are just, reasonable, compensatory, and not unfairly discriminatory. To determine the appropriate rates for service, the Commission uses a rate of return methodology as set forth in Chapter 367, Florida Statutes. Under the rate of return methodology, a utility is allowed 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.

There are many factors that affect the cost of providing service and hence, the rate charged to customers. Some 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 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.

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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) 413-7003 or email me at [lsmith@psc.state.fl.us](mailto:lsmith@psc.state.fl.us).

Sincerely,

A handwritten signature in cursive script that reads "Lee Smith".

Lee Smith  
Public Utility Analyst  
Florida Public Service Commission

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