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

Public Service Commission

June 14, 2000

Mr. Charles F. Chapin
Cottage 6, Pink Promenade
Useppa Island
c/o P.O. Box 640
Bokeelia, Florida 33922

Re: Application of Useppa Island Utility, Inc. For a Limited Proceeding to Increase Wastewater Rates in Lee County

Dear Mr. Chapin:

Thank you for your comments regarding the limited proceeding for Useppa Island Utility, Inc. (Useppa or utility). Section 367.081(2)(a)(1), Florida Statutes, states:

The commission shall, either upon request or upon its own motion, fix rates which are just, reasonable, compensatory, and not unfairly discriminatory. In every such proceeding, the commission shall consider the value and quality of the service and the cost of providing the service, which shall include, but not be limited to, debt interest; the requirements of the utility for working capital; maintenance, depreciation, tax, and operating expenses incurred in the operation of all property used and useful in the public service; and a fair return on the investment of the utility in property used and useful in the public service.

APP _____ Rate Base consists of the investor-owned plant facilities and other assets used in supplying utility
 CAF _____ service to the consumer. This investment base is the amount to which the rate of return is applied
 CMP _____ (i.e., Rate Base x Rate of Return = Net Operating Income). In Useppa's last rate case, water system
 COM _____ rate base totaled \$101,752, and wastewater rate base totaled \$24,583. By Order No PSC-97-0930,
 CTR _____ FOF-WS, the Commission approved a rate of return of 9.75% for the utility. Rates are calculated
 ECR _____ by determining Useppa's operating costs (operation and maintenance expenses, depreciation, taxes
 LEG _____ other than income) and adding the utility's net operating income.
 OPC _____
 PAI _____
 RGO _____
 SEC _____
 SER _____
 OTH _____

The Commission examines each cost of the utility during a rate proceeding to determine prudence and reasonableness. An engineering analysis is also completed to determine if the utility is operating efficiently. In this instance, after reviewing the utility's 1999 annual report, we have

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Mr. Charles F. Chapin

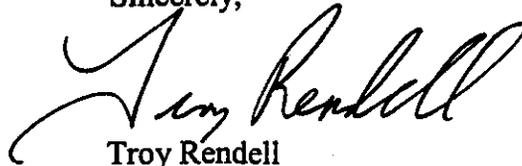
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decided to audit the utility's books using a calendar test year ending December 31, 1999. We are doing this to insure that the utility will not overearn on an overall basis should staff recommend approval of the requested wastewater revenue increase. Although the utility's 1999 annual report showed a wastewater net operating loss of \$27,128, it also showed a net operating income of \$49,247 for the water system. We anticipate an audit completion date of July 31, 2000. After we have reviewed the audit, a recommendation will be filed September 7, 2000 for consideration by Commissioners at the October 9, 2000 Agenda.

I apologize for the delay in a response to your comment letter. Our division just received a copy of your letter today, June 14, 2000. A copy of your comment has been placed in the official docket file for review of any interested parties. Please be assured that staff will only recommend rates which are just, reasonable, and compensatory. If you have any questions, please don't hesitate to contact Bob Casey at (850) 413-6974, or me at (850) 413-6934.

Sincerely,



Troy Rendell
Public Utilities Supervisor

TR/rc

cc: Division of Economic Regulation (Willis, Casey, Ted Davis, Wetherington)
Division of Legal Services (Brubaker)
~~Division of Records Management (331000-WS)~~
Useppa Island Utility, Inc.