

**Florida
Public
Utilities
Company**

401 South Dixie Highway
West Palm Beach, Fl 33401

April 26, 1999

990535-WU

The Honorable Joe A. Garcia, Chairman
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Fl 32399-0850

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Florida Public Service Commission
Division of Water and Wastewater

Dear Chairman Garcia:

On behalf of Florida Public Utilities Company (Company), this is to request approval of a test year to be used for the purpose of submitting an application to the Florida Public Service Commission (Commission) for general rate relief.

The Company's last water rate case was effective May 11, 1987, in Docket No. 860662-WU. The Company is experiencing a declining rate of return on its water operations in Fernandina Beach and finds it necessary to request an increase in rates and charges in order to have the opportunity to earn a fair rate of return on investment.

We request that the Commission approve the historic twelve month period ended December 31, 1998 projected to the twelve month period ending December 31, 2000 as the test year for our petition to increase our rates and charges. We offer the following reasons for approval of this period:

1. The Company's last petition for full rate relief was filed in October 1986.
2. Our estimated rate of return for the twelve-month period ended December 31, 1998 was 8.38% and it is expected to decline further based on our projections for 1999 and 2000.
3. Since the last rate case and in recent history we have experienced increased replacement plant costs; plant expansion and improvement projects due to significant population growth and new regulations; recent significant improvements to our # 2 Waterworks high service pump and building; and an increase in operation expenses. All of these have contributed to the current inadequate rate of return.
4. Significant system improvement projects are underway and are expected to be complete in 1999. The largest project involves improvements to our #1 Waterworks and is expected to cost over \$ 1,000,000. Also, in 2000, construction of a major loop main (from Casenwood to Minor Road and Bailey Road to Airport) is expected to cost over \$ 500,000.

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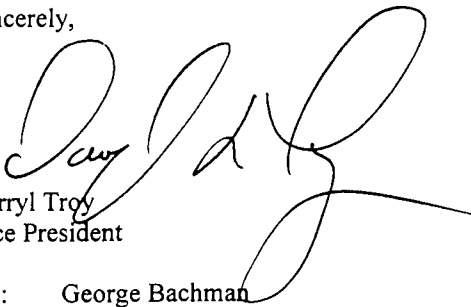
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5. A projected test year would be more representative of normal Company operations for a twelve-month period. The historic year was an unusual year in regard to water sales. This was due to two extensive drought periods. There was also warmer than normal average temperatures, which extended the growing season.
6. The projected test year 2000 would coincide with the implementation of any authorized increase in rates in this proceeding.

We plan to file the minimum filing requirements ("MFRs") for rate relief no later than August 1, 1999. We also anticipate filing under the Proposed Agency Action. If any additional information is needed, please let us know.

Sincerely,



Darryl Troy
Vice President

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