



Public Service Commission

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RECORDS AND REPORTING
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DATE: DECEMBER 19, 2000

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF ECONOMIC REGULATION (B. DAVIS EDWARDS) *ED*
 MERCHANT, CROUCHY *MC*
 DIVISION OF LEGAL SERVICES (JAEGER) *JS*

RE: DOCKET NO. 001806-WU - PETITION FOR LIMITED PROCEEDING TO INCREASE RATES IN NASSAU COUNTY BY FLORIDA PUBLIC UTILITIES COMPANY (FERNANDINA BEACH SYSTEM).
 COUNTY: NASSAU

AGENDA: 04/03/2001 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\001806.RCM

CASE BACKGROUND

Florida Public Utilities Company (FPUC or utility) is a class A utility providing electric, gas, and water service to various areas in Florida. The Fernandina Beach division in Nassau County (county), furnished electricity and water service to approximately 12,500 electric customers and 6,665 water customers as of December 31, 1999. In its 1999 annual report, the utility recorded operating revenues of \$2,400,711 for its water service and a net operating income of \$547,594. FPUC is located in a critical use area as designated by the St. Johns River Water Management District (SJRWMD). The Fernandina Beach division is the sole division within the company providing water service. Water rates were last established for this utility by Order No. PSC-00-0248-PAA-WU, issued February 7, 2000, in Docket No. 990535-WU, consummated by Order No. PSC-00-0434-CO-WU, issued March 2, 2000.

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 FPSC-RECORDS/REPORTING

On December 19, 2000, FPUC filed this Application for a Limited Proceeding Rate Increase in Nassau County. The utility requested that this application be processed using the Commission's Limited Proceeding, Section 367.0822, Florida Statutes, and Proposed Agency Action (PAA), Section 367.081(8), Florida Statutes, procedures. The utility is requesting additional revenues of \$240,558, an increase of 9.02% over test year revenues.

The utility states in its application that the original plan to place new wells and storage tanks at Plants 1 and 2, which was examined and approved in Docket No. 990535-WU, had to be revised due to permitting problems. A third plant location was agreed upon by the utility, Department of Environmental Protection (DEP), SJRWMD, and County officials. As a consequence of this action, there are other items added also in addition to those approved in Docket No. 990535-WU.

As part of the PAA process, staff held a customer meeting on February 21, 2001, in Fernandina Beach, Florida. Two customers attended, along with representatives of FPUC, DEP, one commissioner, and Commission staff. According to both customers, their concerns were satisfactorily addressed by staff and the utility.

The Commission has jurisdiction pursuant to Sections 367.011(2) and 367.0822, Florida Statutes. Staff's recommendation addresses our analysis of the requested additional costs, the revenue increase and the rate increase.

DISCUSSION OF ISSUES

ISSUE 1: Should FPUC's request for a limited proceeding increase be granted?

RECOMMENDATION: Yes. An annual revenue increase of \$239,185 (8.97%) should be granted. (B. Davis, Edwards)

STAFF ANALYSIS: As part of Docket No. 990535-WU, the utility's most recent rate proceeding, the utility presented a 1993 study of the complete water system contracted by the utility. This study was a comprehensive analysis of the system, at that time, and recommended system improvements to meet the demands of growth and regulatory requirements. These improvements primarily consisted of new wells, elevated storage tanks, telemetry system for monitoring and control, and high service pumping at the utility's existing No. 1 and No. 2 water treatment plants, along with various main loops to increase flow and pressure. The recommended improvements were completed by 1999, with the exception of a water tower at the utility's No. 2 plant and a few main loops, and were included in Docket No. 990535-WU.

According to FPUC, growth in excess of the study projections necessitated an additional well, increased high service pumping capacity and elevated storage. A permit for an additional well at the No. 2 plant was denied and contamination precluded an additional well at the No. 1 plant. The focus of the project then shifted to relocating the well, high service pumping and elevated tower to the site of the proposed No. 3 plant at the airport. Due to extensive permitting required by the Federal Aviation Administration (FAA), the construction of the elevated storage tank at the airport was deferred until 2002. FPUC then revised the plan to include additional wells, ground storage and high service pumping at the proposed No. 3 plant site to meet the plan requirements. The project, as revised, was included in the rate proceeding.

According to the utility's application in this case, after the conclusion of the rate case, several changes were recommended by the contracted engineers which increased the project cost. The additions included a fire pump at the new No. 3 plant to insure proper flow in the event of a fire until the completion of the elevated storage tank, a high service pump building, additional mains and several regulatory driven reports and permit fees. Construction on these additional items began in 2000 and are to be completed by March, 2001.

Also, according to the utility's application, the City of Fernandina Beach proposed construction of a new main from the airport to the new plant site to provide fire protection for the airport, which was mostly funded by the FAA. FPUC determined that a larger main was needed for interconnection with the new No. 3 plant, located near the airport, and is funding the additional cost. Also, the additional size of the system, due to these improvements, necessitated an additional supervisor.

These improvements are being made with the guidance and support of DEP, SJRWMD, the county and the utility's consulting engineer. The utility believes that these improvements will resolve the concerns of customers and various regulatory agencies discussed in Docket No. 990535-WU. As a result of these additional costs, the utility claims the utility's earnings will fall below the range authorized in Docket No. 990535-WU.

The additional costs of the project approved in Docket No. 990535-WU requested by FPUC in this case, include \$540,247 in additional rate base and \$93,803 in additional expense. At the return on investment authorized in Docket No. 990535-WU of 9.10%, FPUC claims that the revenues would fall \$142,966 short of a fair rate of return. Using the 1.682638 expansion factor from the rate case, FPUC calculates the additional revenue required to be \$240,558.

Rate Base

FPUC has requested \$540,247 in additions to rate base which include:

Additional costs of a well, motors, pumps, piping, building, shelter, road and parking, telemetry, meters, generator and switching, engineering and permits at the new No. 3 plant site which exceed the amounts approved as relocations of plan requirements in Docket No. 990535-WU by \$230,000;

\$63,121 in additional costs of the Airport Road main extension to connect with new No. 3 plant site;

\$200,000 to lay the 14th Street main to connect the new well and storage facility at the No. 3 plant site to the distribution system;

A vehicle for the new water supervisor costing \$22,000;

Expansion of the storage facility costing an additional \$15,203; and

The \$9,923 unamortized portion of the administrative expenses of filing this limited proceeding.

Net Operating Income

FPUC has requested to increase operating expenses by \$93,803 as follows:

\$48,000 for the salary and benefits of the additional water supervisor;

\$5,866 in additional transportation expenses for the new supervisor;

\$14,784 for the land lease for No. 3 plant site;

\$2,400 in additional electric expense for the pumping equipment;

\$56,441 in additional property taxes;

\$17,946 in additional depreciation;

\$4,961 for amortization of the administrative expenses of filing this limited proceeding; offset by a

\$56,595 decrease in income tax expense.

Staff has examined the utility's request and believes that the plant additions of \$530,324 are reasonable and necessary additions to the projects approved in Docket No. 990535-WU, in light of the revised permitting problems. We believe that the additions conform with the utility's agreement with DEP, SJRWMD, and county officials. These projects were discussed and approved in Docket No. 990535-WU and while these projects will provide additional capacity, the total capacity will still not be sufficient to serve the statutory five-year growth allowance required by Section 367.081(2)(a)2.b., Florida Statutes. The capacity of the No. 1 plant and No. 2 plant, considered in the prior rate case, provided only 67% of the growth allowance. The construction and installation of additional components (the wells, pumps, storage tanks and lines), which would increase the plant's capacity, were considered in the previous case as expansions to the existing plant

Nos. 1 & 2. Problems in obtaining site permits caused the utility to change its plan and place the new wells, storage tanks, etc. at a new, third location. This plant No. 3 was not considered in the prior case although the new wells and storage tanks were addressed and approved in that case. The new siting requirements and associated components and the additional expense incurred are the factors being considered in this case. Staff calculations indicate that even with the additional capacity from Plant No. 3 the utility will not exceed the growth allowance in Docket No. 990535-WU and staff recommends that the plant remains 100% used and useful.

Staff is recommending two adjustments to the utility's request. The utility has included a full year of pro forma depreciation expense, but has failed to include any provision for accumulated depreciation in its rate base adjustment. Staff recommends that accumulated depreciation be adjusted to reflect the pro forma depreciation expense recognized in operating income. The rate base addition should be reduced by \$17,946 to show the pro forma accumulated depreciation.

The utility has included \$9,923, as an increase to working capital. This represents 50% of \$19,845, the total rate case expenses of this case. The utility has not proposed any other adjustments to working capital. The allowance for working capital was projected and approved by the Commission in the utility's last case. Staff believes that it is inappropriate to adjust only one part of working capital without considering those other components which could also change as a result of the rate base and operating expense requested in this case. Also, staff is recommending the allowance of \$4,961 in expenses for rate case expense. This presumes that all of the rate case expense will be amortized in four years as allowed by Section 367.0816, Florida Statutes. Accordingly, staff recommends removing the utility's requested adjustment to rate base of \$9,923 i.e., removing the utility's increase to working capital. Based on staff's recommended adjustments, rate base should be increased by \$512,378.

The staff engineer has reviewed the addition of the water supervisor, land lease, electric and transportation expenses and has found them to be reasonable and necessary. The calculations of the property taxes, depreciation and amortization are consistent with those approved in Docket No. 990535-WU. Staff has reviewed the \$19,845 of requested rate case expense associated with the case and the utility's allocation of one fourth, or \$4,961, as expense. We believe that the expense is reasonable and the allocation proper. Therefore, staff recommends no adjustment to the operating expenses proposed by the utility.

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The overall rate of return approved for FPUC in Docket No. 990535-WU was 9.11%, with a range of 8.69% to 9.52%. To test the achieved return assertions made by the utility in the filing, staff has added the recommended adjustments to rate base and operating expenses to the amounts approved in Docket No. 990535-WU. This addition shows an achieved overall rate of return of 7.61%, which is below the range approved in the last rate case.

As shown on attached Schedule No. 1, staff has calculated a revenue deficiency of \$140,430. Applying the expansion factor from Order No. PSC-00-0248-PAA-WU, in Docket No. 990535-WU, the additional revenue recommended by staff is \$236,291, as shown on attached Schedule No. 1. This is an increase of 8.86%. Staff recommends that the rates approved in Docket No. 990535-WU be increased across the board by 8.86% to allow the utility the opportunity to recover these additional costs.

ISSUE 2: What are the appropriate water rates for this limited proceeding?

RECOMMENDATION: The recommended water rates should be designed to produce additional annual operating revenues of \$236,291 or an 8.86% increase over the present rates, as shown on attached Schedule No. 2. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code. The rates should not be implemented until staff has approved the proposed customer notice, and the notice has been received by the customers. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (B. DAVIS)

STAFF ANALYSIS: The permanent water rates requested by the utility are designed to produce additional annual operating revenues of \$240,558 for water based on the test year ending March 31, 2001. This request would amount to an increase of 9.02% across the board to the current rates.

The utility has requested no adjustment for repression in this limited proceeding. Repression along with a conservation rate structure were considered and approved in Docket No. 990535-WU. It has only been a year since the issuance of Order No. PSC-00-0248-PAA-WU in that docket and that is an insufficient amount of time to measure the impact of those adjustments. Thus, staff believes that it is appropriate to maintain the rate structure and consumption blocks approved in that order.

Based on staff's recommended adjustments to the utility's request, staff recommends that the final water rates approved for the utility should be designed to produce additional annual operating revenues of \$236,291, an increase of 8.86% across the board to the current rates.

The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets, pursuant to Rule 25-30.475, Florida Administrative Code, provided that the customers have received noticed. The revised tariff sheets should be approved upon staff's verification that the tariff is consistent with the Commission's decision, that the protest period has expired, and that the proposed customer notice is adequate.

The comparison of the utility's original rates, requested rates and staff's recommended rates is shown on Schedule No. 2.

ISSUE 3: Should this docket be closed?

RECOMMENDATION: Yes. If no person whose substantial interests are affected by the proposed agency action files a protest within twenty-one days of the issuance of the order, this docket should be closed upon the issuance of a consummating order, and staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff. (JAEGER)

STAFF ANALYSIS: If no person whose substantial interests are affected by the proposed agency action files a timely request for a Section 120.57, Florida Statutes, hearing within the twenty-one day protest period, no further action will be required and this docket should be closed upon the issuance of a consummating order, and staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff.

**FLORIDA PUBLIC UTILITIES COMPANY
 TEST YEAR ENDED 03/31/2001
 REVENUE REQUIREMENT CALCULATION**

**SCHEDULE NO. 1
 DOCKET 001806-WU**

	<u>Utility</u>	<u>Adjustment</u>	<u>Staff</u>
Additional Expenses			
Water Supervisor	\$48,000	\$0	\$48,000
No. 3 Water Treatment Plant Site Land Lease	14,784	0	14,784
Utilities	2,400	0	2,400
Transportation Expenses for New Supervisor	<u>5,866</u>	<u>0</u>	<u>5,866</u>
Total O & M Expense Increase	\$71,050	\$0	\$71,050
Depreciation on Plant Increase	17,946	0	17,946
Amortization of Limited Proceeding Expenses	4,961	0	4,961
Personal Property Tax	54,748	0	54,748
Real Property Tax	<u>1,693</u>	<u>0</u>	<u>1,693</u>
Total Expenses	\$150,398	\$0	\$150,398
Income Tax Reduction @ 37.63%	<u>(56,595)</u>	<u>0</u>	<u>(56,595)</u>
Net Additional Expenses	<u>\$93,803</u>	<u>\$0</u>	<u>\$93,803</u>
Increase in Rate Base			
Additional Plant	\$530,324	\$0	\$530,324
Additional Accumulated Depreciation	0	(17,946)	(17,946)
Unamortized Limited Proceeding Expense	<u>9,923</u>	<u>(9,923)</u>	<u>0</u>
Total Increase in Rate Base	\$540,247	(\$27,869)	\$512,378
Rate of Return per Order	<u>9.10%</u>		<u>9.10%</u>
Increase in Investment	<u>\$49,162</u>	<u>(\$1,633)</u>	<u>\$46,626</u>
Net Operating Income Deficiency	\$142,966	(\$1,633)	\$140,430
Revenue Expansion Factor	<u>1.682638</u>		<u>1.682638</u>
Additional Revenue Requirement	<u>\$240,558</u>	<u>(\$2,748)</u>	<u>\$236,291</u>
Annualized Test Year Revenue	<u>\$2,666,908</u>	<u>\$0</u>	<u>\$2,666,908</u>
Percent Increase in Revenue	<u>9.02%</u>	<u>-0.10%</u>	<u>8.86%</u>

**FLORIDA PUBLIC UTILITIES COMPANY
 WATER MONTHLY SERVICE RATES
 TEST YEAR ENDED 03/31/2001**

**SCHEDULE NO. 2
 DOCKET 001806-WU**

		Rates Prior to Filing	Utility Requested Final	Staff Recomm. Final
Residential				
Base Facility Charge:				
Meter Size:	5/8"	\$8.57	\$9.34	\$9.34
	1"	\$21.43	\$23.36	\$23.36
	2"	\$68.56	\$74.74	\$74.63
	3"	\$128.55	\$140.15	\$139.94
	4"	\$214.25	\$233.58	\$233.23
Charge Per CCF	0-10 CCFs	\$0.87	\$0.95	\$0.95
	10-25 CCFs	\$1.09	\$1.19	\$1.19
	>25 CCFs	\$1.31	\$1.43	\$1.43
General Service (Commercial, Industrial, and Public Authority)				
Base Facility Charge:				
Meter Size:	5/8"	\$8.57	\$9.34	\$9.34
	1"	\$21.43	\$23.36	\$23.36
	2"	\$68.56	\$74.74	\$74.63
	3"	\$149.98	\$163.51	\$163.27
	4"	\$257.10	\$280.29	\$279.88
	6"	\$535.63	\$583.94	\$583.09
	8"	\$771.30	\$840.87	\$839.64
	10"	\$1,242.65	\$1,354.74	\$1,352.75
Charge Per CCF		\$1.04	\$1.13	\$1.13
Fire Hydrant Service				
Meter Size:	4"	\$81.39	\$88.73	\$88.60
	5"	\$124.02	\$135.21	\$135.01
	6"	\$167.97	\$183.12	\$182.85
Automatic Sprinkler System Service				
Meter size:	2"	\$5.71	\$6.23	\$6.22
	4"	\$21.43	\$23.36	\$23.32
	6"	\$44.64	\$48.67	\$48.59
	8"	\$64.28	\$70.08	\$69.97
	10"	\$103.55	\$112.89	\$112.73
5/8" x 3/4" Typical Residential Bills				
	4 CCF	\$12.05	\$13.14	\$13.13
	16 CCF	\$23.81	\$25.98	\$25.97
	30 CCF	\$40.17	\$43.84	\$43.83