

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for limited proceeding to increase rates in Nassau County by Florida Public Utilities Company (Fernandina Beach System).

DOCKET NO. 001806-WU  
ORDER NO. PSC-01-0996-PAA-WU  
ISSUED: April 23, 2001

The following Commissioners participated in the disposition of this matter:

E. LEON JACOBS, JR., Chairman  
J. TERRY DEASON  
LILA A. JABER  
BRAULIO L. BAEZ  
MICHAEL A. PALECKI

NOTICE OF PROPOSED AGENCY ACTION  
ORDER GRANTING APPLICATION FOR LIMITED PROCEEDING AND  
APPROVING INCREASED RATES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

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

DOCUMENT NUMBER-DATE

05034 APR 23 2001

FPSC-REGONDO-REPORTING

ORDER NO. PSC-01-0996-PAA-WU  
DOCKET NO. 001806-WU  
PAGE 2

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.

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 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 water treatment Plants Nos. 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, our 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 our staff. According to both customers, their concerns were satisfactorily addressed by our staff and the utility.

We have jurisdiction pursuant to Sections 367.011(2) and 367.0822, Florida Statutes.

#### LIMITED PROCEEDING

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

Plants Nos. 1 and No. 2, 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 Plant No. 2 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 Plant No. 2 was denied and contamination precluded an additional well at Plant No. 1. The focus of the project then shifted to relocating the well, high service pumping and elevated tower to the site of the proposed Plant No. 3 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 Plant No. 3 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 Plant No. 3 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 was 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 Plant No. 3, 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.

We find 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. It appears 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 Plants No. 1 and No. 2, 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. Even with the additional capacity from Plant No. 3, the utility will not exceed the growth allowance in Docket No. 990535-WU and the plant remains 100% used and useful.

We note that 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. Therefore, accumulated depreciation shall be adjusted to reflect the pro forma depreciation expense recognized in operating income. The rate base addition shall 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. We projected and approved the allowance for working capital in the utility's last case. We find 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, we find that \$4,961 in expenses for rate case expense is appropriate. This presumes that all of the rate case expense will be amortized in four years as allowed by Section 367.0816, Florida Statutes. Accordingly, we have removed the utility's requested adjustment to rate base of \$9,923 i.e., the utility's increase to working capital. Based on our adjustments, rate base is increased by \$512,378.

Based upon our staff engineer's review, we find that the addition of the water supervisor, land lease, electric and transportation expenses to be reasonable and necessary. The calculations of the property taxes, depreciation and amortization are consistent with those approved in Docket No. 990535-WU. Moreover, we find that the \$19,845 of requested rate case expense associated with the case is reasonable, and when amortized over four years, the utility's calculation of an annual rate case expense of \$4,961 is correct. Therefore, we have made no adjustment to the operating expenses proposed by the utility.

Cost of Capital

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%. Adding the adjustments to rate base and operating expenses to the amounts approved in Docket No. 990535-WU, we calculate that FPUC has achieved an overall rate of return of 7.61%, which is below the range approved in the last rate case.

Revenue Requirement

As shown on attached Schedule No. 1, we have 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 required is calculated to be \$236,291. This calculation is shown on attached Schedule No. 1, and represents an increase of 8.86%. Therefore, the rates approved in Docket No. 990535-WU shall be increased across the board by 8.86% to allow the utility the opportunity to recover these additional costs.

RATES

The utility has requested permanent water rates 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, we find it is appropriate to maintain the rate structure and consumption blocks approved in that order.

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

ORDER NO. PSC-01-0996-PAA-WU  
DOCKET NO. 001806-WU  
PAGE 8

The approved rates shall 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 notice. The revised tariff sheets shall be approved upon our staff's verification that the tariff is consistent with our decision, that the protest period has expired, and that the proposed customer notice is adequate.

The comparisons of the utility's original rates, requested rates and our approved rates are shown on Schedule No. 2.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the petition for a limited proceeding to implement increased water rates is granted as set out in the body of this Order. It is further

ORDERED that, prior to implementing the rates approved herein, Florida Public Utilities Corporation shall submit revised tariff pages reflecting the rates approved herein. It is further

ORDERED that, prior to implementing the rates approved herein, Florida Public Utilities Corporation shall submit for approval by our staff a proposed notice to its customers of the rates approved herein. It is further

ORDERED that, in accordance with Rule 25-30.475, Florida Administrative Code, the rates approved herein shall be effective for services rendered on or after the stamped approval date on the revised tariff pages, provided the customers have received notice. It is further

ORDERED that the revised tariff pages shall be approved upon staff's verification that they are consistent with our decision herein and that the proposed customer notice is adequate. It is further

ORDERED that Florida Public Utilities Corporation shall submit written proof that notice was given to its customers no later than ten days after notice is given. It is further



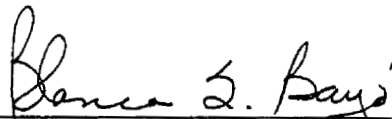
ORDER NO. PSC-01-0996-PAA-WU  
DOCKET NO. 001806-WU  
PAGE 9

ORDERED that all matters contained in the body of this Order and in the schedules and attachments hereto are by reference incorporated herein. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that 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 shall be closed upon the issuance of a consummating order, and our staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff.

By ORDER of the Florida Public Service Commission this 23rd day of April, 2001.



---

BLANCA S. BAYÓ, Director  
Division of Records and Reporting

( S E A L )

RRJ

ORDER NO. PSC-01-0996-PAA-WU  
DOCKET NO. 001806-WU  
PAGE 10

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing that is available under Section 120.57, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on May 14, 2001.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

**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>COMMN</u>
<b>Additional Expenses</b>			
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>
<b>Total O &amp; M Expense Increase</b>	<b>\$71,050</b>	<b>\$0</b>	<b>\$71,050</b>
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>
<b>Total Expenses</b>	<b>\$150,398</b>	<b>\$0</b>	<b>\$150,398</b>
Income Tax Reduction @ 37.63%	<u>(56,595)</u>	<u>0</u>	<u>(56,595)</u>
<b>Net Additional Expenses</b>	<b><u>\$93,803</u></b>	<b><u>\$0</u></b>	<b><u>\$93,803</u></b>
<b>Increase in Rate Base</b>			
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>
<b>Total Increase in Rate Base</b>	<b>\$540,247</b>	<b>(\$27,869)</b>	<b>\$512,378</b>
Rate of Return per Order	<u>9.10%</u>		<u>9.10%</u>
<b>Increase in Investment</b>	<b><u>\$49,162</u></b>	<b><u>(\$1,633)</u></b>	<b><u>\$46,626</u></b>
<b>Net Operating Income Deficiency</b>	<b>\$142,966</b>	<b>(\$1,633)</b>	<b>\$140,430</b>
<b>Revenue Expansion Factor</b>	<b><u>1.682638</u></b>		<b><u>1.682638</u></b>
<b>Additional Revenue Requirement</b>	<b><u>\$240,558</u></b>	<b><u>(\$2,748)</u></b>	<b><u>\$236,291</u></b>
<b>Annualized Test Year Revenue</b>	<b><u>\$2,666,908</u></b>	<b><u>\$0</u></b>	<b><u>\$2,666,908</u></b>
<b>Percent Increase in Revenue</b>	<b><u>9.02%</u></b>	<b><u>-0.10%</u></b>	<b><u>8.86%</u></b>

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

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

		<b>Rates Prior to Filing</b>	<b>Utility Requested Final</b>	<b>Commn. Approved Final</b>
<b>Residential</b>				
Base Facility Charge:				
Meter Size:	5/8"	\$8.57	\$9.34	\$9.33
	1"	\$21.43	\$23.36	\$23.33
	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
<b>General Service (Commercial, Industrial, and Public Authority)</b>				
Base Facility Charge:				
Meter Size:	5/8"	\$8.57	\$9.34	\$9.33
	1"	\$21.43	\$23.36	\$23.33
	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
<b>Fire Hydrant Service</b>				
Meter Size:	4"	\$81.39	\$88.73	\$88.60
	5"	\$124.02	\$135.21	\$135.01
	6"	\$167.97	\$183.12	\$182.85
<b>Automatic Sprinkler System Service</b>				
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"		<b>Typical Residential Bills</b>		
	4 CCF	\$12.05	\$13.14	\$13.13
	16 CCF	\$23.81	\$25.98	\$25.97
	30 CCF	\$40.17	\$43.84	\$43.83