

FLORIDA PUBLIC SERVICE COMMISSION  
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M E M O R A N D U M

JULY 6, 1995

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING

FROM: DIVISION OF WATER & WASTEWATER (GALLOWAY, CLARK, WALDEN)  
DIVISION OF LEGAL SERVICES (JAEGER)

RE: UTILITY: FLORIDA CITIES WATER COMPANY - NORTH FORT  
MYERS WASTEWATER DIVISION  
DOCKET NO: 950387-SU  
COUNTY: LEE COUNTY  
CASE: PETITION FOR INCREASED RATES

AGENDA: JULY 18, 1995 - REGULAR AGENDA - DECISION ON SUSPENSION  
OF RATES - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: 60-DAY SUSPENSION DATE: JULY 18, 1995  
5 MONTH EFFECTIVE DATE: OCTOBER 19, 1995

SPECIAL INSTRUCTIONS: NONE

FILE NAME: I:\PSC\WAW\WP\950387.RCM

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

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CASE BACKGROUND

Florida Cities Water Company (FCWC or utility) is a Class A utility that provides wastewater service for two communities in Ft. Myers, Florida: a northern sector and a southern sector. The North Ft. Myers wastewater system, the applicant in this proceeding, was serving about 2,559 customers at December 31, 1994. Because many multi-family units are master-metered, about 4,590 equivalent residential connections (ERCs) were actually being served. The utility serves an area that has been designated by the South Florida Water Management District as a critical use area.

On May 2, 1995, the utility filed an application for approval of increased rates pursuant to Section 367.081, Florida Statutes. The petition did not satisfy the minimum filing requirements (MFRs) and submission of additional data was necessary. The missing information was received on May 19, 1995, which date was declared as the official date of filing pursuant to Section 367.083, Florida Statutes. The utility's last rate case was finalized on July 1, 1992, by Order No. PSC-92-0594-FOF-SU, Docket No. 910756-SU. In 1994, the utility's rates were increased due to an index proceeding. The utility has asked the Commission to process this application under the proposed agency action (PAA) procedures identified in Section 367.081(8), Florida Statutes.

The utility did not request authority to implement interim rates. Schedules in the filing indicate receipt of a 6.71% return on average investment in 1994. The utility's last allowed overall rate of return was 9.14%. The utility reported that rate indexing procedures helped it maintain a satisfactory return. However, the utility now contends that rate increases are needed to reflect added investments and expenses. According to the utility, it will spend about \$1,600,000 in 1995 to increase the capacity of its wastewater plant from 1 MGD (million gallons per day) to 1.25 MGD. This construction project is scheduled to be completed on or before October 1, 1995. The utility believes the magnitude of this investment justifies an end-of-period rate base determination.

The approved test year for this docket is the twelve-month period ending December 31, 1995. That calendar period is based upon actual costs for the historical base year ended December 31, 1994, with applicable adjustments to reflect updated expenses and investments. During the base year, the utility's wastewater revenues were \$2,085,157. The corresponding net operating income for the period was \$474,319. The utility's proposed rates are designed to generate \$2,591,990 in annual operating revenues, reflecting a \$480,078 (22.73%) overall increase. The requested net

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operating income amount of \$763,108 will yield a 9.08% return on the projected \$8,404,278 rate base balance.

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**ISSUE 1:** Should the utility's proposed rates be suspended?

**RECOMMENDATION:** Yes. The utility's proposed rates should be suspended pending further investigation by staff. (CLARK)

**STAFF ANALYSIS:** Section 367.081(6), Florida Statutes, provides that the rate schedules proposed by the utility shall become effective within sixty (60) days after filing unless the Commission votes to withhold consent to implementation of the requested rates. Further, pursuant to Section 367.081(8), the utility is allowed to implement its requested rates, under bond, five (5) months after filing unless final action has been taken by the Commission.

Staff has reviewed the filing and has considered the proposed rates, the revenues thereby generated, and the information filed in support of the rate application. We believe it is reasonable and necessary to require further amplification and explanation of this data and to require production of corroborative information, if necessary. The utility has proposed several adjustments to its rate base, cost of capital, and operating income statements. Our examination of these and other matters will include on-site investigations by staff accountants, engineers, and rate specialists. In consideration of the above, staff recommends suspension of the proposed rate schedules.