

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Investigation of) DOCKET NO. 940664-GU
earnings of WEST FLORIDA NATURAL) ORDER NO. PSC-94-1136-FOF-GU
GAS COMPANY.) ISSUED: September 15, 1994

The following Commissioners participated in the disposition of this matter:

J. TERRY DEASON, Chairman
SUSAN F. CLARK
JULIA L. JOHNSON
DIANE K. KIESLING
JOE GARCIA

NOTICE OF PROPOSED AGENCY ACTION

ORDER APPROVING COMPANY'S
PROPOSAL REGARDING EXCESS EARNINGS

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.

Due to the high level of West Florida Natural Gas Company's (West Florida or Company) current earnings, by Order No. PSC-94-0912-GU, issued July 25, 1994, the Commission ordered that \$238,036 be held subject to refund and that a full revenue requirements proceeding be initiated. As part of the rate case, the Company was ordered to file minimum filing requirements (MFRs) by December 15, 1994. Staff recommended that the MFRs be filed by October 31, 1994. However, the Company requested an additional 45 days before the MFRs were to be filed to facilitate settlement as to disposition of the excess earnings.

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

PROPOSAL REGARDING EXCESS EARNINGS

To address the issue of its excess earnings and avoid filing MFRs by December 15, 1994, West Florida submitted a proposal for consideration. The Company proposes to cap its 1995 fiscal year earnings at 12.0% return on equity; to first apply any excess earnings for the 1994 and 1995 fiscal years to reduce its unamortized debt issuance cost; to treat its house piping program and the related expenses as a utility program effective July 1, 1994, and; to seek approval to treat its water heating rental program as a conservation program. The four elements of the proposal are discussed below.

12% Cap On Earnings: The proposed 12.0% cap on earnings represents the top of the currently authorized range approved in Order No. PSC-93-1777-FOF-GU, issued December 10, 1993. When the current 12% cap was established, the Commission did not reset rates. As a result, the Company has continued to earn at the rates that were approved in the Company's last rate case (Order No. PSC-92-0580-FOF-GU, issued June 29, 1992).

Disposition Of Excess Earnings: West Florida proposes to apply any excess earnings for fiscal years ending June 30, 1994 and June 30, 1995 to reduce its unamortized debt issuance cost. Excess earnings, above the amount of the unamortized debt issuance cost, would be subject to disposition by the Commission. Debt issuance cost is recovered through the overall cost of capital in that the calculation of the embedded cost of debt includes the amortization of debt issuance cost plus interest expense.

West Florida's total unamortized debt issuance cost as of June 30, 1994 was \$808,174. Approximately 37% of this amount is associated with debt that has been refinanced. In the Company's last rate case, the Commission found that refinancing was needed to allow the Company to finance its coal tar clean-up. However, the additional debt issuance cost due to the refinancing resulted in an increase in the Company's embedded cost of debt. For example, the embedded cost of debt was 12.42% while the ROE was established at 12.0%. Decreasing the unamortized debt issuance cost will reduce the embedded cost of debt and overall cost of capital.

House Piping Program: West Florida also proposes to treat its house piping and venting program as a utility program effective July 1, 1994. The costs for the program will be recovered "above the line," only if the Commission approves them as prudent. Costs incurred prior to July 1, 1994, will remain "below the line" and will not be recovered. West Florida's proposal is consistent with

the treatment of similar programs by other gas utilities. For example, in the last rate case for City Gas Company of Florida (Docket 891175-GU), the Commission accepted the inclusion of house piping and venting as a prudent utility expense.

Water Heating Rental Program: The Company proposes to seek approval, at a later date, of the water heating rental program as a conservation program. The Commission's approval of the program is not requested nor is it granted in this docket. Whenever a petition is filed by the Company to request approval, a complete analysis will be performed to determine whether the program is cost-effective and to determine its contribution to conservation goals. If the Commission approves such a petition, the costs and overhead allocations associated with the program will be recovered through the Energy Conservation Cost Recovery Clause. For surveillance purposes, the costs are now treated as non-utility, with direct costs and overhead allocations treated below the line.

Upon review, the Commission finds that the Company's proposal is reasonable and in the interests of both the Company and its ratepayers. A full rate case would entail a more intensive analysis of the Company's cost of capital and expenses and may possibly result in the Commission's approval of a return on equity below 12%. However, within the context of the overall proposal, the 12% cap on earnings and the other elements of the proposal are found to be prudent. In addition, implementation of this proposal, in lieu of the Company filing MRFs, would result in a considerable savings in litigation costs. Therefore, the Commission agrees with Staff's recommendation that the proposal be approved. The Commission reiterates that approval of the proposal shall not be construed as pre-approval of the water heating rental program as a conservation program.

FUNDS HELD SUBJECT TO REFUND
AND REQUIREMENT TO FILE MFRS

The 12% cap on the Company's return on equity for fiscal year ending June 30, 1995 and the requirement that excess earnings shall be subject to the Commission's jurisdiction, removes the need to hold the \$238,036 subject to refund. The \$238,036 was based on the Company's unaudited March 1994 Earnings Surveillance Report. The Commission's continuing jurisdiction obviates the immediate concerns regarding the Company's overearnings as per the March 1994 report. West Florida's actual earnings for fiscal year ending June 30, 1994 can now be evaluated before a determination is made of how to dispose of the overearnings. Therefore, West Florida shall be

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relieved of the requirement to hold \$238,036 subject to refund and to file MFRs by December 15, 1994.

Based on the foregoing, it is

ORDERED that West Florida Natural Gas Company's proposal as discussed in the body of this Order is approved. It is further

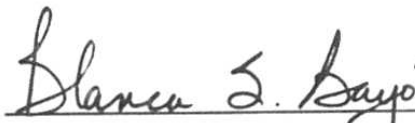
ORDERED that West Florida Natural Gas Company shall not be required to hold \$238,036 in excess earnings subject to refund. It is further

ORDERED that West Florida Natural Gas Company shall not be required to file minimum filing requirements by December 15, 1994. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective unless an appropriate petition, in the form provided by Rule 25-22.036, Florida Administrative Code, is received by the Director, Division of Records and Reporting, 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on the date set forth in the "Notice of Further Proceedings or Judicial Review" attached hereto. It is further

ORDERED that in the event this Order becomes final, this Docket should be closed.

By ORDER of the Florida Public Service Commission, this 15th day of September, 1994.



BLANCA S. BAYO, Director
Division of Records and Reporting

(S E A L)

VDJ

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, 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 or judicial review will be granted or result in the relief sought.

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting, 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on October 6, 1994.

In the absence of such a petition, this order shall become effective on the day subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

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.

If this order becomes final and effective on the date described above, any party substantially affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.