BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for a rate increase by FLORIDA PUBLIC UTILITIES COMPANY.	)	DOCKET NO. 940620-GU
	)	ORDER NO. PSC-95-0518-FOF-GU
	)	ISSUED: April 26, 1995
	)	

The following Commissioners participated in the disposition of this matter:

SUSAN F. CLARK, Chairman
JOE GARCIA
DIANE K. KIESLING

APPEARANCES:

Wayne L. Schiefelbein, Esquire, Gatlin, Woods, Carlson & Cowdery, 1709-D Mahan Drive, Tallahassee, Florida 32308 On behalf of Florida Public Utilities Company.

Michael Palecki, Esquire, and Vicki D. Johnson, Esquire, Florida Public Service Commission, 101 E. Gaines Street, Tallahassee, Florida 32399-0850
On behalf of the Commission Staff.

TABLE OF CONTENTS

ORDER GRANTING CERTAIN INCREASES

BY THE COMMISSION:

PURSUANT TO NOTICE, the Florida Public Service Commission held a public hearing on this matter in Tallahassee, Florida, on April 6, 1995. Having considered the record in this proceeding, the Commission now enters its Final Order.

BACKGROUND

This proceeding was initiated on September 23, 1994, when, pursuant to the provisions of Section 366.06, Florida Statutes, Florida Public Utilities Company ("FPUC" or the "company") filed its petition and Minimum Filing Requirements (MFRs), requesting authority to increase its rates and charges. The proposed rates were designed to generate a revenue increase of $2,079,120 based on a 13-month average rate base of $26,437,934 for the projected test year ending December 31, 1995. By Commission Order No. PSC-94-1519-FOF-GU, issued December 9, 1994, we suspended the utility's proposed permanent rates, but granted an interim increase of $386,927 based on a 13-month average rate base for the 12-month test period ending December 31, 1993.

Customer Service hearings were held in Orange City, Florida, on March 13, 1995, and in West Palm Beach, Florida, on April 5, 1995.

At the hearing on April 6, 1995, the company announced that in the interests of settlement, it had agreed with our staff's positions on the issues set forth in the Prehearing Order. Therefore, all factual issues in this proceeding have been stipulated. We accepted and approved the stipulation at the hearing.

I. STIPULATED TEST YEAR RATE BASE

The utility's rate base is the investment upon which it is entitled to earn a return. Once a rate base has been established, the test-period expense and rate of return are determined, and the revenue requirement can be calculated by multiplication. The stipulated test year rate base for FPUC is $27,241,536, calculated based on the adjustments discussed below. (See Attachment 1)

1. We increased Plant in Service $37,800 to update the estimated December 31, 1994 balances to reflect actual amounts.

2. We increased Plant in Service $520,743, increased Accumulated Depreciation $5,693 and increased Depreciation Expense $16,734, to include blanket construction projects that were omitted from 1995 projections.

3. Recognizing the 1995 blanket construction projects and 1994 actual plant, an additional adjustment was required to remove non-utility operations. Therefore, we reduced Plant in Service $22,300, reduced Accumulated Depreciation $26,783 and reduced Depreciation Expense $7,367.

4. In order to remove service lines that have been inactive for more than five years, we made an adjustment to reduce Plant in Service $22,531 and Accumulated Depreciation Reserve $23,286. In addition, we reduced Depreciation Expense $1,510, based on the depreciation rates approved in Docket No. 940734-GU.

5. Since the company has not started construction on the new addition to the general office building, we made an adjustment to reduce allocated common plant $337,195, reduce Accumulated Depreciation $11,462 and increase common plant Depreciation Expense $2,038. This adjustment also updates the projections to reflect actual 1994 amounts, and it reflects the new depreciation rates and the revised common plant allocation factors. We note that the consolidated gas division's allocated rate base associated with the expansion of the corporate headquarters and its related allocated expenses, such as depreciation, property taxes and moving expense, may properly be the subject of a limited proceeding for a rate increase under the appropriate circumstances (i.e., the company is not in an overearning position, timeliness, etc.).

6. The company properly recorded the Gun Club Estates and IBIS conversions from LP to natural Gas at original cost, therefore, no adjustment was necessary.

7. The company should include all gas plant under construction in rate base for all future purposes, such as surveillance reports and interim purposes, effective June 1, 1995. Also, the company's related allowance for funds used during construction (AFUDC) rate should be eliminated.

8. The company did not project any Construction Work in Progress (CWIP) for the projected test year, therefore, we made an adjustment to reclassify $298,194 from plant to CWIP. Also, we reduced Accumulated Depreciation $5,099 and Depreciation Expense $10,198.

9. We made an adjustment to reduce Depreciation Reserve by $493,096. This reduction reflects the new depreciation rates approved by the Commission in Docket No. 940734-GU, and updates the projections to reflect actual 1994 amounts.

10. We find the company's adjusted amount of $267,798 for customer advances for construction is appropriate, therefore, no further adjustment was necessary.

11. The stipulated projected test year Working Capital Allowance is $362,923, which includes $219,550 in cash, and the increases and decreases to Working Capital discussed in other adjustments. (See Attachment 1A) We also reduced Working Capital $70,213, which reflects the allowance of one-half of the unamortized rate case expense. Working Capital was further reduced $84,763, to remove the company's projected net gas underrecovery. In addition, we increased Working Capital $37,471. This increase reflects the reduction in Accrued Taxes Payable-Income so the rate base effect of adjustments for environmental costs would be revenue neutral.

II. STIPULATED TEST-YEAR OPERATING INCOME

Once a rate base is established, the next step is to determine the utility's Net Operating Income (NOI) for the test year. After NOI is determined, it can be related to the test year rate base to develop the rate of return for the test period. The stipulated test year NOI for FPUC is $1,504,527, which was determined based upon the adjustments discussed below. (See Attachment 3)

1. The appropriate level of operating revenue is $11,426,240. This amount reflects an increase of $7,735 for interest earned on the cash included in Working Capital. It also reflects revenues of $100,703 for approved marketing programs and related staffing.

2. In order to remove Chamber of Commerce dues from expenses, we made an adjustment to reduce Account 930.2 by $718 and Account 912 by $1,221. The total reduction to expenses is $1,939.

3. We reduced rate case amortization $7,954 based on $113,000 in rate case expense and a four year amortization period beginning the month new rates go into effect.

4. We reduced Account 913 $7,871 to remove the costs for production of a corporate video, printing of money flyers, advertising for non-regulated functions and image building advertising.

5. We reduced Account 923.2 $10,326 to reduce legal expenses for certain personnel matters to a more reasonable level.

6. The company's forecasted ESOP costs were appropriate, and, therefore, no adjustment is necessary.

7. Expenses associated with the environmental clean-up of manufactured gas plant sites are currently being accrued at $240,000 per year, the level established in Docket No. 900151-GU. This amortization amount is appropriate and should continue for the remainder of the approved 10-year accrual period. No adjustment is necessary.

8. The costs for piping allowances should be capitalized and amortized over seven years. Accordingly, we made an adjustment to reduce Account 916 by $39,000, increase Working Capital $54,878 and increase Amortization Expense by $8,376.

9. Conversion expenses should be capitalized and amortized over five years. Accordingly, we made an adjustment to reduce Account 916 by $65,093, increase Working Capital by $85,643 and increase Amortization Expense by $19,571.

10. Medical self insurance expense should be reduced by $100,162 based on the 3-year average actual claims history. Injuries and Damages expense should be reduced $28,499 to correct an error made by the company in trending the capitalized payroll. Injuries and Damages expense should be increased by $29,954 to recognize additional executive risk and general liability premiums. Based on the foregoing, we reduced expenses by $98,707, and increased Working Capital by $49,354. No adjustment is necessary for property insurance.

11. We reduced Meter Change-Out Expense $8,121, based on a 4-year average of the number of meters changed out.

12. We find that the monthly average AA utility bond rate should be used to calculate post-retirement benefits expense. Accordingly, using the February 1995 average AA utility bond rate of 8.33%, we made an adjustment to decrease FASB 106 Expense in Account 926.3 by $26,088 and increase Working Capital by $13,044.

13. We reduced Account 912 by $2,104 for two-thirds of a 3-year supply of color posters and pocket folders.

14. The company made an adjustment to increase Accounts 878, Meter & House Regulator Expense, and 887, Maintenance of Mains, to normalized for lost time due to above average medical related absences. We find that a further adjustment is needed, therefore, we reduced Account 878 by $11,158 to remove a portion of the salary of a Service Technician who retired in 1993 and has not been replaced to date. Also, we reduced Account 893, Maintenance of Meters & House Regulators, $15,600 to remove

a portion of the wages that the company added to Account 887 to normalize for medical related absences. The total reduction to expenses is $26,758.

15. The adjustment made by the company to increase Account 904, Uncollectible Accounts, to adjust to the 3-year average charge-offs is not appropriate. Thus, we reduced Account 904 by $5,980, and reduced Working Capital by $12,362, based on a 3-year average of net write-offs as a percent of sales.

16. The adjustment made by the company to increase Account 921, Office Supplies & Expense, for the company use portion of purchased gas is not appropriate. Because the company use portion of purchased gas is currently recovered through the Purchased Gas Adjustment Clause, we reduced Account 921 by $25,268 for 1995.

17. No adjustment is necessary to reduce expenses for the depreciation study which was amortized over a 4-year period.

18. The company requested that various marketing programs and associated staffing be recovered through base rates. We find that expenses for the programs listed below are appropriate for recovery through base rates. In addition, we made certain adjustments to projected expenses and imputed related revenues:

- Energy Savers Program
- Residential Energy Efficiency Program
- Residential Energy Audit Program
- Homeowners Maximized Energy Savings Program
- Business Energy Efficiency Plan
- Consumer Affairs Services
- Utility Service and Information Program
- Appliance Conservation and Education Program

We reduced Account 912 $3,334, reduced Account 913 $31,758, and reduced Account 916 $15,667 to remove a portion of certain expenses directly related to the marketing programs. We further reduced Account 912 $50,370 to remove new positions related to the marketing programs. The total amount of disallowed expenses is $101,129. Also, we imputed revenues of $100,703 associated with the approved programs and related staffing. Since the company did not increase expenses to allow for the higher growth rate of customers, we changed the factor for customer growth in the trend schedules, which produced a $52,328 increase in O & M Expenses.

19. We find that expenses for the Market Development & Demonstration Program and the Business Energy Savings Team should not be recovered through base rates and all

associated expenses should be disallowed. Thus, we reduced Account 913 $5,000 and reduced Account 916 $50,000.

20. We find that FPUC has not justified its benchmark variance in the Sales functional area, therefore, we reduced Account 916 $4,573 in 1995 for expenses associated with merchandise and jobbing.

21. The appropriate trend factors are shown in Attachment 3A. Applying these factors, we increased the overall Operating & Maintenance Expense by $20,246. This adjustment includes the $52,328 adjustment we made for the allowed marketing programs. With these adjustments, we find the appropriate level of projected test year O & M expenses is $7,150,125. (See Attachment 3A)

22. We find the appropriate amount of Depreciation and Amortization Expense is $1,429,620 including adjustments discussed in preceding adjustments as well as a $210,542 reduction resulting from new depreciation rates, and the update of projections to 1994 actuals.

23. We find the appropriate level of property taxes is $526,053. This amount reflects a $21,445 reduction we made to correct the 1994 plant trend factor to 105.39 and the 1995 trend factor to 105.95, and to correct the revised common plant allocation factor.

24. We reduced Taxes Other by $29,380. This reduction encompasses the $21,445 reduction to property taxes; an increase of $378 for regulatory assessment fees related to the adjustment increasing revenue; and a decrease of $8,313 for the payroll taxes related to the payroll adjustments.

25. We increased Income tax expense by $269,907. Because of other adjustments to NOI, we increased federal income tax expense $252,664 and increased state income tax expense $43,251. In addition, we decreased income tax expense $26,009 for interest reconciliation and ITC synchronization.

III. STIPULATED CAPITAL STRUCTURE, COST OF CAPITAL AND RELATED ISSUES

The Commission must establish the fair rate of return which the company will be authorized to earn on its investment in rate base. The allowed rate of return should be established so as to maintain the company's financial integrity and enable it to attract capital at reasonable costs.

The ultimate goal of providing a fair return is to allow an appropriate return on the equity-financed portion of the investment in rate base. However, because as a general rule, sources of capital cannot be associated with specific utility property, the Commission has traditionally considered all sources of capital (with appropriate adjustments) in establishing a fair rate of return.

The establishment of a utility's capital structure serves to identify the sources of capital employed by the utility, together with the amounts and cost rates associated with each. After identifying the sources of capital, the weighted average cost of capital is determined by multiplying the relative percentages of the capital structure components by their associated cost rates and summing the weighted average costs. The net utility rate base multiplied by the weighted average cost of capital produces an appropriate return on the rate base. In this docket, these issues were all stipulated, as set forth below. Based on the stipulated components, amounts, and cost rates associated with the capital structure, the appropriate weighted average cost of capital for the projected test year ending December 31, 1995, is 8.44%. (See Attachment 2)

1. The company removed its treasury stock and non-utility investment from common equity at the consolidated level before investor capital was allocated to the gas division. We find this to be proper, therefore, no further adjustment was necessary.

2. Pursuant to the stipulation, we made a specific adjustment to reduce equity by $14,718. This adjustment corresponds with the removal from rate base of $22,300 for the recognition of the 1995 blanket construction projects and 1994 actual plant less $7,582 for estimated depreciation reserve. We also made an adjustment to increase accumulated deferred income taxes (ADITs) by $140,939. This adjustment is composed of two parts: a) $83,790 reflects a pro-rata amount of ADITs associated with the adjustment to recognize the 1995 blanket construction, and b) $57,149 represents the increase to ADITs to produce parallel treatment of the environmental insurance proceeds on the balance sheet and income statement. In addition, in order to reconcile the capital structure to rate base, we approve the stipulated adjustment to remove the non-utility investment pro-rata over investment sources.

3. We find the appropriate 1995 projected balances of unamortized ITCs are $22,170 for zero cost ITCs and $741,282 for weighted cost ITCs. The appropriate cost rate of the 3% unamortized ITCs is zero. The appropriate cost rate of the weighted cost ITCs is 10.24%, which is a calculation based on the stipulated capital structure and cost rates.

4. The stipulated return on common equity is 11.40%, the long-term debt rate is 9.93% and the cost rate for short-term debt is 6.93%. We find these rates to be reasonable.

IV. <u>REVENUE REQUIREMENTS</u>

Based on the stipulation, the appropriate projected test-year revenue expansion factor is 1.6134 as shown in Attachment 4. The difference between the stipulated factor and the company's original filing is the stipulated bad debt expense adjustment. We find the projected test-year revenue deficiency is $1,282,001, as shown in Attachment 5.

V. RATE DESIGN AND TARIFF ISSUES

We approve the stipulated forecasts of customers and therm sales by rate class and billing determinants to be used during the projected test year which are shown in Attachment 6. In addition, we approve the stipulated rates, service charges and methodology to be used in allocating costs to the various rate classes which are shown on Attachment 6. We further approve the transportation administration charge proposed by the company and the stipulated miscellaneous service charges listed below.

Initial Connection	$25.00
Initial Connection - LVS	$57.00
Reconnect after Disconnect for Cause	$21.00
Reconnect after Disconnect for Cause - LVS	$48.00
Reconnect after Disconnect for Non-Pay	$31.00
Reconnect after Disconnect for Non-Pay - LVS	$58.00
Bill Collection in Lieu of Disconnect	$ 9.00
Change of Account	$12.00
Returned Check Charge	$20.00

VI. INTERIM INCREASE

In this docket, a $386,927 interim increase was granted in Order No. PSC-94-1519-FOF-GU issued on December 9, 1994. Since the permanent increase is greater than the amount of the interim award, no refund is required.

Within 60 days after the issuance of this Order, FPUC shall file with the Commission's Division of Records and Reporting a description of all entries or adjustments to its future annual reports, rate of return reports, published financial statements and books and records that will be required as a result of the Commission's findings in this docket. In addition, the company shall file with its annual report, the historical expenses and estimated revenues for each marketing program approved herein and the projections for the following year for said programs.

VII. QUALITY OF SERVICE

We find that FPUC's quality of service is adequate, however, the survey of inactive service lines which we ordered the company to complete within five years in its last rate case (Order No. 24094, Docket No. 900151-GU) has not been completed. The company has been unable to complete the survey because of unforeseen difficulty with the physical survey and insufficient resources allocated in its prior rate case. The company has agreed to complete the survey program no later than December 31, 1998. Service lines that are inactive at the time of discovery shall be retired within six months, unless the period of inactivity can be documented. The inactive services shall be retired as required by Rule 25-12.045, Florida Administrative Code. In addition, the company shall file status reports on the survey activity and service line retirements each quarter. The Gas Engineering & Safety Section of the Commission's Division of Electric and Gas will specify the format and content requirements of these reports.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the findings of fact and conclusions of law set forth herein are approved. It is further

ORDERED that Florida Public Utilities Company is authorized to collect increased revenues of $1,282,001. It is further

ORDERED that Florida Public Utilities Company shall file revised tariffs reflecting the increased rates and charges approved in this Order and shall file all other reports as described in the body of this Order within 60 days from the date of this Order. It is further

ORDERED that the rate increase authorized shall be effective on billings rendered for all meter readings taken on or after May 6, 1995. It is further

ORDERED that Florida Public Utilities Company shall include in each bill in the first billing cycle for which this increase is effective, a bill stuffer explaining the nature of the increase, average level of increase, a summary of the tariff changes and reasons thereafter. The bill stuffer shall be submitted to the Commission's Division of Electric and Gas for approval before implementation. It is further

ORDERED that Florida Public Utilities Company shall complete a survey of inactive service lines by December 31, 1998, retire inactive service lines identified and file status reports of the survey activity and retirements each quarter as described in the body of this Order. It is further

ORDERED that this docket shall be closed after the period for reconsideration expires and after the company files its revised tariffs.

By ORDER of the Florida Public Service Commission, this 26th day of April, 1995.

BLANCA S. BAYÓ, Director
Division of Records and Reporting

by: /s/ Kay Flynn
Chief, Bureau of Records

This is a facsimile copy. A signed copy of the order may be obtained by calling 1-904-488-8371.
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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.

Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water and/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 after the issuance 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.