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FLORIDA PUBLIC UTILITIES COMPANY

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West Palm Beach,
Florida 33402

December 13, 1990

FEDERAL EXPRESS

Mr. Steve Tribble, Director
Division of Records and Reporting
Florida Public Service Commission
101 East Gaines Street
Fletcher Building
Tallahassee, FL 32301-8153

RE: DOCKET NO. 900151-GU

Dear Mr. Tribble:

Enclosed for filing in the above captioned proceeding on behalf of Florida Public Utilities Company is an original and nineteen (19) copies of the Company's Prehearing Statement.

Please indicate the time and date of receipt on the enclosed duplicate of this letter and return it to this office.

Yours very truly,

F. C. Cressman
President

Enclosures

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for a rate increase in natural gas operations by Florida Public Utilities Company	)	DOCKET NO. 900151-GU

Florida Public Utilities Company's Prehearing Statement

a) **All Known Witnesses Direct** — **Subject Matter**

Witness	Subject Matter
1. Robert S. Jackson	Cost of Common Equity
2. Darryl L. Troy	Net Operating Income and Adjustments Thereto, Capital Structure, Working Capital and Revenue Requirements.
3. George M. Bachman	Utility Plant, Reserve, Depreciation, and Adjustments Thereto.
4. Cheryl M. Portner	Current and Deferred Income Taxes.
5. Marc L. Schneidermann	Cost of Service Study
6. Charles L. Stein	Rate Design, Environmental Issues, Field Operations.
7. Kenneth C. Kessler	Marketing

b) **All Known Exhibits**

Exhibit	Witness	Description
____ RSJ 1	Jackson	Cost of Capital
____ DLT 1	Troy	Composite exhibit - MFR Sections A, B, C, D, F and G
	Bachman	MFR Plant, Reserve and Depreciation Schedules included in MFR Composite Exhibit
	Portner	Income Tax Schedules included in MFR Composite Exhibit
	Stein	O & M Benchmark Variance - Distribution Expenses and Environmental Clean-up Costs included in MFR Composite Exhibit

	Kessler	O & M Benchmark Variance - Sales Expenses included in MFR Composite Exhibit
DLT 2	Troy	Revised MFRs Dated December 1, 1990
GMB 1	Bachman	Revised Rate Base MFRs Dated December 1, 1990
MLS 1	Schneidermann	MFR Section E - Cost of Service Schedules and MFR Section H - Cost of Service Programs
	Stein	Connections and Meter Set Cost Studies included in MFR Section E
CLS 1	Stein	MFR Section I - Engineering Schedules

c) Company's Statement of Basic Position

It is the Company's responsibility to provide reliable, safe service to its customers at the most economical cost possible.

Because of increased utility operating costs, increased plant replacement costs, and the need for additional plant investment, the Company's earned rate of return in the historic test year 1989 fell to 5.91% and represents that a return of 5.91% does not provide reasonable compensation to the Company's stockholders and is not sufficient to attract new capital. The Company further calculates that present rates and charges would permit the Company an opportunity to earn a return of only 3.26% in 1991.

The Company requests approval to increase its rates by the amount of $2,239,827 per annum, which amount will allow a return of 9.11% on the allowable rate base.

d) Company's Position on the Issues

Projected Year Rate Base Issues

1) Issue: Should adjustments be made to plant-in-service, accumulated depreciation and the related depreciation expense to reflect changes in non-utility allocations?

Company Position: Yes. The following adjustments should be made to remove the non-utility portion of utility plant: (Bachman)

Plant	Accumulated Depreciation	Depreciation Expense
$(780,125)	$(290,091)	$(20,338)

2) Issue: Should the Company's general office building in West Palm Beach (Common Plant) be allocated to the regulated gas rate base?

Company Position: Yes. The following adjustments should be made to allocate the common plant to rate base: (Bachman)

Plant	Accumulated Depreciation	Depreciation Expense
$684,500	$181,814	$55,691

3) Issue: What is the appropriate total utility plant in service to be used for the projected test year 1991?

Company Position: $34,239,105 (Bachman)

4) Issue: What is the appropriate utility plant deductions to be used for the projected test year 1991?

Company Position: $10,511,816 (Bachman)

5) Issue: What is the proper amount of working capital provision?

Company Position: The computed working capital provision is ($1,956) which was further adjusted to -0- in keeping with past Commission policy. (Troy)

6) Issue: What is the appropriate total rate base for the projected test year 1991?

Company Position: $23,727,289 (Bachman)

Projected Year Operating Income Issues

7) Issue: Should $1,317 annually be included in Account 874 for inspection of subaqueous crossing?

Company Position: Yes, this is one-third of the current cost of inspections which are performed every three years. (Troy)

8) Issue: Should non-recurring telephone equipment charges in the amount of $3,376 be removed from operation expenses?

Company Position: Yes. (Troy)

9) Issue: What is the appropriate insurance expense (Account 925 - Injuries and Damages) to be included in the projection year?

Company Position: $524,390, which includes a deduction of $14,521 due to current premium quotes. (Troy)

10) Issue: What is the appropriate employee medical insurance expense, Account 9262, to be included in the projection year?

Company Position: $386,400, which includes a correction of 1989 expense and 10% increases for 1990 and 1991. (Troy)

11) Issue: What is the appropriate amount of rate case expense to be included in Account 928?

Company Position: $18,969, which is $56,906 over three years. (Troy)

12) Issue: Should the Company continue to capitalize A & G expenses?

Company Position: No, A & G expenses that are not directly related to construction should not be capitalized in accordance with FPSC Rule 25-7.0461. Accordingly, $174,484 has been added to A & G expenses. (Troy)

13) Issue: What is the appropriate amount of pension expense, Account 926.1, to be included in the projected test year 1991?

Company Position: $12,033, which is based on current quote from Company's consulting actuary, Buck Consultants, Inc. (Troy)

14) Issue: What are the appropriate trend factors to be used in deriving the projected test year operating and maintenance expenses?

Company Position: The appropriate trend factors are as follows: (Troy)

Factor	Code	HBY+1	PTY
Inflation only	1	105.60%	111.20%
Customer Growth	2	99.71%	100.76%
Payroll increase	3	104.50%	109.20%
Sales - MCF	4	103.30%	112.07%
Revenues - $	5	99.82%	104.18%
Plant - Net	6	106.07%	119.16%
Inflation & Customer Growth	7	105.29%	112.05%
Payroll & Customer Growth	8	104.20%	110.03%

15) Issue: What is the appropriate amount of operation and maintenance expense for the projection year?

Company Position: $6,166,737 (Troy)

16) Issue: What is the appropriate amount of depreciation and amortization expense for the projection year 1991?

Company Position: $1,113,498 (Bachman)

17) Issue: Should the Company be allowed to eliminate gross receipts tax from base rates and state the tax as a separate line item on the customer's bill?

Company Position: Yes, taxes other than income should be reduced by $117,510 in the projected test year. (Troy)

18) Issue: What is the appropriate amount of taxes other than income for the projection year 1991?

Company Position: $731,885, which includes adjustments for certain tax rate changes and taxable base changes per MFR Schedule G-1, Page 19, revised 12-01-90. (Troy)

19) Issue: Should adjustments be made to current income taxes and interest reconciliation for the effect of changes to the projected test year net operating income and capital structure?

Company Position: Yes, the following adjustments should be made for the effect of changes to the projected test year operating income and capital structure: (Troy)

	MFRs as filed	MFRs revised	Total
Current Income Tax Expense:			
State Tax	($5,770)	($8,408)	($14,178)
Federal Tax	($33,707)	($49,117)	($82,824)
Interest Reconciliation:			
State Tax	($7,737)	($2,097)	($9,834)
Federal Tax	($45,200)	($12,250)	($57,450)

20) Issue: What is the appropriate amount of income tax expense to be included in the projected test year?

Company Position: ($301,676) (Troy)

21) Issue: What is the appropriate amount of total operating expenses for the projected test year 1991?

Company Position: $7,911,336 (Troy)

22) Issue: What is the appropriate amount of projected test year operating income?

Company Position: $774,579 (Troy)

Projected Year Cost of Capital Issues

23) Issue: What is the appropriate cost of common equity to be used to calculate the projected test year overall cost of capital?

Company Position: 13.85% (Jackson)

24) Issue: What is the weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure for the projected test year 1991?

Company Position: 9.11% (Troy)

Revenue Deficiency

25) Issue: What is the appropriate revenue expansion factor to be used in calculating the projected test year revenue deficiency?

Company Position: 1.6148984. This expansion factor excludes the gross receipts tax rate. (Troy)

26) Issue: What is the appropriate amount of the projected test year revenue deficiency?

Company Position: $2,239,827 (Troy)

Rate Issues

27) Issue: What are the billing determinants to be used in the 1991 projected test year?

Company Position: The billing determinants as set out on Lines 30 and 31 of page 224 of MFR Schedule E. (Schneidermann)

28) Issue: What is the appropriate cost of service methodology to be used in allocating costs to the various rate classes?

Company Position: The methodology in Staff's basic model as modified by the Company for Florida Public Utilities Company's system. (Schneidermann)

29) Issue: How should the increase in revenues be allocated to the rate classes?

Company Position: The increase should be spread among the rate classes in a manner that moves those classes that are presently deficient toward parity. No rate classes should be reduced. The RS rate class should be increased to bring that class to a 6.0% return. The PHAS class should be increased to the extent necessary to have at least a non-negative return. The IS and LVIS rate classes should be increased to produce returns equivalent to parity. The LVS rate class should be increased somewhat to produce a return above parity to bring its return more in line with the GS rate class and to lessen the impact of excessive increases to the RS and PHAS rate classes. (Stein)

30) **Issue**: What are the appropriate miscellaneous service charges?

Company Position: The charges should be based on costs for each activity and be set as follows: (Stein)

Initial Connection	$21.00
Reconnection for Nonpay	$25.00
Reconnection after Disconnection	$17.00
Change of Account	$ 8.00
Collection in Lieu of Disconnection	$ 7.00
Returned Check Charge	5% or $15.00

31) **Issue**: What are the appropriate monthly customer charges for each rate class?

Company Position: These should be increased to move the charges closer to customer costs as developed in the cost of service study. The customer charges should be set as follows: (Stein)

Rate Class	Customer Charge
RS	$ 8.00
GS	$ 10.00
LVS	$ 30.00
PHAS	$ 8.00
IS	$ 160.00
LVIS	$1,000.00

(Stein)

32) **Issue**: The Company proposes to withdraw the OLS (Outdoor Lighting) rate schedule. Is this appropriate?

Company Position: Yes. The Company has removed all customers from this rate schedule in accordance with Commission Order No. 16195 in Docket No. 850172-GU. (Stein)

33) **Issue**: Should the Company's proposed transportation rate schedules be approved?

Company Position: Yes. (Schneidermann)

Respectfully submitted,

F. C. Cressman
President

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for a rate increase in natural gas operations by FLORIDA PUBLIC UTILITIES COMPANY	))))	Docket No. 900151-GU

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that, on the 13th day of December 1990, a correct copy of the Company's Prehearing Statement was sent by Federal Express to the individuals listed below:

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