

FLORIDA PUBLIC SERVICE COMMISSION

FLETCHER BUILDING
101 EAST GAINES STREET
TALLAHASSEE, FLORIDA 32399-0850

MEMORANDUM

May 30, 1991

TO : DIRECTOR, DIVISION OF RECORDS AND REPORTING

FROM : DIVISION OF ELECTRIC AND GAS (McCORMICK, BULECZA-BANKS, MAKIN) *DM* *CEBB MP* *JDS*
DIVISION OF AUDITING AND FINANCIAL ANALYSIS (SALAK, CAUSBEAUX, LEE) *PSA* *MS* *TDD*
DIVISION OF LEGAL SERVICES (PALECKI)

RE : DOCKET NO.: 910220-GU - NOTICE OF CHANGE OF OWNERSHIP OF ASSETS OF MILLER GAS COMPANY BY CITY GAS CO. OF FLORIDA

AGENDA: JUNE 11, 1991 - CONTROVERSIAL - PARTIES MAY PARTICIPATE

CRITICAL DATES: NONE

CASE BACKGROUND

On February 19, 1991, City Gas Co. of Florida acquired all the natural gas assets of Miller Gas Company and assumed the obligation to serve all customers in the territory then served by Miller Gas. On February 25, 1991, City Gas Company petitioned the Commission for authority to apply the rates, rules, classifications and regulations recently approved for City Gas in Docket No. 891175-GU (Order No. 24013, dated January 23, 1991) in lieu of the rates being charged under Miller Gas' current tariff.

At the April 2, 1991 Agenda Conference, the Commission approved City Gas' proposal with the caveat that the new rates would be applied on an interim basis, with final action to be taken after a hearing if one was held, or a later agenda after more detailed analysis had been completed. No hearing was requested. A service hearing was held on May 16, 1991. One customer attended, Mr. Robert C. Ready for Miami Dade Water and Sewer Authority. (WASA)

DOCUMENT NUMBER-DATE

05393 MAY 30 1991

RECORDS/REPORTING

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission approve on a permanent basis, City Gas Company's petition to apply its Commission-approved tariffs to customers formerly served by Miller Gas Company

PRIMARY RECOMMENDATION: Yes, uniform application of City Gas's rates should be approved because it does not have a material impact on residential or commercial customers, it avoids confusion among existing and new customers about slightly different rates, it avoids the unnecessary expense of maintaining duplicative billing systems and it is not opposed by the one large interruptible customer that is materially affected. (McCormick)

ALTERNATIVE RECOMMENDATION: No. Based on the analysis of revenue requirements and potential overearnings, City Gas' petition should be denied, and rates should remain separate until the Company's next rate case. (Bulecza-Banks)

STAFF ANALYSIS: It must be borne in mind that this petition was not filed as a revenue requirements issue. It should not be treated as such.

City Gas has proposed a sound, reasonable, common sense solution to a unique problem. Miller Gas' service territory was completely contained within City Gas' service territory. It was a small island within the larger utility. City Gas has physically interconnected the two systems and now has customers located side-by-side or across the street from one another, who receive gas through the same pipes, but are billed at different rates. City Gas is required to maintain two separate billing systems, a useless expense.

The difference in the base rate portion of residential and commercial customers' bills is inconsequential; slightly more than a 1% increase for residential customers and slightly less than a 5% decrease for commercial customers. The total revenue increase from residential customers is almost exactly offset by the decrease from commercial customers. No residential or commercial customers appeared at the May 16 service hearing in the former Miller Gas service territory. The impact on the one large interruptible customer, the Miami Dade Water and Sewer Authority (WASA) is significant. As mentioned, WASA did appear at the service hearing. Its comments will be discussed in Issue 2.

Residential customers will see a \$0.27 increase in an approximately \$20.00 monthly bill. Miller and City residential customer charges are the same, \$6.00 per month. City's energy charge is \$.3524 per therm; Miller's was \$.3416. Applying those

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rates to average residential usage, 25 therms per month, yields the increase of twenty-seven cents. The weighted average cost of gas (WACOG) will be the same because the two systems are physically interconnected and will be billed at City's WACOG. Former Miller customers now see an ECCR charge, which they did not have under Miller, but they are also eligible to participate in conservation programs, which Miller did not have. The ECCR charge should remain, regardless of the Commission's decision here.

Commercial customers will see a slight reduction - \$17.52 on an average monthly bill of \$370 (800 therms). This will be tempered by an ECCR charge of \$12.15, which they did not have under Miller Gas. But, they too, are eligible for City's conservation programs. Their decrease, disregarding the ECCR, is less than five percent. Including the ECCR charge, their bill will decrease less than 1.5%.

The options here seem to be three. First, City Gas could simply follow the requirements of Commission rules and adopt Miller Gas' previous rates and tariffs. Second, City could be authorized to apply its own rates to Miller's previous customers, resulting in approximately \$72,000 additional revenue. Third, City Gas could be required to file MFRs for a reverse make whole proceeding.

The third option would benefit no one. In its last rate case (Docket 891175-GU), City Gas was authorized recovery of \$355,297 in rate case expense. Similar or higher expense could be anticipated if the Company were required to file MFRs in this matter. So, striving to get rates right would increase everyone's rates.

That leaves a choice between the first and second options. If City had taken the first choice and simply filed tariffs adopting Miller rates, the Commission would have taken no action to reduce rates. Action would have been taken only if surveillance reports indicated that City Gas had begun to over earn. That can be done regardless of which rates are applied.

This matter comes down to a decision on whether to grant an admittedly not needed increase of about \$72,000 in revenues. In City's rate case in Docket 891175-GU, total base rate revenues for the projected test year ended September 30, 1991 were estimated to be \$21,499,714. The \$72,000 increase is about three tenths of one percent, which is not material. Because the revenue increase from residential customers and the decrease from commercial customers almost exactly offset each other, that \$72,000 increase comes almost totally from the increase in the rate to the Large Interruptible rate class.

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The earned return from City Gas' Large Interruptible class is projected to be below parity. Schedule G of Attachment 6 to Order No. 24013, the order approving final rates in Docket 891175-GU, showed a projected return from the Large Interruptible class of .080456 compared to .0947 overall, so the increase to that rate class is not without record support. Further, the record in this docket shows that the single affected customer does not oppose the increase (Service hearing TR p. 6). The decision to authorize the increase to the Large Interruptible class would be neither arbitrary nor capricious.

The consolidation of rates should be approved and earnings monitored through established monthly surveillance reports.

In support of the alternative recommendation, the following comments are provided: When the assets of one natural gas utility are purchased by another natural gas utility, Staff prefers the existing company to operate the former company for one year before seeking rate relief. After one year of operation, the existing company is more knowledgeable about the physical system, as well as the costs associated with operating the system. City Gas petitioned the Commission for approval to apply its rates in lieu of the former Miller Gas rates within six days of the signed purchase agreement. City Gas Company's intent was to eliminate customer confusion and reduce expenses by eliminating the need to operate two billing systems. The Company proposal was approved on an interim basis on April 2, 1991.

After the Commission's interim approval, a service hearing was held to provide the former Miller Gas customers an opportunity to voice their concerns. The only customer that appeared was a representative of WASA. Although WASA was not opposed to the rate increase, it was concerned with the implementation date of the increase because the rate increase was not included in its annual budget. To alleviate WASA's concerns, City Gas agreed with WASA's proposal to postpone implementation of the rate increase until February 1, 1992 subject to Commission approval. A copy of this agreement was provided to the prehearing officer.

Subsequent to the interim approval, City Gas Company provided Staff with additional documentation regarding the book value of the assets purchased, projected revenues, and projected operating expenses. Based on Staff's computations, City Gas Company has the potential to achieve over earnings regardless of whether Miller's previous rates or City's tariffed rates are applied. Based on the data provided to Staff, City Gas has the potential to over earn \$218,210 if the rates are based on Miller's previous rates, or \$290,483 if the rates are based on City's tariffed rates. (Attachment 1)

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On a pragmatic basis, the application of equal rates would appear to merit consideration. However, on a pure earnings analysis basis, the application of equal rates is unjustifiable. It is unreasonable to subject the former Miller customers to City Gas' higher rates when the previous Miller rates provide the potential for excess earnings. To exacerbate the over earnings simply to achieve common rates is inappropriate. Based on the above analysis, Staff recommends that City Gas' petition be denied, and recommends that the rates remain separate until the Company's next rate case.

ISSUE 2: (This issue is moot if the Commission accepts the alternative recommendation in Issue 1.) Should the Commission approve the agreement between City Gas and the Miami Dade Water and Sewer Authority (WASA) delaying the effective date of the increase in the Large Interruptible rate until February 1, 1992?

RECOMMENDATION: Yes

STAFF ANALYSIS: WASA, the single large interruptible customer, does not oppose the proposed increase, but has asked for a delay in the effective date. In a letter to City Gas, dated April 26, 1991, WASA outlined an agreement with City Gas, subject to Commission approval, that the new rate will not become effective until February 1, 1992, to coincide with the next opportunity WASA has to change its rates. City Gas confirmed its agreement with the WASA proposal to delay implementation of the higher rate. (TR p. 7 - Service hearing).

ISSUE 3: (This issue is moot if the Commission accepts the primary recommendation in Issue 1.) Should City Gas Company be required to refund the difference between Miller's rates and City's rates that were collected during interim approval of this petition?

RECOMMENDATION: Any account for which a refund exceeds \$10 should receive a refund.

STAFF ANALYSIS: Since the difference between the billing rates will result in numerous small refunds, it would be administratively burdensome and costly to require the Company to refund all accounts. Therefore, only those accounts which are entitled to a refund in excess of \$10 should be refunded.

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ISSUE 4: Should this docket be closed?

RECOMMENDATION: Yes.

STAFF ANALYSIS: Because there are no further actions required,
there is no reason to keep the docket open.

**CITY GAS / MILLER GAS CONSOLIDATION
IMPACT OF PURCHASED ASSETS ON EARNINGS
FOR A 12-MONTH PERIOD OF TIME**

ATTACHMENT 1

	<u>MILLER'S RATES</u>	<u>CITY'S RATES</u>
BOOK VALUE OF PURCHASED ASSETS	\$1,060,246	\$1,060,246
CONNECTION COSTS + WORKING CAP PROVISION	26,297	26,297
RATE BASE	<u>\$1,086,543</u>	<u>\$1,086,543</u>
OVERALL RATE OF RETURN (CITY'S LAST RATE CASE)	9.47%	9.47%
ADDITIONAL REVENUE REQUIREMENTS	<u>\$102,896</u>	<u>\$102,896</u>
PROJECTED REVENUES FOR 12 MONTHS	<u>\$1,012,424</u>	<u>\$1,072,304</u>
PROJECTED EXPENSES FOR 12 MONTHS	633,934	618,747
PROJECTED INCOME TAXES	142,426	170,673
PROJECTED NET OPERATING INCOME	<u>\$236,064</u>	<u>\$282,884</u>
ACHIEVED OVERALL RATE OF RETURN	21.73%	26.04%
COMMISSION APPROVED OVERALL RATE OF RETURN	9.47%	9.47%
OVERALL RATE OF RETURN IN EXCESS OF MIDPOINT	<u>12.26%</u>	<u>16.57%</u>
TIMES RATE BASE	<u>1,086,543</u>	<u>1,086,543</u>
SUBTOTAL	<u>\$133,168</u>	<u>\$179,988</u>
TIMES REVENUE MULTIPLIER	<u>1.6386</u>	<u>1.6139</u>
TOTAL REVENUES IN EXCESS OF MIDPOINT	<u>\$218,210</u>	<u>\$290,483</u>