

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition for Certain ) DOCKET NO. 921158-WS  
Accounting and Ratemaking )  
Authority Associated With )  
Implementation of Statement of )  
Financial Accounting Standards )  
No. 106 in Brevard, Collier and )  
Lee Counties by FLORIDA CITIES )  
WATER COMPANY. )  
\_\_\_\_\_)  
In Re: Petition for Certain ) DOCKET NO. 921159-WS  
Accounting and Ratemaking ) ORDER NO. PSC-93-1328-FOF-WS  
Authority Associated With ) ISSUED: September 9, 1993  
Implementation of Statement of )  
Financial Accounting Standards )  
No. 106 in Osceola and Polk )  
Counties by POINCIANA UTILITIES, )  
INC. )  
\_\_\_\_\_)

The following Commissioners participated in the disposition of this matter:

SUSAN F. CLARK  
JULIA L. JOHNSON  
LUIS J. LAUREDO

NOTICE OF PROPOSED AGENCY ACTION  
ORDER DENYING PETITION TO DEFER CERTAIN COSTS

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.

On November 6, 1992, Florida Cities and Poinciana (collectively referred to as the utility) filed petitions for approval of accounting and ratemaking authority associated with the implementation of the Statement of Financial Accounting Standards

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09742 SEP-93

FPSC-RECORDS/REPORTING

106 (SFAS 106) regarding other postretirement employee benefits (OPEBs). The utility seeks to have the necessary and reasonable cost of OPEBs, as determined and recorded on the utility's books, included in the calculation of rates in each of its next rate proceedings. The utility states that this recognition is in accordance with SFAS 106 for entities that provide postretirement benefits, and compliance is required by generally accepted accounting principles.

We have previously determined that the costs associated with SFAS 106 are appropriate for consideration in the ratemaking process. However, prior to approving such costs, we determine the reasonableness and sufficiency of those costs. We do not automatically approve the costs shown on the utility's books and records. Therefore, we approve the utility's request to recognize reasonable OPEB costs in its next rate cases. By so doing, we are not approving any specific amount of such costs to be considered in the next rate cases.

In its petitions, the utility also requests deferred accounting treatment of OPEB costs from January 1, 1993, until this Commission recognizes the deferred costs associated with SFAS 106 as a regulatory asset and approves the inclusion of these costs in rates in its next rate cases. Further, the utility requests that the deferred costs be amortized over a reasonable period and any unfunded OPEB obligations be applied to rate base in the next rate cases.

According to the utility, the annual OPEB expenses are \$251,626 for the PSC regulated Florida Cities divisions and \$32,445 for Poinciana. The utility states that it will seek to have these costs recognized as Florida Cities' divisions and Poinciana apply for rate relief. The utility included OPEB expenses in the pending rate case for Florida Cities South Fort Myers wastewater system. The utility expects to have filed rate cases for all of its PSC regulated systems by the end of 1994. In response to a staff inquiry, the utility stated that it had not requested OPEBs in its other recently filed rate cases because SFAS 106 was not required to be implemented until 1993.

The utility asserts in its petitions that the earnings of the utility will be adversely affected by the implementation of SFAS 106 without the deferral. To test the effect of the utility's earnings if OPEBs are not allowed to be deferred, we calculated the change in the utility's return on equity based on financial data

from the utility's 1992 Annual Report. Our calculation indicated that Florida Cities' return on equity would drop by 104 basis points and Poinciana's would drop by 72 basis points. When final rates are approved by the Commission, a range of return on equity of plus or minus 100 basis points is allowed. Based on our calculations, we have concluded that for Poinciana, the effect on equity of denying the deferral is inside the range that is allowed. We have also considered Poinciana's withdrawal of its most recent rate case which included a request for OPEBs. For Florida Cities, we calculated the effect on equity to be just outside the range. However, we have considered several factors which effectively reduce the basis points for Florida Cities.

First, we considered that OPEB expenses included in the utility's request were also included in the most recent rate case for Florida Cities South Fort Myers wastewater system. Recalculating the return on equity with an adjustment for the South Fort Myers' OPEB expense reduces the return on equity to 98 basis points. Second, the utility's calculations do not include the annual revenue increase of approximately \$2,000,000 resulting from rate cases involving four other PSC regulated systems. We find that, annualized, these recent revenue increases would increase the operating income for the total company by about \$1,000,000, which would also substantially reduce the effect of the OPEB expenses on the utility's return on equity.

In addition, we have also considered the following: the total consolidated equity from both annual reports are unaudited and do not reflect any adjustments that this Commission has made in recent rate cases; the amounts shown are for the total company and include non-PSC regulated systems; the financial statements do not reflect non-PSC regulated systems which are earning less than a fair rate of return. Based on all the factors discussed above, we find that the effect on equity of our denial of the deferral of OPEB costs for Florida Cities will be less than 100 basis points and thus, within the range that is allowed.

In reaching our decision herein we also considered the fact that the utility knew the estimated amount of SFAS 106 costs as early as February, 1992. We find that the utility could have requested recovery of these expenses in rate case proceedings since it was known well in advance that SFAS 106 would be implemented in January, 1993.

The utility also asserts that if the OPEB expenses are not deferred, the financing capability of the company will be reduced. By letter dated July 30, 1993, the utility calculated the reduction in financing that would occur in order to maintain its times interest earned (TIE) ratio above 2.0. We note that the utility's calculations include unaudited data, as well as total company income, including both regulated and non-regulated income. We agree that TIE ratios are an important indicator for debt financing, but we find that cash flows are also an important consideration. Since SFAS 106 has a non-cash flow effect on the financial statements, we also find that the denial of the deferral of the OPEB expenses will not affect the utility's financing ability from a cash flow point of view.

Based on the foregoing, we find it is appropriate to deny the utility's request to defer its SFAS 106 costs.

Based on the foregoing, it is, therefore,

ORDERED by the Florida Public Service Commission that the petitions of Florida Cities Water Company and Poinciana Utilities, Inc., for recognition of reasonable costs associated with other postretirement employee benefits in its next rate cases is hereby approved to the extent set forth in the body of this Order. It is further

ORDERED that the petitions of Florida Cities Water Company and Poinciana Utilities, Inc., to defer costs associated with other postretirement employee benefits is denied. 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

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ORDERED that in the event this Order becomes final, these dockets shall be closed.

By ORDER of the Florida Public Service Commission this 9th day of September, 1993.

  
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STEVE TRIBBLE Director  
Division of Records and Reporting

( S E A L )

CB

Commissioner Luis J. Lauredo dissented.

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 at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on September 30, 1993.

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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 adversely 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.