

## BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Tax Savings Rate Reductions	)	DOCKET NO. 891143-GU
for Peoples Gas System.	)	ORDER NO.: 22218
	)	ISSUED: 11-21-89
	)	

The following Commissioners participated in the disposition of this matter:

MICHAEL McK. WILSON, Chairman  
 THOMAS M. BEARD  
 BETTY EASLEY  
 GERALD L. GUNTER  
 JOHN T. HERNDON

NOTICE OF PROPOSED AGENCY ACTIONORDER RELATING TO TAX SAVINGS REDUCTIONS

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 adversely affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

The Tax Reform Act of 1986 (TRA86) reduced the corporate tax rate from 46% to 40% in 1987 and from 40% to 34% in 1988 on a calendar year basis, along with numerous other changes. This lower corporate tax rate is now reflected in the base rates for companies which have had a rate proceeding since the end of 1986. For those which have not had a recent rate case, the application of Rule 25-14.003, Florida Administrative Code, (the tax savings rule) and company-proposed agreements have resulted in cash refunds, reductions in access charges, depreciation reserve adjustments or other adjustments being made to offset tax savings realized from TRA86 in 1987 and 1988. Some companies will refund tax savings in 1989 and expect to do so in the future.

Of the 13 gas utilities in Florida, five have had rate cases or overearnings proceedings since the Tax Reform Act of 1986 and as a result have the 34% tax rate reflected in their customer rates. In 1989 seven others were not required to make a refund under the tax rule for 1988 because their earnings were below the 13.7% return on equity approved for 1988 in Order No.

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17381 on April 8, 1987. In March of 1987 Peoples Gas System, Inc. agreed to refund estimated tax savings of \$1.4 million and \$2.3 million for 1987 and 1988, respectively.

Peoples Gas System, Inc. is one of seven utilities that experienced tax savings in 1988 sufficient to require a refund under the tax rule. Another tax savings refund to Peoples Gas System's customers is likely for 1989 and is possible in subsequent years until customer rates are changed to reflect the lower current federal corporate income tax rate of 34%. Rate cases are not conducted as frequently as they were in the past, causing tax savings refunds to persist longer than anticipated. We find, therefore, that Peoples should reduce rates and charges to reflect reduced tax rates since its last rate case.

In its last rate case, Peoples was authorized to earn an equity return of 13.25% to 15.25%. We find that 13.25%, the bottom of the current authorized range of return, should be used to determine the amount of the rate reduction. This decision does not alter the utility's authorized range of return on equity, but merely sets a point within the utility's authorized range of return for purposes of calculating a rate reduction to remove the effects of the tax change. If the utility appears to be overearning even after this adjustment, the Commission, the Office of Public Counsel, or any other affected party may seek a further rate reduction. We find that a rate reduction of \$1,152,375 would allow Peoples a 13.25% return on equity.

In the absence of a hearing on the rate reduction and lacking a current cost of service study, we find that the use of the interim allocation method is appropriate for allocating the cents per therm rate reduction by rate class, to be effective on January 1, 1990.

It is, therefore,

ORDERED that Peoples Gas System permanently reduce rates and charges by \$1,152,375. It is further

ORDERED that the permanent rate reduction be allocated on a cents per therm basis according to the interim allocation method. It is further

ORDERED that the rate reduction be effective on January 1, 1990. It is further

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ORDERED if this order is not protested, this docket be closed after Peoples Gas System has made the permanent rate reduction ordered herein, and that a new docket be opened for this utility's 1989 tax savings report. It is further

ORDERED that if this order is not protested, Peoples Gas System is relieved of the responsibility of filing future tax savings reports pursuant to Rule 25-14.003, F.A.C., effective for the calendar year 1990.

By ORDER of the Florida Public Service Commission,  
 this 21st day of NOVEMBER, 1989.

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 STEVE TRIBBLE, Director  
 Division of Records and Reporting

( S E A L )

MER

by: Kay Hizon  
 Chief, Bureau of Records

Commissioners Herndon and Easley would have preferred to initiate a full rate case for this utility.

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

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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 December 12, 1989.

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, and as reflected in a subsequent order.

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 sewer 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.