

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Minimum Filing Requirement)	DOCKET NO. 890923-GU
Report of Indiantown Gas Company in)	
Compliance with 366.06(3), F.S.)	ORDER NO. 23903
)	
)	ISSUED: 12-20-90

The following Commissioners participated in the disposition of this matter:

MICHAEL McK. WILSON, Chairman
 THOMAS M. BEARD
 BETTY EASLEY
 GERALD L. GUNTER
 FRANK S. MESSERSMITH

NOTICE OF PROPOSED AGENCY ACTIONORDER APPROVING MINIMUM FILING REQUIREMENT REPORT

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.

During the 1989 legislative session, the Legislature added Section 366.06(3)(a), Florida Statutes, which required that utilities file "...a report consisting of, at a minimum, the modified minimum filing requirements then required by the commission, by rule..." Gas utilities with annual sales in excess of 50 million therms are required to file every four years, or four years from their most recent completed rate case; smaller companies, every five years.

Section 366.06(3)(b) required implementation within 18 months of the statute's effective date (October 1, 1989) by requiring approximately one-third of the public utilities to file each six months, thereafter.

On September 11, 1989, the Commission issued Order No. 21853 requiring Indiantown Gas company to file the modified minimum filing requirements report (MMFR's) with the Commission on or before March 30, 1990. The reports require sufficient data on the utility's rate base, net operating income, and cost of capital to perform a sound analysis of the utility's earnings. We find that

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the utility filed the required MMFR's on April 17, 1990. The data supplied were sufficient to perform a sound analysis of the utility's earnings for the 12-month period ended December 31, 1989.

Accumulated Deferred Income Taxes

Our analysis of the data shows that the appropriate balance of accumulated deferred income taxes for this utility is zero. On a total company basis, there is a net operating loss carryforward. The utility does not maintain separate tax records for regulated operations nor does it normalize timing differences. It is possible that there are sufficient deferred taxes on a stand-alone basis to satisfy normalization requirements of the Internal Revenue Code and the Federal Energy Regulatory Commission system of accounts, however the available records do not provide the information necessary to determine the appropriate amount, if any. Due to the small balance estimated, and because it would not be cost effective, we will not require Indiantown to reconstruct tax records. However, we will now require this utility to keep separate tax records for its regulated division and to use normalization accounting in the future. If the Internal Revenue Service imposes a penalty for violation of normalization requirements, all related costs shall be borne by shareholders, rather than ratepayers.

Accumulated Deferred Investment Tax Credits

We find that the appropriate balance of accumulated deferred investment tax credits is zero. On a total company basis, no investment tax credits have been used. As previously discussed, since the utility does not maintain separate tax records for regulated operations, records are not available to determine whether there should be any investment tax credits on a stand-alone basis. Again, because we estimate that there would be only a small amount of accumulated deferred investment tax credit, if any, we will not require the utility to reconstruct tax records.

Income Tax Expense

The appropriate income tax expense is also zero. The utility, which is a division of Indiantown Gas, did not request income tax expense in its filing because the total company has a net operating loss carryforward. Ordinarily, we would calculate tax expense for a regulated division on a stand-alone basis; however, since the utility did not keep separate tax records for its divisions and did not normalize timing differences, no information is available from

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which to determine the amount of the net operating loss or income tax expense attributable to the utility. Again, we will not require the utility to reconstruct these records.

Earnings

Based on our analysis of its MMFR's, we find that Indiantown Gas Company did not overearn during the 12-month reporting period ended December 31, 1989. Our analysis shows an average rate of return of 10.79%, which was below the allowable range of return. In reaching this conclusion, we made the following adjustments:

- Adjustment #1 This adjustment represents an additional allocation of the utility's common plant. Based on our calculation, Utility Plant, Accumulated Depreciation, and Depreciation Expense should be increased by an additional \$56,031, \$62,305 and \$9,976, respectively.
- Adjustment #2 These adjustments represent our recalculation of Accumulated Depreciation and Depreciation Expense using the Commission approved rates per Order No. 20789. Indiantown calculated depreciation in 1988 and 1989 using incorrect rates. Our adjustments decrease Accumulated Depreciation by \$4,934 and decrease Depreciation Expense by \$2,174.
- Adjustment #3 An adjustment was made to reduce the utility's working capital to zero. The utility calculated working capital inconsistent with the Commission's accepted balance sheet methodology. We recalculated the 13-month average working capital and determined that for the year ended December 31, 1989, the utility had a negative working capital. We therefore adjusted rate base by \$15,434 to reduce working capital to zero, which is consistent with Commission practice.
- Adjustment #4 This adjustment was made to eliminate fuel-related revenues, cost of gas, and fuel-related taxes from net operating income. Since fuel-related revenues and expenses are addressed in the Purchased Gas Adjustment docket, Docket No. 900001-GU, they should be removed for surveillance purposes. We therefore reduced revenues by \$810,042, expenses by \$814,104, and taxes other than income by \$13,163.

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Adjustment #5 We made an adjustment of \$29,109 to remove non-utility portions of the capital structure from equity, which was necessary to reconcile the capital structure to rate base. Since the utility failed to disclose which portion of the \$29,109 was debt and which was equity, we removed the total amount from equity to avoid any cross subsidization.

Upon completion of the financial analysis, we calculate the appropriate rate base to be \$237,174 (Attachment 1), the appropriate net operating income to be \$25,599 (Attachment 2), and the appropriate allowed cost of capital range to be 11.40% to 11.65% with a midpoint of 11.53% (Attachment 3). Although a return on equity has not been set for Indiantown Gas Company, this cost of capital allowable range was based on a return on equity of 13.00% as a midpoint. Using these calculated amounts, we determined that Indiantown Gas Company earned a rate of return of 10.79%, which was below the prescribed allowable rate of return range (Attachment 4). As shown in Attachment 5, we find that Indiantown Gas Company's achieved adjusted jurisdictional return on equity to be 7.20%, based on the above adjustments, and using 13.00% as a midpoint, with a range of 12.00% - 14.00%. We have not previously determined the proper jurisdictional return on common equity for this utility, but have used the figures agreed upon by Staff and the utility.

As previously noted, this utility did not file its MMFR's in a timely fashion. Order No. 21853 required filing by March 30, 1990, and noted that no extensions of time would be granted. This utility consistently misses deadlines for filing required documents such as its monthly surveillance reports. We wish to emphasize the importance of the mandated time period contained in Section 366.06. We will therefore fine Indiantown Gas Company in the amount of \$100.00, to be paid within thirty days of the date of this order. Pursuant to the terms of Section 366.095, Florida Statutes, this penalty shall be a lien upon the real and personal property of Indiantown Gas Company.

It is therefore

ORDERED by the Florida Public Service Commission that the findings herein are approved. It is further

ORDERED that Indiantown Gas Company shall hereinafter keep separate tax records for its regulated division. It is further

ORDERED that Indiantown Gas Company shall hereinafter use normalization accounting. It is further

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ORDERED that if the Internal Revenue Service penalizes Indiantown Gas Company for violation of normalization requirements, all related costs shall be borne by shareholders rather than ratepayers. It is further

ORDERED that Indiantown Gas Company shall pay, within thirty days of the date of this order, a penalty in the amount of \$100.00. It is further

ORDERED that this docket be closed if no petition for formal proceeding is timely filed.

By ORDER of the Florida Public Service Commission, this 20th day of DECEMBER, 1990.


STEVE TRIBBLE, Director
Division of Records and Reporting

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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.

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

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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 January 10, 1991.

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 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.

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INDIANTOWN GAS COMPANY
RATE BASE
FOR YEAR ENDED DECEMBER 31, 1989
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ATTACHMENT 1

ADJ NO.	COMPANY		COMMISSION VOTE		
	PER BOOKS	ADJUSTMENTS	ADJUSTED	ADJUSTMENTS	ADJUSTED
	PLANT IN SERVICE	\$547,146			
1	ALLOCATION OF COMMON PLANT	73,322		56,031	
		\$620,468	0	620,468	676,499
	ACCUMULATED DEPRECIATION	350,948			
1	ALLOCATION OF COMMON PLANT	31,006		62,305	
2	AUDIT EXCEPT 1 - CORRECT DEPR RATES			(4,934)	
		381,954	0	381,954	439,325
	NET PLANT IN SERVICE	238,514	0	238,514	237,174
	PROPERTY HELD FOR FUTURE USE	0			
		0	0	0	0
	CONSTRUCTION WORK IN PROGRESS	0			
		0	0	0	0
	WORKING CAPITAL	15,434			
3	ADJUSTMENT TO BRING - WC TO ZERO DUE TO NEGATIVE BALANCE			(15,434)	
		15,434	0	15,434	0
	TOTAL RATE BASE	\$253,946	\$0	\$253,946	\$237,174

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INDIANTOWN GAS COMPANY
NET OPERATING INCOME
FOR YEAR ENDED DECEMBER 31, 1989
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ATTACHMENT 2

ADJ
NO.

	ADJ NO.	COMPANY		COMMISSION VOTE		
		PER BOOKS	ADJUSTMENTS	ADJUSTED	ADJUSTMENTS	ADJUSTED
OPERATING REVENUES		1,076,806				
4 REMOVE FUEL RELATED REVENUES					(810,042)	
		1,076,806	0	1,076,806	(810,042)	266,764
OPERATING EXPENSES						
OPERATION & MAINTENANCE		1,017,023				
4 REMOVE COST OF GAS					(814,104)	
		1,017,023	0	1,017,023	(814,104)	202,919
DEPRECIATION/AMORTIZATION		22,067				
1 ALLOCATION OF COMMON PLANT					9,976	
2 AUDIT EXCEPT 1 - CORRECT DEPR RATES					(2,174)	
		22,067	0	22,067	7,802	29,869
TAXES OTHER THAN INCOME		21,540				
4 REMOVE FUEL RELATED TAXES					(13,163)	
		21,540	0	21,540	(13,163)	8,377
INCOME TAXES - CURRENT		0				
INCOME TAXES - DEFERRED		0				
INVESTMENT TAX CREDITS		0				
ADJ FOR THE EFFECT OF ABOVE					0	
		0	0	0	0	0
TOTAL OPERATING EXPENSES		\$1,060,630	\$0	\$1,060,630	(\$819,465)	\$241,165
NET OPERATING INCOME		\$16,176	\$0	\$16,176	\$9,423	\$25,599

INDIANTOWN GAS COMPANY
 COST OF CAPITAL
 FOR YEAR ENDED DECEMBER 31, 1989
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ATTACHMENT 3

AVERAGE	PER BOOKS	SPECIFIC	PRO RATA	ADJUSTED	RATIO	LOW POINT		MID POINT		HIGH POINT	
						COST RATE	WEIGHTED	COST RATE	WEIGHTED	COST RATE	WEIGHTED
						(%)	(%)	(%)	(%)	(%)	(%)
LONG TERM DEBT	208,033		(13,741)	194,292	81.92%	11.53%	9.45%	11.53%	9.45%	11.53%	9.45%
SHORT TERM DEBT	0		0	0	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
PREFERRED STOCK	0		0	0	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
CUSTOMER DEPOSITS	13,719		(908)	12,813	5.40%	8.00%	0.43%	8.00%	0.43%	8.00%	0.43%
COMMON EQUITY	61,305	(29,109)	(2,127)	30,069	12.68%	12.00%	1.52%	13.00%	1.85%	14.00%	1.77%
DEFERRED INCOME TAXES	0		0	0	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
TAX CREDITS - ZERO COST	0		0	0	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
TAX CREDITS - ZERO COST	0		0	0	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
TOTAL AVERAGE	283,057	(29,109)	(16,774)	237,174	100.00%		11.40%		11.53%		11.65%

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INDIANTOWN GAS COMPANY
SURVEILLANCE AUDIT
FOR YEAR ENDED DECEMBER 31, 1989
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ATTACHMENT 4

STAFF ADJUSTED NET OPERATING INCOME	\$25,599
STAFF ADJUSTED RATE BASE	237,174
STAFF CALCULATED EARNED OVERALL RATE OF RETURN	10.7933%
MAXIMUM ALLOWED RATE OF RETURN	11.6525%
PERCENT BELOW THE MAXIMUM ALLOWED	-0.8591%

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INDIANTOWN NATURAL GAS COMPANY
 ADJUSTED AVERAGE JURISDICTIONAL RETURN ON COMMON EQUITY

ATTACHMENT 5

	INDIANTOWN (FOR YEAR END 1989)

FPSC ADJUSTED AVERAGE OVERALL RATE OF RETURN	10.7933%
LESS:	
RECONCILED AVG WEIGHTED COST RATES	
LONG TERM DEBT	9.45%
SHORT TERM DEBT (1)	0.00%
PREFERRED STOCK	0.00%
CUSTOMER DEPOSITS	0.43%
TAX CREDITS-WEIGHTED COST	0.00%

SUBTOTAL	9.88%

TOTAL	0.91%
DIVIDED BY COMMON EQUITY RATIO	12.68%

JURISDICTIONAL RETURN ON COMMON EQUITY	7.20%

AUTHORIZED RANGE:

LOW	ROE
MIDPOINT	NEVER
HIGH	SET