

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition for a rate) DOCKET NO. 910890-EI
 increase by Florida Power) ORDER NO. PSC-92-0208-FOF-EI
 Corporation.) ISSUED: 4/14/92
 _____)

The following Commissioners participated in the disposition of this matter:

THOMAS M. BEARD, Chairman
 SUSAN F. CLARK
 J. TERRY DEASON
 BETTY EASLEY
 LUIS J. LAUREDO

ORDER SUSPENDING PROPOSED RATE
 SCHEDULES AND GRANTING INTERIM RATE RELIEF

BY THE COMMISSION:

1. Suspension of Proposed Rates

FPC filed its petition, testimony and minimum filing requirements (MFRs) on January 31, 1992. The Company has requested a total permanent rate increase of \$145,853,000 based on projected test years of 1992 and 1993. The requested increase would be implemented in several steps and includes a proposed \$9,990,000 reward for excellent performance. The request is based on a 13.60% return on common equity.

The request may be summarized as follows:
 (000)

	<u>1992</u>	<u>1993</u>	<u>1993 INCREMENT</u>
RATE BASE	\$3,006,775	\$3,211,239	
REQUIRED ROR	<u>x 9.24%</u>	<u>x 9.30%</u>	
REQUIRED NOI	277,826	298,645	
ACHIEVED NOI	(216,611)	(214,144)	
NOI DEFICIENCY	61,215	84,501	
NOI MULTIPLIER	<u>x 1.607828</u>	<u>x 1.607828</u>	
REVENUE DEFICIENCY	98,427	135,863	\$37,436
PERFORMANCE REWARD	<u>9,669</u>	<u>9,990</u>	<u>321</u>
TOTAL INCREASE	<u>\$108,096</u>	<u>\$145,853</u>	<u>\$37,757</u>

DOCUMENT NUMBER-DATE

03683 APR 14 1992

FPC-RECORDS/REPORTING

Inasmuch as FPC's requested permanent rate relief is based on two projected test years (1992 and 1993), we hereby suspend the requested permanent rate schedules to allow ourselves and intervenors sufficient time to adequately investigate whether the request for permanent rate relief is supported by competent and substantial evidence.

2. Interim Test Year

Section 366.071(5)(a), Florida Statutes, requires the us to determine any interim revenue deficiency by calculating the difference between the achieved rate of return and the required rate of return. Section 366.071(5)(b)1. defines the achieved rate of return as the rate of return earned during the most recent 12-month period.

Given the lead time that is required to analyze and appropriately adjust an interim test year and to develop the interim MFRs, there is necessarily a lag between the month on which the interim rate relief request is based and the month when the request is actually filed. In this case, the request for interim rate relief was filed on January 31, 1992, which is only 61 days after the after the end of the interim test year based on the 12-month period ending November 30, 1991.

We find that the interim test year selected by FPC is in compliance with the interim test year statute and it is the most recent test year that could have been reasonably included in FPC's January 31, 1992 filing.

3. Interim Rate Base

FPC has proposed an interim test year average rate base of \$2,960,708,000. We have reviewed the Company's interim filing and the company's adjustments appear to be consistent with those utilized in Docket Nos. 870220-EI and 830470-EI. Therefore, we approve the interim rate base as filed. (Attachment 1)

4. Interim Return on Equity and Overall Rate of Return

FPC has proposed an interim return on equity of 12.60% and a required overall rate of return of 8.57%. The Company's last rate case (Docket No. 870220-EI) was in 1987. The return on equity (ROE) approved in that docket fell within the range of 12.60% to

13.60%. The 12.60% was established as the rate setting point and represented the "floor" of the allowed range. The 13.60% was established as the midpoint for surveillance purposes and represented the "ceiling" of the allowed range. The appropriate ROE to use in a proceeding for an interim increase is the minimum of the range of the last authorized ROE established in the most recent rate case of the utility. Both the Company and this Commission used the minimum of the last authorized range of 12.60% to calculate the overall rate of return.

We agree with all of the component cost rates proposed by the Company with the exception of the cost rate for active Customer Deposits. In its filing, the Company used an 8.12% cost rate that represented the weighted average cost of active residential and commercial Customer Deposits. We used a cost rate of 7.86% which is the embedded cost of active Customer Deposits based on the information in the Company's filing. The method we used to calculate the cost rate is consistent with the method used to derive the cost rate in the last rate case. We applied an ROE of 12.60%, along with the actual cost rates of the Company's other sources of capital, to the capital components to determine an appropriate overall rate of return of 8.56%. This figure is 1 basis point less than the return of 8.57% proposed by the Company.

We made the same specific adjustments to the Common Equity, Preferred Equity, and Deferred Tax balances as proposed by the Company. These adjustments are consistent with the action taken in the last rate case (Order No. 18627, Docket No. 870220-EI). Finally, we made a pro rata adjustment across all sources of capital to reconcile the capital structure with rate base.

We will use a return on equity of 12.60% and an overall rate of return of 8.56% for purposes of determining the interim increase. Attachment 3A details Staff's position which we adopt and Attachment 3B details the Company's position.

5. O&M Expenses

We have previously ruled that FPC's MFRs are deficient, because justifications for the growth in O&M expenses for the years 1984 through 1987 were not included (see Order No. PSC-92-0168-FOF-EI, issued in this docket on April 7, 1992). 1984 was the test year utilized in Docket No. 830470-EI, the last rate case for FPC in which O&M expenses had been subject to full scrutiny in evidentiary proceedings. Therefore, we have required that FPC's MFRs include justification for growth in O&M expenses from 1984.

Nonetheless, we will make no adjustment in FPC's O&M expenses for interim purposes. The O&M benchmark is an analytical tool and not an adjustment by itself. Amounts above the benchmark may not be justified in one time period and justified in a different time period because the nature of the underlying expenses change over time. An updated analysis of O&M for the interim period would be necessary before making any adjustments. Generally, it is not practical to conduct such a study for interim. Any surrogate adjustment based on past disallowance would be arbitrary and assumes continued imprudence. Therefore, we make no adjustments to FPC's O&M expenses at this time.

6. Interim Test Year Net Operating Income

FPC has proposed an interim test year net operating income (NOI) of \$234,376,000. We have reviewed the Company's interim filing and FPC's adjustments appear to be consistent with those utilized in Docket Nos. 870220-EI and 834470-EI.

However, the adjustment to the cost rate for customer deposits results in an adjustment to income taxes to recognize the reduction in the interest expense and the resulting increase in income taxes. The difference in the cost rates results in a \$170,000 decrease in interest expense and an increase of \$64,000 in income taxes due to the lower deduction for interest expense.

After making this adjustment, the appropriate NOI is \$234,312,000. (Attachment 1)

7. Revenue Expansion Factor

FPC has proposed a revenue expansion factor of 1.632517. Per Order No. 25585, issued January 8, 1992 in Docket No. 911130-EI, we approved a revision to the regulatory assessment fee rate. Beginning on July 30, 1992, the rate is .0833% as opposed to the .1250% rate utilized in FPC's MFR filing, SCHEDULE G-37. The revised rate is applicable to payments made on that date and includes the entire time period that interim rates will be in effect. Substituting the .0833% rate for the .1250% rate results in a slight decrease in the revenue expansion factor from 1.632517 to 1.631823 (Attachment 4).

8. Interim Rate Increase

FPC has requested an interim rate increase of \$31,601,000. Based on the other issues previously discussed, the requested interim rate increase of \$31,601,000 should be reduced to \$31,208,000 (a reduction of \$393,000). (Attachment 5)

9. Allocation of Interim Increase

Any interim increase should be calculated and applied as an equal percentage increase across all base rate charges, in accordance with Rule 25-6.0435, with the exception of Service Charges. Service Charges should be increased and rounded to an even \$.50 increment in a manner which results in no more than the overall percentage increase to service charges as a group, as requested by the utility.

Rule 25-6.0435 specifies how the amount of interim relief granted is to be applied to rates. A percentage factor is determined by the ratio of the increase approved to total base rate revenue. That percentage increase shall be applied to each base rate charge, including service charges. The increase does not apply to fuel or energy cost conservation factors. The increase requested by FPC resulted in a factor on 3.463 percent. For the interim increase we have authorized the factor would be 3.42 percent.

The utility has proposed to apply the increase to service charges so that the resulting increase is rounded up to the nearest \$.50 after application of the increase percentage. At the interim increase we have authorized the existing service connection charge of \$15.60 would be increased by 3.42 percent to yield \$16.13. The \$16.13 would be rounded to \$16.50 using the company's proposed methodology.

All service charges would be adjusted so as to collect no more than the approved percentage increase in total service charge revenue. Service charge revenue is less than 4 percent of total revenue and involves one-time charges for specific services. Therefore a slightly different treatment does not significantly affect rate structure. Since the supporting documentation in the rate case indicates that existing service charges may be substantially below cost, a slightly higher than average interim increase in some of these charges is not likely to significantly overstate the cost. Therefore, we approve the utility's method of allocating the interim increase to service charges.

10. Interim Increase to be Held Subject to Refund Under A Corporate Undertaking.

Section 366.071(2)(c), Florida Statutes, requires the Commission to determine whether a corporate undertaking may be filed in lieu of a bond. It is normal Commission practice to allow electric utilities to hold interim rate increases subject to refund under a corporate undertaking. There are not any factors in this case that would warrant a deviation from this practice.

It is therefore

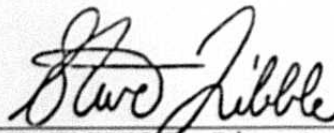
ORDERED by the Florida Public Service Commission that the rate schedules filed by Florida Power Corporation on January 31, 1992, providing for a permanent increase in annual revenues of \$145,853,000 be and the same are hereby suspended pending public hearings and a final order in this case. It is further

ORDERED that the Request for Interim Increase filed by Florida Power Corporation is granted in part. Florida Power Corporation is authorized to increase its rates and charges, on an interim basis and in conformance with this order, to generate additional annual revenues of \$31,208,000. It is further

ORDERED that the interim increase authorized herein shall be reflected on bills rendered for meter readings taken on or after 30 days from the date of the Commission's decision, or April 23, 1992. It is further

ORDERED that the interim rates approved herein are collected subject to refund, with interest, upon a corporate undertaking.

By ORDER of the Florida Public Service Commission, this 14th day of April, 1992.



STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

MAP:bmi

Commissioner Lauredo dissents to the overall decision.

Commissioner Deason dissents in part as follows:

I would allow an interim increase of \$23,155,000. This amount is based on making an adjustment consistent with the company's last (1983) rate case. An adjustment is required as I read the interim statute. I would disallow only 18% of the overage in each category based on the aggregate disallowance rate for all O&M overages in the last case. In following the dictates of the interim statute I believe this is as close as the Commission can come to making an O&M adjustment consistent with the last case. I do not believe that making no adjustment can be construed to be consistent with the requirements of the interim statute.

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.

Any party adversely affected by this order, which is preliminary, procedural or intermediate in nature, may request: 1) reconsideration within 10 days pursuant to Rule 25-22.038(2), Florida Administrative Code, if issued by a Prehearing Officer; 2) reconsideration within 15 days pursuant to Rule 25-22.060, Florida Administrative Code, if issued by the Commission; or 3) judicial review by the Florida Supreme Court, in the case of an electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or wastewater utility. A motion for reconsideration shall be filed with the Director, Division of Records and Reporting, in the form prescribed by Rule 25-22.060, Florida Administrative Code. Judicial review of a preliminary, procedural or intermediate ruling or order is available if review of the final action will not provide an adequate remedy. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.

FLORIDA POWER CORPORATION
DOCKET NO. 910890-EI
INTERIM
NOVEMBER 1991
(000)

ATTACHMENT 1

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	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	ADJUSTED JURIS. AS FILED							INTEREST RECONCIL- IATION	TOTAL ADJUSTMENTS	ADJUSTED TOTAL
PLANT IN SERVICE	\$4,096,116								\$0	\$4,096,116
ACCUMULATED DEPRECIATION	(1,393,470)								0	(1,393,470)
NET PLANT IN SERVICE	2,702,646								0	2,702,646
CONSTRUCTION WORK IN PROGRESS	95,719								0	95,719
PROPERTY HELD FOR FUTURE USE	14,275								0	14,275
NUCLEAR FUEL (NET)	60,397								0	60,397
NET UTILITY PLANT	2,873,037								0	2,873,037
WORKING CAPITAL	91,080								0	91,080
REGULATORY PRACTICES	(3,409)								0	(3,409)
TOTAL RATE BASE	\$2,960,708								\$0	\$2,960,708
OPERATING REVENUES	\$930,443								\$0	\$930,443
OPERATING EXPENSES:										
O&M - OTHER	348,944								0	348,944
O&M - INTERCHANGE									0	0
DEPRECIATION & AMORTIZATION	193,081								0	193,081
TAXES OTHER THAN INCOME	77,602								0	77,602
INCOME TAXES-CURRENTLY PAYABLE	108,909	0	0	0	0			64	64	108,973
DEFERRED INCOME TAXES - NET	(26,127)								0	(26,127)
INVESTMENT TAX CREDIT - NET	(5,864)								0	(5,864)
(GAIN)/LOSS ON SALE	(361)								0	(361)
REGULATORY PRACTICES	(117)								0	(117)
TOTAL OPERATING EXPENSES	696,067	0	0	0	0	0	0	64	64	696,131
NET OPERATING INCOME	\$234,376	\$0	\$0	\$0	\$0	\$0	\$0	(\$64)	(\$64)	\$234,312
ACHIEVED RATE OF RETURN	7.92%								0.00%	7.91%
ACHIEVED RETURN ON EQUITY	10.89%								-0.01%	10.88%

FLORIDA POWER CORPORATION
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ATTACHMENT 2

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CALCULATION OF INTERIM O&M COMPOUND MULTIPLIER

YEAR	TOTAL CUSTOMERS			AVERAGE CPI-U			INFLATION AND GROWTH COMPOUND MULTIPLIER
	AMOUNT	% INCREASE	COMPOUND MULTIPLIER	AMOUNT	% INCREASE	COMPOUND MULTIPLIER	
1984	900,799	-----	1.0000	103.9	-----	1.0000	1.0000
1985	940,976	4.4602%	1.0446	107.6	3.5611%	1.0356	1.0818
1986	980,427	4.1926%	1.0884	109.6	1.8587%	1.0549	1.1481
1987	1,023,222	4.3649%	1.1359	113.6	3.6496%	1.0934	1.2420
1988	1,060,971	3.6892%	1.1778	118.3	4.1373%	1.1366	1.3410
1989	1,101,817	3.8499%	1.2232	124.0	4.8183%	1.1935	1.4598
1990	1,135,499	3.0570%	1.2605	130.7	5.4032%	1.2579	1.5857
1991	1,159,538	2.1170%	1.2872	136.2	4.2081%	1.3109	1.6874

O & M BENCHMARK COMPARISON BY FUNCTION
(000)

	FOSSIL PRODUCTION	NUCLEAR PRODUCTION	OTHER POWER SUPPLY	TRANS- MISSION	DISTRI- BUTION	CUSTOMER ACCOUNTS	CUSTOMER SERVICE	SALES	ADMIN & GENERAL	OTHER	TOTAL
1984 ALLOWED O&M (SYSTEM) COMPOUND MULTIPLIER	50,083 1.3109	54,992 1.3109	724 1.6874	12,163 1.6874	39,276 1.6874	23,399 1.6874	2,448 1.6874	206 1.6874	47,274 1.6874	0 1.6874	230,565
1991 BENCHMARK	65,653	72,088	1,222	20,524	66,274	39,484	4,131	348	79,770	0	349,492
JURISDICTIONAL FACTORS	0.9373	0.9452	0.9091	0.7990	0.9907	0.9969	1.0000	0.9992	0.9507	0.9332	
1991 BENCHMARK - JURIS. JURIS. ADJUSTED 1991 O&M	61,536	68,137	1,111	16,399	65,658	39,361	4,131	347	75,838	0	332,518
VARIANCE BASED ON 1984	84,693 23,157	82,944 14,807	1,361 250	8,260 (8,139)	51,269 (14,389)	34,541 (4,820)	5,890 1,759	187 (160)	75,857 19	3,943 3,943	348,945 16,427
VARIANCE BASED ON 1987	8,665	2,697	(540)	(6,129)	(9,503)	(2,005)	2,275	(1,006)	(17,230)	1,818	(20,958)
INCREASE (DECREASE)	14,492	12,110	790	(2,010)	(4,886)	(2,815)	(516)	846	17,249	2,125	37,385

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FLORIDA POWER CORPORATION
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 INTERIM COST OF CAPITAL - 13 MONTH AVERAGE
 TEST YEAR ENDED 11/30/91
 STAFF POSITION

ATTACHMENT 3A

DOLLARS IN THOUSANDS

CAPITAL COMPONENT	COMPANY FILING	ADJUSTMENTS		ADJUSTED	RATIO	%	%
		SPECIFIC	PRO RATA			COST RATE	WEIGHTED COST
COMMON EQUITY	1,259,807	(3,041)	(130,537)	1,126,229	0.3804	12.60%	0.0479
PREFERRED STOCK	233,497	(2,465)	(23,997)	207,035	0.0699	7.96%	0.0056
LONG-TERM DEBT							
FIXED RATE	806,275	0	(83,746)	722,529	0.2440	8.26%	0.0202
VARIABLE RATE	208,618	0	(21,669)	186,949	0.0631	6.36%	0.0040
SHORT-TERM DEBT	95,010	0	(9,868)	85,142	0.0288	6.31%	0.0020
CUSTOMER DEPOSITS							
ACTIVE	65,292	0	0	65,292	0.0221	7.86%	0.0017
INACTIVE	536	0	0	536	0.0002	0.00%	0.0000
DEFERRED TAXES	485,382	7,679	(51,213)	441,848	0.1492	0.00%	0.0000
INVESTMENT TAX CREDITS							
3%	1,754	0	(182)	1,572	0.0005	0.00%	0.0000
POST 1970 - EQUITY	81,968	0	(8,514)	73,454	0.0248	11.88%	0.0029
POST 1970 - DEBT	55,932	0	(5,810)	50,122	0.0169	7.87%	0.0013
TOTAL	3,294,071	2,173	(335,536)	2,960,708	1.0000		0.0856

THE OVERALL WEIGHTED AVERAGE COST OF CAPITAL TO BE USED FOR INTERIM RATEMAKING PURPOSES FOR THE TEST YEAR ENDED 11/30/91 IS 8.56%.

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FLORIDA POWER CORPORATION
 DOCKET NO. 910890-EI
 INTERIM COST OF CAPITAL - 13 MONTH AVERAGE
 TEST YEAR ENDED 11/30/91
 COMPANY POSITION

ATTACHMENT 30

DOLLARS IN THOUSANDS

CAPITAL COMPONENT	COMPANY FILING	ADJUSTMENTS			RATIO	%	%
		SPECIFIC	PRO RATA	ADJUSTED		COST RATE	WEIGHTED COST
COMMON EQUITY	1,259,807	(3,041)	(130,537)	1,126,229	0.3804	12.60%	0.0479
PREFERRED STOCK	233,497	(2,465)	(23,997)	207,035	0.0699	7.96%	0.0056
LONG-TERM DEBT							
FIXED RATE	806,275	0	(83,746)	722,529	0.2440	8.26%	0.0202
VARIABLE RATE	208,618	0	(21,669)	186,949	0.0631	6.36%	0.0040
SHORT-TERM DEBT	95,010	0	(9,868)	85,142	0.0288	6.81%	0.0020
CUSTOMER DEPOSITS							
ACTIVE	65,292	0	0	65,292	0.0221	8.12%	0.0018
INACTIVE	536	0	0	536	0.0002	0.00%	0.0000
DEFERRED TAXES	485,382	7,679	(51,213)	441,848	0.1492	0.00%	0.0000
INVESTMENT TAX CREDITS							
3%	1,754	0	(182)	1,572	0.0005	0.00%	0.0000
POST 1970 - EQUITY	81,968	0	(8,514)	73,454	0.0248	11.88%	0.0029
POST 1970 - DEBT	55,932	0	(5,810)	50,122	0.0169	7.87%	0.0013
TOTAL	3,294,071	2,173	(335,536)	2,960,708	1.0000		0.0857

THE OVERALL WEIGHTED AVERAGE COST OF CAPITAL TO BE USED FOR INTERIM RATEMAKING PURPOSES FOR THE TEST YEAR ENDED 11/30/91 IS 8.57%.

FLORIDA POWER CORPORATION
 DOCKET NO. 910890-EI
INTERIM
 REVENUE EXPANSION FACTOR

ATTACHMENT 4

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	<u>COMPANY</u>	<u>STAFF</u>
	<u>Percent</u>	<u>Percent</u>
Revenue Requirement	100.0000	100.0000
Gross Receipts Tax Rate *	(1.4975)	(1.4975)
Regulatory Assessment Fee Rate	(0.1250)	(0.0833)
Uncollectible Accounts	<u>(0.1650)</u>	<u>(0.1650)</u>
Net Before Income Taxes	98.2125	98.2542
Federal/State Income Tax Rate	<u>37.63</u>	<u>37.63</u>
Federal/State Income Tax	<u>(36.9574)</u>	<u>(36.9731)</u>
Revenue Expansion Factor	<u>61.2551</u>	<u>61.2811</u>
Net Operating Income Multiplier	<u>1.632517</u>	<u>1.631823</u>

* Statutory rate adjusted for uncollectible accounts.

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FLORIDA POWER CORPORATION
DOCKET NO. 910890-EI
INTERIM
NOVEMBER 1991
(000)

ATTACHMENT 5

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	(1) PER COMPANY AS FILED	(2) STAFF ADJUSTED
JURISDICTIONAL ADJUSTED RATE BASE	\$2,960,708	\$2,960,708
REQUIRED RATE OF RETURN	x <u>8.57%</u>	x <u>8.56%</u>
REQUIRED NET OPERATING INCOME	253,733	253,437
JURISDICTIONAL ADJUSTED NOI	- <u>234,376</u>	- <u>234,312</u>
NOI DEFICIENCY/(EXCESS)	19,357	19,125
NOI MULTIPLIER	x <u>1.632517</u>	x <u>1.631823</u>
REVENUE DEFICIENCY/(EXCESS)	<u>\$31,601</u>	<u>\$31,208</u>
REQUIRED RETURN ON EQUITY	<u>12.60%</u>	<u>12.60%</u>