

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for a rate) DOCKET NO. 930400-EI
increase for Marianna electric) ORDER NO. PSC-93-1640-FOF-EI
operations by Florida Public) ISSUED: November 8, 1993
Utilities Company.)
_____)

The following Commissioners participated in the disposition of this matter:

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

ORDER SUSPENDING PROPOSED RATE
SCHEDULES AND GRANTING INTERIM RATE RELIEF

BY THE COMMISSION:

1. Suspension of Proposed Rates

Florida Public Utilities Company (FPUC or the Company) filed its petition and MFRs on September 1, 1993. The Company has requested an increase of \$214,259 based on a 1992 historic test year plus an additional increase of \$643,261 based on a 1994 projected test year for a total increase of \$857,520. The Company's request produces an 8.10% return on its December 31, 1992 test year rate base and an 8.48% return on its December 31, 1994 projected rate base. The requested return on equity is 12.35%.

We find that FPUC's request requires further study and review. Therefore, we hereby suspend the proposed new rates and charges to allow ourselves and intervenors sufficient time to adequately investigate the request for permanent rate relief.

The Company also requested \$214,259 in interim relief, in accordance with Section 366.071, Florida Statutes.

2. Interim Rate Base

FPUC has proposed an interim test year rate base of \$10,457,118 (Schedule 1). We have reviewed the Company's interim filing and find that the interim test year rate base is appropriate.

The Office of Public Counsel (OPC) filed a response to the utility interim request. This is not contemplated by the statute since the purpose of the interim statute is a "quick and dirty"

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review to be accomplished within 60 days of filing. We do not encourage such a responsive pleading since it is inconsistent with the purpose of the interim statute. Nevertheless, we have reviewed OPC's filing.

FPUC has calculated a 13-month average rate base for the test year ended December 31, 1992 in the amount of \$10,457,118, which includes a portion of its general office plant facilities located in West Palm Beach. The inclusion of the common plant increased plant in service by \$190,955, and accumulated depreciation by \$68,933. This is consistent with allocations made in the last rate case, and we find it to be appropriate.

Construction Work in Progress

The Company included \$323,292 for Construction Work In Progress (CWIP) - Completed Construction Not Classified and \$289,255 for construction projects not subject to allowance for funds used during construction (AFUDC).

Public Counsel's response to FPUC's Petition for Interim Rate Relief takes exception to the inclusion in rate base of \$289,255 in CWIP which is not subject to AFUDC. OPC states that since CWIP was not included in rate base in the last rate case, the inclusion in this case is inconsistent with that case. In addition, OPC states that the Company has not shown that inclusion of CWIP is necessary "to maintain the utility's financial integrity during the pendency of this proceeding."

We have reviewed the final order in FPUC's last rate case (Order No. 21532, pages 3-4) wherein we stated

(t)he utility's investment in plant under construction can be accounted for by either of two methods. An Allowance for Funds Used During Construction (AFUDC) may be applied to the balance to be capitalized and later recovered through depreciation charges once the plant is placed in service. When this method is chosen, the financial statements of the utility reflect income "credits" associated with AFUDC, but the utility realizes no current cash earnings from the investment in CWIP. Alternatively, CWIP may be included as a portion of rate base. Where the latter treatment is allowed, CWIP generates cash earnings, which provide cash flow and an

increase in coverage ratios. No AFUDC is taken on that portion of CWIP which is included in rate base.

Upon review of MFR Schedule B-9D in the Company's last case, the Company stated that "Allowance for Funds Used During Construction is applied on construction requiring over 60 days for completion." Therefore, the exclusion of CWIP from rate base by the Company was consistent with that order and Commission policy.

In this proceeding, FPUC stated on MFR Schedule B-13C that it does not charge AFUDC on construction projects. This change in policy is due to the revision of Rule 25-6.0141, Florida Administrative Code, which excludes construction projects from earning AFUDC that are expected to be completed in less than one year. Previously, the exclusion was for projects expected to be completed in less than 60 days. We find that FPUC's policy of not charging AFUDC is consistent with the rule. Therefore, the inclusion of CWIP in rate base is consistent with our statement in the final order in FPUC's last case since no AFUDC will be taken on that portion of CWIP.

Working Capital

FPUC has included \$200,291 for working capital in this case. In its last rate case, FPUC included \$2,070 in its 1987 historical rate base and a negative \$2,306 for the 1989 projected rate base.

We have reviewed the working capital components in this case and compared them to the amount allowed in the last case to determine where the large variance occurred. Based on that review, assets increased \$666,928, of which cash increased approximately \$222,000, accounts receivable \$243,000, unbilled revenues \$119,455, materials and supplies \$51,000 and deferred debits \$36,000 (excluding unamortized rate case expense).

Liabilities increased \$466,707, of which accounts payable increased \$49,000, taxes accrued \$78,000, insurance reserves \$105,000 and accrued insurance \$115,000.

FPUC was not booking unbilled revenues in 1989, its last test period. For rate case purposes, the Company made an adjustment to revenues in accordance with Rule 25-6.014(2), Florida Administrative Code. However, since FPUC did not book unbilled revenues, it did not include the associated asset in working capital. Subsequent to the last rate case, the Company began

booking unbilled revenues. The 13-month average for the current test year is \$119,455, and we find that it is appropriately included in working capital.

Public Counsel believes that the working capital allowance should be negative \$2,306 for interim purposes. OPC asserts that the significant increase "indicates a fundamental change in operations that cannot be addressed in the context of a 'quick and dirty' interim review."

Because of the time constraints and limited amount of discovery, we find that FPUC's requested level of working capital shall be allowed since the assets and liabilities represent actual booked amounts. Although the Commission staff has not yet audited working capital, working capital will be an issue in the permanent case.

3. Interim Test Year Net Operating Income

FPUC has proposed an interim test year net operating income of \$715,790. We find for the reasons set forth below that the appropriate interim test year net operating income is \$751,504 (Schedule 1).

Adjustment 1, Removal of Fuel and Conservation Revenues and Related Expenses

FPUC has made adjustments to remove fuel and conservation revenues of \$11,082,082, operating expenses of \$10,902,701 and revenue related taxes of \$172,785. These adjustments zero out the effect of fuel and conservation expenses which are recovered through the cost recovery clauses and are consistent with Commission policy.

Adjustment 2, Uncollectible Account Expense

An adjustment was made by FPUC to reduce the annual accrual for Uncollectible Accounts Expense by \$9,255. This reduces the expense to the average charge off for the past three years. Since a similar adjustment was made in the Company's last rate case, we find that it is appropriate to allow this adjustment for purposes of calculating interim rate relief.

Adjustment 3, Workers Compensation and General Liability Insurance

During the test year, FPUC recorded retrospective insurance premiums for 1989-1990 in the amount of \$151,086. Accordingly, the Company made an adjustment to reduce expenses by \$151,086 for this out-of-period expense. We find that it is appropriate to remove this out-of-period expense.

This adjustment as well as overall insurance expenses for the 1992 test period and projected 1994 will be reviewed for reasonableness in the full revenue requirements case.

Adjustment 4, Medical Self-Insurance

In 1991, FPUC overaccrued insurance expenses for its medical self-insurance program and in 1992, revised its accrual by reducing expenses. For the 1992 test year, FPUC made an adjustment increasing expenses by \$47,882 to normalize the past three years' claims experience. Mr. George Bachman, FPUC's witness, stated on page 4 of his testimony that this adjustment normalized the accounting estimate for the test year.

Public Counsel stated that this normalization adjustment is inappropriate for interim purposes since "actual expenses incurred are more representative of the period interim rates will be in effect."

In FPUC's last rate case there was no adjustment made to normalize expenses, and, therefore, it is inappropriate to make such an adjustment for the interim. Thus, we find that expenses shall be reduced by \$47,882.

Adjustment 5, Taxes Other Than Income Taxes

FPUC has removed \$172,785 in fuel and conservation revenue taxes related to the removal of fuel and conservation revenues and expenses. This is consistent with adjustments made in the last rate case, whereby all revenues and expenses related to cost recovery clauses are excluded from base rates.

Adjustment 6, Income Tax Expense

First, FPUC made adjustments to remove \$2,482 of fuel and conservation related income taxes related to removal of fuel and conservation revenues and expenses. This is consistent with current Commission practice, wherein all revenues and expenses related to cost recovery clauses are excluded from base rates.

Second, FPUC made an adjustment to decrease current tax expense by \$79,137 and to increase deferred tax expense by \$47,077. These adjustments were made to remove the effects of out-of-period adjustments to income taxes, and we find them to be appropriate.

Third, FPUC made adjustments to increase income tax expense by \$42,319 for the income tax effect of its adjustments to uncollectibles, insurance and medical self-insurance expenses. We accept FPUC's calculation of the income tax effect of its adjustments. However, as discussed previously, we have disallowed FPUC's medical self-insurance adjustment. Accordingly, we find that reducing test year expenses by \$47,882 results in increased income taxes of \$18,018 ($\$47,882 \times .3763$).

Finally, FPUC made an adjustment to increase income tax expense by \$24,341 for the combined effect of the interest synchronization and interest reconciliation adjustments. As a consequence of a calculation error in FPUC's interim request, income taxes were increased by \$632. Likewise, as a consequence of our adjustments to FPUC's capital structure, income taxes were decreased by \$6,532, resulting in a net decrease of \$5,850.

4. Overall Rate of Return

FPUC has proposed an overall rate of return of 8.10%. Based on the reasons discussed below, we find the appropriate overall rate of return is 7.99%. (Schedule 2).

Consistent with the method followed in Order No. 21532, we have adjusted the common equity balance for FPUC's Flo-Gas operations, a nonregulated investment. In its interim MFR filing, FPUC has removed \$319,753 from common equity and has netted Flo-Gas' remaining \$2,193,549 equity balance against Treasury Stock. The Company considers Treasury Stock to be unassociated with FPUC's divisions. We have removed \$2,181,575 directly from common equity and netted Flo-Gas' remaining \$331,727 equity balance against the total in the account "Investment in Associated Companies", which is consistent with the last rate case. Our adjustment to the Company's interim common equity balance changes the relative amounts of investor supplied capital when the capital structure is reconciled with FPUC's rate base as shown in Schedule 2.

Furthermore, the utility made an adjustment for out-of-period taxes which increased deferred taxes by \$47,076. However, FPUC neglected to reflect the corresponding capital structure adjustment

to accumulated deferred income taxes. Consequently, we increased accumulated deferred taxes and decreased common equity by the average, \$23,538 (\$47,076/2).

The return on equity (ROE) range approved in FPUC-Marianna's last rate proceeding was 12.35% to 14.35%, with a midpoint of 13.35%. We have calculated the interim overall rate of return for the test year ending December 31, 1992 using the current 13-month average cost of the Company's debt and preferred stock, and a ROE of 12.35%, which is the bottom of the last authorized range.

5. Interim Increase

FPUC has requested an interim increase of \$214,259. We find for the reasons set forth below that the appropriate amount of an interim increase granted shall be \$137,172. (Schedule 4).

FPUC has requested \$214,259 in interim relief for the test period ended December 31, 1992. This would have allowed FPUC to earn an overall rate of return of 8.10%. Based on the previously discussed adjustments, we have determined that the interim rate base shall be \$10,457,118, and the net operating income shall be \$751,504. Using a 7.99% rate of return, we find that FPUC shall be entitled to \$137,172 in interim relief.

6. 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. This is also consistent with prior cases with FPUC. Therefore, we find that interim revenues shall be collected subject to refund with interest, and FPUC shall file an appropriate corporate undertaking.

7. 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, Florida Administrative Code.

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. This 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 FPUC-Marianna results in a factor of 6.206%. Based on the findings in this Order regarding the interim increase, the factor shall be 3.973 %.

It is therefore

ORDERED by the Florida Public Service Commission that the rate schedules filed by Florida Public Utilities Company on September 1, 1993, providing for a permanent increase in rates and charges in the amount of \$857,520 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 Public Utilities Company is granted in part. Florida Public Utilities is authorized to increase its rates and charges, on an interim basis and in conformance with this Order, to generate additional annual revenues of \$137,172. 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 November 18, 1993. 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 8th day of November, 1993.

STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)
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by: Kay Flynn
Chief, Bureau of Records

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 PUBLIC UTILITIES COMPANY
 MARIANNA ELECTRIC DIVISION
 DOCKET NO. 930400-EI

SCHEDULE 1

INTERIM
 TEST YEAR ENDED 12/31/92

	(1) ADJUSTED JURIS. AS FILED	(2) MEDICAL SELF- INSURANCE	(3) INTEREST SYNCRIFIC	(4)	(5)	(6)	(7) TOTAL ADJUSTMENTS	(8) ADJUSTED TOTAL
RATE BASE								
PLANT RESERVE	\$15,391,895						\$0	\$15,391,895
COMMON PLANT ALLOCATED	191,955						0	191,955
ADJUSTMENT ADJUSTMENT	3,691						0	3,691
COMPLETION CONSTRUCTION	323,292						0	323,292
CONSTRUCTION CWP	289,255						0	289,255
TOTAL PLANT	16,109,060	0	0	0	0	0	0	16,109,060
ACCUMULATED DEPR. PLANT	(5,773,307)						0	(5,773,307)
ACCUMULATED DEPR. COMMON PLANT	(68,934)						0	(68,934)
ACCUMULATED DEPR. ADJUSTMENT	(3,691)						0	(3,691)
COST ADVANCES FOR CONSTR.	(96,333)						0	(96,333)
TOTAL	(5,942,261)	0	0	0	0	0	0	(5,942,261)
NET WORTHY PLANT	10,256,827	0	0	0	0	0	0	10,256,827
WORKING CAPITAL	200,291						0	200,291
TOTAL RATE BASE	\$10,457,118	\$0	\$0	\$0	\$0	\$0	\$0	\$10,457,118
NET OPERATING INCOME:								
OPERATING REVENUES	\$3,657,909						\$0	\$3,657,909
OPERATING EXPENSES:								
DEPR. & MAINTENANCE	1,800,306	(47,862)					(47,862)	1,752,478
DEPRECIATION & AMORTIZATION	626,899						0	626,899
TAXES OTHER THAN INCOME	366,495						0	366,495
INCOME TAXES	125,203	18,018	(5,850)				12,166	137,371
DEFERRED INCOME TAXES - NET	23,385						0	23,385
INVESTMENT TAX CREDIT - NET	(20,171)						0	(20,171)
TOTAL OPERATING EXPENSES	2,942,119	(29,864)	(5,850)	0	0	0	(35,714)	2,906,405
NET OPERATING INCOME	\$715,790	\$29,864	\$5,850	\$0	\$0	\$0	\$35,714	\$751,504

Schedule 2

FPUC MARIANNA
 DOCKET NO. 930400-EI
 INTERIM COST OF CAPITAL - 13 MONTH AVERAGE
 TEST YEAR ENDED 12/31/92

CAPITAL COMPONENT	COMPANY ADJUSTED	COMMISSION ADJUSTMENTS		TOTAL ADJUSTED	RATIO	% COST RATE	% WEIGHTED COST
		SPECIFIC	PRO RATA				
COMMON EQUITY	3,044,523	(218,539)	0	2,825,984	27.02%	12.35	3.3375%
LONG-TERM DEBT	3,682,767	155,003	0	3,837,770	36.70%	9.58	3.5159%
SHORT-TERM DEBT	853,296	35,724	0	889,020	8.50%	4.62	0.3926%
PREFERRED STOCK	99,846	4,273	0	104,119	1.00%	4.75	0.0473%
CUSTOMER DEPOSITS	471,225	0	0	471,225	4.51%	8.15	0.3673%
DEFERRED TAXES	1,971,325	23,538	0	1,994,863	19.08%	0.00	0.0000%
TAX CREDITS - 0 COST	7,366	0	0	7,366	0.07%	0.00	0.0000%
TAX CREDITS - WTD COST	326,770	0	0	326,770	3.12%	10.66	0.3332%
TOTAL	10,457,118	0	0	10,457,118	100.00%		7.9939%
OVERALL RATE OF RETURN EQUITY RATIO							7.99% 36.91%

FLORIDA PUBLIC UTILITIES COMPANY
 MARIANNA ELECTRIC DIVISION
 DOCKET NO. 930400-EI

SCHEDULE 3

INTERIM
 REVENUE EXPANSION FACTOR

	<u>COMPANY</u>	<u>COMMISSION</u>
	<u>Percent</u>	<u>Percent</u>
REVENUE REQUIREMENT	100.0000	100.0000
GROSS RECEIPTS TAX RATE	(1.5000)	(1.5000)
REGULATORY ASSESSMENT FEE RATE	(0.0833)	(0.0833)
UNCOLLECTIBLE ACCOUNTS	(0.2100)	(0.2100)
NET BEFORE INCOME TAXES	<u>98.2067</u>	<u>98.2067</u>
STATE INCOME TAX RATE	5.5000	5.5000
STATE INCOME TAX	(5.4014)	(5.4014)
NET BEFORE FEDERAL INCOME TAX	<u>92.8053</u>	<u>92.8053</u>
FEDERAL INCOME TAX RATE	34.0000	34.0000
FEDERAL INCOME TAX	<u>(31.5530)</u>	<u>(31.5538)</u>
REVENUE EXPANSION FACTOR	<u><u>61.2515</u></u>	<u><u>61.2515</u></u>
NET OPERATING INCOME MULTIPLIER	<u><u>1.632613</u></u>	<u><u>1.632613</u></u>

FLORIDA PUBLIC UTILITIES COMPANY
 MARIANNA ELECTRIC DIVISION
 DOCKET NO. 930400-EI

SCHEDULE 4

INTERIM
 TEST YEAR ENDED 12/31/92

REVENUE REQUIREMENTS

	<u>PER COMPANY AS FILED</u>	<u>COMMISSION ADJUSTED</u>
JURISDICTIONAL ADJUSTED RATE BASE	\$10,457,118	\$10,457,118
REQUIRED RATE OF RETURN	X <u>8.10%</u>	X <u>7.99%</u>
REQUIRED NET OPERATING INCOME	847,027	835,524
JURISDICTIONAL ADJUSTED NOI	- <u>715,790</u>	- <u>751,504</u>
NOI DEFICIENCY/(EXCESS)	131,237	84,020
NOI MULTIPLIER	X <u>1.632613</u>	X <u>1.632613</u>
REVENUE DEFICIENCY/(EXCESS)	<u>\$214,259</u>	<u>\$137,172</u>
REQUIRED RETURN ON EQUITY	<u>12.35%</u>	<u>12.35%</u>