

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Request for rate increase
by City Gas Company of Florida.

DOCKET NO. 000768-GU
ORDER NO. PSC-00-2101-PCO-GU
ISSUED: November 6, 2000

The following Commissioners participated in the disposition of this matter:

J. TERRY DEASON, Chairman
E. LEON JACOBS, JR.
LILA A. JABER
BRAULIO L. BAEZ

ORDER GRANTING REQUEST FOR INTERIM RATE INCREASE

I. CASE BACKGROUND

BY THE COMMISSION:

This proceeding commenced on August 25, 2000, with the filing of a petition for a permanent rate increase by the City Gas Company of Florida, a division of NUI Corporation (City or the company). City requested an increase of \$7,181,988 in additional annual revenues. The company based its request on a 13-month average rate base of \$113,986,770 for a projected test year ending September 30, 2001. The requested overall rate of return is 7.88% based on an 11.70% return on equity.

The company also requested an interim increase of \$1,886,605. It calculated the interim increase request using a 13-month average rate base of \$94,745,493, at a 6.99% rate of return using a 10.30% return on equity. The interim test year is the period ended September 30, 1999.

The Commission last granted City a \$3,752,678 rate increase in Docket No. 960502-GU. In Order No. PSC-96-1404-FOF-GU, issued November 20, 1996, the Commission found the company's jurisdictional rate base to be \$91,911,029 for the projected test year ending September 30, 1997. The allowed rate of return was found to be 7.87% for the test year using an 11.30% return on equity.

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FPSC-RECORDS/REPORTING

Pursuant to Section 366.06(4), Florida Statutes, City requested to proceed under the rules governing Proposed Agency Action (PAA). Under that section, we must vote on a PAA within 5 months of the date on which a complete set of minimum filing requirements (MFRs) were filed. Jurisdiction over this request for a rate increase and interim rate increase is granted to this agency under Sections 366.06(2), and 366.071, Florida Statutes.

II. SUSPENSION OF A PERMANENT RATE INCREASE

City filed its petition and a complete set of MFRs on August 25, 2000. City requested a permanent rate increase of \$7,181,988 which would produce a 7.88% overall return on its 13-month average adjusted rate base. This overall rate of return was calculated using a 11.70% return on equity. The company also requested interim rate relief in accordance with Section 366.071, Florida Statutes. The proposed rates shall be suspended to allow time for a complete review of the company's MFRs.

An interim rate increase will be granted, as described in subsequent parts of this Order.

III. INTERIM TEST YEAR RATE BASE

City proposed an interim test year rate base of \$94,745,493. We find that the interim rate base should be \$94,453,293. The reduction is based on a review the adjustments made in the company's last rate case and in the current filing to determine if the current case was filed consistent with the findings in Order No. PSC-96-1404-FOF-GU. We find the company's adjustments to be consistent with the last case except as noted below. The adjustments are shown in Attachments 1 and 1A.

A. Adjustment 1

Materials and Supplies - In its filing, the company inadvertently failed to exclude the non-utility portion from this account. Information provided by the company indicated that 13%, or \$171,824, was non-utility in nature. The company agrees that this amount should be removed from working capital. Therefore, we find that rate base should be reduced by \$171,824.

B. Adjustment 2

Other Regulatory Liabilities/Gain on Sale of Property - In August, 1997, the company sold its Medley property for a gain of \$788,169. The company properly recorded the amount attributed to the regulated portion of \$180,556 above the line. City did not amortize any portion of this gain. In some cases amortized gains on sales of property over five years have been approved, with the unamortized portion of the gain included in working capital as a cost-free liability. This regulatory treatment was allowed in Order No. 11628, issued February 17, 1983, for Florida Power Corporation.

Including this amount as a liability in working capital has the effect of reducing working capital. We find that rate base should be reduced by \$120,376 on a 13-month average basis.

An additional adjustment related to this transaction is the yearly amortization amount of \$36,111 ($\$180,556/5=\$36,111$). Amortization of gains are considered a "contra" expense. We find that expenses should be reduced \$36,111 for the yearly amortization not recognized.

IV. PROPOSED INTERIM TEST YEAR NET OPERATING INCOME

City proposed an interim test year net operating income of \$5,460,721. We find that the appropriate interim test year net operating income is \$5,589,933. Discussed below are the adjustments made to revise the test year net operating income. We reviewed the net operating income adjustments made in the company's last case and in the current filing to determine if the current case was filed consistent with the findings in Order No. PSC-96-1404-FOF-GU. We find the company's adjustments to be consistent with the last case. However, upon review of the MFR's, the following adjustments are necessary. These adjustments are shown on Attachment 2.

A. Adjustment 3

Bad Debt Expense - In the company's last rate case, we tested the reasonableness of bad debt expense by using a four year net write-offs as a percent of revenue. As a result, the company's expense was determined to be reasonable and no adjustment was recommended to adjust expenses. In this case the company included \$508,000 in bad debt expense in test year expenses. We tested the reasonableness of this expense by using a four year average of net

write-offs as a percent of revenues. Based on this calculation, a reasonable level of bad debt expense would be \$330,088. As a result of these recalculations, we find that bad debt expense should be reduced by \$177,912.

B. Adjustment 4

Other Regulatory Liabilities/Gain on Sale of Property - As discussed in Adjustment 2, we find that expenses should be reduced \$36,111 for yearly amortization of the gain recognized in the sale of the Medley property.

C. Adjustment 5

Tax effect of other adjustments - An adjustment was made to increase the company's income tax expense by \$80,537. This adjustment is a fallout based on other income and expense adjustments.

D. Adjustment 6

Interest reconciliation adjustment - An adjustment was made to increase the company's income tax expense by \$4,274. This adjustment represents our adjustments based on the approved capital structure and cost rates.

V. PROPOSED INTERIM RETURN ON EQUITY

For interim rates, City filed a 13-month average capital structure for the year ended September 30, 1999. Consistent with the last rate case, City adjusted the investor sources of its divisional capital structure to reflect the relative ratios of investor capital of NUI Corporation on a consolidated basis. Further, City removed an amount for non-utility investment from common equity in reconciling capital structure and rate base.

Consistent with the last rate case, the adjustments to rate base were reconciled on a pro rata basis over investor-supplied sources of capital. City's current authorized return on equity (ROE) was set at 11.30% by Order No. PSC-96-1404-FOF-GU, issued November 20, 1996. For interim purposes, the company used 10.30% for the ROE, which is the low end of the range for the authorized

ROE. We find that an interim return on equity of 10.30% is appropriate. Based on the capital structure, we find that the appropriate overall rate of return is 6.99%. (Attachment 3)

VI. PROPOSED INTERIM REVENUE EXPANSION FACTOR

City's proposed interim revenue expansion factor is 1.6236. Upon review of the company's calculations, we find that a factor of 1.6236 is incorrect and the correct factor is 1.6199. One component of the factor is the bad debt rate. Our adjustment to the bad debt expense in Part IV changed the bad debt rate component of the revenue expansion factor from 0.7489% to 0.5234%. This has the effect of changing the overall expansion factor from the company's proposed 1.6236 to 1.6199. (Attachment 5)

VII. INTERIM REVENUE INCREASE

City requested an interim revenue increase of \$1,886,605 for the historical base year ended September 30, 1999. Based on the company's calculations and adjustments, this would have allowed the company to earn an overall rate of return of 7.88%. Based on the previously discussed adjustments, we have determined the interim rate base is \$94,453,293, and the net operating income is \$5,589,933. Applying a 6.99% overall rate of return, we find that the company is entitled to \$1,640,777 in interim relief, as shown in Attachment 5.

VIII. DISTRIBUTION OF INTERIM INCREASE AMONG RATE CLASSES

Attachments 6(a) & 6(b) show the cents-per-therm increases to be applied to the rate classes based on the interim increase. The increases were calculated using the methodology contained in Rule 25-7.040, Florida Administrative Code, which requires that any increase be applied evenly across the board to all rate classes based on their base rate revenues. Attachments 7(a) through 7(1) contain bill comparisons for each class comparing the present rates with the recommended interim increase.

The interim rates will become effective for all meter readings made on or after 30 days from October 17, 2000 (the date of our vote). The company shall give appropriate notice to customers commencing with the first bill for service which reflects the increase authorized herein, explaining the nature, purpose, and

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effect of the increase. A copy of the notice shall be submitted to the Division of Economic Regulation for approval prior to its use.

IX. SECURITY TO GUARANTEE REFUND

The criteria for a corporate undertaking include sufficient liquidity, ownership equity, profitability, and interest coverage to guarantee any potential refund. The 1997, 1998, and 1999 SEC 10-K reports of NUI were used to determine the financial condition of City. Based on the analysis of City's financial condition, we find that City can support a corporate undertaking in the amount of \$410,194. This amount represents three months of revenue that City will collect during the interim period. This is consistent with the Order in City's last interim filing (Order No. PSC-96-1113-FOF-GU, issued September 3, 1996, in Docket No. 960502-GU) and with prior Commission practice.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that City Gas Company of Florida is granted an interim rate increase of \$1,640,777. It is further

ORDERED that the permanent rates shall be suspended until January 25, 2001, at the latest. It is further

ORDERED that the interim rate increase shall be distributed to all rate classes based on their base rate revenues, and shall be collected on a cents-per-therm basis. It is further

ORDERED that the interim rates shall be made effective for all meter readings made on or after 30 days from October 17, 2000. It is further

ORDERED that City Gas Company of Florida shall secure the interim refund with a corporate undertaking in the amount of \$410,194.