

FLORIDA PUBLIC SERVICE COMMISSION

Fletcher Building
101 East Gaines Street
Tallahassee, Florida 32399-0850

M E M O R A N D U M

July 26, 1990

TO: DIRECTOR OF RECORDS AND REPORTING

FROM: DIVISION OF AUDITING AND FINANCIAL ANALYSIS (MAUREY) *ALM*
DIVISION OF ELECTRIC AND GAS (ADAMS) *RT*
DIVISION OF LEGAL SERVICES (CHRIST) *MP* *or FA*

RE: DOCKET NO. 900564-GU, WEST FLORIDA NATURAL GAS COMPANY, SECURITY
ISSUANCE DURING THE YEAR ENDING JUNE 30, 1991

AGENDA: AUGUST 7, 1990

CRITICAL DATES: NONE

DISCUSSION OF ISSUE

ISSUE 1: West Florida Natural Gas Company (WFNG or Company) requests Commission authority to issue up to \$1,500,000 in long-term debt during the 12-months ending June 30, 1991. This request is in addition to the \$1,000,000 revolving line of credit the Company received authority from the Commission to issue at the April 17, 1990 agenda.

RECOMMENDATION: Recommend approval.

STAFF ANALYSIS: The Company seeks authority to issue long-term debt in the maximum principal amount of \$1,500,000 during the period covered by this application. The unsecured promissory note will be payable in equal monthly installments of principal and interest calculated using a 10-year amortization. The note shall mature at the end of the third year.

The primary purpose of this issue is to fund the clean-up and disposal of coal tar by-products. In the mid-1950's, the Company conducted a coal gasification operation in Ocala, Florida. At that time, coal tar by-products were routinely stored on the plant site. This practice was not prohibited by the laws and regulations of the period. However, current Florida regulations require the clean-up and disposal of the coal tar by-products at the plant site. In Docket No. 871255-GU, the Company requested and was granted recovery of the estimated

DOCUMENT NUMBER-DATE

06720 JUL 26 1990

FPSC-RECORDS/REPORTING

clean-up costs over a 10-year period. Attachment 4 is an estimate of the remaining environmental clean-up expenses.

In Order No. 22938 issued May 14, 1990, the Commission approved the Company's request for authority to open a \$1,000,000 revolving line of credit. The primary purpose of this issue was to supplement working capital. WFNG did not include a request for authority to issue long-term debt in this application because at the time it was filed the Company did not anticipate it would need to incur any additional long-term financing during the period covered by the application. However, because of new taxes on waste disposal in Alabama and South Carolina which will take effect September 1, 1990, the Company elected to fully fund the clean-up and disposal of the coal tar by-products now and avoid having to pay the additional tax. Therefore, the Company found it necessary to file a second security application with the Commission for approval to issue long-term debt to pay for the environmental clean-up expenses.

The interest rate on the long-term debt shall be fixed for three years at the Sun Bank three-year cost of funds plus 250 basis points as determined on the date of closing. As of July 25, 1990, the interest rate would be 11.31%. Based upon the Company's most recent Surveillance Report, the embedded cost of long-term debt is 13.20%. Some current interest rates are presented in Table I below:

BBB-rated Public Utility Bond Rate	9.89% (1)
90-Day Commercial Paper Rate	7.90% (2)
Prime Rate	10.00% (2)
Sun Bank Three-year Funds Rate	8.81% (3)

It should be noted and emphasized that Commission approval of the proposed issuance of securities by WFNG does not indicate specific approval of any rates, terms or conditions associated with the issuance. Such matters are properly reserved for review by the Commission within the context of a permanent rate proceeding. It is recommended that the subject financing be approved subject to the Commission's retention of the right to disallow any of the costs incurred for rate making purposes. Further, absent a clear demonstration of the benefits and appropriateness to utility operations, Staff recommends the Company be restricted from issuing instruments of guaranty or collateralization in connection with debt obligations or other securities to be issued by one or more of its subsidiaries or affiliates.

-
- (1) Moody's Bond Survey, July 9, 1990
 - (2) Wall Street Journal, July 25, 1990
 - (3) Sun Bank, Florida Division of Corporate Banking, July 25, 1990

DOCKET NO. 900564-GU
(SECURITY.ALM) July 26, 1990

Attachment 1	Construction Budget
Attachment 2	Capital Structure
	Pretax Coverage Ratios
	Current Cost of Comparable Securities
Attachment 3	Sources and Uses of Funds Statement
Attachment 4	Estimate of Environmental Clean-up Costs

WEST FLORIDA NATURAL GAS COMPANY
Construction Budget
Fiscal Year Ending June 30, 1991

Buildings	25,000
Mains	324,000
Measuring & Regulating Equipment	82,100
Services	200,750
Meters	107,000
Meter Installations	49,000
House Regulators	61,000
House Regulator Installations	49,000
Office Equipment	10,000
Data Equipment	12,400
Vehicles	100,000
Tools	15,300
Power Operated Equipment	1,500
Other	<u>23,050</u>
Total	<u>\$1,060,100</u>

WEST FLORIDA NATURAL GAS COMPANY

Projected Sources and Uses of Funds Statement
Fiscal Year Ending June 30, 1991Sources of Funds

Funds Provided By Operations	\$ 1,400,000
SunBank Revolving Line of Credit	\$ 579,414
Term Loan for Environmental Clean-up	<u>\$ 1,500,000</u>
Total Sources	<u>\$ 3,479,414</u>

Uses of Funds

Construction Expenditures	\$ 1,060,100
Environmental Clean-up	\$ 1,552,875
Repayment of Intercompany Advance	\$ 466,439
Dividends on Common Stock	<u>\$ 400,000</u>
Total Uses	<u>\$ 3,479,414</u>

WEST FLORIDA NATURAL GAS COMPANY

Environmental Clean-up
Estimate of Remaining Expenses*

GSX SERVICES, INC.

Excavation and disposal of contaminated soil 12,000 tons at \$121.50 per ton	\$ 1,458,000
---	--------------

Clean backfill 4,000 cubic yards at \$9.53 per cubic yard	38,120
--	--------

ENVIRONMENTAL CONSULTING & TECHNOLOGY, INC.

Collect and analyze soil borings	15,755
----------------------------------	--------

Soil testing	16,000
--------------	--------

AKERMAN, SENTERFITT

Attorney's fees	25,000
-----------------	--------

TOTAL	<u>\$ 1,552,875</u>
-------	---------------------

* Actual costs will depend upon the extent of contamination, which cannot be ascertained until excavation is underway.