BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Investigation into the Earnings of West Florida Natural Gas Company	) DOCKET NO. 930091-GU) ORDER NO. PSC-94-0452-FOF-GU) ISSUED: APRIL 14, 1994

The following Commissioners participated in the disposition of this matter:

J. TERRY DEASON, Chairman
SUSAN F. CLARK
JULIA L. JOHNSON
DIANE K. KIESLING
LUIS J. LAUREDO

NOTICE OF PROPOSED AGENCY ACTION
ORDER DISPOSING OF EXCESS EARNINGS AND ESTABLISHING APPROPRIATE TREATMENT OF RESERVE FOR ENVIRONMENTAL CLEAN-UP AND REMOVAL COSTS

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 substantially affected files a petition for formal proceeding pursuant to Rule 25-22.029, Florida Administrative Code.

CASE BACKGROUND

For the year ended September 1992, West Florida Natural Gas Company (West Florida, WFNG or the Company) reported an earned return on equity (ROE) of 14.17% which exceeds its authorized ceiling of 13.00% established in Docket No. 910778-GU. As a result, the Staff contacted West Florida in an effort to resolve the apparent overearnings situation. The Company subsequently agreed to make subject to Commission jurisdiction all earnings in excess of 13.00% ROE for the fiscal year ending June 30, 1993.

Based on the unaudited June 30, 1993 rate of return report, West Florida's earned ROE was 14.31%, which exceeded the ceiling by 1.31%. In its letter transmitting the report, the Company agreed that the report indicated excess NOI in the amount of $118,538 or $191,747 in excess revenues. Instead of refunding this amount, the

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Company proposes to credit its unamortized environmental clean-up expense, which carries a balance of approximately $710,000.

Based on our review, the Company's excess net operating income (NOI) is $341,389 and its excess revenues are $552 232 plus interest of $27,396 or a total of $579,628 for the year ended June 30, 1993 (See Schedule 1).

RATE BASE

Based on the adjustments discussed below, we find that the appropriate rate base for the fiscal year ending June 30, 1993 is $17,452,484.

Non-utility Allocations: Common plant and common expense accounts are allocated between nonregulated and regulated operations based on three factors: payroll, sales commissions, and land. As discussed in Audit Disclosure No. 2, during the year ended June 30, 1993, the Company allocated 4.92% of its common plant and common expense accounts to nonregulated operations. This factor was the nonutility factor calculated and used in its 1991 rate case as an estimate of 1993, and is the percentage of nonutility direct payroll to total payroll. In addition, the Company allocated 22.14% of its selling expenses to nonregulated operations. This factor was the estimated percentage of nonutility sales commissions to total sales commissions. Although the projected factors may have appeared appropriate in 1991 because they were the best estimate of 1993 at the time, we believe these factors are inappropriate for 1993. It is more appropriate to base these factors on actual data, which is now available. The nonutility land allocation factor has not changed since the rate case, according to the Company, and has been accepted.

Using 1993 actual data and the same method used to estimate the 1993 projected test year factors in the Company's most recent rate case, the Company calculated and provided updated nonutility factors for payroll and sales. The Company-calculated updated factor for the nonutility portion of shared assets and expenses allocated by payroll is 7.70%. The updated sales factor is 17.66%. We believe these factors are appropriate. Therefore, based on the foregoing, shared assets and expenses allocated by payroll shall be reduced by 7.70% instead of 4.92%. Expenses allocated by the sales factor shall be reduced by 17.66%, which will increase expenses by 4.48%. To accomplish the reduction caused by the change to the payroll factor and reflect the greater portion of common assets and expenses currently being devoted to nonutility operations, we find that plant-in-service shall be reduced by $44,700, accumulated depreciation by $19,755, depreciation expense by $4,656, and O&M

expenses by $68,514. We find that O&M expenses shall be increased by $4,068 to reflect the smaller portion of expenses being devoted to nonutility operations due to the change in the sales factor. The net of the two adjustments to O&M expenses is a $64,446 reduction.

For purposes of calculating overearnings, we believe it is fair and reasonable to update the allocation factors to reflect the actual operations in the period under examination. Allocation factors should be based on the best information available. Updating the allocation factors is necessary in order to exclude the correct amount of nonutility assets and expenses. The 1993 allocation factors used in the Company's last rate case were estimations based on projections for 1993. The factors applied in this proceeding are based on the same rate case methodology used to calculate the factors, however, the actual 1993 amounts are used instead of projections.

It should be noted that in WFNG's last rate case, it updated and used different allocation factors for each of the three years. The base year plus one and the projected test year factors were updated to reflect the sale of the water division and the removal of data processing to Texas. As a result, more expense and plant were allocated to the regulated operations.

Vehicle Retirement: A recent compliance audit found that during October 1992, the Company recorded on its books, the sale of an automobile which was sold to one of its employees for $2,000. This amount was recorded correctly. However, the other entries for the sale were a debit of $16,378.71 to Accumulated Depreciation, a debit of $3,325.00 to Other Employee Benefits, and a credit of $19,703.71 to Plant-in-Service. The correct entry that the Company should have made is as follows:

Account	Debit	Credit
Accumulated Depreciation	$19,704	
Plant-In-Service		$19,704

We find that the entry to Other Employee Benefits shall be reversed and accumulated depreciation shall be decreased by $3,325.

Depreciation Expense: In October, 1990, the Company recorded in Account 399, Other Tangible Plant, its investment in Compressed Natural Gas Equipment which should have been included in Account 394, Tools, Shop and Garage Equipment. In addition, the Company depreciated the investment using an unauthorized depreciation rate of 66.4%. We find that the investment and associated reserve be

reclassified to the proper account, Account 394. Further, the depreciation expense and reserve for the period ending June 30, 1993 should be reduced by $5,561 and $9,926, respectively. The effect of the adjustment to the reserve is a $7,145 increase to the average rate base. The perceived surplus reserve of $4,364 should be used to reduce the unamortized balance associated with the reserve deficit of $106,830 being amortized over five years as stated in Commission Order No. 24332, dated April 5, 1991. The adjustments correct the errors resulting from the use of an unauthorized depreciation rate and the investment being in the incorrect account.

Unrecovered Gas Cost: In its last rate case the Company properly included in working capital overrecovered gas and conservation costs. In the current case the Company included in its working capital allowance $520,200 for Unrecovered Gas Cost. Based on Commission policy, adjustment clause underrecoveries are excluded from working capital. In Order No. 9273, Docket No. 74680-CI the Commission,

> ... determined that interest should be applied to over/under recoveries in order to counter any incentive to bias projections in either direction. If the ratepayer has to provide the interest on both over/under recoveries, the company will have no incentive to make its projections as accurate as possible.

Further, the Commission stated in Order No. 13537, Docket No. 830465-EI,

> We have consistently determined that adjustment clause over recoveries should be included as a reduction to working capital. If over recoveries are excluded from working capital then working capital would be increased and the company would earn a return on the amount of the under recovery that was excluded.

This would result in the ratepayers providing the interest that the Company would return to them. By the same token, unrecovered costs should be excluded from working capital. To include those costs would allow the Company to earn a return on the under recovery plus recover the interest through the recovery clause. The above policy was recently reaffirmed in the TECO rate case in Order No. PSC-93-0165-FOF-EI, Docket No. 920324-EI.

Therefore, based on the foregoing policy which we believe is appropriate, we find that working capital shall be reduced by $520,200, consistent with the policy of excluding unrecovered gas costs from working capital.

Unbilled Revenues: We find that working capital shall be reduced by $107,089 based on our decision concerning Unbilled Revenues detailed beginning on page 7 of this Order.

Raised Water Heaters: We find that working capital shall be increased by $6,840 based on our decision concerning Raised Water Heater Costs detailed beginning on page 10 of this Order.

Property Taxes: We find that working capital shall be increased by $7,008 based on our decision concerning Property Taxes detailed beginning on page 12 of this Order.

In summary, based on the above, rate base shall be decreased by $627,916, from $18,080,400 to $17,452,484.

CAPITAL STRUCTURE AND OVERALL RATE OF RETURN

We find that, for the purpose of determining excess earnings, the appropriate overall rate of return is 10.41% based on a 13.00% return on equity and on the 13-month average capital structure for the test period ending June 30, 1993.

Our determination is based on the 13-month average capital structure as stated on the Company's surveillance report for the period ending June 30, 1993. We identified and corrected an error with the amount of interest expense used in the calculation of the debt cost rate. The Company's original debt cost rate was 13.69%. With the correction of this error, the correct debt cost rate is 12.66%.

In reconciling capital structure to rate base, we have made several adjustments. We removed $697,763 specifically from common equity because this amount represents the Company's net investment in leased water heaters. In the last rate case, the Commission removed an amount for the Company's non-utility investment, i.e., leased water heaters, specifically from common equity. The Commission found that the Company's appliance leasing business was more risky than its natural gas distribution business. We further reduced common equity by $107,089 and by $4,058, to reflect the effect of our unbilled revenue adjustment on retained earnings. Finally, common equity was reduced by $60,240 which is related to prior period state income taxes. The $107,089, the $4,058 and the

$60,240 reductions are consequences of net operating income adjustments discussed beginning at page 7 of this Order.

In reconciling its capital structure to its rate base, the Company made its pro rata adjustments over all sources of capital. We have made our pro rata adjustments over investor sources only and made specific adjustments to accumulated deferred income taxes and unamortized investment tax credits (ITCs). This treatment, which is consistent with the treatment approved in the last rate case, results in no adjustment to ITCs for this period. However, an adjustment to accumulated deferred income taxes is appropriate. We find that accumulated deferred taxes shall be increased by $89,297. This increase represents three different items: a $33,114 increase for the average of the approved $66,228 increase to test period income tax expense; a $4,058 reduction for the tax effect of the unbilled revenue adjustment which is accounted for in the $33,114 deferred tax adjustment; and a $60,240 increase for the effect of prior period unrecorded state income taxes. The net $89,296 addition is a consequence of income tax adjustments, which are discussed beginning at page 13 this Order.

For the test period, West Florida's common equity ratio is 58%. This equity ratio is high compared to the Standard & Poor's benchmarks, which specify the following ranges by bond rating for natural gas distribution utilities.

Bond Rating	Equity Ratio
AA	Over 55%
A	48% to 58%
BBB	40% to 53%

In the last rate case, the Company's projected equity ratio was 51%, based on the projected test year ending June 30, 1993. We note that the Company's actual balance of debt is less than the balance projected in the rate case. Our understanding of the reason for the variance is that the Company did not have as much construction as was projected in the rate case. Since June 30, 1993, the Company has issued new debt so that the balance of debt currently exceeds $11 million, causing a decrease in the equity ratio. As of September 30, 1993, West Florida's equity ratio was 52%. In this proceeding, we are measuring excess earnings, and are not considering a change in rates. We are not disputing the balance of common equity for the test period and, therefore, we

have not made an adjustment to decrease the equity ratio. However, by not adjusting the equity ratio, we are not implying that a 58% equity ratio is appropriate for ratemaking.

West Florida's weighted cost of debt is 12.66%. We note that this is an extraordinarily high cost rate for debt and that it even exceeds the Company's authorized ROE of 12.00%. The main reason for this high cost of debt is the cost of the Company's first mortgage bonds, which carry a face rate of 11.18% and which have a high amortization of issuance costs due to the refinancing of the bonds. The Commission thoroughly investigated the issue of the high cost of these bonds in the last rate case and found that the cost rate was acceptable since the high cost rate of the bonds was offset by additional financial flexibility. As stated above, after the test period of this earnings investigation, the Company has issued new debt. We note that this new debt carries a lower interest rate, which should lower the cost of debt prospectively.

In Docket No. 910778-GU, West Florida's last rate case, the Commission authorized a return on equity (ROE) of 12.00%, with a range of plus or minus 100 basis points (See Order No.PSC-92-0580-FOF-GU, issued June 29, 1992). The Company agreed to use 13.00% in measuring excess earnings for the fiscal year ending June 30, 1993.

In Docket No. 931105-GU, the Commission approved West Florida's proposal to lower its authorized ROE to 11.00% with a range of plus or minus 100 basis points and to cap earnings based on a 12.50% ROE for the fiscal year ending June 30, 1994 (See Order No. PSC-93-1777-FOF-GU, issued December 10, 1993).

Based on the above analysis, We find that the appropriate overall rate of return for measuring excess earnings is 10.41%. The approved rate of return and capital structure are presented on Schedule 2.

NET OPERATING INCOME

We find that, based on the adjustments discussed below, the appropriate amount of Net Operating Income is $2,158,193.

Unbilled Fuel Revenues: West Florida first recorded unbilled revenue for the year ended June 30, 1985. The unbilled revenue adjustment was made by the Company's outside auditors, who were auditing the Company's books for the first time, and the adjustment included both unbilled base rate revenue and unbilled purchased gas adjustment (PGA) revenue. However, the booking of unbilled PGA

revenues is inconsistent with the use of deferred fuel accounting which already considers the Company's total purchased gas expense.

Although not included in its original filing, the Company now proposes to reduce current operating revenues by $222,156 in unbilled PGA revenues, which it began booking in 1985, and to reduce the accrued unbilled revenue account in working capital by $17,089 ($222,156 / 13).

At June 30, 1992 the Company calculated that its total unbilled revenues were $412,644. At June 30, 1993, its Earnings Surveillance Report contained estimated total unbilled of $397,297. Subsequently, year end adjusting entries were made and the estimated $397,297 in unbilled revenues was increased by $61,239 to $458,536 to reflect actual billings. Since the year end adjusting entries are not reflected on the Surveillance Report, the Company is also proposing that it is appropriate to increase the unbilled revenues by $61,239, resulting in adjusted unbilled revenues of $458,536 at June 30, 1993. The associated working capital increase, as proposed by the Company, is $4,711 ($61,239 / 13).

Per the Company, total unbilled revenues, excluding unbilled PGA revenues, would have been $236,381 (6/93) and $230,160 (6/92). However, because the adjusted unbilled revenues of $458,536 accrued on the balance sheet at June 30, 1993 contain both PGA and base rate revenues, an adjustment must be made to remove the PGA portion. To accomplish this, an adjustment was made to reduce the June 30, 1993 balance sheet amount by $222,156 to a restated level of $236,381.

For the fiscal year ended June 30, 1993, West Florida's current operating revenues only include a net amount of total unbilled revenues of $45,892 ($458,536 - $412,644). The Company, however, proposes to remove the entire accumulated amount of unbilled PGA revenues of $222,156 from current operating revenues. If the Company had never included unbilled PGA revenues in its calculations, the total net amount of unbilled revenues included in current operating revenues would have been $6,221 ($236,381 - $230,160). Therefore, we find that the appropriate adjustment to properly restate unbilled revenues for the current year is a reduction of $39,671 ($45,892 - $6,221). The remaining difference of $182,484 ($222,155 - $39,671) in the accrued unbilled revenues relates to prior years' unbilled PGA revenues (which began to accumulate when the Company began recording unbilled revenues in 1985). Therefore, the $182,484 adjustment is a prior period adjustment for regulatory purposes and does not affect the current year's operating revenues. The after tax amount of $113,815 ($182,484 less income taxes) is a direct reduction of retained

earnings. Consequently, 1993 unbilled revenues must be reduced by the $39,671 and the unbilled receivables, accrued taxes payable and retained earnings also must be corrected, giving appropriate weight to prior period and test period adjustments.

Since NOI, working capital and the capital structure should be "clean" with regard to unbilled gas revenue, we make the following adjustments:

Increase revenues	($61,239 - $39,671)	$ 21,568
Increase income tax expense		$ 8,116
Reduce Working Capital for Accrued Unbilled Revenue		$ 171,700
Increase Working Capital for Accrued Taxes Payable		$ 64,611
Reduce Retained Earnings		$ 107,089

<u>Director Fees:</u> In the Company's most recent rate case using a June 30, 1993, projected test year, the Company did not project the payment of director fees. However, during the actual test year ending June 30, 1993, which is the period under review in this proceeding, the Company expensed $32,000 for Board of Director fees <u>below-the-line</u> (Audit Disclosure 1). This expense was recorded in December 1992 or mid-way through the test year. The Company subsequently revised its surveillance report to include a proforma adjustment to reinstate certain expenses, which the Company states were inadvertently recorded below-the-line, including the $32,000 in directors fees less 4.92%, to allocate a portion to non-utility operations. The non-utility allocation percentage is discussed in detail under the adjustment for non-utility allocations. Based on discussions with the Company, approximately $21,000 will be expensed for director's fees for the year ended June 30, 1994.

Based on information provided by the Company, no director fees had previously been paid since 1984 when Martin Gas acquired the Company. The Company has six members on the Board of Directors, which include the President of West Florida and employees of Martin Gas Company, the parent Company. A portion of the Martin Gas employees compensation is allocated to West Florida.

There were no actual board meetings held; the minutes consist of Unanimous Written Consent of Directors in Lieu of Meetings. The charges appear excessive for this small company.

Commission Staff conducted a sample survey of other companies to determine the policy of compensating directors. Based on this survey, we learned that Central Florida Gas (Central FL), City Gas,

Gulf Power Company (Gulf Power), Florida Power Corporation (FPC), Florida Power & Light (FPL), Tampa Electric Company (TECO) and Bell South do not compensate their directors who are also employees of that company. For instance, FPC has six outside and three employee directors. The three employee directors are not paid any fees while the outside directors are paid a $7,500 retainer plus $1,500 a day for each meeting attended. FPUC has eight directors, three of which are employee directors who receive compensation. The three employee directors and the five outside directors receive $25 and $75 each in director fees, respectively, for each of the four annual meetings. Of these amounts 48.4% are allocated to the regulated gas operations. Additionally, Peoples Gas, the largest gas company, paid a total of $7,000 ($5,250 allocated to the regulated operations) in Director Fees for its seven directors, two of which are employees of the Company.

In our opinion, the level of director fees requested by West Florida is excessive when compared to those being paid by the other companies. West Florida paid $5,071 per director (regulated portion as requested) compared to the average of $605 for the other gas companies. West Florida is requesting director fees almost 7 times greater than Peoples Gas, whose base rate revenues are approximately 12 times larger than West Florida's.

Therefore we find that the $32,000 for director fees shall not be included in expenses for purposes of calculating any overearnings. The expenses appear to be excessive for this size of company. Also they appear to be extraordinary for regulatory purposes since Directors fees have not been paid since Martin Gas acquired the Company. Furthermore, they were not projected in the last rate case. Finally, the directors are already being compensated through the payment of salaries. No adjustment is necessary because this expense was not included in the Company's originally filed surveillance report. Also, to allow discretionary expenses of this nature, which have never been incurred previously would send a message to other companies in a similar situation that expenses of this nature and magnitude could be used to reduce overearnings.

Raised Water Heater Program Costs: The Commission approved West Florida's program to raise water heaters to 18 inches above the floors in garages for safety reasons (Order No, PSC-92-0580-FOF-GU, Docket No. 910778-GU, pages 37-38). The Company estimated that each retrofit would cost approximately $100, and budgeted 500 installations a year for a total annual cost of $50,000. The Company was allowed to recover 50% of the installation costs. The $100 estimated cost was later revised to $120 per installation. In addition to the $120 charge, the Company also charges a markup of

20% for labor and 70% for materials (Audit Disclosure No. 5). We believe the $120 total cost should already include any normal overhead costs associated with labor and materials and there should be no markup for labor and materials charged to the regulated operations by the non-regulated operations.

During the test year, the Company originally expensed $25,000 with a corresponding credit to a deferred account. Throughout the year as the Company installs the retrofits, the costs are charged to the deferred account. In 1993, the Company charged the deferred account $16,549 for 251 retrofit installations. The appropriate amount should have been $15,060 (251 x $60) with the $1,489 difference attributable to the labor and material markup. We find that expenses shall be reduced by $9,940 (the difference between the $25,000 expensed in 1993 and the $15,060 that should have been expensed to install 251 retrofits). Also, working capital shall be increased by $6,840 to remove the deferred amount included in working capital.

Peoples Gas System, Inc. also received approval to initiate a program for appliance elevations in its last case (Docket No. 911150-GU), consistent with the Commission's action in the West Florida case. Peoples Gas was contacted by the Commission about its accounting treatment for this item. Peoples charges expense Account 894, Maintenance of Other Equipment, for the installation costs of approximately $120 per installation and bills the customer for 50% of the costs or $60. The $60 billed to the customer is then credited to Account 894. Peoples does not mark up labor costs or materials. We believe that People's method of accounting for the expenses associated with the appliance elevation program is preferable and more simplistic. We find that the accounting treatment used by Peoples Gas System, Inc. for its raised water heater program shall be adopted by West Florida. This treatment is not only simpler but will promote consistency between the Companies.

Employee Bonuses: In WFNG's 1991 rate case, the Commission approved a 5% increase in payroll for the 1993 test year based on the Company's past experience. Data provided by the Company shows that payroll increased 5.20% in 1992 and 8.86% in 1993. However, in 1993 the payroll included bonuses totalling $34,920 which were paid to all employees and $108,565 related to the Company's early retirement program. Excluding the early retirement payments from payroll yields a 2.30% payroll increase for 1993.

The December 1992 bonuses were the first ever paid by the Company. The Company stated that they did not pay bonuses in December 1993 and were not planning to pay bonuses this year. We

have reviewed the amounts of the bonuses and they appear to be reasonable for most employees. Fifty employees received $276, fifteen received $690 and four received between $1,300 and $3,100. Standard business practice is to give bonuses at the end of a year when earnings are above average. Based on the surveillance reports, WFNG's earnings for fiscal years 1992 and 1993 were good. Since these bonuses were paid in December 1992, we believe that the bonuses apply to the 1992 calendar year. Therefore, we find that expenses shall be reduced by $17,460, or one-half the amount paid of $34,920. That includes only that portion of the bonus amount actually applicable to the fiscal year under review in this docket.

Non-Utility Allocations: As discussed in Audit Disclosure No. 3, the Company inadvertently removed 100% of several accounts from expenses that should have been allocated between regulated and non-regulated operations. This caused expenses to be understated. According to the Company, $109,496 was removed from expenses when only $5,387, 4.92%, should have been removed. Therefore, the Company requested that expenses be increased by $104,109 to reinstate the regulated portion of the expenses.

Included in the $109,496 are two items that we find shall be excluded from reinstatement. One is $32,000 in directors fees as discussed previously in this Order. The second is $3,325 in Other Employee Benefits related to the sale of a vehicle to an employee, as discussed on page 3 of this Order. Removing these items, leaves $74,171 to be allocated between regulated and non-regulated operations using the 7.70% allocation factor discussed previously. Since 7.70% of the $74,171 in these accounts should be allocated to non-regulated operations, we find that expenses shall be increased by $68,460 in order to include the regulated expenses ($74,171 - 7.70% = $68,460).

Property Taxes: Property taxes have been reduced by $14,017, to exclude the property taxes associated with nonutility common plant. Conversations with the Company disclosed that the property taxes in its Earnings Surveillance Report (ESR) had not been adjusted to remove the portion of property taxes which are attributable to nonutility property. In response to Commission Staff's request, the Company provided information stating that total property taxes for the test year are $232,823, which has been accepted. However, lacking specific identification of the nonutility portion of the taxes, an allocation factor was developed using the recommended average utility net plant in service (following our adjustments) and the average total company net plant in service as reflected in WFNG's audited financial statements. The resulting nonutility factor is .0602, resulting in a reduction of $14,017 (.0602 x $232,823). Based on the foregoing, we find

that property taxes shall be reduced by $14,017. Concurrently, accrued taxes payable shall be reduced by the simple average of the expense adjustment, $7,008, and is reflected as an addition to working capital allowance in the calculation of the approved rate base.

Income Tax Expense: We find that income tax expense shall be increased by $66,228. We have recalculated income tax expense based on the adjusted net operating income before taxes and the approved capital structure. Comparison of this calculation to the Company's income tax expense as reported in its originally filed Earnings Surveillance Report, results in an increase to income tax expense of $66,228. Among other items, our adjustment considers the following:

a) Based on the approved cost of capital, income tax expense was increased for the interest reconciliation adjustment.

b) The Company's Earnings Surveillance Report reported a mixture of federal income taxes only and combined federal and state income taxes. Our calculation includes both federal and state income taxes.

c) The Earnings Surveillance Report did not contain the year end adjusting journal/closing entries of its outside auditors.

d) The permanent book tax differences related to items not considered jurisdictional for ratemaking were considered.

e) Based on the approved revenue and expense adjustments discussed previously in this order, income tax expense has been adjusted accordingly.

f) Amortization of excess deferred income taxes was included.

g) In its Earnings Surveillance Report, the Company made numerous adjustments to its revenues and expenses. Concurrently, it made adjustments to its income tax expense, with one exception. The Company reduced an expense by $575, for which it neglected to adjust income tax expense.

Based on the above, we find that fiscal year 1993 income tax expense is $831,936, a $66,228 increase to the Company's income tax expense of $765,708. Concurrently, the simple average of the $66,228 income tax expense adjustment increases accumulated deferred income taxes by $33,114. However, the foregoing adjustments also consider the tax effect of the test year unbilled revenue adjustment, part of which has been accounted for previously with the unbilled revenue adjustment. Consequently, the test year effect of the unbilled revenue adjustment must be removed. Therefore, accumulated deferred taxes have been decreased by the simple average of the test year portion, i.e. $4,058. The result is a net increase of $29,056 for fiscal year items.

Furthermore, we find that common equity shall be reduced by $60,240 and accumulated deferred income taxes shall be increased by the same amount. As a result of conversations with and documentation provided by the Company, its parent (Martin Gas) and its outside auditors; evidence of WFNG's entitlement to state income tax expense was obtained. Therefore, state income taxes have been included in the recommended test year expenses. However, during these communications it was determined also that state income taxes of approximately $60,240 were applicable to the prior year ended June 30, 1992 and they had not been recorded. Consequently, for this surveillance period which is from July 1, 1992 through June 30, 1993, a prior period adjustment is appropriate. Furthermore, for financial reporting purposes, because the year ending June 30, 1993 has been closed, a prior period adjustment for fiscal years ending June 30, 1992 and June 30, 1993 is appropriate. For regulatory purposes, the prior period adjustment will decrease retained earnings by $60,240 and increase accumulated deferred income taxes by the same amount.

In summary, the above adjustments increase Net Operating Income by $2,960, from $2,155,233 to $2,158,193.

Based on our determinations regarding the appropriate rate base, capital structure and net operating income issues, we find that the amount of overearnings for the year ended June 30, 1993 is $552,232 plus interest of $27,396 or a total of $579,628. The interest was calculated in accordance with Commission Rule 25-7.091(4), Florida Administrative Code (F.A.C.), from July 1, 1992 through June 30, 1994.

We find that the appropriate disposition of the 1993 overearnings plus interest is as follows:

1) $515,622 of the 1993 overearnings shall be used effective June 30, 1994, to offset the already incurred environmental clean-up and removal costs associated with a former manufactured gas plant site.

2) The remaining balance of $64,006 of excess revenues, including interest, shall be refunded as a credit on the customers bill during the June billing cycle in accordance with Commission Rule 25-7.091(3), F.A.C.

West Florida, in a letter dated August 13, 1993, transmitting its June 30, 1993 Earnings Surveillance Report stated that the report indicated excess earnings. The Company proposed to credit the overearnings to its environmental clean-up expense.

In West Florida's last two rate cases (Docket Nos. 871255-GU and 910778-GU), the Commission approved the Company's request to recover over ten years, beginning in March of 1989, the clean-up of coal tar residue relating to its manufactured gas operations in its Ocala division. This clean-up was required by the Florida Department of Environmental Regulation (now Department of Environmental Protection (DEP)).

As of June 30, 1993, the Company had incurred a total of $1,667,341 in expense related to the clean-up and $1,671,302 as of December 31, 1993. Based on the $198,312 annual amortization established in its last rate case, the remaining unamortized balance at June 30, 1993 was $709,796, and $614,778 at the end of December 1993, which includes $4,138 in additional expenses between June and December of 1993. Assuming no further costs are incurred between January 1 and June 30, 1994, the $614,778 will be further reduced to $515,622 by the additional six months amortization of $99,156. After application of $515,622 in over-earnings to the clean-up cost, effective June 30, 1994, there remains a balance of $64,006 including interest, which should be refunded as a credit on the customers bill during the June billing cycle, in accordance with Commission Rule 25-7.091(3), F.A.C. Since the environmental clean-up will not benefit future ratepayers and the costs have already been incurred, it would be appropriate to write-off these accumulated costs as soon as practical. In addition, the offset of the overearnings against the clean-up costs is consistent with the treatment accorded Chesapeake Utilities in its 1991 overearnings Docket No. 920729-GU.

In Docket No. 910778-GU, an annual amortization of $198,312 was approved for West Florida to recover its environmental clean-up costs over the remaining 80 months of a ten year period.

For the period between July 1, 1991 and June 30, 1993, the Company has incurred actual expenses of $102,617 and only an additional $4,138 between June and December of 1993, which indicates that the clean-up may be in its final stages. At a recent meeting, the Company stated that it expects to incur additional expenses in the future relating to new test wells and additional soil removal. The Company's consultants are currently modifying their report on the status of the site's pollution.

Because of the continued uncertainty of the potential liability associated with the clean-up, the Company requested that it be allowed to continue its annual accrual of $198,312. As a concession for continuing the accrual, the Company proposed that it would refund any accruals in excess of actual expenses, plus interest. We believe that the Company's proposal is reasonable, since it will protect the Company against future liabilities and the customer in the event the Company does not incur anticipated expenses.

Therefore, we find that West Florida Natural Gas Company shall be authorized to accrue for potential environmental clean-up and removal costs at the same annual amortization amount authorized in Docket No. 910778-GU. The Company shall be required to file with the Director of the Division of Electric and Gas Regulation annually, all correspondence between DEP and WFNG related to this matter and a status report of the clean-up activities and costs. The first report is due June 30, 1994. At June 30, 1997, during the Company's next rate case, or at the discretion of the Commission, any accruals in excess of actual expenses will be reviewed and subject to refund with interest or other disposition, independent of the Company's earnings.

In consideration of the foregoing, it is

ORDERED by the Florida Public Service Commission that the findings set forth in the body of this Order are hereby approved. It is further

ORDERED that, for the purpose of determining excess earnings for West Florida Natural Gas Company for the fiscal year ending June 30, 1993, the appropriate rate base is $17,452,484. It is further

ORDERED that, for the purpose of determining excess earnings for West Florida Natural Gas Company, the appropriate overall rate of return is 10.41% based on a 13.00% return on equity and on the 13-month average capital structure for the period ending June 30, 1993. It is further

ORDERED that, for the purpose of determining excess earnings for the period ending June 30, 1993 for West Florida Natural Gas Company, the appropriate amount of Net Operating Income is $2,158,193. It is further

ORDERED that, for the purpose of determining excess earnings for the period ending June 30, 1993 for West Florida Natural Gas Company, the $32,000 for director fees shall not be included in expenses. It is further

ORDERED that, for the purpose of determining excess earnings for the period ending June 30, 1993 for West Florida Natural Gas Company, expenses shall be reduced by $17,460, or one-half the total bonus amount paid of $34,920. It is further

ORDERED that, for the purpose of determining excess earnings for the period ending June 30, 1993 for West Florida Natural Gas Company, the Company's excess net operating income is $341,389 and its excess revenues are $552,232 plus interest of $27,396 or a total of $579,628 for the year ended June 30, 1993. It is further

ORDERED that $515,622 of the 1993 overearnings shall be used effective June 30, 1994, to offset the already incurred environmental clean-up and removal costs associated with a former manufactured gas plant site. It is further

ORDERED that the remaining balance of $64,006 of excess revenues, including interest, shall be refunded as a credit on the customers bill during the June billing cycle in accordance with Commission Rule 25-7.091(3), Florida Administrative Code. It is further

ORDERED that West Florida Natural Gas Company is authorized to accrue for potential environmental clean-up and removal costs at the same annual amortization amount authorized in Docket No. 910778-GU. It is further

ORDERED that the Company shall be required to file with the Director of the Division of Electric and Gas Regulation annually beginning June 30, 1994, all correspondence between DEP and WFNG related to this matter and a status report of the clean-up activities and costs. It is further

ORDERED that on June 30, 1997, during the Company's next rate case, or at the discretion of the Commission, any accruals in excess of actual expenses will be reviewed and subject to refund with interest or other disposition, independent of the Company's earnings. It is further

ORDERED that this docket shall be closed if no person whose substantial interests are affected by the action proposed by this recommendation files a petition for a formal proceeding within the allowed 21 day protest period.

By ORDER of the Florida Public Service Commission, this 14th day of April, 1994.

BLANCA S. BAYO, Director
Division of Records and Reporting

by: ______________________
Chief, Bureau of Records

(S E A L)

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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 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 May 5, 1994.

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 wastewater 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.

WEST FLORIDA NATURAL GAS COMPANY
DOCKET NO. 930091-GU

Schedule 1
10-Mar-94

CALCULATION OF 1993 EXCESS REVENUE

NET OPERATING INCOME			$2,155,233
Adjustments:			
Unbilled Fuel Revenues	$21,568		
Employee Bonuses	17,460		
Non-utility Allocations-Expenses	64,446		
Non-utility Alloc.-Deprec. Exp.	4,656		
Reinstate Allocated Exp.	(68,460)		
Depreciation Correction	5,561		
Raised Water Heaters	9,940		
Property Taxes	14,017		
Income Tax	(66,228)		
Total Adjustments			2,960
Adjusted NOI			$2,158,193
RATE BASE			$18,080,400
Adjustments:			
Nonutility Alloc.-Plant	($44,700)		
Nonutility Alloc.-Accum. Deprec.	19,755		
Vehicle Retirement	3,325		
Depreciation Correction	7,145		
Unbilled Revenues	(107,089)		
Unrecovered Gas Cost	(520,200)		
Raised Water Heaters	6,840		
Property Taxes	7,008		
Total Adjustments			(627,916)
Adjusted Rate Base			$17,452,484
ROR @ 13.00% ROE		x	10.41%
Maximum allowed NOI			1,816,804
Achieved NOI			2,158,193
Excess NOI			341,389
NOI Multiplier		x	1.6176
1993 Excess Revenue			552,232
Interest			27,396
TOTAL 1993 EXCESS REVENUE			$579,628

DOCKET NO. 930091 – GU
WEST FLORIDA NATURAL GAS COMPANY
EARNINGS INVESTIGATION
TEST YEAR ENDS JUNE 30, 1993

AVERAGE TEST YEAR	PER BOOKS	ADJUSTMENTS SPECIFIC	ADJUSTMENTS PRO RATA	ADJUSTED	WEIGHT	LOW POINT COST RATE	LOW POINT WEIGHTED COST	MID-POINT COST RATE	MID-POINT WEIGHTED COST	HIGH-POINT COST RATE	HIGH-POINT WEIGHTED COST
LONG TERM DEBT	$7,738,707	($590,141)	(1,550,843)	$5,597,723	32.07%	12.66%	4.06%	12.66%	4.06%	12.66%	4.06%
SHORT TERM DEBT	356,020	0	(77,237)	278,783	1.60%	6.50%	0.11%	6.50%	0.11%	6.50%	0.11%
PREFERRED STOCK	0	0	0	0	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
CUSTOMER DEPOSITS	711,892	0	(154,441)	557,451	3.19%	7.90%	0.25%	7.90%	0.25%	7.90%	0.25%
COMMON EQUITY	11,140,897	(869,150)	(2,228,400)	8,043,347	46.09%	11.00%	5.07%	12.00%	5.53%	13.00%	5.99%
DEFERRED INCOME TAXES	2,226,208	89,297	--	2,315,505	13.27%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
TAX CREDITS – ZERO COST	659,675	0	--	659,675	3.70%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
TAX CREDITS – WEIGHTED COST	0	0	--	0	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
	$22,833,399	($1,369,994)	($4,010,921)	$17,452,484	100.00%		9.49%		9.95%		10.41%

EQUITY RATIO . 50%