

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Investigation of earnings of West Florida Natural Gas Company. ) DOCKET NO. 940664-GU  
) ORDER NO. PSC-94-0912-FOF-GU  
) ISSUED: July 25, 1994  
)

The following Commissioners participated in the disposition of this matter:

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

ORDER REGARDING EARNINGS INVESTIGATION  
AND INITIATING FULL REVENUE REQUIREMENTS PROCEEDINGS

BY THE COMMISSION:

BACKGROUND

West Florida Natural Gas Company (West Florida) is an investor-owned local gas distributor that serves approximately 27,000 customers in Bay and Marion counties. West Florida's last full revenue requirements case was finalized in Order No. PSC-92-0580-FOF-GU, issued June 29, 1992. Utilizing a June 1991 historical base year and a June 1993 projected test year, West Florida was granted a permanent rate increase of \$1,026,118 based on a return on equity (ROE) of 12.00%.

Subsequently, West Florida experienced a sharp increase in its achieved ROE and agreed to an earnings cap of 13.00% for its fiscal year ended June 30, 1993. A review of that period in Docket No. 930091-GU determined that West Florida had excess revenues of \$552,232, plus interest (Order No. PSC-94-0452-FOF-GU, issued April 14, 1994).

Effective January 1, 1994, per Order No. PSC-93-1777-FOF-GU, issued December 12, 1993, West Florida's authorized ROE was reduced to 11.00%. For earnings surveillance purposes, an earnings cap of 12.50% was implemented for West Florida's fiscal year ending June 30, 1994.

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PSC-REG. DIV. REPORTING

INVESTIGATION OF EARNINGS

Per the unaudited March 1994 Earnings Surveillance Report, West Florida's achieved an ROE of 13.78%, which exceeds the 12.5% earnings cap established by the Commission in Order No. PSC-93-1777-FOF-GU. The 13.78% ROE represents \$238,036 in excess earnings for the year ended March 31, 1994. The overearnings amount is calculated as follows:

Rate Base		\$19,110,952
Achieved ROR	10.84%	
ROR @ 12.00%	<u>10.07%</u>	
Excessive ROR		<u>x .0077</u>
Excess NOI		147,154
NOI Multiplier		<u>x 1.6176</u>
Revenue Excess		<u>\$238,036</u>

In addition, since September 1992, West Florida has been in an overearnings posture on several occasions. Specifically, West Florida has reported on its Earnings Surveillance Reports the following achieved ROEs on an unaudited basis:

September 1992	14.17%
December 1992	14.04%
March 1993	13.98%
June 1993	14.31%
September 1993	14.06%
December 1993	15.81%
March 1994	13.78%

Section 366.071, Florida Statutes, authorizes the Commission to initiate an investigation of a utility's earnings upon a preliminary demonstration that the utility is earning a rate of return which is outside the range of reasonableness. To the extent that the achieved rate of return exceeds the required rate of return, the Commission may require revenues to be collected subject to refund during the investigation.

As discussed above, during the period September 1992 through March 1994, West Florida has achieved ROE's in excess of the maximum allowed ROE. This finding is sufficient to establish the entitlement to interim relief. Therefore, pursuant to section 366.071(2)(b), \$238,000 plus interest, shall be held subject to refund, under a corporate undertaking. Such funds shall be held effective July 5, 1994, pending a further review of West Florida's earnings in a full revenue requirements proceeding. After a more extensive review of the unaudited surveillance report by the

Commission staff, the amount of excess earnings may be revised as appropriate.

FULL RATE CASE

In setting rates for the future, it is appropriate to utilize projected test years that coincide with the implementation of new rates. In addition, rate case expenses may be minimized by utilizing a test year that represents the Company's normal fiscal year. During West Florida's last rate case, a June 1991 historical base year and a June 1993 projected test year were utilized. Based on the above, the period ending June 30, 1994 is found to be an appropriate base year and the period ending June 30, 1996 is an appropriate projected test year for the rate case authorized herein.

Utilization of the June 30, 1994 base year and June 30, 1996 projected test year will also allow the Commission to complete the full rate case within the statutorily mandated 12-month period. See Section 366.06(4), Florida Statutes, which requires that final agency action for a Commission initiated rate proceeding be rendered within 12 months of the Order initiating the proceeding.

The Commission staff has recommended that West Florida be required to file its minimum filing requirements (MFRs) no later than October 31, 1994. However, West Florida has requested an additional 45 days before MFR's are filed in order to facilitate settlement as to disposition of the excess earnings. Such a settlement may preclude the need for a full rate case and avoid the additional expenses that would be incurred by West Florida in preparing for the extended proceedings. This request is found to be reasonable and in the interests of the parties and the ratepayers. West Florida shall file its MFRs no later than December 15, 1994.

Based on the foregoing, it is

ORDERED that West Florida Natural Gas Company's excess earnings plus interest shall be held subject to refund as discussed in the body of this Order. It is further

ORDERED that a full revenue requirements proceeding utilizing a June 30, 1994 historical base year and a June 30, 1996 projected test year is hereby initiated. It is further

ORDERED that West Florida Natural Gas Company shall file its

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minimum filing requirements no later than December 15, 1994. It is further

ORDERED that this docket shall remain open pending resolution of the full rate case.

By ORDER of the Florida Public Service Commission, this 25th day of July, 1994.



BLANCA S. BAYÓ, Director  
Division of Records and Reporting

( S E A L )  
VDJ:bmi

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.