BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Investigation of 1995 earnings of Florida Public Utilities Company - Fernandina Beach Electric Division.	DOCKET NO. 961542-EI ORDER NO. PSC-97-0135-FOF-EI ISSUED: February 10, 1997

The following Commissioners participated in the disposition of this matter:

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

NOTICE OF PROPOSED AGENCY ACTION
ORDER DISPOSING OF 1995 OVEREARNINGS

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 a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

CASE BACKGROUND

Pursuant to the Commission's continuing earnings surveillance program, it was noted that the earnings of the Fernandina Beach Electric Division of Florida Public Utilities Company (FPUC-FB or Company) were in excess of the maximum authorized return on equity (ROE) of 12.60%. After discussions with our staff, by letter dated June 19, 1995, the Company agreed to cap its 1995 earnings at a 12.60% ROE. The disposition of any excess earnings was left to the discretion of the Commission. The Company, however, reserved the right to request alternative dispositions such as additional contributions to its storm damage reserve or the reduction of any depreciation reserve deficiencies. An Audit Report was issued on July 17, 1996. The Company's response to the audit report was received on August 12, 1996.

Based upon our review of the audit report, the Company's response and the Company's December, 1995 Earnings Surveillance Report, we have determined that for 1995, the Company has excess earnings of $61,651, plus interest of $1,855. (Attachment 3) This represents an earned ROE of 13.35%, which exceeds the maximum authorized ROE of 12.60% Our findings and calculation of excess earnings are shown below.

We find that the appropriate amount of rate base for determining the amount of excess earnings for 1995 is $14,928,526. (Attachment 1) We determined this amount by making the following adjustments to the total "FPSC Adjusted" rate base of $15,072,505 reported in the Company's December 1995 Earnings Surveillance Report:

(1) Common Plant Allocations: The Company used incorrect amounts in determining the amount of common plant to be allocated between the electric and water divisions at Fernandina Beach. Based on a recalculation using the proper amounts, we reduced the electric division's plant in service and accumulated depreciation by $96,524 and $5,758, respectively.

(2) Working Capital: The Company did not follow our normal procedure of reducing working capital by any net overrecovery of fuel or conservation cost recovery revenues. In this case, the Company had a net overrecovery of $57,326. Therefore, we reduced working capital by this amount.

(3) Capital Item Erroneously Expensed: The Company expensed the cost of replacing a failed Large Feeder Cable. Under normal accounting procedures, the cost of the new cable should have been capitalized and the cost of the old cable should have been retired. On a 13-month average basis, we increased plant in service by a net amount of $628 and reduced accumulated depreciation by a net amount of $1,177. There are also income statement effects which are discussed later in this Order.

(4) Refund Provision: The Company booked a $30,000 Provision for Rate Refund in December 1995. On a 13-month average basis, this decreased working capital by $2,308. We reversed this amount to determine the total amount of the excess earnings for 1995. The income statement effects are discussed later in this Order.

We find that the appropriate overall rate of return for determining the amount of excess earnings for 1995 is 9.19% based on a 12.60% ROE and a 13-month average capital structure for the period ending December 31, 1995. Using the 13-month average capital structure from the Company's December, 1995 Earnings Surveillance Report, we made several adjustments. We reconciled our adjustments to rate base on a pro rata basis over investor-supplied sources of capital, except for the deferred income taxes related to the $30,000 refund provision. These taxes were reconciled specifically to cost free deferred taxes in the capital structure. In addition, the average amount of excess earnings for 1995 was specifically included as short-term debt, with an effective interest rate of 5.97%. We reduced the other sources of investor-supplied capital on a pro rata basis to reconcile the additional short-term debt. Based on these adjustments which are shown on Attachment 2, we determined that the appropriate overall rate of return for evaluating excess earnings is 9.19%.

We find that the appropriate net operating income for determining the amount of excess earnings for 1995 is $1,409,717. (Attachment 1) This amount was calculated by making adjustments to the "FPSC Adjusted" net operating income of $1,386,035 reported in the Company's December, 1995 Earnings Surveillance Report. Our adjustments are as follows:

(1) Capital Item Erroneously Expensed: The Company expensed the cost of replacing a failed Large Feeder Cable rather than capitalizing it. To correct this error, we reduced O&M expenses by $7,834 and increased depreciation expense by $21.

(2) Prior Audit Expense Adjustments: The Company used amounts determined in its last rate case to allocate certain costs between the electric and water divisions, however, these amounts should have been updated to reflect the current amounts as of December 31, 1995. Based on a recalculation using the updated amounts, we reduced O&M expense by $2,742; Taxes Other Than Income by $338, and depreciation expense by $1,482.

(C) Interest Income on Cash in Working Capital: The Company included interest earning cash in working capital but did not include the related interest income in revenues. In the Company's MMFR review in Docket No. 930720-EI, we determined that the interest income should be included in revenues if the interest bearing cash is included in working capital. Therefore, we increased operating revenues by $2,257 to reflect inclusion of interest income in revenues.

(D) Refund Provision: The Company booked $30,000 as a Provision for Rate Refund in December, 1995 which reduced the operating revenues reported for 1995. We reversed this amount to determine the total amount of the excess earnings for 1995.

(E) Stone & Webster Payments: The Company allocated $56,173 to the Fernandina Beach electric division for services performed by Stone & Webster. In a subsequent reconciliation of the account, it was discovered that $58,482 should have been allocated. Therefore, we increased O&M expenses by the $2,309 difference.

(F) Interest Synchronization: This is a fallout adjustment based on the reconciliation of the rate base and the capital structure due to our adjustments to the rate base. In this instance, income taxes were increased by $2,754.

We find that the total amount of 1995 excess earnings of $63,506, including interest, shall be contributed to Fernandina Beach's Storm Damage Reserve. The booking of this amount should be considered to be effective as of January 1, 1996, for ratemaking, earnings surveillance, and overearnings review purposes.

By letter dated December 20, 1996, the Company requested that the $63,506 of excess earnings be contributed to the Storm Damage Reserve for Fernandina Beach because of the current disparity of the reserve and accrual levels between its Marianna and Fernandina Beach electric divisions. There appears to be a deficiency in the Storm Damage Reserve for Fernandina Beach and the current annual accrual is inadequate for the building of a sufficient reserve in the short-term. Therefore, we agree that the $63,506 of excess earnings should be included in the Storm Damage Reserve.

Since the excess earnings occurred during 1995 and interest has only been calculated for that year, the increase in the reserve shall be effective as of January 1, 1996, for all regulatory purposes. This will eliminate the need for calculating any additional amounts of interest and provides for the inclusion of the increased reserve in the determination of earnings for 1996.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the Fernandina Beach Electric Division of Florida Public Utilities Company's total amount of 1995 excess earnings of $63,506, including interest, shall be contributed to Fernandina Beach's Storm Damage Reserve. The booking of this amount shall be effective as of January 1, 1996, for ratemaking, earnings surveillance, and overearnings review purposes. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective unless an appropriate petition, in the form provided by Rule 25-22.036, Florida Administrative Code, is received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings or Judicial Review" attached hereto. It is further

ORDERED that in the event this Order becomes final, this Docket shall be closed.

By ORDER of the Florida Public Service Commission, this 10th day of February, 1997.

Blanca S. Bayó

BLANCA S. BAYÓ, Director
Division of Records and Reporting

(S E A L)

VDJ

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), 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, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on March 3, 1997.

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 substantially 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.

ATTACHMENT 1

FLORIDA PUBLIC UTILITIES COMPANY
FERNANDINA BEACH ELECTRIC DIVISION
DOCKET NO. 961542-EI
REVIEW OF 1995 EARNINGS

	As Filed FPSC Adjusted Basis	Deferred Excess Earnings Booked [AD-1]	Common Plant Allocations [AE-1&4]	Over/Under Recoveries [AE-2]	Capitalize Erroneously Expensed Item [AE-3]	Interest Income on Cash in Work. Cap. [AE-5]	Stone & Webster Payments [AD-4]	Interest Synch	Total Adjustment	Total Adjusted Rate Base
RATE BASE										
Plant in Service	$22,688,821		($96,524)		$628				($95,896)	$22,592,925
Accumulated Depreciation	(7,847,127)		5,758		1,177				6,935	(7,840,192)
Net Plant in Service	14,841,694	0	(90,766)	0	1,805	0	0	0	(88,961)	14,752,733
Property Held for Future Use	0								0	0
Construction Work in Progress	212,757								0	212,757
Net Utility Plant	15,054,451	0	(90,766)	0	1,805	0	0	0	(88,961)	14,965,490
Working Capital	18,054	2,308		(57,326)					(55,018)	(36,964)
Total Rate Base	$15,072,505	$2,308	($90,766)	($57,326)	$1,805	$0	$0	$0	($143,979)	$14,928,526
INCOME STATEMENT										
Operating Revenues	$4,804,881	$30,000				$2,257			$32,257	$4,837,138
Operating Expenses:										
Operation & Maintenance - Fuel	0								0	0
Operation & Maintenance - Other	1,671,696		(2,742)		(7,834)		2,309		(8,267)	1,663,429
Depreciation & Amortization	772,724		(1,482)		21				(1,461)	771,263
Taxes Other Than Income	582,848		(338)						(338)	582,510
Income Taxes - Current	235,996		1,159		2,948	849	(869)	2,754	6,841	242,837
Deferred Income Taxes (Net)	181,566	11,250	558		(8)				11,800	193,366
Investment Tax Credit (Net)	(25,984)								0	(25,984)
(Gain)/Loss on Disposition	0								0	0
Total Operating Expenses	3,418,846	11,250	(2,845)	0	(4,873)	849	1,440	2,754	8,575	3,427,421
Net Operating Income	$1,386,035	$18,750	$2,845	$0	$4,873	$1,408	($1,440)	($2,754)	$23,682	$1,409,717

OVERALL RATE OF RETURN	9.20%	0.25%	9.44%
RETURN ON EQUITY	12.60%	0.75%	13.35%

FLORIDA PUBLIC UTILITIES COMPANY
FERNANDINA BEACH ELECTRIC
DOCKET NO. 961542-EI
REVIEW OF 1995 EARNINGS

ATTACHMENT 2

CAPITAL STRUCTURE

AS FILED - FPSC ADJUSTED	Amount	Ratio	Cost Rate	Weighted Cost
Long Term Debt	$5,708,690	37.87%	10.05%	3.81%
Short Term Debt	1,061,239	7.04%	6.56%	0.46%
Preferred Stock	148,670	0.99%	4.75%	0.05%
Customer Deposits	624,991	4.15%	6.57%	0.27%
Common Equity	5,168,400	34.29%	11.60%	3.98%
Deferred Income Taxes	1,933,138	12.83%	0.00%	0.00%
Tax Credits - Zero Cost	1,097	0.01%	0.00%	0.00%
Tax Credits - Weighted Cost	426,280	2.83%	10.35%	0.29%
Total	$15,072,505	100.00%		8.86%

		Adjustments					
ADJUSTED	Amount	Specific	Pro Rata	Adjusted Total	Ratio	Cost Rate	Weighted Cost
Long Term Debt	$5,708,690	(15,247)	($68,227)	$5,625,216	37.68%	10.05%	3.79%
Short Term Debt	1,061,239	29,448	(13,070)	1,077,617	7.22%	6.54%	0.47%
Preferred Stock	148,670	(397)	(1,777)	146,496	0.98%	4.75%	0.05%
Customer Deposits	624,991			624,991	4.19%	6.57%	0.28%
Common Equity	5,168,400	(13,804)	(61,770)	5,092,826	34.11%	12.60%	4.30%
Deferred Income Taxes	1,933,138	865		1,934,003	12.96%	0.00%	0.00%
Tax Credits - Zero Cost	1,097			1,097	0.01%	0.00%	0.00%
Tax Credits - Weighted Cost	426,280			426,280	2.86%	10.77%	0.31%
Total	$15,072,505	$865	($144,844)	$14,928,526	100.00%		9.19%

INTEREST SYNCHRONIZATION

	Adjustments	Cost Rate	Effect on Interest Exp.	Tax Rate	Effect Income Taxes
Long Term Debt	($83,474)	10.05%	($8,389)	37.63%	$3,157
Short Term Debt	16,378	6.54%	1,071	37.63%	(403)

Customer Deposits	0	6.57%	0	37.63%	0
Total	($67,096)		($7,318)		$2,754

ATTACHMENT 3

FLORIDA PUBLIC UTILITIES COMPANY
FERNANDINA BEACH ELECTRIC DIVISION
DOCKET NO. 961542-EI
REVIEW OF 1995 EARNINGS

Adjusted Rate Base			$14,928,526
Achieved Rate of Return	9.44%		
Maximum Rate of Return	9.19%		
Excess Rate of Return		x	0.26%
Excess Net Operating Income			38,293
Revenue Expansion Factor		x	1.61000
Excess Revenues			$61,651