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State of Florida

Public Service Commission

-M-E-M-O-R-A-N-D-U-M-

RECEIVED-FPSC 01 JAN 12 AM 9:50 RECORDS AND REPORTING

DATE: January 11, 2001

TO: Blanco Bayó, Director, Division of Records and Reporting

FROM: Tim Devlin, Director, Division of Economic Regulation TD

RE: REVISED Recommendation Pages in Docket No. 000768-GU - Request for Rate Increase by City Gas Company of Florida - Item # 14 - January 16, 2001 Agenda Conference

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A recommendation addressing the above docket has been filed for consideration by the Commission at the January 16, 2001 Agenda Conference (Item # 14). This docket has a statutory 5-month time frame which requires this recommendation to be on the January 16 agenda. With the approval of Dr. Bane, staff is filing a revised recommendation for the January 16 agenda.

The effected issues are as follows, Issues 24 and 25 (pages 31 and 32), Issue 33 (page 40), Issue 44 (page 52), Issues 47 through 49 (pages 56 through 58), and Issue 51 (page 60). The effected attachment pages are as follows, Attachment 2, (page 70), Attachment 3, page 1 of 2 and page 2 of 2 (pages 71 and 72), Attachment 5 (page 74), and Attachment 5A, page 8 of 8 (page 82). The increased revenue requirement is immaterial, therefore, we have not made a change to the rate schedules Attachments 6 and 7. The rate schedules do not exactly reflect recommended revenue requirements.

TJD/JR:slc

cc: Division of Legal Services
Division of Competitive Services

DOCUMENT NUMBER-DATE

00530 JAN 12 ō

FPSC-RECORDS/REPORTING

State of Florida

Public Service Commission

-M-E-M-O-R-A-N-D-U-M-

DATE: January 11, 2001

TO: Dr. Mary Andrews Bane, Deputy Executive Director/Technical

FROM: Tim Devlin, Director, Division of Economic Regulation

RE: Docket No. 000768-GU - Request for Rate Increase by City Gas Company of Florida

A recommendation addressing the above docket has been filed for consideration by the Commission at the January 16, 2001 Agenda Conference (Item # 14). This docket has a statutory 5-month time frame which requires this recommendation to be on the January 16 agenda. With your permission, staff would like to make one correction and one update to the recommendation at agenda.

The one correction is to Issues 24 and 25, staff's recommendation for City Gas Company of Florida's (City or Company) capital structure ratios and weighted average cost of capital. Staff has made a correction in calculating the relative ratios of investor sources of capital for NUI. City's capital structure is based on the relative ratios of investor sources of capital maintained at the parent company level. This correction results in an increase in City's equity ratio from 43.38% to 43.49%. The change in City's equity ratio increases the weighted average cost of capital from 7.85% to 7.88%. As a result of this change in the weighted average cost of capital, staff's recommended revenue requirement for City is increased by $85, 432.

The one update is to Issue 33 rate case expense. As anticipated, the company has now provided an updated estimate of total rate case expense amounting to $339,905, not including a hearing which might result from this docket. As a result of this update to rate case expense, staff's recommended revenue requirement for City is increased by $35,628.

The total revenue requirement increase for these issues is $121,060 reflected in Attachment 5. These changes affect the calculations for several other fall-out issues. These changes are reflected in the attached recommendation and attachments.

The increased revenue requirement is immaterial, therefore, we have not made a change to the rate schedules. The rate schedules do not exactly reflect recommended revenue requirements.

TJD/JR/DD:slc

cc: Division of Legal Services
Division of Competitive Services

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RECEIVED
JAN 11 2001
DEPUTY EXECUTIVE DIRECTOR

ISSUE 24: What is the appropriate capital structure for City Gas?

RECOMMENDATION: The appropriate capital structure for City should be based on NUI Utilities, Inc.'s capital structure for investor sources. Amounts for customer deposits, deferred taxes, and ITCs should be specifically identified at the City level. (D. DRAPER, LESTER)

STAFF ANALYSIS: In previous City rate cases, the company had agreed with staff to use NUI's ratios of investors' sources of capital in its capital structure. NUI is the source of investor capital for City. Therefore, the company filed a subsidiary capital structure using the ratios of investor sources of capital adjusted to reflect NUI's capital structure.

NUI's capital structure was projected for the test year by including debt and common stock issues subsequent to the base year and allowing for the amortization of existing debt. An amount for leased appliances was removed directly from NUI's equity before calculating an equity ratio of 43.38%. By using these calculated ratios, City adjusted its capital structure to reflect the relative ratios of investor capital maintained at the parent company level. City then removed the total dollar amount of leased appliances, on a pro-rata basis, from its rate base. Although, it has been the Commission's practice to remove all non-utility investment at the company level specifically from common equity, staff had concerns with the low equity ratio of City. Consequently, staff believed it to be prudent to allow the pro-rata adjustment of non-utility investments in City's capital structure over investor sources. This treatment is consistent with the Commission's decision in Order No. PSC-94-1570-FOF-GU issued December 19, 1994, regarding one of City Gas' previous rate case. In addition, the company specifically removed the deferred tax amounts associated with the non-utility leased appliances in the capital structure.

In its MFRs, the company did not include capital leases in the calculation of its long-term debt. Staff believes capital leases should be treated as debt. Therefore, staff has made specific adjustments to investor sources to compensate for the inclusion of capital leases in the calculation of long-term debt. The resulting adjustment to NUI's ratio of investors' sources resulted in a change to its equity ratio from 43.38% to ~~42.84%~~ 43.49%. Capital leases are a form of long-term debt and should be included in the calculation of long-term debt for capital structure purposes.

 REVISED 01/11/01

ISSUE 25: What is the appropriate weighted average cost of capital for the projected test year?

RECOMMENDATION: The appropriate weighted average cost of capital for the projected test year is ~~7.85%?~~ 7.88%. (D. DRAPER, LESTER, C. ROMIG)

STAFF ANALYSIS: City is a wholly-owned subsidiary of NUI, which provides all investor capital to its subsidiaries. City has been financed entirely with common equity by its parent company. Therefore, for ratemaking purposes, the appropriate capital structure for City's projected test year ending September 30, 2001, should be based on the relative percentages of investor capital maintained at the parent level. City specifically identified the balances for ITCs, deferred income taxes, and customer deposits. The appropriate capital structure for City is discussed in more detail in Issue 24.

Based on the utility's MFR filing and including staff's adjustment to long-term debt, the appropriate weighted average cost of long-term debt is 6.58%. Staff then made pro-rata adjustments over investor sources to reconcile capital structure to rate base. Staff believes that the company's cost rate for customer deposits of 6.73%, is reasonable. In addition, staff agrees with the company that the ITCs and deferred taxes should have a zero cost rate. As was previously discussed in Issue 20, staff recommends 11.50% as the appropriate cost rate for common equity.

Based on the relative amounts of investor capital, ITCs, deferred income taxes, customer deposits and the respective cost rates discussed above, the resulting weighted average cost of capital is ~~7.85%~~ 7.88%. Attachment 2 shows the components, amounts, cost rates and weighted average cost of capital associated with the September 30, 2001, projected test year capital structure.

ISSUE 33: What is the appropriate amount of rate case expense and what is the appropriate amortization period for that expense?

RECOMMENDATION: ~~Based on the latest information provided by the Company, t~~ The appropriate amount of rate case expense is ~~$199,456~~ 339,905, amortized over four years. (REVELL)

STAFF ANALYSIS: The Company had projected that it would incur total rate case expense of $369,000, amortized over three years, with $75,000 of this amount projected to be incurred if this case goes to hearing. ~~In addition, it appears that the remaining expenses will not be incurred at the projected level. The latest information provided by the company indicates that the company has incurred $199,456 in rate case expenses. The Company now projects a total rate case expense of $321,390, assuming that a hearing is not requested.~~ The Company now projects a total rate case expense of 339,905, assuming a hearing is not requested.

~~The Company projected an annual amortization expense of $123,000 over three years in Account 928, Regulatory Commission Expenses.~~ Staff has reviewed the documentation supplied by City, and find the expenses incurred by the Company to be reasonable and prudent. Staff is recommending a four year amortization period for two reasons. It has been four years since City filed for a rate increase, and a four year amortization period was approved for the Florida Division of Chesapeake Utilities Corporation in Order No. PSC-00-2263-FOF-GU, issued November 28, 2000. Staff recommends that Account 928, Regulatory Commission Expenses, be reduced ~~$73,136~~ $38,024, i.e., [($369,000/3)-(~~$199,456~~339,905/4)], for the projected test year to reflect the reduced level of rate case amortization.

ISSUE 44: What is the appropriate amount of projected test year O&M Expense?

RECOMMENDATION: The appropriate amount of projected test year O&M expense is ~~$18,142,658~~ $18,177,770. (BRINKLEY)

STAFF ANALYSIS: This is a calculation based on the decisions made in previous issues.

ISSUE 47: What is the appropriate Income Tax Expense, including current and deferred income taxes and interest reconciliation?

RECOMMENDATION: The appropriate Income Tax Expense, including current and deferred income taxes, and interest reconciliation is ~~$1,069,487~~ $1,072,507. (C. ROMIG)

STAFF ANALYSIS: Per Company MFR G-2, Page 1 of 34, the Company requested Income Tax Expense of $(81,193)for year 2001. Review of the Company's calculation disclosed that the Company calculated its interest reconciliation incorrectly, using an incorrect interest expense in its calculation of tax expense. To correct the Company's error and adjust for changes in rate base and capital structure, staff increased income tax expense by ~~$24,686~~ $40,918. In addition, staff increased Income Tax Expense by ~~$1,125,994~~ $1,112,781 for other staff adjustments to NOI. This increases Income Tax Expense by ~~$1,150,680~~ $1,153,700 from $(81,193) to ~~$1,069,487~~ $1,072,507.

ISSUE 48: What is the appropriate level of Total Operating Expenses for the projected test year?

RECOMMENDATION: The appropriate level of total operating expenses for the projected test year is ~~$29,028,732~~ $29,066,864. (REVELL)

STAFF ANALYSIS: This is a fallout calculation based on the decisions in preceding issues.

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ISSUE 49: What is the appropriate amount of projected test year Net Operating Income?

RECOMMENDATION: The appropriate amount of projected test year Net Operating Income is ~~$6,412,757~~ $6,374,625. (Attachment 3) (REVELL)

STAFF ANALYSIS: This is a fallout calculation based on the decisions in preceding issues. Company and staff positions are reflected below.

NET OPERATING INCOME
For the Projected Test Year Ending 9/30/01

	COMPANY	STAFF
Operating Revenues	33,574,637	35,441,489
Operating Expenses:		
O&M	19,594,080	~~18,142,658~~ 18,177,770
Depreciation & Amortization	6,967,288	7,332,329
Taxes-Other	2,523,303	2,484,258
Income Taxes	(81,193)	~~1,069,487~~ 1,072,507
Total Operating Expense	29,003,478	~~29,028,732~~ 29,066,864
Total NOI	4,571,159	~~6,412,757~~ 6,374,625

REVISED 01/11/01

ISSUE 51: What is the appropriate projected test year revenue deficiency?

RECOMMENDATION: The appropriate projected test year revenue deficiency is ~~$5,011,296~~ $5,132,356. (REVELL)

STAFF ANALYSIS: This is a fallout calculation based on the decisions in preceding issues. Company and staff positions are reflected in the following schedule.

CALCULATION OF REVENUE DEFICIENCY
For the Projected Test Year Ending 9/30/01

	COMPANY	STAFF
Rate Base	$113,986,771	120,930,316
Rate of Return	7.88%	~~7.85%~~ 7.88%
Required NOI	8,982,158	~~9,493,030~~ 9,529,309
Achieved NOI	4,571,159	~~6,412,757~~ 6,374,625
NOI Deficiency	4,410,999	~~3,080,273~~ 3,154,684
Revenue Expansion Factor	1.6282	1.6269
Revenue Deficiency	$7,181,988	~~$5,011,296~~ $5,132,356

REVISED 01/11/01

COMPARATIVE NOIs

CITY GAS COMPANY OF FLORIDA
NO. 000768-GU
PTY 9/30/01

ATTACHMENT 3
Page 1 of 2

11-Jan-2001

			COMPANY		STAFF	
ISSUE NO.		TOTAL PER BOOKS	COMPANY ADJS.	COMPANY ADJUSTED	STAFF ADJS.	STAFF ADJUSTED
	OPERATING REVENUES	61,790,681				
	REVENUES DUE TO GROWTH	2,439,504				
	Remove Cost of Gas		(25,129,968)			
	Remove Conservation Costs		(2,319,744)			
	Remove Revenue Related Taxes		(2,523,902)			
	Remove Off System Sales Margins		(681,934)			
4	Increase for Clewiston Expansion Project				1,866,852	
	TOTAL REVENUES	64,230,185	(30,655,548)	33,574,637	1,866,852	35,441,489
	OPERATING EXPENSES:					
	COST OF GAS	25,004,943				
	Remove Cost of Gas		(25,004,943)			
	TOTAL COST OF GAS	25,004,943	(25,004,943)	0	0	0
	OPERATION & MAINTENANCE EXPENSE	22,981,629				
	Remove Appliance Business Expense		(2,026,256)			
	Remove Customer Care Benefits		(577,680)			
	Remove 10% of Economic Development Exp.		(207)			
	Remove AGA Dues for Lobbying		(4,045)			
	Remove Nonutility A&G Expenses		(82,423)			
	Remove Membership Dues		(4,402)			
	Remove Nonrecurring Charges		(260,908)			
	Remove Depreciation Exp. in Allocation		(431,628)			
17	Remove Project Dev. Costs				(81,167)	
30	Remove Nonutility allocated expenses				(267,871)	
31	Remove memberships, dues, & contribitions				(4,970)	
32	Pension and Benefits adjustments				357,075	
33	Reduce Rate Case Expense to actual				(38,024)	
34	Reduce Bad Debt Expense				(297,441)	
35	Remove car rental late fees				(3,775)	
36	Remove duplication of meter turn on/off exp.				(217,910)	
37	Remove duplicate UBS & Cust. Care expenses				(276,708)	
38	Reduce Outside Services for nonutility exp.				(506,017)	
38	Reduce Outside Services for duplicate exp.				(40,328)	
39	Reduce Call Center Rent (931, 903)				(31,888)	
43	Reduce odorant costs				(7,286)	
	TOTAL O & M EXPENSE	22,981,629	(3,387,549)	19,594,080	(1,416,310)	18,177,770
	CONSERVATION COSTS	2,308,203				
	Remove Conservation Costs		(2,308,203)			
	TOTAL CONSERVATION COSTS	2,308,203	(2,308,203)	0	0	0

REVISED 01/11/01

COMPARATIVE NOIs

CITY GAS COMPANY OF FLORIDA
NO. 000768-GU
PTY 9/30/01

ATTACHMENT 3
Page 2 of 2

11-Jan-2001

			COMPANY			STAFF
ISSUE NO.		TOTAL PER BOOKS	COMPANY ADJS.	COMPANY ADJUSTED	STAFF ADJS.	STAFF ADJUSTED
	DEPRECIATION AND AMORTIZATION	6,622,601				
	Add NUI Common Plant Allocation		572,977			
	Remove Common Plant Depreciation		(228,290)			
4	Increase for Clewiston Expansion Project				418,278	
5	Remove for canceled and delayed projects				(14,228)	
11	Increase depr. exp. allocation				32,651	
12	Decrease NUI HQ depreciation allocation				(35,549)	
29	Decrease for Medley gain amortization				(36,111)	
	TOTAL DEPRECIATION & AMORTIZATION	6,622,601	344,687	6,967,288	365,041	7,332,329
	TAXES OTHER THAN INCOME	5,433,005				
	Revenue Related Taxes		(2,523,902)			
	Property tax					
	Regulatory Assessment Fee		(136,566)			
	Gross receipts, franchise fees					
	Payroll taxes		(249,234)			
46	Reduce RAF				(172)	
46	Remove nonutility property taxes				(15,261)	
46	Reduce Use Tax				(23,612)	
	TOTAL TAXES OTHER THAN INCOME	5,433,005	(2,909,702)	2,523,303	(39,045)	2,484,258
	INCOME TAX EXPENSE	(1,401,054)				
	Income taxes - current & deferred		982,199			
47	Increase income tax expense for other adjs.				1,112,781	
	Interest Synch/Rec. Adj.				40,918	
	Interest Synch/Rec. Adj.		337,662			
	TOTAL INCOME TAXES	(1,401,054)	1,319,861	(81,193)	**1,153,700**	**1,072,507**
	TOTAL OPERATING EXPENSES	60,949,327	(31,945,849)	29,003,478	**63,386**	**29,066,864**
	NET OPERATING INCOME	3,280,858	1,290,301	4,571,159	**1,803,466**	**6,374,625**

REVISED 01/11/01

COMPARATIVE REVENUE DEFICIENCY CALCULATIONS

CITY GAS COMPANY OF FLORIDA
DOCKET NO. 000768-GU
PTY 9/30/01

ATTACHMENT 5
11-Jan-2001

	COMPANY ADJUSTED	STAFF
RATE BASE (AVERAGE)	$113,986,771	$120,930,316
RATE OF RETURN	X 7.88%	X 7.88%
REQUIRED NOI	$8,982,158	$9,529,309
Operating Revenues	$33,574,637	$35,441,489
Operating Expenses:		
Operation & Maintenance	19,594,080	18,177,770
Depreciation & Amortization	6,967,288	7,332,329
Amortization of Environ. Costs	0	0
Taxes Other than Income Taxes	2,523,303	2,484,258
Income Taxes	(81,193)	1,072,507
Total Operating Expenses	29,003,478	29,066,864
ACHIEVED NOI	4,571,159	6,374,625
NET NOI DEFICIENCY	4,410,999	3,154,684
REVENUE TAX FACTOR	1.6282	1.6269
REVENUE DEFICIENCY	$7,181,988	$5,132,356

CITY GAS COMPANY OF FLORIDA
DOCKET NO. 000768-GU
PTY 9/30/01
13 Month Average

CAPITAL STRUCTURE

				COMPANY ADJUSTMENTS			RATE BASE ADJUSTMENTS					
	PER BOOKS	CONFORM TO INVESTOR SOURCES	ADJUSTED BOOKS	SPECIFIC	PRO RATA	ADJUSTED PER BOOKS	SPECIFIC	PRO RATA	STAFF ADJUSTED	RATIO	COST RATE	WEIGHTED COST
COMMON EQUITY	37,348,761	$13,649,387	$50,998,148		(8,913,718)	42,084,430	111,716	3,019,969	45,216,116	37.39%	11.50%	4.30%
LONG TERM DEBT	53,645,942	5,924,882	$59,570,824		(10,412,094)	49,158,730	(127,045)	3,509,187	52,540,872	43.45%	6.58%	2.86%
SHORT TERM DEBT	26,572,040	(19,574,269)	$6,997,771		(1,223,106)	5,774,665	15,329	414,389	6,204,383	5.13%	8.00%	0.41%
CUSTOMER DEPOSITS	5,596,459	0	$5,596,459			5,596,459			5,596,459	4.63%	6.73%	0.31%
DEFERRED TAXES - ZERO COST	20,221,678	0	$20,221,678	(9,732,846)		10,488,832			10,488,832	8.67%	0.00%	0.00%
TAX CREDIT - ZERO COST	883,654	0	$883,654			883,654			883,654	0.73%	0.00%	0.00%
TOTAL	$144,268,534	$0	$144,268,534	($9,732,846)	($20,548,918)	$113,986,770	$0	$6,943,545	$120,930,315	100.0%		7.88%
EQUITY RATIO	**31.77%**		**43.38%**			**43.38%**			**43.49%**			

REVISED 01/11/01

928	Regulatory Commission Expense				
	Other trended	125,676	125,676	125,000	4
	Other 2001	0	0	0	
	Staff adjustments			**(38,024)**	
	Total	125,676	125,676	**86,976**	
929	Duplicate Charges				
	Payroll trended	0	0	0	
	Other trended	0	0	0	
	Other not trended				
	Total	0	0	0	
930.1	General Advertising Expenses				
	Payroll trended	0	0	0	
	Other trended	(1,404)	(1,404)	(1,763)	4
	Other not trended				
	Total	(1,404)	(1,404)	(1,763)	
930.2	Miscellaneous General Expenses				
	Payroll trended	0	0	0	
	Other trended	17,584	18,112	18,655	2
	Other not trended	0	0	0	
	Staff adjustment for memberships, dues, etc.	(4,685)		(4,970)	
	Total	12,899	18,112	13,685	
931	Rents				
	Payroll trended	0	0	0	
	Other trended	98,082	101,024	102,353	2
	Staff adjustments	0	0	(29,911)	
	Total	98,082	101,024	72,442	
932/935	Maintenance of General Plant				
	Payroll trended	0	0	0	
	Other trended	784	808	836	2
	Other not trended	0	0	0	
	Total	784	808	836	
Total Administrative & General Expenses		8,619,459	8,874,723	**8,422,687**	
TOTAL OPERATION & MAINTENANCE EXPENSES		$17,265,396	$17,766,485	**$18,177,768**	