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Public Service Commission

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COMMISSION
CLERK

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

DATE: September 22, 2005

TO: Director, Division of the Commission Clerk & Administrative Services (Bayó)

FROM: Division of Economic Regulation (Slemkewicz, Maurey) *JS*
Division of Competitive Markets & Enforcement (Bulecza-Banks, Makin) *ALM*
Office of the General Counsel (Jaeger) *WJ*

RE: Docket No. 041441-GU – Petition for approval of storm cost recovery clause to recover storm damage costs in excess of existing storm damage reserve, by Florida Public Utilities Company.

AGENDA: 10/04/05 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Deason

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\041441.RCM.DOC

Case Background

On December 28, 2004, Florida Public Utilities Company – Gas Division (“FPUC” or “Company”) filed a petition seeking authority to implement a Storm Cost Recovery Clause for recovery of extraordinary expenditures related to Hurricanes Charley, Frances, and Jeanne that struck its service territory in 2004. The requested clause would provide for the recovery of approximately \$860,000 over a four-year period. The impact of the proposed clause recovery on a residential customer using 25 therms per month would be \$0.19. In its petition, FPUC asserted

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that the 2004 hurricanes caused total damages of \$619,227 to its facilities. The balance of FPUC's storm damage reserve was \$59,070 at the end of September 2004, resulting in a deficit of approximately \$560,000 in its storm damage reserve at the end of December 2004. FPUC is also seeking an additional \$300,000 to replenish its storm damage reserve for a future storm. Pursuant to Order No. PSC-05-0769-PAA-GU, issued July 25, 2005 in Docket No. 050224-GU, In re: Investigation into 2002 earnings of the gas division of Florida Public Utilities Company, the Commission determined that \$117,773 of the 2002 excess earnings would be considered as an offset to the amount being sought in this docket.

FPUC began making accruals to the storm damage reserve in 1996 and accumulated a balance of \$59,070 before ceasing the accruals in 2003. In its rate case in Docket No. 040216-GU, In re: Application for rate increase by Florida Public Utilities Company, FPUC did not request that it be allowed to make any further accruals to its storm damage. As a result, FPUC currently is not booking any accruals to its storm damage reserve.

Customer Meetings were held in Deltona and West Palm Beach on June 27, 2005. A combined total of five customers attended the customer meetings. Four of those customers spoke in opposition to FPUC's proposed recovery of its storm restoration costs. In addition, the Office of Public Counsel intervened in this docket.

The Commission has jurisdiction over this matter pursuant to Chapter 366, Florida Statutes, including but not limited to Sections 366.04, 366.05 and 366.06, Florida Statutes.

Explanation of Revisions to Previously Filed Recommendation

At staff's request, the recommendation filed for the September 20, 2005, Agenda Conference was deferred to the October 4, 2005, Agenda Conference. Revisions to the recommendation were necessary due to staff's misunderstanding of the meaning of the word "director" as used in the audit report and FPUC's interrogatory responses. It was staff's assumption that "director" referred to members of FPUC's board of directors. However, staff subsequently discovered that "director" is actually a title given to certain managerial employees, such as a division director. As a result, Issues 2 and 3, and subsequent fallout issues, have been revised to reflect this understanding. The affected fallout issues are Issues 7, 9, 11, and 13. Attachment A has also been revised. The effect of the revision to Issue 3 increases the recommended total amount, including interest and revenue taxes, to be recovered from \$489,598 to \$500,187.

Discussion of Issues

Issue 1: What is the appropriate methodology to be used for booking costs to the storm damage reserve in this docket?

Recommendation: The appropriate methodology to be used for booking costs to the storm damage reserve is a direct incremental cost with net book value adjustment approach methodology. (Slemkewicz)

Staff Analysis: In determining the amount of costs to be booked to the storm damage reserve, FPUC primarily utilized a direct incremental cost approach methodology. Under this methodology, only extraordinary expenses, such as overtime pay and vehicle expenses, that exceeded what would normally be recovered in base rates were charged to the storm damage reserve. FPUC also charged the normal costs of replacements to the reserve consistent with the incremental cost approach. However, cost of removal and retirements were not charged to the reserve, a departure from the incremental cost approach methodology.

In Order No. PSC-05-0748-FOF-EI, issued July 14, 2005, in Docket No. 041272-EI, In re: Petition for approval of storm cost recovery clause for recovery of extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan, by Progress Energy Florida, Inc., the Commission followed a direct incremental cost with net book value adjustment methodology in determining the amount of costs to be charged to the storm damage reserve. Under this methodology, only extraordinary costs would be charged to the storm damage reserve. Staff believes that this methodology is also the appropriate one to be utilized in this docket. Therefore, staff recommends that the direct incremental cost with net book value adjustment methodology be utilized to determine the costs that should be charged to the storm damage reserve. Because FPUC did not follow staff's recommended methodology in its entirety, staff has recommended that certain adjustments be made in the issues that follow.

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Issue 2: Has FPUC quantified the appropriate amount of managerial and non-managerial employee payroll expense that should be charged to the storm damage reserve? If not, what adjustments should be made?

Recommendation: No. FPUC's managerial and non-managerial employee payroll expense should be reduced by \$11,341 to eliminate certain overtime pay that was incorrectly charged to the storm damage reserve. (Slemkewicz)

Staff Analysis: In its filing, FPUC included payroll charges of \$459,057 in its storm damage recovery request. Of this amount, \$448,800 was related to overtime payroll charges for certain managerial and non-managerial employees. The remaining \$10,257, discussed in Issue 3, was related to one-time payments made to six managerial employees in lieu of any payments for overtime. The regular pay for these employees was not charged to the storm damage reserve. In staff's opinion, FPUC has used the appropriate methodology by only charging the incremental overtime payroll expenses to the storm damage reserve.

However, FPUC reviewed the overtime hours charged to the storm damage reserve and determined that some of the overtime incurred was not directly related to storm damage restoration activities. The amount of the overtime not related to storm damage restoration activities was determined to be \$11,341. Staff, therefore, recommends that the payroll expense be reduced by \$11,341 to eliminate overtime pay that was incorrectly charged to the storm damage reserve.

Amount Requested	\$448,800
Staff Recommended	<u>437,459</u>
Adjustment	<u>(\$11,341)</u>

Issue 3: Is it appropriate for FPUC to charge the storm damage reserve with the one-time payments awarded to certain managerial employees?

Recommendation: Yes. The \$10,257 in one-time payments awarded to certain managerial employees should be charged to FPUC's storm damage reserve. (Slemkewicz)

Staff Analysis: In Audit Disclosure No. 2, it was noted that six of FPUC's directors were paid a total of \$10,257 as a one-time payment (bonus). The company stated that this payment was made based on the directors' level of overall effort to support the hurricane needs.

In its September 8, 2005, recommendation, staff had incorrectly assumed that the word "director" referred to members of FPUC's board of directors and had recommended that the \$10,257 not be included as a cost in the storm damage reserve. However, staff subsequently discovered that "director" is actually a title given to certain managerial employees, such as a division director. These directors are not eligible for any overtime pay. In recognition of the extra effort and time that these managerial employees expended during the storm damage restoration activities, FPUC awarded them one-time payments (bonuses) in lieu of any overtime pay. Based on this understanding, staff believes that the inclusion of the one-time payments of \$10,257 as a cost in the storm damage reserve is appropriate. As discussed in Issue 2, the directors' regular salaries were not charged to the storm damage reserve. As a result, Issue 3, and subsequent fallout issues, have been revised to reflect the inclusion of these costs in the storm damage reserve.

Although this issue was not directly addressed in the Florida Power & Light Company and Progress Energy Florida, Inc. storm cost recovery dockets, the Commission did allow all incremental storm damage restoration activity costs related to managerial employee compensation to be charged to the storm damage reserve. Presumably, this would have included any extraordinary payments to managerial employees, such as special overtime or one-time payments (bonuses). Therefore, staff recommends that it is appropriate to allow the \$10,257 in one-time payments, made to certain managerial employees, to be charged to the storm damage reserve.

Amount Requested	\$10,257
Staff Recommended	<u>10,257</u>
Adjustment	<u><u>0</u></u>

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Issue 4: Has FPUC properly quantified the costs of company-owned vehicles that should be charged to the storm damage reserve? If not, what adjustments should be made?

Recommendation: No. The costs of company-owned vehicles charged to the storm damage reserve should be reduced by \$2,590 to eliminate depreciation expense and insurance that are recovered in base rates. (Slemkewicz)

Staff Analysis: As discussed in Audit Disclosure No. 3, FPUC developed a cost-per-hour factor for transportation costs and applied that factor to the hours of vehicle usage for storm restoration activities. The amount booked for storm restoration transportation expenses was \$14,762. The hourly transportation factor used, however, included components for depreciation expense and insurance. These fixed expenses are already recovered in base rates. Audit Disclosure No. 3 includes a schedule recalculating the amount of transportation expenses to be allocated to storm restoration activities without insurance and depreciation expense. The appropriate recalculated amount of transportation expenses is \$12,172, a reduction of \$2,590. Therefore, staff recommends that the amount of transportation expenses charged to the storm damage reserve be reduced by \$2,590.

Amount Requested	\$14,762
Staff Recommended	<u>12,172</u>
Adjustment	<u>(\$2,590)</u>

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Issue 5: Is it appropriate for FPUC to charge its storm damage reserve for estimated post-storm costs for customer notices and advertising, legal fees, travel, administrative fees and miscellaneous?

Recommendation: No. These post-storm costs are not related to actual storm restoration activities and should not be charged to the storm damage reserve. Therefore, the amount charged to the storm damage reserve should be reduced by \$29,500 to remove these costs. (Slemkewicz)

Staff Analysis: FPUC has requested recovery of estimated post-storm costs of \$20,000 for customer notices and advertising, \$4,500 for legal fees, and \$5,000 for travel, administrative fees and miscellaneous. All of these costs are related to the Company's filing for recovery of its storm restoration costs. As discussed in Audit Disclosure No. 4, the \$20,000 of customer notices and advertising costs are for the printing of customer notices, mailing customer notices and newspaper notices for the customer meetings associated with the filing of the petition in this docket. The \$4,500 is for legal fees and attorney travel expenses. The remaining \$5,000 is for overtime, travel and administrative fees relating to the customer meetings for the storm filing.

In staff's opinion, these types of costs are not related to activities that were necessary to restore service to FPUC's customers as a result of the storms. Only costs incurred for actual storm restoration activities should be charged to the storm damage reserve. Therefore, staff recommends that the \$29,500 of costs not related to storm restoration activities should be removed from the storm damage reserve.

Amount Requested	\$29,500
Staff Recommended	<u>0</u>
Adjustment	<u>(\$29,500)</u>

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Issue 6: Of the costs that FPUC has charged to the storm damage reserve, should any portion be booked as capital costs associated with the replacement and retirement of plant items affected by the 2004 storms?

Recommendation: Yes. FPUC should charge the normal costs of replacements to rate base as plant in service. Therefore, the amount charged to the storm damage reserve should be reduced by \$31,967 to remove the items that should be capitalized as plant in service. (Slemkewicz)

Staff Analysis: FPUC's requested \$860,000 storm cost recovery includes a total of \$31,967 related to plant in service that was replaced. Under the Company's methodology, the difference between the new asset cost and the original basis was charged to the storm damage reserve. Although the new assets cost more than the assets that were replaced, none of the costs were extraordinary. In Docket No. 041272-EI, In re: Petition for approval of storm cost recovery clause for recovery of extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan, by Progress Energy Florida, Inc., and Docket No. 041291-EI, In re: Petition to recover prudently incurred storm restoration costs related to 2004 storm season that exceed storm reserve balance, by Florida Power & Light Company, it was determined that the normal cost of replacements should be included in rate base rather than being charged to the storm damage reserve. Staff, therefore, recommends that the \$31,967 of normal replacement costs be removed from the storm damage reserve and be included in rate base.

Amount Requested	\$31,967
Staff Recommended	<u>0</u>
Adjustment	<u>(\$31,967)</u>

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Issue 7: Taking into account any adjustments identified in the preceding issues, what is the appropriate amount of storm restoration costs to be charged against the storm damage reserve?

Recommendation: Based on staff's adjustments recommended in the previous issues, the appropriate amount of storm restoration costs to be charged against the storm damage reserve is \$543,602. (Slemkewicz)

Staff Analysis: Based on the adjustments recommended by staff in the preceding issues, staff recommends that the appropriate amount of storm restoration costs to be charged against the storm damage reserve is \$543,602. The following table shows staff's calculation:

FPUC Estimated 2004 Storm Damage Costs	\$619,000
<u>Less:</u> Staff Adjustments	
Issue 2 – Payroll Expense	(11,341)
Issue 3 – Directors' One-Time Payments	0
Issue 4 – Vehicle Expenses	(2,590)
Issue 5 – Estimated Post-Storm Costs	(29,500)
Issue 6 – Capital Items	<u>(31,967)</u>
Total Adjustments	<u>(75,398)</u>
Adjusted 2004 Storm Restoration Costs To Be Charged Against Storm Damage Reserve	<u>\$543,602</u>

Issue 8: What amount, if any, should FPUC be allowed to include for recovery in this docket for the purposes of building a storm damage reserve balance for future storms?

Recommendation: The Commission should not allow the recovery of any of the requested \$300,000 for the replenishment of the storm damage reserve. Instead, the Commission should order that the remaining \$117,773 of 2002 excess earnings, as determined in Docket No. 050224-GU, be credited to the storm damage reserve (Account 228.1). The \$117,773 should not be netted against the existing storm reserve deficit, but should be used to offset future storm restoration costs. (Slemkewicz)

Staff Analysis: Included in FPUC's requested \$860,000 recovery for storm damage costs is \$300,000 to replenish its storm damage reserve for a future storm. FPUC began making accruals to the storm damage reserve in 1996 and accumulated a balance of \$59,070 before ceasing the accruals in 2003. In its rate case in Docket No. 040216-GU, In re: Application for rate increase by Florida Public Utilities Company, FPUC did not request that it be allowed to make any further accruals to its storm damage. As a result, FPUC currently is not booking any accruals to its storm damage reserve.

FPUC did not file any study in support of its request to establish a \$300,000 target storm damage reserve. The Company's basis for determining that amount was to look at the historical amounts of recent storm damage in 2004 and average the amount for the two larger storms. The resulting estimated amount was \$300,000 after rounding to the nearest \$100,000. On an actual basis, the only charge made to the storm damage reserve from 1996 until 2004 was a charge of \$62,430 related to Hurricane Floyd in 1999. Over an eight year period (1996 – 2003), the average annual charge to the storm damage reserve was \$7,804. If the 2004 charge of \$619,227 is added and averaged over a nine year period (1996 – 2004), the average annual charge would increase to \$75,740.

In both the Progress Energy Florida, Inc. and Florida Power & Light Company storm cost recovery dockets, the storm damage costs that were authorized for the surcharge recovery were those costs that were extraordinary and that exceeded the storm damage reserve balance. The costs authorized for recovery did not include any amounts for the replenishment of the storm damage reserve. It is staff's opinion that the use of a surcharge is only appropriate for the recovery of extraordinary costs that exceed the storm damage reserve balance. The replenishment of the storm damage reserve does not qualify as an extraordinary cost that should be recovered through the surcharge.

FPUC has not provided any study that would help to determine what might be a reasonable target level for its storm damage reserve. Based on the above discussion, staff believes that the \$300,000 requested to replenish the storm damage reserve should not be included in the requested surcharge. FPUC should be encouraged to file a storm damage study to determine an appropriate target level and annual accrual amount for its storm damage reserve.

Staff, however, is aware of the fact that FPUC currently does not have a storm damage reserve accrual to help replenish its reserve in the event of a future storm. In Docket No. 050224-GU, the Commission determined that \$117,773 of FPUC's 2002 excess earnings would be considered as an offset to the amount being sought in this docket. Therefore, staff

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recommends that the \$117,773 should be credited to the storm damage reserve (Account 228.1) to establish a reserve amount for future storms. The \$117,773 should not be netted against the existing storm reserve deficit, but should be used to offset future storm restoration costs. This would offset and replace the need for FPUC's requested \$300,000 storm damage reserve replenishment amount.

Amount Requested	\$300,000
Staff Recommended	<u>0</u>
Adjustment	<u>(\$300,000)</u>

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Issue 9: What is the appropriate amount of storm restoration costs to be recovered from the customers?

Recommendation: The appropriate amount of storm restoration costs to be recovered from the customers is \$484,532, plus any interest as determined in Issue 11. (Slemkewicz)

Staff Analysis: Based on the recommended adjusted total net 2004 storm restoration costs determined in Issue 7 and the recommendation in Issue 8 to not allow the recovery of any amounts to replenish the storm damage reserve, staff recommends that \$484,532, plus revenue taxes and any interest, is the appropriate amount of storm restoration costs to be recovered from the customers. The following table shows staff's calculation:

Adjusted Total Net 2004 Storm Restoration Costs	\$543,602
12/31/04 Storm Damage Reserve Balance	(59,070)
Unrecovered 2004 Storm Restoration Costs To Be Collected From Customers Before Interest and Revenue Taxes	<u>\$484,532</u>

The following table shows the adjustments to FPUC's requested amount of \$860,000:

Storm Restoration Costs Requested (Rounded)	\$560,000
Future Storm Costs Requested	<u>300,000</u>
Total Costs Requested	860,000
Less: Staff Adjustments	
Issue 7 – Total Adjustments To Storm Damage Reserve	(75,398)
Issue 8 – Future Storm Costs	<u>(300,000)</u>
Total Adjustments	<u>(375,398)</u>
Unrecovered 2004 Storm Restoration Costs To Be Collected From Customers Before Interest and Revenue Taxes (\$70 difference due to rounding)	<u>\$484,602</u>

Issue 10: If recovery is allowed, what is the appropriate account treatment for recording the unamortized balance of the storm restoration costs subject to future recovery?

Recommendation: The appropriate account treatment for the unamortized balance of the storm restoration costs subject to future recovery is to record the costs as a regulatory asset in a subaccount of Account 182.1, Extraordinary Property Losses. (Slemkewicz)

Staff Analysis: The purpose of this issue is to determine the appropriate account in which to record the approved deferred storm restoration costs during the period that they are being amortized. Once an amount is approved for recovery and amortization, it meets the definition of a regulatory asset. In this instance, the appropriate account is Account 182.1, Extraordinary Property Losses. This account was specifically created to include extraordinary losses, such as unforeseen damages to property, which are not covered by insurance or other provisions. This would include the Commission-determined amount of the storm restoration costs, approved for future recovery, that exceed the balance in the storm reserve. In order to assist in the tracking and review of the amounts included in this account and their subsequent amortization, a separate subaccount of Account 182.1 should be established to record these transactions.

Based on the foregoing, staff recommends that the appropriate accounting treatment for the unamortized balance of the storm restoration costs subject to future recovery is to record the costs as a regulatory asset in a subaccount of Account 182.1, Extraordinary Property Losses.

Issue 11: Should FPUC be authorized to accrue and collect interest on the amount of storm restoration costs permitted to be recovered from customers? If so, how should interest be calculated?

Recommendation: Yes. Staff recommends that FPUC be allowed to charge interest at the applicable 30-day commercial paper rate on the net-of-tax unamortized balance of storm damage restoration costs permitted to be recovered from customers. The total amount to be recovered with interest and revenue taxes is \$500,187. (Maurey)

Staff Analysis: In both the Florida Power & Light Company (FPL) and Progress Energy Florida, Inc. (PEF) storm cost recovery dockets, the Commission approved the collection of interest at the applicable 30-day commercial rate on the net-of-tax unamortized balance of costs permitted to be recovered from customers. (Order No. PSC-05-0748-FOF-EI, issued July 14, 2005, in Docket No. 041272-EI, In Re: Petition for approval of storm cost recovery clause for recovery of extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan by Progress Energy Florida, Inc.; and Order No. PSC-05-0937-FOF-EI, issued September 21, 2005, in Docket No. 041291-EI, In Re: Petition to recover prudently incurred storm restoration costs related to 2004 storm season that exceed storm reserve balance, by Florida Power & Light Company.) Staff recommends a similar treatment be authorized in the instant docket.

Consistent with Rule 25-7.014(1), Florida Administrative Code, FPUC booked storm damage restoration costs to its storm reserve for regulatory purposes. For tax purposes, however, FPUC expensed the storm damage restoration expenses in 2004. This treatment resulted in the Company booking additional accumulated deferred taxes of approximately \$186,908. While this is a temporary timing difference that will be reversed as the storm damage surcharge is collected, in the meantime the deferred taxes are a source of cost-free capital to the Company.

While FPUC has proposed recovering storm damage restoration costs through a surcharge over a period of four years, in Issue 13 staff is recommending that recovery occur over a two and one-half year period. In response to a staff interrogatory, the Company anticipates it will file its next Natural Gas Division rate proceeding in either 2007 or 2008 with a projected test year ending December 31, 2008 or 2009. Because of the uncertainty over what period will be covered and the timing of the filing of the Company's next rate proceeding, staff recommends the unamortized balance of storm-related deferred taxes be used as an offset to the unamortized balance of approved storm damage recovery for purposes of calculating interest. Specifically, staff recommends interest be calculated on the net-of-tax balance of approved storm-related costs over the period the storm surcharge is in effect. This treatment is comparable to the treatment approved by the Commission in the FPL and PEF storm damage recovery dockets.

Issue 12: What mechanism should be used to collect the amount of the storm-related costs authorized for recovery?

Recommendation: Recovery of storm-related costs should be recovered through a temporary surcharge based on various rate classes and consumption. FPUC should be required to include a statement on the customers' bills that identifies the per therm charge approved by the Commission as a result of its 2004 storm-related costs. (Makin, Bulecza-Banks)

Staff Analysis: FPUC is proposing that its storm-related costs be recovered through a temporary surcharge to be applied to its various rate classes on the basis of consumption. In this particular case, staff believes that a temporary surcharge is preferable to a permanent rate change, a recovery clause, or a one-time charge.

In staff's opinion, embedding the 2004 storm costs to arrive at a permanent rate change would be inappropriate. Embedding the 2004 storm costs to arrive at a permanent increase implies that the 2004 storm costs would be incurred year after year. Historically, FPUC has not been impacted year after year by a major storm.

With respect to a recovery clause, staff believes that a recovery clause would not be appropriate in this case. Recovery clauses are designed to recoup costs that are recurring in nature. As storm costs are not incurred month after month, or year after year, staff does not believe it would be appropriate to use a clause mechanism for recovery of FPUC's 2004 storm costs.

A temporary surcharge is the most appropriate recovery mechanism to recoup FPUC's 2004 storm costs. Under the temporary surcharge methodology, the amount of the surcharge is based on identifiable costs that are recovered over a finite period. Since the extraordinary costs of the 2004 storms are clearly identifiable and a set recovery period as addressed in Issue 15 can be established, a temporary surcharge is the appropriate methodology to apply. Staff further believes that FPUC include a statement on the customers' bills that identifies the per therm temporary surcharge that has been assessed as a result of its 2004 storm-related costs.

Issue 13: What is the appropriate recovery period?

Recommendation: Based on staff's adjustments in Issue 11, the adjusted storm-related costs of \$500,187 including interest and taxes should be recovered over a two and one-half year period (30 months) in equal amounts of approximately \$200,075 per year. Within 60 days following expiration of the Commission-approved recovery period, FPUC should file with the Commission for approval of the final over-or-under-recovery of the 2004 storm damage costs, along with a proposed method to true-up any over-or-under-recovery. However, if FPUC recovers the \$500,187 in costs earlier than two and one-half years, FPUC would notify the Commission that the costs have been recovered and that it would no longer be assessing the surcharge. (Makin, Bulecza-Banks)

Staff Analysis: In its petition, Florida Public Utilities requested recovery of \$860,000 over four years in equal amounts of approximately \$215,000 per year, based on a March 1, 2005, effective date. Based on staff's adjusted storm-related costs of \$500,187, staff believes a two and one-half year period (30 months) would be more appropriate.

FPUC proposed a per therm charge of \$0.00753 that equates to a monthly surcharge of \$0.1900 for residential customers using 25 therms. Applying staff's adjusted storm-related costs of \$500,187 over a two and one-half year period, results in a per therm surcharge of \$0.00698 that equates to a monthly surcharge of \$0.1745 for a residential customer using 25 therms. If a four-year recovery period was used, the average monthly surcharge for a residential customer using 25 therms would be \$0.109.

Staff believes that reducing the recovery period from four years to two and one-half years serves to eliminate the surcharge more quickly. In response to staff Interrogatory Number 27, FPUC stated that it would not be opposed to a shorter period of recovery depending on the amount granted.

As the amount of gas sales can fluctuate significantly from year to year based on a variety of factors, it is possible that FPUC could recover the total amount of approved storm-related costs in less than two and one-half years. Should this occur, staff believes FPUC should notify the Commission that it has recovered the total costs and that it would no longer be assessing the surcharge.

Based on the above analysis, staff believes that FPUC's storm-related expenses should be recovered over a two and one-half year period. At the end of the recovery period, FPUC should file with the Commission for approval of the final over-or-under-recovery of the 2004 storm damage costs, along with a proposed method to true-up any over/under recovery. However, if FPUC recovers the \$500,187 in costs earlier than two and one-half years, FPUC should notify the Commission that the costs have been recovered and that it would no longer be assessing the surcharge.

Issue 14: If the Commission approves recovery of any storm-related costs, how should they be allocated to the rates classes?

Recommendation: Recovery of storm-related costs should be allocated to the various rate classes in the same way as the allocation of an interim rate increase. This is consistent with past Commission practice in the allocation of surcharges. FPUC should immediately file a revised tariff using staff-recommended allocation factors as shown in Attachment A. (Makin, Bulecza-Banks)

Staff Analysis: The development of the temporary surcharge for recovery of storm-related costs, as shown in Attachment A, is the same method used in the allocation of an interim rate increase. Under this method, the storm-related costs/revenues are allocated to the various rate classes based on the percentage of the various rate classes revenues to total company revenue.

Staff believes the application of the interim rate methodology is appropriate based on the argument that costs are related to the level of revenue contributed by the customer class. Staff finds this allocation more appropriate than assessing a flat dollar amount per customer. If a flat dollar amount per customer was assessed, the customer that contributed little to the operating costs of the system would be assessed the same amount as the customer who imposed significant operational costs.

Using the interim methodology, also known as the “across-the-board increase,” represents the most administratively feasible and equitable manner in which to allocate the temporary surcharge and maintains the existing rate structure relationship among the rate classes.

Based on the above analysis, staff believes the interim rate methodology should be used to allocate the storm-related costs to the customers.

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Issue 15: If the Commission approves a mechanism for the recovery of storm-related costs from the ratepayers, on what date should it become effective?

Recommendation: Recovery of storm-related costs should become effective with all meter readings on and after thirty (30) days from the date of the issuance of the Proposed Agency Action Order in this matter if there is no protest. This will allow FPUC time to provide notice to its customers. If the Proposed Agency Action is protested, FPUC should be allowed to charge the surcharge on an interim basis subject to refund with interest. (Makin, Bulecza-Banks)

Staff Analysis: In its petition, FPUC requested an effective date of March 1, 2005, to implement its proposed surcharge. However, due to various scheduling modifications, the company agrees that the effective date should be as early as possible after the Commission vote.

Staff agrees that the surcharge should be implemented as soon as practical but believes that FPUC's customers should be provided notice prior to implementation of the surcharge. Staff believes that providing FPUC thirty days from the date of the issuance of the Proposed Agency Action Order in this matter if there is no protest, allows it ample time to provide notice to its customers. If the Proposed Agency Action is protested, FPUC should be allowed to charge the surcharge on an interim basis subject to refund with interest.

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Issue 16: Should this docket be closed?

Recommendation: No. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the Order, a Consummating Order should be issued. However, the docket should remain open to address the true-up of the actual storm restoration costs. The docket should be closed administratively once staff has verified that the true-up is complete. (Jaeger)

Staff Analysis: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the Order, a Consummating Order should be issued. However, the docket should remain open to address the true-up of the actual storm restoration costs. The docket should be closed administratively once staff has verified that the true-up is complete.

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FLORIDA PUBLIC UTILITIES COMPANY
 RECOVERY OF SURCHARGE CALCULATION
 2004

Attachment A

<u>RATE SCHEDULE</u>	<u>BILLS</u>	<u>THERMS</u>	<u>(\$) CUSTOMER CHARGE</u>	<u>(\$) NON-GAS ENERGY CHARGE</u>	<u>(\$) TOTAL CUST. & ENGY CHG REVENUES</u>	<u>(\$) STORM REVENUES</u>	<u>STORM REV AS % OF TOTAL REVENUES</u>	<u>DOLLARS PER THERM</u>	<u>TAX FACTOR</u>	<u>STORM SURCHARGE FACTOR</u>
RESIDENTIAL	534,000	11,824,460	4,272,000	6,224,869	10,496,869	82,077	0.78191	0.00694	1.00503	0.00698
SMALL COMMERCIAL	42,156	13,541,970	632,340	4,948,642	5,580,982	43,639	0.78191	0.00322	1.00503	0.00324
LARGE COMMERCIAL and TRANSPORTATION	13,644	29,534,570	613,980	8,163,060	8,777,040	68,629	0.78191	0.00232	1.00503	0.00234
INTERRUPTIBLE	168	5,622,570	40,320	564,506	604,826	4,729	0.78191	0.00084	1.00503	0.00085
TOTAL	589,968	60,523,570	5,558,640	19,901,077	25,459,717	199,073	for 2.5 years (30 Months)			