

FLORIDA PUBLIC SERVICE COMMISSION
Capital Circle Office Center • 2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

M E M O R A N D U M

January 23, 1996

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF APPEALS (BELLAK) *RCB DS*
DIVISION OF AUDITING AND FINANCIAL ANALYSIS (ROMIG) *JR JS*
DIVISION OF RESEARCH AND REGULATORY REVIEW (HARLOW) *DM Jgs*

RE: DOCKET NO. 960079-GU - PROPOSED REVISIONS TO RULE 25-
7.1352, F.A.C., EARNINGS SURVEILLANCE REPORT *JAH*

AGENDA: 2/6/96 - REGULAR AGENDA - RULE PROPOSAL - INTERESTED
PERSONS MAY PARTICIPATE

SPECIAL INSTRUCTIONS: I:\PSC\APP\WP\960079.RCM

CASE BACKGROUND

Staff identified the need to amend this rule in order to relieve small gas utilities of the requirement for monthly filing of earnings surveillance reports. For utilities with less than 50,000 customers and more than 5,000 customers, only quarterly filings are to be required. For utilities with 5,000 or fewer customers, only semiannual filings are to be required. In addition, the amendment of Section (3) of the rule avoids the need for a formal docket to approve short extensions of time to file such reports.

As indicated by the attached memorandum, an EIS was found to be unnecessary for these rule amendments because no substantial increase in cost or significant adverse effects are present.

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission propose the attached amendments to Rule 25-7.1352?

RECOMMENDATION: Yes. The Commission should propose the attached amendments to Rule 25-7.1352, F.A.C.

STAFF ANALYSIS: The change to quarterly and semiannual, rather than monthly, earnings surveillance reports for gas utilities with fewer than 50,000 customers and 5,000 or fewer customers, respectively, will reduce unnecessary regulation since staff does

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not believe the data of these utilities change so significantly from month to month as to require monthly filings. The amendments also permit a utility to submit a written request for a 31-day extension of time for filing. The amendments are substantially consistent with rules applicable to small telephone and electric companies.

ISSUE 2: If no requests for hearing or comments are received, should these rule amendments be forwarded to the Secretary of State for adoption?

STAFF RECOMMENDATION: Yes.

RCB
Attachments

25-7.1352 Earnings Surveillance Report.

(1) Each investor-owned natural gas utility shall file rate of return data using Commission Form PSC/AFA 13 (-/--), which is incorporated by reference into this rule. Form PSC/AFA 13, entitled "Investor-Owned Natural Gas Utility Earnings Surveillance Report," may be obtained from the Commission's Division of Auditing and Financial Analysis.

(2) The report shall be filed:

(a) Monthly, by the 15th day of the second month following the reported month for natural gas utilities companies with 50,000 or more customers annual sales in excess of 50 million therms.

(b) Quarterly, by the 15th day of the second month following the reported quarter for natural gas utilities companies with fewer than 50,000 customers and more than 5,000 customers annual sales less than 50 million therms.

(c) Semiannually, by the 15th day of the second month following the reported period for natural gas utilities with 5,000 or fewer customers.

(3) A utility may file a written request for an extension of time with the Division of Auditing and Financial Analysis prior to the due date of the report. One extension of 31 days will be granted upon request. A request for Commission approval of a longer extension must be accompanied by a statement of good cause and shall specify the date by which the report will be filed.

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~~Requests for extensions of time in which to file the report must be
submitte in writing to the Commission prior to the due date of the
report.~~

Specific Authority: 350.127(2), F.S.

Law Implemented: 350.117(1), 366.04(2)(f), F.S.

History: New 11/18/82, formerly 25-7.24, Amended 4/23/92, formerly
25-7.024, Amended 6/10/94, _____.

FLORIDA PUBLIC SERVICE COMMISSION

INVESTOR-OWNED NATURAL GAS UTILITY
EARNINGS SURVEILLANCE REPORT

PSC/AFA 13 (/)

INVESTOR-OWNED NATURAL GAS UTILITY
EARNINGS SURVEILLANCE REPORT

The earnings surveillance report (ESR) consists of the following schedules:

SCHEDULE 1 - Earnings Surveillance Report Summary

SCHEDULE 2 - Average Rate of Return

SCHEDULE 3 - Year End Rate Base

SCHEDULE 4 - Capital Structure

SCHEDULE 5 - Earned Return on Common Equity

The above schedules represent the data that is to be filed by each natural gas company. An investor-owned natural gas utility may, at its own option, include any additional schedules that it deems appropriate or necessary for further explanation or clarification of the data reported.

Requests for extension of time in which to file must be submitted in writing prior to the due date for the data to the following:

Florida Public Service Commission
Division of Auditing and Financial Analysis
Bureau of Revenue Requirements
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0865

SCHEDULE 1

EARNINGS SURVEILLANCE REPORT SUMMARY

The purpose of this schedule is to summarize the results of the calculations required by the other schedules. This summary also provides a composite overview of the utility's current earnings on a single page.

Although this schedule only summarizes other schedules, it is necessary to define a few of the terms utilized in the schedule. These are as follows:

Per Books - This term means that the amounts reported represent the amounts as recorded in the accounting records of the utility.

Actual per books rate base includes construction work in progress (CWIP) on which allowance for funds used during construction (AFUDC) is not charged and a working capital allowance that is adjusted only to exclude those amounts that are includible in the capital structure. Also since the per books amounts include common use plant, it is necessary to allocate common expenses to non-utility operations.

Actual per books net operating income (NOI) should be computed consistent with the per books rate base determination. Also since the per books amounts would include common use expenses, it is necessary to allocate common expenses to non-utility operations.

FPSC Adjustments - The adjustments reflected in this column should represent all of the adjustments required to adjust the per books amounts in accordance with Commission policies, practices, and adjustments made in the utility's most recent rate case. This includes the adjustments made by the utility that were not in dispute, but were accepted by the Commission without direct reference in the order. However, those adjustments that can be considered to be annualizing or pro forma should not be included.

FPSC NOI adjustments should include the elimination of purchased gas related revenues and expenses, as well as conservation related revenues and expenses, if applicable.

Pro Forma Adjustments - This type of adjustment refers to those adjustments that would distort the utility's earned rate of return if they were included in the "FPSC Adjustments" category. The most specific example is the effect of a recent rate increase/decrease. When a rate increase/decrease becomes effective, the operating revenues and related expenses are annualized as though the rate increase had actually been in effect for the entire preceding 12 month period. Unless the new rates have been in effect for that one year period, the utility would not have actually billed those new rates for the entire 12 month period. Therefore, it would not be appropriate to include those revenues in the income statement for the purposes of evaluating the utility's earned rate of return. This indicator should provide a forward look for earnings and a forecast of future performance on a regulatory basis.

SCHEDULE 2

AVERAGE RATE OF RETURN

This schedule presents the data necessary to adjust the utility's per books amounts and calculate the average earned rate of return on a Per Books; FPSC Adjusted; and Pro Forma basis. This schedule consists of the following two pages:

Page 1 - Rate Base

Page 2 - Income Statement

The terms, "Per Books," "FPSC Adjusted," and "Pro Forma Adjustments" have previously been defined in the explanation of SCHEDULE 1. Except for these items, SCHEDULE 2 is self explanatory.

In recognition of the fact that there may be numerous adjustments to the per books amount of working capital, only the total amount of the adjustments to working capital needs to be shown on Page 1, if an additional schedule is provided which shows each specific adjustment.

This schedule also includes a section for calculating the average rate base and NOI excluding flex rate revenues that have been included for the twelve month period. The flex rate revenue adjusted average rate base and NOI are to be used in calculating the overall rate of return for the purpose of calculating an earned return on common equity excluding flex rate revenues in Item B of SCHEDULE 5.

SCHEDULE 3

YEAR END RATE BASE

This schedule presents the data necessary to adjust the utility's per books amounts and calculate the year-end rate base on a Per Books; and FPSC Adjusted basis.

The terms "Per Books" and "FPSC Adjusted" have previously been defined in the explanation of SCHEDULE 1. Except for these items, this schedule is self explanatory.

The average working capital allowance from SCHEDULE 2, should be used in calculating the year end rate base.

SCHEDULE 4

CAPITAL STRUCTURE

This schedule shows the computation of the average and year end required rates of return on a FPSC Adjusted and year end basis. Inherent in this computation, this schedule reconciles the amount of capital to the rate base total using the same procedures employed by the Commission in the utility's last rate proceeding. The terms "Per Books" and "FPSC Adjusted" have previously been

defined in the explanation of SCHEDULE 1. It is necessary, however, to explain the following terms:

Specific - Based on the adjustments made to the rate base, this column should reflect the cumulative effect of all the adjustments that were made to reconcile the rate base and the capital structure on a basis other than pro rata.

Pro Rata - Based on the adjustments made to the rate base, this column should reflect the cumulative effect of all the adjustments that were made to reconcile the rate base and capital structure on a pro rata basis.

Except for these two terms, this schedule is self explanatory.

SCHEDULE 5

EARNED RETURN ON COMMON EQUITY

This schedule shows the calculation of the utility's average earned return on common equity on an FPSC adjusted basis.

Item A is the average earned return on common equity including the flex rate revenues (surplus/deficit) that are included in NOI in computing the utility's FPSC Adjusted Average Overall Rate of Return for the period.

Item B is the average earned return on common equity excluding the flex rate revenues (surplus/deficit) that are included in NOI in computing the utility's FPSC Adjusted Average Overall Rate of Return for the period.

(COMPANY NAME)
EARNINGS SURVEILLANCE REPORT SUMMARY
 (MONTH/YEAR)

SCHEDULE 1

	(1) ACTUAL PER BOOKS	(2) FPSC ADJUSTMENTS	(3) FPSC ADJUSTED	(4) PRO FORMA ADJUSTMENTS	(5) PRO FORMA ADJUSTED
I. AVERAGE RATE OF RETURN <u>(JURISDICTIONAL)</u>					
NET OPERATING INCOME	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
AVERAGE RATE BASE	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
AVERAGE RATE OF RETURN	_____ %		_____ %		_____ %
II. YEAR END RATE BASE <u>(JURISDICTIONAL)</u>	\$ _____	\$ _____	\$ _____		

III. REQUIRED RATES OF RETURN AVERAGE CAPITAL STRUCTURE <u>(FPSC ADJUSTED BASIS)</u>	
LOW	_____ %
MIDPOINT	_____ %
HIGH	_____ %

IV. EARNED RETURN ON EQUITY <u>(FPSC ADJUSTED BASIS)</u>	
A. INCLUDING FLEX RATE REVENUES	_____ %
B. EXCLUDING FLEX RATE REVENUES	_____ %

I am aware that Section 837.06, Florida Statutes, provides:

Whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree punishable as provided in s. 775.082 or s. 775.083.

 (Name and Title of Chief
 Financial Officer)

 (Signature)

 (Date)

SC/AFA13

(COMPANY NAME)
AVERAGE RATE OF RETURN
INCOME STATEMENT
(MONTH/YEAR)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
OPERATING REVENUES	O & M GAS EXPENSE	O & M OTHER	DEPRECIATION & AMORTIZATION	TAXES OTHER THAN INCOME	INCOME TAXES CURRENT	DEFERRED INCOME TAXES (NET)	INVESTMENT TAX CREDIT (NET)	GAINS/LOSSES ON DISPOSITION	TOTAL OPERATING EXPENSES	NET OPERATING INCOME
PER BOOKS										
FPSC ADJUSTMENTS:										
TOTAL FPSC ADJUSTMENTS										
FPSC ADJUSTED										
FLEX RATE REVENUES ADJUSTED FOR										
FLEX RATE REVENUES										
PRO FORMA REVENUE INCREASE AND AMORTIZATION ADJUSTMENTS:										
TOTAL PRO FORMA ADJUSTMENTS										
PRO FORMA ADJUSTED										
PER BOOKS CURRENT MONTH AMOUNT										

(COMPANY NAME)
 YEAR END RATE BASE
 (MONTH/YEAR)

SCHEDULE 3

(1) PLANT IN SERVICE	(2) ACCUMULATED DEPRECIATION & AMORTIZATION	(3) NET PLANT IN SERVICE	(4) PROPERTY HELD FOR FUTURE USE	(5) CONSTRUCTION WORK IN PROGRESS	(7) NET UTILITY PLANT	(6) WORKING CAPITAL	(8) TOTAL RATE BASE
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PER BOOKS

FPSC ADJUSTMENTS:

TOTAL FPSC ADJUSTMENTS

FPSC ADJUSTED

SCHEDULE 4

(COMPANY NAME)
CAPITAL STRUCTURE
FPSC ADJUSTED BASIS
(MONTH/YEAR)

	ADJUSTMENTS		ADJUSTED	RATIO (%)	LOW POINT		MIDPOINT		HIGH POINT	
	SPECIFIC	PRO RATA			COST RATE (%)	WEIGHTED COST (%)	COST RATE (%)	WEIGHTED COST (%)	COST RATE (%)	WEIGHTED COST (%)
AVERAGE										
LONG TERM DEBT										
SHORT TERM DEBT										
PREFERRED STOCK										
CUSTOMER DEPOSITS										
COMMON EQUITY										
DEFERRED INCOME TAXES										
TAX CREDITS - ZERO COST										
TAX CREDITS - WEIGHTED COST										
TOTAL										

	ADJUSTMENTS		ADJUSTED	RATIO (%)	LOW POINT		MIDPOINT		HIGH POINT	
	SPECIFIC	PRO RATA			COST RATE (%)	WEIGHTED COST (%)	COST RATE (%)	WEIGHTED COST (%)	COST RATE (%)	WEIGHTED COST (%)
YEAR-END										
LONG TERM DEBT										
SHORT TERM DEBT										
PREFERRED STOCK										
CUSTOMER DEPOSITS										
COMMON EQUITY										
DEFERRED INCOME TAXES										
TAX CREDITS - ZERO COST										
TAX CREDITS - WEIGHTED COST										
TOTAL										

(COMPANY NAME)
EARNED RETURN ON COMMON EQUITY
FPSC ADJUSTED BASIS
(MONTH/YEAR)

SCHEDULE 5

A. FPSC ADJUSTED AVERAGE JURISDICTIONAL RETURN ON COMMON EQUITY
INCLUDING FLEX RATE REVENUES

FPSC ADJUSTED AVERAGE EARNED RATE OF RETURN			_____ % (Schedule 1)
LESS: RECONCILED AVERAGE JURISDICTIONAL			
WEIGHTED COST RATES FOR:			
LONG TERM DEBT	())	%
SHORT TERM DEBT	())	%
PREFERRED STOCK	())	%
CUSTOMER DEPOSITS	())	%
TAX CREDITS - WEIGHTED COST (MIDPOINT)	())	%
SUBTOTAL	())	%
 TOTAL			 %
 DIVIDED BY RECONCILED COMMON EQUITY RATIO			 _____ %
 JURISDICTIONAL RETURN ON COMMON EQUITY			 ===== %

B. FPSC ADJUSTED AVERAGE JURISDICTIONAL RETURN ON COMMON EQUITY
EXCLUDING FLEX RATE REVENUES

NET OPERATING REVENUE EXCLUDING FLEX RATE REVENUES	\$		(Schedule 2, p. 2 of 2)
 RATE BASE EXCLUDING FLEX RATE REVENUES	\$	_____	(Schedule 2, p. 1 of 2)
 FPSC ADJUSTED AVERAGE EARNED RATE OF RETURN			_____ %
LESS: RECONCILED AVERAGE JURISDICTIONAL			
WEIGHTED COST RATES FOR:			
LONG TERM DEBT	())	%
SHORT TERM DEBT	())	%
PREFERRED STOCK	())	%
CUSTOMER DEPOSITS	())	%
TAX CREDITS - WEIGHTED COST (MIDPOINT)	())	%
SUBTOTAL	())	%
 TOTAL			 %
 DIVIDED BY RECONCILED COMMON EQUITY RATIO			 _____ %
 JURISDICTIONAL RETURN ON COMMON EQUITY			 ===== %