

Undocketed

STATE OF FLORIDA

Commissioners:
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ORIGINAL
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Public Service Commission

June 5, 1998

Mr. Richard V. Neill, Esquire
Neill, Griffin, Jeffries, Fowler, Tierney & Neill
Post Office Box 1270
Fort Pierce, Florida 34954

9,800,000

Via Facsimile and U.S. Mail

RE: FPL v. Putnam, et al

Dear Mr. Neill,

Your May 22, 1998, letter to Chairman Johnson has been referred to me for response. I have spoken with your office several times but have been unable to speak with you personally. I have also received your June 4, 1998, facsimile letter to me. In that letter you ask for a written response to your May 22nd letter. At the outset, be advised that the staff does not issue binding opinions concerning the interpretation of Commission enforced statutes, rules, or Commission orders. If you wish a formal, binding determination of your client's rights and responsibilities, a petition for a formal adjudicatory proceeding or declaratory statement is appropriate. With that qualification, I offer the following comments.

- ACK _____
- AFA _____
- APP _____
- CAF _____
- CMU _____
- CTR _____
- EAG _____
- LEG _____
- LIN _____
- OPC _____
- RCH _____
- SEC 1
- WAS _____
- OTH _____

In essence, you seek an explanation of the treatment under Florida law, of utility assets acquired subsequent to a utility's most recent base rate proceeding.

Florida law requires that an investor-owned utility be afforded a reasonable opportunity to:
1) earn a fair rate of return on prudent investment; and, 2) recover the cost of prudent expenses necessary to provide utility service.

In a base rate proceeding, the Commission establishes the amount of prudent expenses, the cost of utility assets, and the rate of return necessary to afford the utility the opportunity to earn a fair and reasonable rate of return. With respect to the equity investment by a utility's shareholders this rate is usually expressed as a midpoint within a range i.e., 12% plus or minus 100 basis points.

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Mr. Richard V. Neill, Esquire

Page 2

June 5, 1998

Rule 25-6.1352, Florida Administrative Code, requires an investor-owned electric utility with 50,000 or more customers to file a monthly earning surveillance report. In this monthly filing, the utility reports the cost of property utilized in providing utility service, including property placed in service after the most recent base rate proceeding. The utility also reports current expenses, including those expenses not being incurred as of the last base rate proceeding. The utility then calculates its current earned return based on current investment and current expenses. This "earned return" is compared to the authorized range for the utility. If a utility is within its authorized range, it is presumably earning a reasonable rate of return.

In summary, under applicable Florida law, an investor-owned utility earns a return on, and recovers the expenses associated with, property placed in service after a base rate proceeding.

In addition, the 1993 Florida Legislature enacted Section 366.8255, Florida Statutes, "Environmental Cost Recovery." That statute authorizes investor-owned utilities to recover certain environmental compliance costs through a separate environmental cost recovery clause. This is in addition to the base rates set in the last base rate proceeding.

I have enclosed a copy of some of the relevant statutes and a copy of the earnings surveillance report referenced in my letter. I hope this has answered your question.

Yours truly,



Robert V. Elias

Chief, Bureau of Electric and Gas

RVE/js

cc: Chairman Johnson