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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for a rate increase by FLORIDA PUBLIC UTILITIES COMPANY.) DOCKET NO. 940620-GU
)
) FILED: MARCH 2, 1995
)

STAFF'S PREHEARING STATEMENT

Pursuant to Order No. PSC-94-1485-PCO-GU, the Staff of the Florida Public Service Commission files its Prehearing Statement.

A. All Known Witnesses:

<u>Witness</u>	<u>Appearing For</u>	<u>Issues #</u>
Pete Lester	Staff	32
Nancy E. Pruitt	Staff	

B. All Known Exhibits:

<u>Witness</u>	<u>Exhibit #</u>	<u>Proffered By</u>	<u>Description</u>
Lester	PHL-1	Staff	Index
Lester	PHL-2	Staff	Moody's Investment Characteristics
Lester	PHL-3	Staff	Basic DCF Equation
Lester	PHL-4	Staff	Two-Stage Annually Compounded DCF Model
Lester	PHL-5	Staff	DCF Inputs & Results
Lester	PHL-6	Staff	Basic Premium Calculation & Data
Lester	PHL-7	Staff	Risk Premium Calculation & Data
Lester	PHL-8	Staff	Moody's Capitalization & Sales Volume
Lester	PHL-9	Staff	Spread Between Bond Yields
Lester	PHL-10	Staff	Range for FPUC
Lester	PHL-11	Staff	S & P Benchmark Ratios

DOCUMENT NUMBER-DATE
02412 MAR-28
FPSC-RECORDS/REPORTING

<u>Witness</u>	<u>Exhibit #</u>	<u>Proffered By</u>	<u>Description</u>
Pruitt	NEP-1	Staff	FPUC Nine Year Comparison
Pruitt	NEP-2	Staff	FPUC Complaint Rate by Type - 1994
Pruitt	NEP-3	Staff	FPUC Complaint Rate Comparison
Pruitt	NEP-4	Staff	FPUC Complaint Justification Comparison

Staff reserves the right to identify additional exhibits for the purpose of cross-examination.

C. Staff's Statement of Basic Position:

Florida Public Utilities Company has failed to fully support its request for an increase in revenues.

Staff's positions on specific issues are necessarily preliminary, as they are based on materials filed by the company and on discovery that is not yet complete. The preliminary positions are offered to assist parties in preparing for the hearing. Staff's final positions will be based upon all the evidence in the record and may differ from preliminary positions.

D. Staff's Position on the Issues:

TEST YEAR AND FORECASTING

ISSUE 1: Is FPUC's request for permanent rate relief based on a historical test period of calendar year 1993 and a projected test period of calendar year 1995 appropriate? (Revell)

STAFF'S POSITION: Yes. With the adjustments recommended by Staff in the following issues, the 1993 and 1995 test years are appropriate.

ISSUE 2: Are the Company's business-as-usual test year forecasts for customers and therm sales by revenue categories appropriate? (McNulty, Bohrmann, Makin)

STAFF'S POSITION: No position pending receipt of further discovery.

ISSUE 3: Are FPUC's test year forecasts of initial connections and reconnections appropriate? (McNulty, Makin, Ging)

STAFF'S POSITION: No position at this time pending receipt of further discovery.

RATE BASE

ISSUE 4: Should an adjustment be made to the Company's proposed level of plant additions in the projected test year? (Revell, Mills)

STAFF'S POSITION: No.

ISSUE 5: Should rate base and expenses be increased to include blanket construction projects omitted from 1995 projections? (Audit Disclosure No. 11) (Revell, Mills)

STAFF'S POSITION: Yes. The exact amount will be determined upon receipt of further discovery.

ISSUE 6.1: Should the Commission require the Company to include all gas plant under construction in rate base? (Revell)

STAFF'S POSITION: Yes. The Commission should require Florida Public Utilities-Gas Division to include all gas plant under construction in rate base for all future purposes, such as surveillance reports and interim purposes, effective June 1, 1995. Also, the Company's allowance for funds used during construction (AFUDC) rate should be eliminated.

ISSUE 7: What is the appropriate projected test year Plant-In-Service? (Revell)

STAFF'S POSITION: The resolution of this issue is dependent upon the resolution of other issues.

ISSUE 8: What is the appropriate amount of Construction Work in Progress for the projected test year? (Revell)

STAFF'S POSITION: No position at this time pending receipt of further discovery.

ISSUE 9: What are the appropriate depreciation rates to be used? (P. Johnson)

STAFF'S POSITION: The appropriate depreciation rates to be used in this proceeding are the rates approved by the Commission in Docket No. 940734-GU.

ISSUE 10: What adjustments, if any, should be made to the projected test year forecasted retirements? (P. Johnson)

STAFF'S POSITION: No position at this time.

ISSUE 11: What is the appropriate projected test year Depreciation Reserve? (P. Johnson, Revell)

STAFF'S POSITION: No position at this time. This is a calculation based upon the decisions on preceding issues.

ISSUE 12: What is the appropriate amount of Customer Advances for Construction for the projected test year? (Revell)

STAFF'S POSITION: No position at this time pending receipt of further discovery.

ISSUE 13: What is the appropriate amount of cash to be included in working capital? (Revell)

STAFF'S POSITION: No position at this time pending receipt of further discovery.

ISSUE 14: Should rate base be reduced to remove inactive service lines that have been inactive for more than five years? (Audit Disclosure No. 1; Engineering Report p. 5) (Lee, Mills)

STAFF'S POSITION: Yes. Rate base should be adjusted to remove inactive service lines. The amount will be determined after further discovery.

ISSUE 14A: Has FPUC completed a survey of inactive service lines as ordered in Commission Order No. 24094 in Docket No. 900151-GU? If not, what is the appropriate remedy for the Company's failure to comply with Order No. 24094? (Mills, Lee)

STAFF'S POSITION: No. The Company should be ordered to complete a survey within three years and to retire inactive lines within three and a half years. In addition, an adjustment should be made to reduce the company's authorized return on equity for its failure to comply with Order No. 24094.

ISSUE 15: Should an adjustment be made to reduce plant, accumulated depreciation, and depreciation expense to remove non-utility operations? (Audit Disclosure No. 6; Engineering Report p. 3) (Revell, P. Johnson)

STAFF'S POSITION: Yes. Reduce rate base \$99,463; reduce accumulated depreciation \$46,970; and reduce depreciation expense by an amount to be determined pending further discovery.

ISSUE 16: Has the Company properly recorded the Gun Club Estates conversion from LP to natural gas? (Audit Disclosure No. 13) (Revell)

STAFF'S POSITION: No position at this time pending receipt of further discovery.

ISSUE 17: Has the Company properly recorded the IBIS conversion from LP to natural gas? (Merta, Lee)

STAFF'S POSITION: No position at this time pending receipt of further discovery.

ISSUE 18: This issue has been dropped

ISSUE 19: Should an adjustment be made for common plant additions, such as the addition to the general office, which will not be completed in 1995? (Merta, Brand, L. Romig)

STAFF'S POSITION: Yes. The amount to be disallowed is dependent upon further discovery.

ISSUE 20: Should unamortized rate case expense be included in working capital? (Merta)

STAFF'S POSITION: No. Working capital should be reduced \$126,713 to remove unamortized rate case expense.

ISSUE 21: Should an adjustment be made to working capital for the allocation of non-utility operations? (Brand, L. Romig)

STAFF'S POSITION: No position at this time pending receipt of further discovery.

ISSUE 22: This issue has been dropped.

ISSUE 23: This issue has been dropped.

ISSUE 24: Should the net gas cost underrecovery be excluded from working capital? (Merta)

STAFF'S POSITION: Yes. Working capital should be reduced \$84,763 to remove a net gas cost underrecovery.

ISSUE 25: What is the appropriate projected test year working capital allowance? (Revell)

STAFF'S POSITION: The resolution of this issue is dependent on the resolution of other issues.

ISSUE 26: This issue has been dropped.

ISSUE 27: Should an adjustment be made to accrued taxes payable such that the rate base effect of adjustments discussed in Audit Disclosure No. 3 is revenue neutral, and if so, what is the appropriate adjustment? (C. Romig)

STAFF'S POSITION: No position at this time pending receipt of discovery that is due March 15, 1995.

ISSUE 28: What is the appropriate projected test year rate base? (Revell)

STAFF'S POSITION: The resolution of this issue is dependent on the resolution of other issues.

CAPITAL STRUCTURE

ISSUE 29: Should an adjustment be made to investment tax credits (ITCs) or their cost rate? (C. Romig)

STAFF'S POSITION: The resolution of this issue is dependent upon the resolution of other issues.

ISSUE 30: Should an adjustment be made to accumulated deferred income taxes? (C. Romig)

STAFF'S POSITION: The resolution of this issue is dependent upon the resolution of other issues.

ISSUE 31: Should the Commission remove an amount for non-utility investment specifically from common equity in reconciling capital structure to rate base? (Geiger, C. Romig)

STAFF'S POSITION: No position at this time pending receipt of further discovery.

ISSUE 32: What is the appropriate cost rate for common equity? (Geiger)

STAFF'S POSITION: No position at this time pending the filing of staff testimony on March 3, 1995.

ISSUE 33: What is the appropriate weighted average cost of capital including the proper components, amounts and cost rates associated with the capital structure for the projected test year ending December 31, 1995? (Geiger, C. Romig)

STAFF'S POSITION: No position at this time pending receipt of further discovery.

NET OPERATING INCOME

ISSUE 34: Has FPUC properly allocated expenses for the 1993 historical test year and the 1995 projected year? (Revell)

STAFF'S POSITION: Yes.

ISSUE 35: Is FPUC's requested level of total operating revenues for the 1995 projected test year appropriate? (Makin, Ging, Bohrmann, McNulty, Revell)

STAFF'S POSITION: No position at this time.

ISSUE 36: Has the Company properly removed Chamber of Commerce dues and other membership dues from expenses? (Revell)

STAFF'S POSITION: No. The Company should remove \$718 in dues from Account 930.2 for 1995.

ISSUE 37: What is the appropriate amount of rate case expense and what is the appropriate amortization period? (Merta)

STAFF'S POSITION: No position on the amount of rate case expense at this time pending receipt of further discovery. The appropriate amortization period is 4 years beginning the month new rates go into effect.

ISSUE 38: This issue has been dropped.

ISSUE 39: Should there be an adjustment to Accounts 913 or 930 to remove image building or other inappropriate advertising expenses? (Brand, L. Romig)

STAFF'S POSITION: Yes. Account 913 should be reduced by \$2,990 in 1995 for production of a corporate video and printing of money flyers.

ISSUE 40: Is FPUC's requested level of outside services for the 1995 projected year appropriate? (Merta)

STAFF'S POSITION: No position at this time pending receipt of further discovery.

ISSUE 41: This issue has been dropped.

ISSUE 42: What are the appropriate trending factors to be used in deriving projected operating expenses and how should they be applied? (Bohrmann)

STAFF'S POSITION: The appropriate 1994 and 1995 inflation trend factors are 102.60% and 102.90%, respectively. The appropriate 1994 customer trend factor is 100.73%. No position on the remaining trend factors pending further discovery.

ISSUE 43: Should the projected test year expense be adjusted for the effect of changing the trend factors? (Revell)

STAFF'S POSITION: Yes, depending on adjustments in Issue 42.

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

STAFF'S POSITION: The resolution of this issue is dependent on the resolution of other issues.

ISSUE 45: What is the appropriate amount of projected test year Depreciation and Amortization Expense? (P. Johnson)

STAFF'S POSITION: No. This is a calculation based upon the decisions on preceding issues.

ISSUE 46: Should an adjustment be made to forecasted ESOP costs, and if so, what is the appropriate adjustment? (Audit Disclosure No. 5) (C. Romig)

STAFF'S POSITION: No position at this time pending receipt of discovery that is due March 15, 1995.

ISSUE 47: Is the company in compliance with Rule 25-14.013, Florida Administrative Code, "Accounting for Deferred Income Taxes under SFAS 109?" (C. Romig)

STAFF'S POSITION: Yes.

ISSUE 48: Should an adjustment be made to income tax expense, including ITC synchronization and interest reconciliation, and if so, what is the appropriate adjustment? (C. Romig)

STAFF'S POSITION: The resolution of this issue is dependent upon the resolution of other issues.

ISSUE 49: What is the appropriate level of property taxes, including adjustments for nonutility property and common plant allocated to nonutility operations? (C. Romig)

STAFF'S POSITION: No position at this time.

ISSUE 50: Should an adjustment be made to Taxes Other, and if so, what is the appropriate adjustment? (C. Romig)

STAFF'S POSITION: The resolution of this issue is dependent upon the resolution of other issues.

ISSUE 51: Is FPUC's requested level of net operating income (NOI) in the amount of \$600,147 for the 1993 historical test year and \$988,052 for the 1995 projected test year appropriate? (Revell)

STAFF'S POSITION: The resolution of this issue is dependent on the resolution of other issues.

ISSUE 52: What is the appropriate test year revenue expansion factor to be used in calculating the revenue deficiency? (Merta, C. Romig)

STAFF'S POSITION: No position at this time pending resolution of other issues.

ISSUE 53: What is the proper amount and ratemaking treatment of expenses associated with the environmental clean-up of manufactured gas plant sites? (Mills, Revell, P. Johnson, C. Romig)

STAFF'S POSITION: The current accrual of \$240,000 per year that was established in Docket No. 900151-GU shall be continued for the remainder of the approved 10-year accrual period.

ISSUE 54: What is the appropriate ratemaking treatment for piping allowances? Is the amount and the amortization of the piping allowances appropriate? (Audit Disclosure No. 9) (Makin, Bulecza-Banks, Revell)

STAFF'S POSITION: All costs incurred by the company to pipe and vent should be recovered through base rates. The amount of the piping allowance and its associated amortization will be determined pending further discovery.

ISSUE 55: What is the appropriate ratemaking treatment for conversion expenses? Is the amount and the amortization of the conversion expenses appropriate? (Audit Disclosure No. 9) (Mills, Makin, Revell)

STAFF'S POSITION: The cost should be recovered through a five year amortization. The cost and amortization will be determined pending further discovery.

ISSUE 56: What is the appropriate expense and ratemaking treatment for the program to raise water heaters to 18 inches above floor level in garages? (Audit Disclosure No. 9) (Mills, Merta)

STAFF'S POSITION: The company should be allowed to recover 50 percent of the expenses. The amount of the expense will be determined pending further discovery.

ISSUE 57: This issue has been dropped.

ISSUE 58: Should an adjustment be made to the insurance reserves and insurance expense for property, liability, auto, workers compensation, and medical? (Merta)

STAFF'S POSITION: No position at this time pending receipt of further discovery.

ISSUE 59: Should an adjustment be made to meter change-out expense? (Merta)

STAFF'S POSITION: No position at this time pending receipt of further discovery.

ISSUE 60: Should pension and post retirement benefits expense be adjusted to reflect updated projections? (Brand, L. Romig, Geiger)

STAFF'S POSITION: No position at this time pending receipt of further discovery.

ISSUE 61: Should an adjustment be made for officer and management fringe benefits? (Merta)

STAFF'S POSITION: No position at this time pending receipt of further discovery.

ISSUE 62: Should an adjustment be made for business meals and entertainment expenses? (Brand, L. Romig)

STAFF'S POSITION: No position at this time pending receipt of further discovery.

ISSUE 63: Should an adjustment be made for employee awards and activities in expenses? (Brand, L. Romig)

STAFF'S POSITION: No position at this time pending receipt of further discovery.

ISSUE 64: Should expenses be reduced to remove selling expenses not amortized? (Audit Exception No. 2) (Brand, L. Romig)

STAFF'S POSITION: Yes. Account 912 should be reduced by \$2,104 for two-thirds of a 3-year supply of color posters pocket folders.

ISSUE 65: Should an adjustment be made to expenses associated with moving into the new addition? (Merta, Brand, L. Romig)

STAFF'S POSITION: No position at this time pending receipt of further discovery.

ISSUE 66: The Company made an adjustment to increase Account 813, Other Gas Supply Expenses, to hire a gas supply assistant and for odorant expense. Is this adjustment appropriate? (Merta)

STAFF'S POSITION: No adjustment is necessary.

ISSUE 67: The Company made an adjustment to increase Account 874, Main & Service Expense, to hire a line locator and for a "one call" fee increase. Is this adjustment appropriate? (Audit Disclosure No. 15) (Revell)

STAFF'S POSITION: Yes.

ISSUE 68: The Company made an adjustment to increase Accounts 878, Meter & House Regulator Expense, and 887, Maintenance of Mains, to normalize for lost time due to above average medical related absences. Is this adjustment appropriate? (Audit Disclosure No. 15) (Merta)

STAFF'S POSITION: No position at this time pending receipt of further discovery.

ISSUE 69: The Company made an adjustment to increase Account 880, Other Expense Maps & Records, for the Pactel system fee increase and to reclassify an engineering technician. Is this adjustment appropriate? (Brand, L. Romig, Mills)

STAFF'S POSITION: No position at this time pending receipt of further discovery.

ISSUE 70: The Company made an adjustment to increase Account 904, Uncollectible Accounts, to adjust to the 3 year average charge offs. Is this adjustment appropriate? (Merta)

STAFF'S POSITION: No position at this time pending receipt of further discovery.

ISSUE 71: The Company made an adjustment to increase Account 912, Selling & Demonstrating Expense, to add 5 new positions in the Marketing area. Is this adjustment appropriate? (Audit Disclosure Nos. 8 & 10) (Brand, L. Romig, Merta, Revell, Bohrmann)

STAFF'S POSITION: No position at this time pending receipt of further discovery.

ISSUE 72: The Company made an adjustment to increase Account 913, Advertising Expense, to add an Energy Savers Program, and for other information and instruction. Is this adjustment appropriate? (Brand, L. Romig)

STAFF'S POSITION: No position at this time pending receipt of further discovery.

ISSUE 73: The Company made an adjustment to increase Account 916, Miscellaneous Sales Expense, for marketing development and demonstration, water heater stands, conversions, piping allowance, and other miscellaneous. Is this adjustment appropriate? (Merta, Brand, L. Romig, Revell)

STAFF'S POSITION: No position at this time pending receipt of further discovery.

ISSUE 74: The Company made an adjustment to increase Account 921, Office Supplies & Expense, for the company use portion of purchased gas. Is this adjustment appropriate? (Brand, L. Romig)

STAFF'S POSITION: No position at this time pending receipt of further discovery.

ISSUE 75: Should an adjustment be made to reduce expenses for the depreciation study? (Audit Disclosure No. 7) (Merta)

STAFF'S POSITION: Yes. Expenses should be reduced \$2,123 to remove overprojected depreciation study costs based on a 5-year amortization period.

ISSUE 76: The Company made an adjustment to increase Account 926.3, Retirees Benefits-Post Retirement, for the post retirement life insurance benefits obligation. Is this adjustment appropriate? (Audit Disclosure No. 12) (Brand, L. Romig, Geiger)

STAFF'S POSITION: No position at this time pending receipt of further discovery.

ISSUE 77: Should the Residential Energy Efficiency Program be recovered through base rates? If so, are the revenues and expenses appropriate? (Bulecza-Banks, Revell, McNulty, Bohrmann)

STAFF'S POSITION: Yes. Any potential adjustment to revenues or expenses is dependent on further discovery.

ISSUE 78: Should the Residential Energy Audit Program be recovered through base rates? If so, are the revenues and expenses appropriate? (Bulecza-Banks, Revell, McNulty, Bohrmann)

STAFF'S POSITION: Yes. Any potential adjustment to revenues or expenses is dependent on further discovery.

ISSUE 79: Should the Homeowners Maximized Energy Savings Program be recovered through base rates? If so, are the revenues and expenses appropriate? (Bulecza-Banks, Revell, McNulty, Bohrmann)

STAFF'S POSITION: Yes. Any potential adjustment to revenues or expenses is dependent on further discovery.

ISSUE 80: Should the Business Energy Efficiency Plan be recovered through base rates? Is so, are the revenues and expenses appropriate? (Bulecza-Banks, Revell, McNulty, Bohrmann)

STAFF'S POSITION: Yes. Any potential adjustment to revenues or expenses is dependent on further discovery.

ISSUE 81: Should the Market Development & Demonstration Program be recovered through base rates? If so, are the revenues and expenses appropriate? (Audit Disclosure No. 9) (Bulecza-Banks, Merta, McNulty, Bohrmann)

STAFF'S POSITION: Yes. Any potential adjustment to revenues or expenses is dependent on further discovery.