ORIGINAL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition of AmeriSteel Corporation for Limited Proceeding to Reduce Florida Power and Light Company's Annual Revenues by $440 Million	)	Docket No. 971608-EI Filed: December 11, 1997

PETITION OF AMERISTEEL CORPORATION FOR A LIMITED PROCEEDING TO REDUCE FLORIDA POWER AND LIGHT COMPANY'S ANNUAL REVENUES AND FOR AN EXPEDITED HEARING SCHEDULE

Pursuant to Sections 366.06, 366.07, and 366.076, Florida Statutes and Rule 25-22.036(4), F.A.C., AmeriSteel Corporation ("AmeriSteel"), by and through its undersigned attorneys, petitions the Florida Public Service Commission ("Commission") to initiate a Limited Proceeding for the purpose of: (1) establishing a current and "reasonable" authorized return on equity for Florida Power and Light Company ("FPL"); (2) removing from the calculation of FPL's profits certain very large amortization charges, which have the effect of reducing reported profits; and (3) distributing the resulting annual revenue reductions evenly to FPL's customers on an equal per kWh basis to all customer classes. AmeriSteel has calculated that there are at least $440 million in annual revenue reductions warranted by its proposal. This reduction should result in rate reductions for all FPL customers of roughly 8.1%.

AmeriSteel also requests that the Commission set this matter for hearing on an expedited schedule since FPL's overearnings will dramatically increase on January 1, 1998 with the expiration of the additional expense "Plan" approved by this Commission in Docket No. 950359-EI. In support of this Petition, AmeriSteel states as follows:

1. The name and address of petitioner is as follows.

AmeriSteel Corporation
5100 West Lemon Street
Suite 312
Tampa, Florida 33609

Documents relating to this proceeding may be served on AmeriSteel by serving them on the following individuals:

Richard J. Salem
Florida Bar No. 152524
Marian B. Rush
Florida Bar No. 373583
Salem, Saxon & Nielsen, P.A.
101 East Kennedy Boulevard
P.O. Box 3399
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I. AMERISTEEL'S SUBSTANTIAL INTERESTS ARE AFFECTED

2. AmeriSteel operates a steel recycling and manufacturing facility located in the city of Jacksonville that is a customer of FPL. The Jacksonville plant is a steel "mini-mill" that uses an electric arc furnace to melt scrap steel and cast the resulting molten steel into long strands (billets) in a continuous casting process. The plant produces rebar and rods that are used in a variety of highway, building construction, and other construction application. FPL lists AmeriSteel as one of its 20 largest customers. As a large customer of FPL, AmeriSteel's substantial interests are affected by the excessive rates currently charged by FPL.

II. SUMMARY OF REQUESTED RELIEF

3. FPL's return on equity is excessive when compared to equity rates reasonably demanded by current economic conditions and capital markets. Moreover, FPL has increased the equity component of its capital structure by systematically displacing lower cost debt with higher cost equity. This very high level of equity further reduces FPL's financial risk and justifies a lower

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I. AMERISTEEL'S SUBSTANTIAL INTERESTS ARE AFFECTED

2. AmeriSteel operates a steel recycling and manufacturing facility located in the city of Jacksonville that is a customer of FPL. The Jacksonville plant is a steel "mini-mill" that uses an electric arc furnace to melt scrap steel and cast the resulting molten steel into long strands (billets) in a continuous casting process. The plant produces rebar and rods that are used in a variety of highway, building construction, and other construction application. FPL lists AmeriSteel as one of its 20 largest customers. As a large customer of FPL, AmeriSteel's substantial interests are affected by the excessive rates currently charged by FPL.

II. SUMMARY OF REQUESTED RELIEF

3. FPL's return on equity is excessive when compared to equity rates reasonably demanded by current economic conditions and capital markets. Moreover, FPL has increased the equity component of its capital structure by systematically displacing lower cost debt with higher cost equity. This very high level of equity further reduces FPL's financial risk and justifies a lower

cost of equity. Further, FPL includes in its current calculation of regulated earnings certain large expense items that are expiring January 1, 1998, that greatly compress cost recovery as compared to the Commission's traditional ratemaking practice. By including those expenses in its earnings analysis, FPL significantly depresses its achieved or earned profits. These adjustments serve to mask rather than correct FPL's excessive rates and should be disregarded for earnings surveillance purposes. To correct this situation, AmeriSteel requests that the Commission make the following determinations:

a) a current reasonable allowed mid-point cost of equity capital for FPL should be no more than 9.5% to supersede the currently authorized mid-point of 12.0%, which now allows FPL to report earnings up to 13% before its profits are considered statutorily excessive and unreasonable;

b) FPL's additional expense and early amortization approved by the Commission in Docket No. 950359-EI should be disregarded from the calculation of FPL's regulated earnings; and

c) the resulting revenue reductions should result in equal per kWh rate reductions for all FPL rate classes.

Based on prevailing circumstances, an expedited "limited proceeding" is required to safeguard consumer interests.

III. JURISDICTION

4. Section 366.01, F.S. states the Legislature's intent in establishing a statutory program to regulate public utilities as follows:

> 366.01 **Legislative declaration.**--The regulation of public utilities as defined herein is declared to be <u>in the public interest</u> and this chapter shall be deemed to be an exercise of the police power of the state for

> the <u>protection of the public welfare</u> and all the provisions hereof <u>shall be liberally construed</u> for the accomplishment of that purpose.

(Emphasis supplied).

Protection of the public interest and public welfare requires that this Commission to allow electric utilities to charge only rates that are "fair, just and reasonable." Section 366.05(1), F.S. Ensuring that rates and charges are "fair, just and reasonable" requires active Commission oversight of a utility's cost of providing electric service. The Legislature has established criteria the Commission is to consider in setting rates. For example, Section 366.041 provides that the Commission, in fixing such rates, is

> authorized to give consideration, among other things, to the efficiency, sufficiency, and adequacy of the facilities provided and the services rendered; <u>the cost of providing such service</u> and the value of such service to the public; the ability of the utility to improve such service and facilities; and energy conservation and the efficient use of alternative energy resources; provided that no public utility shall be denied a reasonable rate of return upon its rate base in any order entered pursuant to such proceedings.

5. Section 366.06, F.S. specifically addresses the particulars of establishing "fair, just and reasonable rates" and lists factors that should be considered. The statute requires the Commission to treat both customers and utility investors fairly. The Commission has an obligation to afford a utility an opportunity to earn a reasonable return on its property devoted to public service and to recover legitimate expenses. At the same time, the statute requires the Commission to protect customers by proscribing rates that are too high and yield excessive

profits to the utility. Specifically, Section 366.06(2), F.S. provides:

> (2) Whenever the commission finds, upon request made or upon its own motion, that the rates demanded, charged, or collected by any public utility for public utility service, or that the rules, regulations, or practices of any public utility affecting such rates, are unjust, unreasonable, unjustly discriminatory, or in violation of law; that such rates are insufficient to yield reasonable compensation for the services rendered; that such rates yield excessive compensation for services rendered; or that such service is inadequate or cannot be obtained, the commission shall order and hold a public hearing, giving notice to the public and the public utility, and shall thereafter determine just and reasonable rates to be thereafter charged . . . .

(Emphasis supplied).

6. It is generally assumed, based on ample historic performance, that the owners and management of regulated utilities will track their operations and make timely determinations as to whether the approved rates are yielding reasonable compensation. FPL has never hesitated to seek an increase in rates when it considered returns to be insufficient relative to the current market. It is not reasonable, however, to expect a regulated utility to initiate a downward adjustment of its rates when those rates are returning compensation or profits that are excessive compared to current market conditions. Under these circumstances, the Legislature empowered the Commission to reduce excessive utility rates, and it expects that the Commission will exercise that authority in a timely manner to protect the public welfare. Absent Commission initiative, the statute also provides that customers may seek an appropriate reduction of rates. In this instance, FPL is charging excessive rates and its ROE mid-point and equity ratio are unreasonable and excessive. The Commission possesses ample authority to initiate a limited proceeding to protect consumer interests.

IV. FACTORS REQUIRING RATE REDUCTION

A. The Commission Should Establish A Current Reasonable Allowed Return on Equity

7. Assuming that debt costs are reasonable, the determination of whether a utility's compensation is either insufficient or excessive is generally made by reference to its achieved return on equity. To be meaningful, a properly calculated achieved return on equity must be measured against some acceptable current yardstick to determine whether profits are currently excessive. Historically, during the course of a rate case this Commission has approved an allowed return on equity required by then-current market conditions. The Commission normally has established a *prima facie* presumption of reasonableness for earned equity returns falling within one percentage point of the "mid-point," or authorized return on equity. A utility's annual revenue requirement and its resulting rates have been set using the mid-point of the equity return. The Commission, however, has revised the allowed return on equity outside the context of a general rate proceeding as well. *E.g., Florida Power & Light Company*, Docket No. 930612-EI, Order No. PSC-93-1024-FOF-EI (1993).

8. This Commission tracks the appropriateness of large regulated utilities' profits through monthly earnings surveillance reports which list aggregated expenses and revenues to derive an "achieved" return on equity. The achieved return can then be compared to the "range of reasonableness" of the utility's authorized allowed equity return.

9. With the Legislature's repeal in 1995 of quadrennial rate filing requirements,[1] the Commission has become heavily dependent upon these earnings surveillance reports to gauge the

[1] *See*, the former § 366.06(3)(a), Fla. Stat.

reasonableness of utility rate levels. The usefulness of the surveillance reports, however, is severely limited by two factors.

10. First, the cost rates for equity are not current. They reflect the last determination made by the Commission which may, as in this case, be years out of date and reflect the product of a financial environment that has materially changed. A comparison of achieved returns to a stale benchmark that has no current relevance does not properly indicate if existing rates are reasonable, excessive or insufficient.

11. Second, the surveillance reports reflect actual changes in FPL's capital structure without any assessment of the prudence of such changes. Even with FPL's repurchase of common stock, its equity ratio has risen dramatically since 1993 as FPL has retired huge blocks of debt. This high (for a regulated electric utility) equity ratio effects the regulated earnings results shown in the surveillance reports and reduces FPL's financial risk compared to other electric utilites.

12. The use of an outdated equity cost rate and an updated but imprudent and unaudited capital structure combine to produce an earnings surveillance analysis that is significantly skewed. Using current, reasonable estimates demonstrates that the revenues produced by FPL's current rates are excessive and unreasonable.

13. The mid-point on equity used to establish FPL's revenue requirement and, thus, its current rates, is 12.0%.[2] As reflected in Attachment A, a current reasonable rate of return on equity for FPL, based on current market conditions, is no more than 9.5%, or a full 250 basis points below the 12.0% used to calculate FPL's current rates and a full 350 basis points below the 13.0% the Commission would now use to determine whether FPL's profits are statutorily excessive. The reasonableness of a 9.5% return on equity for FPL is reinforced by the

[2] In 1993, the Commission reduced the mid-point from 12.3% to 12.0%. See Order No. PSC-93-1024-FOF-EI.

Commission Staff's calculation in August of 1997 of a required return on equity for FPL of 9.6% under both the DCF and Risk Premium methods commonly employed by this Commission (see Attachment B). Since August, favorable market conditions indicate a further lowering of FPL's cost of equity.

14. The difference in revenues required by a 12.0% equity return and that required by a 9.5% allowed return is very substantial. As reflected in the attached exhibits, a reduction from an authorized return for equity from 12%-9.5% necessitates an annual reduction in FPL's revenue requirement of $190 million.

15. If a 9.5% return were found to be a reasonable mid-point, the "ceiling" of the range of reasonableness would be 10.5% instead of the current ceiling of 13%. Thus, interim rate reductions are warranted and the Commission should hold FPL's revenues subject to refund if its earnings exceed 10.5%.

16. FPL's equity ratio in its capital structure at the time of this Commission's last FPL base rate case decision was 42.3%. In contrast, the ratio currently maintained by FPL is over 61%, which is substantially higher than the average for comparable utilities, as shown on Attachment C. The actual FPL equity ratio is unreasonable for a regulated electric utility and unnecessarily raises the cost of service to FPL's customer. AmeriSteel's analysis does not propose to impute a revised debt/equity ratio for FPL, but notes that FPL's high level of equity reduces its risk relative to other electric utilities, and, therefore, justifies a lower allowed equity return for FPL.

B. The Provisions of the Additional and Accelerated Expense Plan Approved in Docket No. 950359-EI Should Be Removed From Earnings Calculations

17. The additional and accelerated expense plan approved by the Commission for FPL in Order No. PSC-96-0461-FOF-EI, entered in Docket No. 950359-EI, effectively reduced FPL's achieved rate of return on equity for the years 1995, 1996 and 1997 by approving a number of special expense and amortizations beyond those recognized in FPL's last full rate case in 1984. The provisions of this Plan expire by the terms of the Plan on December 31, 1997. In Docket No. 970140-EI, the Commission Staff and FPL have proposed extending and modifying the added expense and accelerated recovery plan through the years 1998 and 1999.

18. As explained in AmeriSteel's testimony filed in Docket No. 970140-EI, there is no demonstrated need to extend this plan into 1998 and 1999. If the Plan is not extended, FPL has calculated that its expenses will be reduced by a minimum of $233 million in 1998 and $291 million in 1999. FPL may take additional charges above the minimum if it chooses. The authorized expenses under the proposed Plan, which are tied to FPL's growth in revenues rather than any particular change in its costs of service, are expected to reach $353 million in 1998 and $460 million in 1999. Based on FPL's added expenses taken in prior years and FPL's sustained revenue growth projections, added expenses of at least $250 million should be expected in each of those years under the proposed plan. If the Plan is denied, FPL's revenue requirement would be reduced by that amount. Because there is no substantial record evidence in Docket No. 970410-EI to support those proposed added and accelerated expenses, AmeriSteel urges the Commission to remove the effect of any such expenses from its earnings calculations for FPL.

Total of Required Adjustments

19. The total adjustment required by the above components are a reduction of FPL's approved revenue requirement of $440 million annually as reflected in page 1 of Attachment B and the table below:

Reductions In FPL 1998 Base Revenues

I.	Reductions	$ (Millions)	
	1.	Return on Common Equity (200 basis points)	$190
	2.	Expiration of 1996/97 "Plan" Writeoffs and Charges and no further extension of the Plan in FPL revenue requirement	250
Total Permanent Reduction			$440

V. ALLOCATION OF REVENUE REDUCTIONS

20. AmeriSteel submits that the reduction in FPL's required revenue requirement of $440 million annually should be reflected evenly in equal cents per kWh reductions to each of FPL's rate classes. This is the method the Commission employed for prior FPL rate reductions ordered in 1986[3] and 1989[4] and is appropriate in this instance.

VI. STATEMENT OF ULTIMATE FACTS ALLEGED

21. (a) A reasonable current allowed return on equity for Florida Power & Light is 9.5%.

(b) Upon the expiration at the end of 1997 of the added "variable" expenses FPL has taken pursuant to Commission Order No. PSC-96-0461-FOF-EI, FPL's revenue requirement should be reduced by $440 million based on a reasonable current allowed return on equity.

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[3] Docket No. 930465-EI, Order No. 75961, issued April 7, 1986.

[4] Docket No. 890319-EI, Order No. 22334, issued December 22, 1986.

VII.KNOWN DISPUTED ISSUES OF MATERIAL FACT

22. (a) Additional expenses taken by FPL to offset revenue growth in Docket No. 950359-EI, and proposed by 1998 and 1999 in Docket No. 970140-EI, should not be considered in calculating regulatory earnings.

VIII. LIMITED PROCEEDING FOR REDUCED RATES AND OTHER RELIEF

23. The Florida Legislature has not compelled the Commission to hold full, traditional rate case proceedings to consider and act upon all matters within its jurisdiction, even in those cases that would require a utility to change its rates. The Legislature has directed that the Commission may hold less than full rate cases by granting "limited proceedings." Limited proceedings are provided for by Section 366.076, F.S., which states:

> (1) Upon petition or its own motion, the commission may conduct a limited proceeding to consider and act upon <u>any matter within its jurisdiction, including any matter the resolution of which requires a public utility to adjust its rates</u> to consist with the provisions of this chapter. The commission shall determine the issues to be considered during such a proceeding and may grant or deny any request to expand the scope of the proceeding to include other matters.

(Emphasis supplied).

24. In this instance, expedited Commission action is required as to the three items noted above to safeguard consumer interests. The time delays of a full rate proceeding would adversely affect the customers interest. The Commission should, therefore, grant the petition for a limited proceeding and consider and decide the issues noted above on an expedited basis.

IX. NECESSITY FOR EXPEDITED HEARING SCHEDULE

25. The provisions of the current "Plan" approved by the Commission, in Docket No. 950359-EI expire or are completely or largely written off as of the end of 1997. The expiration of these charges, coupled with the outdated and excessive, current mid-point on equity of 12% will result in FPL immediately starting to earn excessive revenues on an annual basis of $440

million as of January 1998. Accordingly, so as to minimize the economic damage to FPL's customers from excessive rates, AmeriSteel requests that the Commission establish an expedited hearing schedule to consider and decide this case.

X. CONCLUSION

26. The Commission should, on an expedited basis, grant AmeriSteel's petition for a limited proceeding pursuant to Section 366.076, F.S. It should find and fix as reasonable a rate of return on equity for FPL of no more than 9.5%. The Commission further should exclude from the calculation of FPL's required revenue requirement on a prospective basis the depreciation related under-recoveries and accelerated recovery of regulatory assets approved by the Commission in Docket No. 950359-EI. As a result of these findings, the Commission should reduce FPL's annual revenue requirement by $440 million annually and distribute these reductions through equal per kWh to all classes of customers.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and accurate copy of the foregoing has been furnished by U.S. Mail or facsimile transmission this 11th day of December, 1997 to the following persons:

Robert Elias, Esquire
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850

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Tallahassee, Florida 32399-1400

James W. Brew

FLORIDA POWER & LIGHT
DETERMINATION OF EXCESS EARNINGS

Adjusted Rate Base (1)		$ 9,140,057,132
Excess Rate of Return (8.89% - 7.61%) (2)	X	1.28%
Excess Net Operating Income		$ 116,992,731
Revenue Expansion Factor	X	1.62800
Amount Rates can be Reduced before Additional Expenses		$ 190,464,167
Estimated Additional Expenses for 1998		$ 250,000,000
Total annual amount Rates Could be Reduced to New ROE Midpoint		$ 440,464,167

(1) Per September, 1997 Surveillance Report
(2) Per Attachment A, page 2 of 3

FLORIDA POWER & LIGHT COMPANY
ADJUSTED COST OF CAPITAL

CAPITAL STRUCTURE PER SEPTEMBER 1997 SURVEILLANCE REPORT
THIRTEEN MONTH AVERAGE FOR THE PERIOD 9/30/97
9.5% ALLOWED ROE (1)

		FPSC Adjusted Retail	% of Total	Cost	After-Tax Weighted Cost	Pre-Tax Weighted Cost
Common Equity	$	4,527,872,894	49.54%	9.50%	4.71%	7.66%
Preferred Stock	$	284,939,966	3.12%	7.46%	0.23%	0.38%
Long Term Debt	$	2,542,355,936	27.82%	8.12%	2.26%	2.26%
Short-Term Debt	$	-	0.00%	0.00%	0.00%	0.00%
Customer deposits	$	262,378,609	2.87%	6.22%	0.18%	0.18%
Tax Credits- WTD	$	237,197,041	2.60%	8.94%	0.23%	0.38%
Deferred Taxes	$	1,285,316,894	14.06%	0.00%	0.00%	0.00%
	$	9,140,067,132	100.0%		7.61%	10.86%

TIE Ratio = 4.45

Calculation of JDITC Rate		Amount	% of Total	Cost Rate	Weighted Cost
Long Term Debt	$	2,542,355,936	34.57%	8.12%	2.81%
Preferred Stock	$	284,939,966	3.87%	7.46%	0.29%
Common Equity	$	4,527,872,894	61.56%	9.50%	5.85%
	$	7,355,168,796	100.00%		8.94%

(1) AmeriSteel expert M. Cicchetti determined the cost of common equity using discounted cash flow and risk premium analyses

FLORIDA POWER AND LIGHT
CAPITAL STRUCTURE PER SEPTEMBER, 1997 SURVEILLANCE REPORT
THIRTEEN MONTH AVERAGE FOR THE PERIOD ENDING 9/30/97

61.56% EQUITY RATIO
12% ALLOWED ROE

	FPSC Adjusted Retail	% of Total	Cost	After-Tax Weighted Cost	Pre-Tax Weighted Cost
Common Equity	$4,527,872,894	49.54%	12.00%	5.94%	9.68%
Preferred Stock	$284,939,860	3.12%	7.46%	0.23%	0.38%
Long Term Debt	$2,542,356,938	27.82%	8.12%	2.26%	2.26%
Short-Term Debt	$0	0.00%	0.00%	0.00%	0.00%
Customer Deposits	$262,375,609	2.87%	6.22%	0.18%	0.18%
Tax Credits - WTD.	$237,197,041	2.60%	10.46%	0.27%	0.44%
Deferred Taxes	$1,285,316,694	14.06%	0.00%	0.00%	0.00%
	$9,140,067,132	100.00%		8.89%	12.94%

TIE Ratio = 5.31

Calculation of JDITC Rate	Amount	% of Total	Cost Rate	Weighted Cost
Long Term Debt	$2,542,355,938	34.57%	8.12%	2.81%
Preferred Stock	$284,938,960	3.87%	7.46%	0.29%
Common Equity	$4,527,872,894	61.56%	12.00%	7.39%
	$7,355,168,798	100.00%		10.46%

State of Florida

Public Service Commission

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

DATE: AUGUST 18, 1997

TO: RICK WRIGHT, ACCOUNTING-COMMUNICATIONS, AFAD
JOHN SLEMKEWICZ, ACCOUNTING-ELECTRIC & GAS, AFAD

FROM: ANDREW MAUREY, FINANCE SECTION, AFAD

RE: QUARTERLY REPORT ON EQUITY COST RATES

The Gross Domestic Product (GDP), the value of all goods and services produced in the U.S., grew at a 2.2% annual rate in the second quarter. This moderate pace is considered more sustainable than the revised 4.9% annual rate of growth experienced in the first quarter.

While the economy slowed down, figures released by the Commerce Department indicated inflationary price pressure in the second quarter dropped to its lowest level in 33 years. The GDP price deflator increased 0.7% in the second quarter after increasing 1.9% in the first quarter. This is the smallest rise since 1964. The Labor Department reported consumer prices rose only 0.1% in June. For the year, consumer prices are rising at an annual rate of 1.4%, the lowest rate of increase in 11 years. The core rate of inflation, which excludes the volatile food and energy prices, also rose only 0.1% in June. In the first half of 1997, the core rate rose at an annual rate of 2.4%, slowest since 1966. Finally, wholesale prices fell for the sixth consecutive month in June, the longest streak of producer-price deflation since the government started measuring such figures 50 years ago. Year-to-date, producer prices have fallen at a 3.4% annual rate.

In his remarks before the House Banking Committee, Federal Reserve Chairman Alan Greenspan said, "The recent performance of the American economy, characterized by strong growth and low inflation, has been exceptional and better than most anticipated." The next day in his remarks before the Senate Banking Committee, he repeated his uplifting view of the economy and added, "We are reasonably confident that inflation will be quite modest for 1997." At the same time Greenspan was addressing the Senate, Fed Vice Chairwoman Alice Rivlin told the House Banking Committee, "The economy as a whole is functioning amazingly well." Despite the optimism, Rivlin repeated Greenspan's warning that the central bank is ready to raise short-term interest rates at the first hint of inflation. Fed Board member Laurence Meyer, before the same panel as Rivlin, said history "has repeatedly taught us that the greatest risk to an expansion comes from failing to prevent an overheated economy." Policymakers "should not sit on interest rates and wait" until inflation takes off, he said.

cc: Tim Devlin
Beth Salak
Ann Causseaux
Dale Mailhot

COST OF EQUITY ANALYSIS (1)

	BOND RATING	DISCOUNTED CASH FLOW	EX ANTE RISK PREMIUM	PROSPECTIVE CAPM
ELECTRIC UTILITIES				
Florida Power Corporation	Aa3/AA-	9.6	9.6	11.0
Florida Power and Light	Aa3/AA-	9.6	9.6	11.0
Florida Public Utilities Company		10.[illegible]	10.0	11.4
Gulf Power Company	A1/A+	9.7	9.6	11.0
Tampa Electric Company	Aa2/AA	9.6	9.6	10.9
TELEPHONE UTILITIES				
Central Telephone of Florida	Baa1/A	14.9	11.3	12.4
GTE Florida, Inc.	A1/AA-	14.6	11.6	12.2
Southern Bell Telephone	Aaa/AAA	14.4	11.3	11.9
United Telephone of Florida	A1/A	14.7	11.6	12.2
Other Telephone Utilities		15.0	12.0	12.6
NATURAL GAS UTILITIES		10.4	10.0	11.[illegible]

WATER AND WASTEWATER UTILITIES

The cost of equity obtained using the current leverage formula is 9.21% at 100% equity and 10.46% at an equity ratio of 40% or lower. The current leverage formula is:
ROE = [illegible]% + ([illegible]/ER)

(1) The cost of equity cannot be measured precisely. Analysts use various methods and models to estimate its cost. In a rate proceeding, Staff would perform a thorough analysis of the company and its characteristics relative to the index of companies used to determine the required rate of return as well as the testimony of the parties involved in the case.

(2) Although there is not a direct relationship between a change in interest rates and the cost of equity, it is generally recognized that the required return on equity is sensitive to changes in interest rates. In other words, it is generally accepted that if interest rates rise (fall), the required return on equity will increase (decrease).

SUMMARY OF RETURN ON EQUITY ORDERS

ELECTRIC	ORDER	ORDER SUMMARY (1)
FLORIDA POWER	92-1197	Sets range of 11.0% to 13.0% with a midpoint of 12.0%
FPL	93-1024	Sets range of 11.0% to 13.0% with a midpoint of 12.0%
FPUC (Marianna)	94-0170	Sets range of 9.85% to 11.85% with a midpoint of 10.85%.
FPUC (Fernandina)	94-0963	Sets range of 10.6% to 12.6% with a midpoint of 11.6%
GULF POWER	93-0771	Sets range of 11.0% to 13.0% with a midpoint of 12.0%
TAMPA ELECTRIC	96-0680	Sets range of 10.75% to 12.75% with a midpoint of 11.75%.
	96-0670	Earnings sharing plan in place through 1999

TELEPHONE

ALLTEL FLORIDA	94-0383	Sets range of 10.5% to 12.5% with a midpoint of 11.5%
CENTRAL TELEPHONE	93-0005	Sets range of 11.5% to 13.5% with a midpoint of 12.5%
FLORALA	94-0646	Sets range of 10.8% to 12.8% with a midpoint of 11.8%
GTE FLORIDA	93-0108	Sets range of 11.2% to 13.2% with a midpoint of 12.2%
GT&C	94-0644	Sets range of 10.8% to 12.8% with a midpoint of 11.8%
INDIANTOWN	94-0648	Sets range of 10.8% to 12.8% with a midpoint of 11.8%
NORTHEAST	22273	Sets range of 11.4% to 14.4% with a midpoint of 12.9%.
QUINCY	94-0645	Sets range of 10.66% to 12.66% with a midpoint of 11.66%.
ST. JOE	94-0647	Sets range of 10.66% to 12.66% with a midpoint of 11.66%.
SOUTHERN BELL	94-0172	Earnings sharing plan in place through 1997. Sharing bands and ceiling for 1997 are indexed to movement in yield on AA-rated utility bonds
SOUTHLAND	93-1637	Sets range of 11.0% to 13.0% with a midpoint of 12.0%.
UNITED OF FLORIDA	92-0708	Sets range of 11.5% to 13.5% with a midpoint of 12.5%

NATURAL GAS

CHESAPEAKE	96-0160	Sets range of 10.0% to 12.0% with a midpoint of 11.0%
CITY GAS	96-1404	Sets range of 10.3% to 12.3% with a midpoint of 11.3%.
FPUC GAS	98-0616	Sets range of 10.4% to 12.4% with a midpoint of 11.4%.
INDIANTOWN GAS		
PEOPLES GAS	93-1773	Sets range of 10.25% to 12.25% with a midpoint of 11.25%
ST. JOE GAS	93-1775	Sets range of 10.0% to 12.0% with a midpoint of 11.0%.
SEBRING GAS	93-1774	Sets range of 10.0% to 12.0% with a midpoint of 11.0%
SOUTH FLORIDA	93-1776	Sets range of 10.0% to 12.0% with a midpoint of 11.0%

WATER & WASTEWATER

WATER & WASTEWATER	97-0660	Establishes the current leverage formula: COE = 8.38% +(0.832/Equity Ratio). The cost of equity using the formula is 9.21% at 100% equity and 10.46% at 40% equity or lower.

**Equity Ratios for Comparison Group of Electric Utilities
For The Period Ending 12/31/96**

Company	Bond Rating	Equity Ratio[1]
Allegheny Power Systems	A	46%
CIPSCO	AA+	57%
Consolidated Edison	A+	55%
Duke Power	AA-	54%
Florida Progress	AA-	52%
IPALCO	AA-	55%
KU Energy	AA-	52%
Northern States	AA-	54%
OGE	AA-	52%
Edison International	A+	44%
TECO	AA	55%
Wisconsin Energy	AA+	57%
AVERAGE	AA-	52.75%
Electric Industry Average[2]		47.5%
FPL Group	AA-	57%
Florida Power & Light Co.[3]	AA-	61.56%

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[1] Source: Standard & Poor's Stock Market Encyclopedia, Fall 1997

[2] Source: Value Line, November, 1997

[3] Source: FPL Surveillance Report, September, 1997