

## BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Minimum Filing Requirement )	DOCKET NO. 890924-GU
Report of St. Joe Natural Gas Company, )	
Inc., in Compliance with 366.06 (3) F.S.)	
_____ )	
In re: Investigation into the Potential) DOCKET NO. 870986-GU	
Overearnings of St. Joe Natural Gas )	
Company, Inc. ) ORDER NO. 23911	
_____ )	
	ISSUED: 12-21-90

The following Commissioners participated in the disposition of this matter:

MICHAEL McK. WILSON, Chairman  
 THOMAS M. BEARD  
 BETTY EASLEY  
 GERALD L. GUNTER  
 FRANK S. MESSERSMITH

NOTICE OF PROPOSED AGENCY ACTIONORDER REVIEWING EARNINGS

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are adversely affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

Background

These two dockets have been combined for the purpose of reviewing earnings since both relate to earning surveillance during the year ended December 31, 1989.

As part of the Commission's continuing surveillance program, on September 15, 1987, in Docket No. 870986-GU we initiated an investigation into the apparent excess earnings of St Joe Natural Gas Company, Inc. ("St. Joe"). According to the monthly surveillance reports submitted by St. Joe, the utility's earned return was in excess of the maximum last authorized by this Commission. The utility agreed that it was overearning, and

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entered into a stipulation with Commission Staff, which we approved in Order No. 19793, issued on August 11, 1988. The stipulation provided that St. Joe would refund any excess earnings for the

calendar year 1989. Later, in Order No. 22199, we decided that Docket No. 870986-GU should remain open through 1990 to allow for analysis of the utility's earnings.

Thereafter, we opened Docket No. 890924-GU, in which we issued Order No. 21854, which directed the utility to file a modified minimum filing requirements report ("MMFRs") on or before March 30, 1990. We find that the utility complied with Order No. 21854 by timely filing the MMFRs as required. Based on Staff's analysis of the information contained in the utility's MMFRs, we find that St. Joe did not overearn during the period ended December 31, 1989. St. Joe earned an average overall rate of return of 13.73%, which was within the allowable range of return. The utility's achieved return on common equity was 14.14%. These findings are based on our analysis of the detailed information submitted on St. Joe's rate base, net operating income, and cost of capital. Based on our Staff's audit findings, we will make the following adjustments to St. Joe's reports:

- Adjustment #1 This adjustment represents an allocation of the utility's common plant. The utility made no allocations to its Utility Plant-in-Service for non-utility common plant. We find that Utility Plant, Accumulated Depreciation, and Depreciation Expense should be reduced by \$4,486, \$598 and \$108, respectively.
- Adjustment #2 We adjusted Account 303 Intangible Plant and its related Accumulated Amortization to remove an amount of capitalized salary. St. Joe capitalized a portion of the President's salary in Account 303 because he managed a pension fund. We do not believe this is appropriate and we therefore removed it for ratemaking purposes. Utility Plant, Accumulated Amortization and Amortization Expense should be reduced by \$1,848, \$31, and \$255, respectively.
- Adjustment #3 This adjustment represents additional common plant allocations to the St. Joe's Utility Plant. We find that non-utility allocations should also be made to the office furniture and equipment accounts

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to reflect common usage for utility and non-utility. Utility Plant, Accumulated Depreciation, and Depreciation Expense should be decreased by an additional \$26,980, \$11,397 and \$3,802, respectively.

- Adjustment #4 Accumulated Amortization and Amortization Expense relating to Account 302 Franchise and Consents were eliminated. The Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (Conservation of Power and Water Resources, 18 C.F.R. Sec. 201.302 (1988) ) requires that a franchise be retired at the time it expires. We reduced Accumulated Amortization by \$9,373, and Amortization Expense by \$41.
- Adjustment #5 We increased St. Joe's Customer Advances For Construction account by \$1,500 in order to reflect an advance from a utility customer. The utility incorrectly recorded this amount as a Deferred Credit and subsequently did not include it in the rate base calculation.
- Adjustment #6 The utility's working capital allowance was adjusted to remove an interest-bearing cash account. It is Commission practice to remove interest-bearing accounts and therefore, we reduced the working capital computation by \$134,253.
- Adjustment #7 This adjustment represents a non-utility allocation made to the utility's Material & Supplies account. St. Joe recorded its utility and non-utility inventory in the same account and failed to allocate the non-utility portion out of working capital. We therefore reduced the working capital allowance by \$29,184.
- Adjustment #8 This adjustment was made to eliminate fuel-related revenues, cost of gas, and fuel-related taxes from the net operating income calculation. Since fuel-related revenues and expenses are recovered through Docket No. 900001-GU, they should be removed for surveillance purposes. We therefore reduced revenues by \$3,362,661, expenses by \$3,306,999, and taxes other than income by \$54,643.

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- Adjustment #9 We reversed an adjustment the utility made to remove a provision for a tax refund. In Commission Order No. 22199, we ordered the utility to make a tax refund in the amount of \$24,340, related to the year ended December 31, 1988. St. Joe adjusted its operating revenues to eliminate this refund provision. The utility's adjustment is inappropriate because it relates to previous period revenues. Therefore, an adjustment has been made to include revenues in the amount of \$27,259.
- Adjustment #10 A donation to the Gulf County School Gold Club was eliminated. It is the general policy of the Commission to remove charitable contributions as a recoverable expense since ratepayers have no choice in the charity. An adjustment was made to reduce O&M by \$50 to reflect this donation.
- Adjustment #11 We removed \$454 in promotional advertising costs from St. Joe's O&M expenses. Generally, only advertising that is considered informational in nature is accepted as a recoverable expense.
- Adjustment #12 This adjustment was made to eliminate \$60 in annual dues to the Port St. Joe Downtown Merchants Association. It is the general policy of the Commission to remove expenses relating to association dues since the benefits accrue directly to the stockholders and no benefits are received by the ratepayers.
- Adjustment #13 St. Joe's property insurance expense was adjusted to reflect non-utility common plant usage as discussed in Adjustment #1. Therefore, an adjustment has been made to reduce property insurance expense by \$59.
- Adjustment #14 An adjustment in the amount of \$437 was made to eliminate the airfare expenses of the President's children which were charged to Account 930.
- Adjustment #15 We eliminated a donation of \$200 to the Dixie Youth Baseball team. It is the general policy of the Commission to remove charitable contributions as a recoverable expense since the ratepayers have no choice in the charity.

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- Adjustment #16 An adjustment in the amount of \$10,165 was made to Account 926 Pensions & Benefits to reflect the allocation of non-utility related expenses. St. Joe directly charged payroll for non-utility related work below the line, but made no such allocation to its Pension & Benefits account.
- Adjustment #17 We adjusted the utility's property taxes to reflect the non-utility common plant usage as discussed in Adjustment #1. Therefore, an adjustment has been made to reduce property tax expense by \$35.
- Adjustment #18 In its filing, the utility included tax expense relating to non-utility operations. We removed \$9,127 in Current Federal Taxes and \$1,562 in Current State Taxes in order to remove non-utility income tax from the utility's reported income tax expenses.
- Adjustment #19 We increased income taxes in the amount of \$13,833 to reflect the tax effect of the above NOI adjustments.

Based on our financial analysis, we find the appropriate Rate Base for this utility to be \$1,338,403, (Attachment 1), the appropriate Net Operating Income to be \$183,821 (Attachment 2), and the appropriate allowed overall Cost of Capital range to be 12.34% - 14.27%, with the midpoint of 13.31% (Attachment 3). Using these calculated amounts, we find that St. Joe Natural Gas Company, Inc. earned an overall rate of return of 13.73%, which was within the prescribed allowable rate of return range (Attachment 4). Based on the above adjustments, we find the utility's achieved return on common equity to be 14.14% (Attachment 5). This ROE was within the authorized range of 12.70% - 14.70% prescribed in Order No. 22199.

We find that St. Joe did not overearn during the reporting period ended December 31, 1989. Therefore, we will not order this utility to make a refund based on its 1989 earnings, and will close Docket No. 870986-GU.

In the process of reviewing projected financial information for the calendar year 1991, we found several expenses which may not recur due to the death of the former President. However, St. Joe must incur long-term debt to finance a main extension during 1991. This project is necessary in order for the utility to receive its Phase II allocated gas volumes from Florida Gas Transmission. Florida Gas Transmission has already filed the necessary documents with the Federal Energy Regulatory Commission to provide St. Joe a

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second delivery point, for which St. Joe will reimburse Florida Gas Transmission \$445,965. The total capital investment, at an approximate cost of \$5,000,000, will be placed into rate base, thereby reducing the utility's overall rate of return. Based on these facts, we believe that St. Joe will not experience any excess earnings for the calendar year 1991. Also, due to the long-term debt for the proposed main extension, the utility should experience a lower achieved return on common equity. Therefore, Docket No. 890924-GU should be closed, although we will continue to monitor the utility's earnings through the surveillance program.

It is therefore

ORDERED by the Florida Public Service Commission that the findings herein are approved. It is further

ORDERED that Docket No. 890924-GU be closed if no petition for formal proceeding is timely filed herein. It is further

ORDERED that Docket No. 870986-GU be closed if no petition for formal proceeding is timely filed herein.

By ORDER of the Florida Public Service Commission, this 21st  
 day of DECEMBER, 1990.

  
 STEVE TRIBBLE, Director  
 Division of Records and Reporting

( S E A L )

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

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The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on January 14, 1991.

In the absence of such a petition, this order shall become effective on the day subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

If this order becomes final and effective on the date described above, any party adversely affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or sewer utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

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ST. JOE NATURAL GAS COMPANY  
 AVERAGE RATE BASE  
 FOR YEAR ENDED DECEMBER 31, 1989  
 DOCKET NO. 890924-GU

ATTACHMENT 1

ADJ NO.	COMPANY			COMMISSION VOTE	
	PER BOOKS	ADJUSTMENTS	ADJUSTED	ADJUSTMENTS	ADJUSTED
	\$2,014,661				
				(4,486)	
1 ALLOCATION OF COMMON PLANT				(1,848)	
2 ACCOUNT 303				(26,980)	
3 ADDITIONAL COMMON PLANT					
	\$2,014,661	\$0	2,014,661	(\$33,314)	1,981,347
	737,347				
				(598)	
1 ALLOCATION OF COMMON PLANT				(31)	
2 ACCOUNT 303				(11,397)	
3 ADDITIONAL COMMON PLANT				(9,373)	
4 FRANCHISE & CONSENTS					
	737,347	0	737,347	(21,399)	715,948
	1,277,314	0	1,277,314	(11,915)	1,265,399
	0			1,500	
5 CUSTOMER ADV. FOR CONSTRUCTION	0	0	0	1,500	1,500
	0	0	0	0	0
CONSTRUCTION WORK IN PROGRESS					
	237,941				
				(134,253)	
6 CASH				(29,184)	
7 NON-UTILITY MATERIAL & SUPPLIES					
	237,941	0	237,941	(163,437)	74,504
	\$1,515,255	\$0	\$1,515,255	(\$176,852)	\$1,338,403
TOTAL RATE BASE					



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ST. JOE NATURAL GAS COMPANY  
 NET OPERATING INCOME  
 FOR YEAR ENDED DECEMBER 31, 1989  
 DOCKET NO. 890924-GU

ATTACHMENT 2

ADJ NO.	COMPANY			COMMISSION VOTE	
	PER BOOKS	ADJUSTMENTS	ADJUSTED	ADJUSTMENTS	ADJUSTED
	4,132,869				
	OPERATING REVENUES				
8	REMOVE FUEL RELATED REVENUES			(3,362,661)	
9	PROVISION FOR REFUND			27,259	
	4,132,869	0	4,132,869	(3,335,402)	797,467
	OPERATING EXPENSES				
	OPERATION & MAINTENANCE				
	3,668,217				
8	REMOVE COST OF GAS			(3,306,999)	
10	DONATIONS GULF CO. SCHOOL GOLD CLUB			(50)	
11	ACCT. 813 ADVERTISING			(454)	
12	DUES MERCHANT ASSOC.			(60)	
13	COMMON PLANT - PROPERTY INSURANCE			(59)	
14	ACCT. 930 - CHILDREN AIRFARE			(437)	
15	DIXIE YOUTH BASEBALL			(200)	
16	ACCT 926 - NONUTILITY ALLOC.			(10,165)	
	3,668,217	0	3,668,217	(3,318,424)	349,793
	DEPRECIATION/AMORTIZATION				
	91,229				
1	ALLOCATION OF COMMON PLANT			(108)	
2	ACCOUNT 303			(255)	
3	ADDITIONAL COMMON PLANT			(3,802)	
4	FRANCHISE & CONSENTS			(41)	
	91,229	0	91,229	(4,206)	87,023
	TAXES OTHER THAN INCOME				
	100,701				
8	REMOVE FUEL RELATED TAXES			(54,643)	
17	NON-UTILITY PROPERTY TAX			(35)	
	100,701	0	100,701	(54,678)	46,023
18	FED INCOME TAXES - CURRENT			(9,127)	
18	FED INCOME TAXES - DEFERRED			(822)	
	STATE INCOME TAXES - CURRENT			(1,567)	
	STATE INCOME TAXES - DEFERRED			(91)	
	INVESTMENT TAX CREDITS			15,769	
19	ADJ FOR THE EFFECT OF ABOVE			15,769	
	125,727	0	125,727	5,080	130,807
	TOTAL OPERATING EXPENSES	\$0	\$3,985,874	(\$3,372,228)	\$613,646
	NET OPERATING INCOME	\$146,995	\$0	\$146,995	\$36,826
					\$183,821



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ST. JOE NATURAL GAS COMPANY  
MODIFIED MINIMUM FILING REQUIREMENTS AUDIT  
FOR YEAR ENDED DECEMBER 31, 1989  
DOCKET NO. 890924-GU

ATTACHMENT 4

STAFF ADJUSTED NET OPERATING INCOME	\$183,821
STAFF ADJUSTED RATE BASE	1,338,403
STAFF CALCULATED EARNED OVERALL RATE OF RETURN	----- 13.7343%
MAXIMUM ALLOWED RATE OF RETURN	14.2692%
PERCENT BELOW THE MAXIMUM ALLOWED	----- -0.5349%

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ST. JOE NATURAL GAS COMPANY  
 ADJUSTED AVERAGE JURISDICTIONAL RETURN ON COMMON EQUITY  
 ADJUSTED AVERAGE JURISDICTIONAL RETURN ON COMMON EQUITY  
 DOCKET NO. 890924-GU

ATTACHMENT 5

	FOR YEAR END 1989
FPSC ADJUSTED AVERAGE OVERALL RATE OF RETURN	13.7343%
LESS:	
RECONCILED AVG WEIGHTED COST RATES	
LONG TERM DEBT	0.00%
SHORT TERM DEBT	0.00%
PREFERRED STOCK	0.00%
CUSTOMER DEPOSITS	0.11%
TAX CREDITS-WEIGHTED COST	0.00%
SUBTOTAL	0.11%
TOTAL	13.63%
DIVIDED BY COMMON EQUITY RATIO	96.35%
JURISDICTIONAL RETURN ON COMMON EQUITY	14.14%
AUTHORIZED RANGE:	*****
LOW	12.70%
MIDPOINT	13.70%
HIGH	14.70%