

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

MEMORANDUM

April 2, 1997

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

FROM: DIVISION OF ELECTRIC & GAS (DILLMORE, MAKIN, BULECHA-
BANKS) *90 (M) CRB*
DIVISION OF LEGAL SERVICES (KEATING) *MC RUG SK JS PLT*
DIVISION OF AUDITING & FINANCIAL ANALYSIS (ROMIG, REVELL) *OR 197*

RE: DOCKET NO. 970115-GU - ST. JOE NATURAL GAS COMPANY -
PETITION FOR LIMITED PROCEEDING TO RESTRUCTURE RATES

AGENDA: 04/14/97 - REGULAR AGENDA - PROPOSED AGENCY ACTION -
INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: S:\PSC\EAG\WP\970115GU.RCM

CASE BACKGROUND

St. Joe Natural Gas Company (St. Joe or Company) currently serves approximately 3,200 residential, commercial, and industrial customers in Port St. Joe, Mexico Beach, Wewahitchka, and unincorporated areas of Gulf County.

St. Joe has never been granted a rate increase since the Commission obtained jurisdiction over St. Joe in 1962. In 1983, the Commission revised St. Joe's rates from a step-type rate to a flat rate, with no change in revenue.

In Docket No. 960930-GU, the PSC investigated the earnings of St. Joe. By Order No. PSC-96-1188-FOF-GU issued September 23, 1996, the Commission approved St. Joe's proposal for disposition of its overearnings, if any, for the years 1994, 1995, and 1996. The order also stated that a petition by St. Joe to restructure rates would have no impact on the approved proposal, under the condition that the restructured rates have no effect on the Company's total revenue.

DOCUMENT NUMBER-DATE

00389 APR-25

FPSC-RECORDS/REPORTING

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St. Joe filed a petition on January 27, 1997 for a limited proceeding to restructure rates. On March 13, 1997, the PSC staff conducted a customer meeting in St. Joe's service area to hear and respond to customer testimony and questions related to the utility's petition. Approximately fifty customers attended the meeting, representing 1.5 percent of the total customers. Generally, customers understood the need for the rate restructuring, but most viewed the rate adjustment as too large for the residential and commercial classes.

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission approve St. Joe's petition for a limited proceeding to restructure its rates?

RECOMMENDATION: Yes. The Commission should approve St. Joe's petition to restructure rates over a two-year period to obtain parity between rate classes. (Dillmore, Makin, Bulecza-Banks)

STAFF ANALYSIS: St. Joe's proposed rate restructuring is designed to retain existing industrial customers and ensure equity among rate classifications.

Over the past decade, St. Joe Forest Products has been one of St. Joe's largest customers. It is responsible for approximately 66 percent of the 31,000,000 therms of annual throughput on St. Joe's distribution system and generates approximately 75 percent of the revenues. In 1991, St. Joe and St. Joe Forest Products entered into a service contract where the customer agreed to purchase a minimum monthly quantity of gas from the Company at interruptible rates. The contract period expires approximately 24 months from the petition date, or February of 1999.

Recently, St. Joe Forest Products was purchased by Florida Coast Paper Company (FCPC). FCPC has expressed interest to St. Joe and the Commission Staff in reducing its current energy costs. FCPC has cited increased competition in the market place and St. Joe's high interruptible rates as the primary reasons for seeking lower energy costs. FCPC has contested its responsibility with regard to the original gas contract between St. Joe and St. Joe Forest Products. As a result, FCPC has decreased its gas usage by approximately 50 percent of the contract amount. In addition, FCPC

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has notified St. Joe that it will no longer recognize responsibility for \$120,000 in Florida Gas Transmission demand charges. In the event FCPC proves it does not have a contractual obligation, FCPC may find it more economical to burn an alternate fuel rather than pay St. Joe's high interruptible rates. With minor modifications, FCPC can operate it's facility entirely on an alternate fuel.

In the event that St. Joe loses throughput of this one large industrial customer, 75 percent of the Company revenues would be lost. Subsequently, St. Joe could seek recovery of the lost revenues through remaining customers, at much higher rates than those proposed in the rate restructuring.

St. Joe seeks to avoid this potential crisis through the proposed rate restructuring. Currently, St. Joe's residential non-fuel energy charge is 1.97 cents per therm. Average residential rates for other Florida regulated utilities is 36.87 cents per therm. St. Joe's commercial non-fuel energy charge is 2.36 therms per therm. Average commercial rates for other Florida regulated utilities is 19.78 cents per therm. St. Joe's large commercial non-fuel energy charge is 4.490 cents per therm. Average large commercial rates for other Florida regulated utilities is 16.50 cents per therm. St. Joe's residential and commercial rates are significantly below the actual cost of providing service. At the same time, St. Joe's large interruptible customers pay the second highest rate among Florida regulated gas utilities. St. Joe seeks to end the cross-subsidization among these rate classes by restructuring the rates to reflect the actual cost to serve each rate class.

Under the proposed rate restructuring, each rate class will pay rates that reflect the actual cost of service. St. Joe has established the rates from a cost of service study using 1995 data, which is the most recent Commission audited data available. All rate classes should produce an equal rate of return. It is important to note, the Company will be held revenue neutral in the proposed rate restructuring, as shown in attachment A.

St. Joe proposes to phase-in the rate restructuring over a two-year period. This will help customers adjust to the increased rates and lessen rate shock. St. Joe has proposed the following schedule:

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Customer Charges	Date of Proposed Change	Residential	Commercial	Commercial Lg Volume	Large Volume Interruptible
Current		\$3.00	\$5.00	\$20.00	\$1,000
Interval I	5/21/97	\$4.00	\$7.33	\$25.00	\$1,000
Interval II	5/21/98	\$5.00	\$9.67	\$30.00	\$1,000
Interval III	5/21/99	\$6.00	\$12.00	\$35.00	\$1,000

Non-Fuel Charge cents/therm	Date of Proposed Change	Residential	Commercial	Commercial Lg Volume	Large Volume Interruptible
Current		1.97	2.36	4.49	4.85
Interval I	5/21/97	9.362	11.532	6.348	4.59
Interval II	5/21/98	16.754	20.704	8.206	4.33
Interval III	5/21/99	24.146	29.876	10.064	4.07

Upon Commission approval of St. Joe's petition for restructured rates, Interval I, II, and III would begin on the May 21, of 1997, 1998, and 1999, respectively. The impact on the average customers bill is shown in attachment B.

Staff recommends that the Commission approve St. Joe's petition for the following reasons:

- The new rates will be phased-in by intervals over a two-year period.
- Cross-subsidization will be minimized as each customer class pays rates that reflect the actual cost of service.
- Rate restructuring will help St. Joe retain natural gas throughput on its system, thus spreading fixed costs over a greater throughput.
- St. Joe residential and commercial rates will continue to be among the lowest in the state.

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ISSUE 2: What is the appropriate effective date for implementation of St. Joe's proposed rate restructuring?

RECOMMENDATION: The effective date for St. Joe's proposed rate restructuring should be May 21, 1997 for Interval I, May 21, 1998 for Interval II, and May 21, 1999 for Interval III. (Dillmore, Makin, Bulecza-Banks)

STAFF ANALYSIS: Staff believes the effective date for St. Joe's rate restructuring should be May 21, 1997 for Interval I, May 21, 1998 for Interval II, and May 21, 1999 for Interval III. St. Joe has proposed this date to coincide with its meter reading and billing cycle, and staff believes this to be reasonable.

ISSUE 3: Should this docket be closed?

RECOMMENDATION: Yes. If no substantially affected person files a protest within 21 days of the issuance of the order, the docket should be closed. If a protest is filed within 21 days from the issuance of the order, the rates should remain in effect with any increase held subject to refund, pending resolution of the protest. (Dillmore, Makin, Bulecza-Banks)

STAFF ANALYSIS: If no substantially affected person files a protest within 21 days of the issuance of the order, the docket should be closed. If a protest is filed within 21 days from the issuance of the order, the rates should remain in effect with any increase held subject to refund, pending resolution of the protest.

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Attachment A

TOTAL REVENUE IMPACT BY RATE CLASS

	TOTAL	RESIDENTIAL	COMMERCIAL	COMMERCIAL LRG VOLUME	INTERRUPTIBLE
PRESENT REVENUE	\$1,842,667	\$132,659	\$14,023	\$27,978	\$1,668,006
PRESENT RATE OF RETURN	11.92%	-25.21%	-30.65%	-11.24%	24.70%
PROPOSED* REVENUE	\$1,842,667	\$463,215	\$52,061	\$51,386	\$1,276,005
REVENUE INCREASE	0.00%	330,556	38,038	23,407	(392,001)
PERCENT INCREASE	0.00%	249.18%	271.25%	83.66%	-23.50%
PROPOSED RATE OF RETURN	11.92%	11.92%	11.92%	11.92%	11.92%

* DATA REFLECTS TOTAL PHASED-IN RESTRUCTURED RATES

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Attachment B
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Residential Rate Class

Therm Usage	Present Monthly Bill w/o Fuel	Interval I Proposed Monthly Bill w/o Fuel	Interval II Proposed Monthly Bill w/o Fuel	Interval III Proposed Monthly Bill w/o Fuel
0	\$3.00	\$4.00	\$5.00	\$6.00
10	\$3.20	\$4.94	\$6.68	\$8.41
20	\$3.39	\$5.87	\$8.35	\$10.83
30	\$3.59	\$6.81	\$10.03	\$13.24
40	\$3.79	\$7.74	\$11.70	\$15.66
50	\$3.99	\$8.68	\$13.38	\$18.07
60	\$4.18	\$9.62	\$15.05	\$20.49
70	\$4.38	\$10.55	\$16.73	\$22.90
80	\$4.58	\$11.49	\$18.40	\$25.32
90	\$4.77	\$12.43	\$20.08	\$27.73
100	\$4.97	\$13.36	\$21.75	\$30.15
110	\$5.17	\$14.30	\$23.43	\$32.56
120	\$5.36	\$15.23	\$25.10	\$34.98
130	\$5.56	\$16.17	\$26.78	\$37.39
140	\$5.76	\$17.11	\$28.46	\$39.80
150	\$5.96	\$18.04	\$30.13	\$42.22
160	\$6.15	\$18.98	\$31.81	\$44.63
170	\$6.35	\$19.92	\$33.48	\$47.05
180	\$6.55	\$20.85	\$35.16	\$49.46
190	\$6.74	\$21.79	\$36.83	\$51.88

■ = average monthly usage

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Commercial Rate Class

Therm Usage	Present Monthly Bill w/o Fuel	Interval I Proposed Monthly Bill w/o Fuel	Interval II Proposed Monthly Bill w/o Fuel	Interval III Proposed Monthly Bill w/o Fuel
0	\$5.00	\$7.33	\$9.67	\$12.00
10	\$5.24	\$8.48	\$11.74	\$14.99
20	\$5.47	\$9.64	\$13.81	\$17.98
30	\$5.71	\$10.79	\$15.88	\$20.96
40	\$5.94	\$11.94	\$17.95	\$23.95
50	\$6.18	\$13.10	\$20.02	\$26.94
60	\$6.42	\$14.25	\$22.09	\$29.93
70	\$6.65	\$15.40	\$24.16	\$32.91
80	\$6.89	\$16.56	\$26.23	\$35.90
90	\$7.12	\$17.71	\$28.30	\$38.89
100	\$7.36	\$18.86	\$30.37	\$41.88
110	\$7.60	\$20.02	\$32.44	\$44.86
120	\$7.83	\$21.17	\$34.51	\$47.85
130	\$8.07	\$22.32	\$36.59	\$50.84
140	\$8.30	\$23.47	\$38.66	\$53.83
150	\$8.54	\$24.63	\$40.73	\$56.81
160	\$8.78	\$25.78	\$42.80	\$59.80
170	\$9.01	\$26.93	\$44.87	\$62.79
180	\$9.25	\$28.09	\$46.94	\$65.78

■ = average monthly usage

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Commercial Large Volume Rate Class

Therm Usage	Present Monthly Bill w/o Fuel	Interval I Proposed Monthly Bill w/o Fuel	Interval II Proposed Monthly Bill w/o Fuel	Interval III Proposed Monthly Bill w/o Fuel
0	\$20.00	\$25.00	\$30.00	\$35.00
60	\$22.69	\$28.81	\$34.92	\$41.04
120	\$25.39	\$32.62	\$39.85	\$47.08
180	\$28.08	\$36.43	\$44.77	\$53.12
240	\$30.78	\$40.24	\$49.69	\$59.15
300	\$33.47	\$44.04	\$54.62	\$65.19
360	\$36.16	\$47.85	\$59.54	\$71.23
420	\$38.86	\$51.66	\$64.47	\$77.27
480	\$41.55	\$55.47	\$69.39	\$83.31
540	\$44.25	\$59.28	\$74.31	\$89.35
600	\$46.94	\$63.09	\$79.24	\$95.38
660	\$49.63	\$66.90	\$84.16	\$101.42
720	\$52.33	\$70.71	\$89.08	\$107.46
780	\$55.02	\$74.51	\$94.01	\$113.50
840	\$57.72	\$78.32	\$98.93	\$119.54
900	\$60.41	\$82.13	\$103.85	\$125.58
960	\$63.10	\$85.94	\$108.78	\$131.61
1020	\$65.80	\$89.75	\$113.70	\$137.65
1080	\$68.49	\$93.56	\$118.62	\$143.69
1140	\$71.19	\$97.37	\$123.55	\$149.73

■ = average monthly usage

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Interruptible Rate Class

Therm Usage	Present Monthly Bill w/o Fuel	Interval I Proposed Monthly Bill w/o Fuel	Interval II Proposed Monthly Bill w/o Fuel	Interval III Proposed Monthly Bill w/o Fuel
0	\$1,000	\$1,000	\$1,000	\$1,000
150,000	\$8,275	\$7,885	\$7,495	\$7,105
300,000	\$15,550	\$14,770	\$13,990	\$13,210
450,000	\$22,825	\$21,655	\$20,485	\$19,315
600,000	\$30,100	\$28,540	\$26,980	\$25,420
750,000	\$37,375	\$35,425	\$33,475	\$31,525
900,000	\$44,650	\$42,310	\$39,970	\$37,630
1,050,000	\$51,925	\$49,195	\$46,465	\$43,735
1,200,000	\$59,200	\$56,080	\$52,960	\$49,840
1,350,000	\$66,475	\$62,965	\$59,455	\$55,945
1,500,000	\$73,750	\$69,850	\$65,950	\$62,050
1,650,000	\$81,025	\$76,735	\$72,445	\$68,155
1,800,000	\$88,300	\$83,620	\$78,940	\$74,260
1,950,000	\$95,575	\$90,505	\$85,435	\$80,365
2,100,000	\$102,850	\$97,390	\$91,930	\$86,470
2,250,000	\$110,125	\$104,275	\$98,425	\$92,575
2,400,000	\$117,400	\$111,160	\$104,920	\$98,680
2,550,000	\$124,675	\$118,045	\$111,415	\$104,785
2,700,000	\$131,950	\$124,930	\$117,910	\$110,890
2,850,000	\$139,225	\$131,815	\$124,405	\$116,995

■ = average monthly usage