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December 15, 2000

Blanca S. Bayo  
Director, Division of Records & Reporting  
Florida Public Service Commission  
Capital Circle Office Center  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0850

**Via Hand-Delivery**

RECEIVED FPSC  
 15 DEC 15 PM 3:08  
 RECORDS AND REPORTING

Re: Request for a rate increase by St. Joe Natural Gas Company, Inc.  
Docket No. 001447-GU

Dear Ms. Bayo:

Enclosed for filing are the original and twenty (20) copies of St. Joe Natural Gas Company, Inc.'s Petition for Rate Increase. Also, in support of its Petition, St. Joe Natural Gas Company, Inc. encloses the original and twenty (20) of the following:

1. Minimum Filing Requirements;
2. Prefiled Direct Testimony of Stuart L. Shoaf;
3. Prefiled Direct Testimony of Ralph C. Roberson; and,
4. Prefiled Direct Testimony of Jeff Householder.

For our records, please acknowledge your receipt of the filing on the enclosed copy of this letter. Thank you for your consideration.

Sincerely,

HOLLAND & KNIGHT LLP

*[Signature]*  
D. Bruce May

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FPSC-RECORDS/REPORTING *Petition*   
 FPSC-RECORDS/REPORTING *MFRs*   
 FPSC-RECORDS/REPORTING *Shoaf*   
 FPSC-RECORDS/REPORTING *Roberson*

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 16037 DEC 15 8  
 FPSC-RECORDS/REPORTING  
*Householder*

Blanca Bayo  
December 15, 2000  
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DBM:kjg  
Enclosure

cc: Deborah Hart, Commission Staff  
Lee Romig, Commission Staff  
Harold McLean, Office of Public Counsel  
Stuart Shoaf, SJNG President

TAL1 #227876 v1

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**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

In re: Request for a rate increase ) Docket No. 001447-GU  
by St. Joe Natural Gas Company, Inc. )  
\_\_\_\_\_ / Filed: December 15, 2000

**PETITION FOR RATE INCREASE**

St. Joe Natural Gas Company, Inc. ("SJNG" or the "Company"), by and through undersigned counsel, pursuant to Sections 366.06 and 366.071, Florida Statutes, hereby petitions the Florida Public Service Commission (the "Commission") for an increase in SJNG's rates and charges as set forth in this Petition and the accompanying Minimum Filing Requirements ("MFRs"), testimony and exhibits.

**Background**

1. The name, address and telephone number of the Petitioner are:  
  
St. Joe Natural Gas Company, Inc.  
Post Office Box 549  
Port St. Joe, Florida 32456  
(850) 229-8216
2. All pleadings and correspondence in this proceeding should be directed

to:

D. Bruce May  
Karen D. Walker  
HOLLAND & KNIGHT LLP  
P.O. Drawer 810  
Tallahassee, Florida 32302

Stuart Shoaf, President  
St. Joe Natural Gas Company, Inc.  
Post Office Box 549  
Port St. Joe 32456

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

3. SJNG is a corporation organized and existing under the laws of the State of Florida. SJNG was incorporated on April 1, 1959. The Company's principal place of business is located at 301 Long Avenue, Port St. Joe, Florida.

4. SJNG is a natural gas distribution utility providing service to approximately 3,409 residential, commercial and industrial customers in Port St. Joe, Mexico Beach, Wewahitchka, and unincorporated areas of Gulf County.

5. SJNG is a "public utility" within the meaning of Section 366.02, Florida Statutes, and therefore, is subject to the regulatory jurisdiction of the Commission established by Chapter 366, Florida Statutes.

6. By filing this petition, SJNG seeks the approval of interim rates, the determination of an appropriate cost of equity capital, the determination of a fair and reasonable overall rate of return, the approval of new and revised rate schedules, and a permanent increase in its rates and charges.

7. SJNG filed a petition for a rate increase with the Commission on October 9, 1985, but SJNG withdrew that petition on January 29, 1986. See In re: Petition of St. Joe Natural Gas Company for increase in rates and charges, Docket No. 850234-GU, Order No. 16034 (April 23, 1986). SJNG has not filed any other petition for rate increase with the Commission prior to filing this Petition.<sup>1</sup>

8. On January 27, 1997, SJNG filed a Petition for Limited Proceeding to Restructure Rates with the Commission. The rate restructuring was designed to

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<sup>1</sup> In 1983, the Commission revised SJNG's rates from a step-type rate to a flat rate, with no change in revenue. See In re: Continuing surveillance of level of earnings of St. Joe Natural Gas Company, Docket No. 820490-GU, Order No. 12372 (Aug. 16, 1983).

retain existing industrial customers and ensure equity among rate classifications. By Order No. PSC-97-0526-FOF-GU, as clarified by Order No. PSC-97-1014-FOF-GU, the Commission granted SJNG's petition for rate restructuring on a revenue-neutral basis. See In re: Petition for limited proceeding to restructure rates by St. Joe Natural Gas Company, Inc., 97 F.P.S.C. 8:543, Docket No. 970115-GU, Order No. PSC-97-1014-FOF-GU (Aug. 25, 1997); In Re: Petition for limited proceeding to restructure rates by St. Joe Natural Gas Company, Inc., 97 F.P.S.C. 5:115, Docket No. 970115-GU, Order No. PSC-97-0526-FOF-GU (May 7, 1997).

9. SJNG's current authorized return on equity is 11.00%, plus or minus 100 basis points. See In Re: Investigation into the appropriate equity return for ST. JOE NATURAL GAS COMPANY, INC., 93 F.P.S.C. 12:232, Docket No. 931102-GU, Order No. PSC-93-1775-FOF-GU (Dec. 10, 1993). SJNG's current authorized rate of return is between 5.64% and 6.69%, as established in the Company's last Surveillance Reporting Period ended June, 2000.

10. On September 15, 2000, SJNG notified the Commission, pursuant to Rule 25-7.140, Florida Administrative Code, that it had selected the 12-month period ending December 31, 2001 as the projected test year for this rate proceeding. The test period for the requested interim rates is the historical 12-month period ended December 31, 1999.

11. By letter dated September 26, 2000, Commission Chairman J. Terry Deason acknowledged the test year notification and the opening of this docket for SJNG's general rate increase proceeding.

### **Request for Use of Proposed Agency Action Procedures**

12. Section 366.06(4), Florida Statutes, authorizes a natural gas utility to request that the Commission process its petition for rate relief using the Commission's proposed agency action ("PAA") procedures. SJNG hereby elects to proceed under the Commission's PAA procedures.

13. As noted herein, SJNG is filing the prefiled testimony of three witnesses contemporaneously with the filing of this petition and the MFRs. This is consistent with the directions to the Company in Chairman Deason's letter of September 26, 2000. However, by including prefiled testimony with its petition, SJNG in no way waives its right to submit additional testimony following the issuance of the Commission's PAA Order addressing any or all issues that may be raised in a protest of the PAA Order, including a protest filed by the Company.

### **Request for General Rate Increase**

14. SJNG is entitled by law to receive a reasonable return on its property used and useful in public service. The Company's rates should be sufficient to yield reasonable compensation for the services rendered.

15. SJNG's existing rates and charges are inadequate and insufficient to allow it to realize fair and reasonable compensation for the services provided by SJNG to the public.

16. As noted above, SJNG's current authorized rate of return, as established in the Surveillance Reporting Period ended June, 2000, is between 5.64% and 6.69%. During the Surveillance Reporting Period ended June 2000, the

Company's actual earned rate of return was negative 1.21%. This rate of return evidences serious cash flow problems that, if not rectified through this rate case proceeding, could threaten the economic viability of the Company.

17. SJNG's need for an increase in its rates is due in part to the loss of SJNG's largest customer, Florida Coast Paper Company, L.L.C. ("Florida Coast"), which operated a pulp and paper mill in SJNG's service territory in Gulf County, Florida. Florida Coast closed the pulp and paper mill in late 1998 and declared bankruptcy on April 2, 1999. Historically, approximately 66% of the Company's throughput was delivered to Florida Coast, which equated to a 75% contribution to the Company's revenues. Prior to the mill closure, SJNG's annual therm sales averaged 30,511,250 therms per year, or 2,542,604 per month. This allowed SJNG's annual operating revenue levels to average approximately \$726,674. After the mill closure, SJNG experienced a 63% reduction in annual therm sales with sales dropping to 10,723,860 therms per year, or 893,655 per month. This placed the Company in a negative cash flow situation with annual operating revenues of negative \$12,506 for the year ended December 31, 1999.

18. An increase in rates is also needed for the Company to take advantage of legitimate growth opportunities.

19. SJNG has taken every reasonable effort to avoid a general rate increase. As described above, the Company petitioned the Commission in 1997 to restructure the Company's rates on a revenue neutral basis in an effort to retain the Company's large industrial customers, which at the time included Florida Coast.

More recently, the Company has limited any increases in operating costs and staff salaries, delayed replacing utility vehicles, ceased paying shareholder dividends and has stopped contributing to its retirement plan. SJNG has also entered into special service agreements with existing large industrial customers in an effort to retain those customers and the revenue generated by the Company in providing service to such customers. Finally, in an effort to mitigate the potential impact of the requested rate increase, SJNG has agreed to turn back pipeline capacity to Florida Gas Transmission Company at the earliest possible opportunity, which is not until the beginning of 2001.

20. SJNG requests approval for a permanent rate increase of \$551,923, or an annual increase of 51.0% in order to earn a fair return on its investment. SJNG's requested permanent rate increase provides for recovery of extraordinary income tax liability expense associated with the Florida Coast bankruptcy.

21. SJNG is also requesting an increase in its authorized mid-point return on equity ("ROE") from 11.0% to 11.5%.

22. Simultaneously with the filing of this petition, SJNG is filing MFRs and proposed rate schedules as required by Rule 25-7.039, Florida Administrative Code.<sup>2</sup> The Company is also filing the prefiled direct testimony and exhibits of Stuart L. Shoaf, Ralph Roberson, and Jeff Householder.

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<sup>2</sup> On November 13, 2000, SJNG filed with the Commission an expedited request for waiver of portions of MFRs that require reference to the Company's last rate case. That waiver request is pending.



### **Request for Interim Rate Relief**

23. Further deterioration of the Company's earnings is certain unless interim rate relief is granted by the Commission in accordance with Section 366.071, Florida Statutes. Accordingly, SJNG requests interim rate relief in the amount of \$459,185 based on a historical test year ending December 31, 1999. SJNG will allocate the interim rate increase applicable to all of its filed gas rate schedules in accordance with Rule 25-7.040(2)(a), Florida Administrative Code.

24. In filing this request for interim rate relief, SJNG recognizes that any interim rate relief collected is subject to refund, with interest, as provided in Rule 25-7.040(3), pending the entry of a final order addressing SJNG's request for a permanent rate increase. The Company is prepared to provide the Commission with a corporate undertaking relating to its interim rate request at the appropriate time.

### **Compliance With Order No. PSC-96-1188-FOF-GU**

25. On September 23, 1996, the Commission issued Order No. PSC-96-1188-FOF-GU (the "Order") finding that SJNG was in an overearnings posture in 1994 and 1995, and accepting SJNG's proposal for disposing of the overearnings. See In Re: Investigation into earnings for 1994, 1995 and 1996 of St. Joe Natural Gas Company, Inc., 96 F.P.S.C. 9:505, Docket No. 960930-GU, Order No. PSC-96-1188-FOF-GU (Sept. 23, 1996). The Order did not require SJNG's excess earnings to be refunded at the time. Instead, the Company was allowed to dispose of the excess earnings by amortizing the excess earnings, off the books, over a 25 year

period. However, in the event the Company requested a rate increase that has the effect of increasing revenues, the Order requires SJNG to refund the overearnings over a 60 month period commencing with the effective date of the rate change.

26. When the Order was issued, SJNG's financial position was vastly different than it is today. At the time the Order was issued, the refund requirement was intended to discourage SJNG from raising its rates to cover increased costs caused by operating inefficiencies. SJNG does not believe that the Order was intended to penalize the Company by requiring it to refund past overearnings at a time when serious cash flow difficulties, caused by circumstances beyond the Company's control, threaten the Company's financial viability.

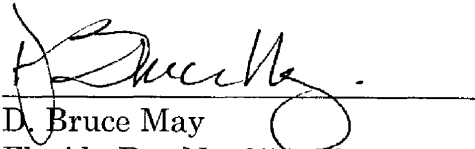
27. Although SJNG submits that the refund should not be required in light of the changes to SJNG's financial condition that have occurred since 1996, SJNG is prepared to abide by the terms of the Order. However, SJNG would request that the remaining unamortized amount (which as of December 31, 2000 is \$219,507) be amortized and refunded over a 21 year period (the original 25 year amortization period less the four years that have elapsed since the Order was issued) beginning on the effective date of the Company's permanent rate increase.

WHEREFORE, SJNG respectfully requests that the Commission:

- (a) authorize SJNG to recover interim rates in the amount of \$459,185, subject to refund;
- (b) enter a PAA Order:

- (i) approving a permanent rate increase for SJNG of \$551,923;
  - (ii) increasing SJNG's authorized mid-point ROE to 11.5%;
  - (iii) finding that SJNG is not required to comply with the refund requirements of Order No. PSC-96-1188-FOF-GU or, in the alternative, that the remaining unamortized amount required by Order No. PSC-1188-FOF-GU be amortized and refunded over a 21 year period; and
- (c) grant such other relief as the Commission deems appropriate.

Respectfully submitted this 15th day of December, 2000.

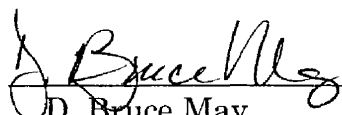


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**Attorneys for St. Joe Natural Gas  
Company, Inc.**

**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that a true and correct copy of the foregoing Petition to Increase Rates was furnished by hand-delivery to Deborah Hart and Clarence (Lee) Rommig, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida, and Office of Public Counsel, 111 W. Madison Street, #812, Tallahassee, Florida 32399-1400 all on this 15th day of December, 2000.

  
D. Bruce May

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