

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition for a Rate Increase)
by Indiantown Gas Company)

DOCKET NO. 030954-GU
FILED: DECEMBER 15, 2003

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PETITION OF INDIANTOWN GAS COMPANY FOR A RATE INCREASE

Indiantown Gas Company (the "Company" or "IGC" or "Indiantown Gas"), pursuant to Sections 366.06 and 366.071, Florida Statutes,¹ and Rules 25-7.039, 25-7.040, and 25-22.028, Florida Administrative Code ("F.A.C."), hereby respectfully petitions the Florida Public Service Commission ("Commission" or "PSC") for approval of an increase in the Company's rates and charges as set forth in this Petition and in the accompanying Minimum Filing Requirements ("MFRs"), testimony, and exhibits.

In summary, this is the first general rate case in the Company's history. The Commission should approve the Company's requested rates and charges because they are fair, just, reasonable, and not unduly discriminatory

In support of its Petition, the Company states the following.

PROCEDURAL BACKGROUND AND INFORMATION

- 1. The name and address of the petitioner is:

Indiantown Gas Company
Post Office Box 8
16600 S.W. Warfield Boulevard
Indiantown, Florida 34956.

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¹ All references herein to the Florida Statutes are to the 2003 edition thereof.

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2. All pleadings, motions, orders, and other documents directed to the Company are to be served on the following:

Robert Scheffel Wright
John T. LaVia, III
Landers & Parsons, P.A.
310 West College Avenue (ZIP 32301)
Post Office Box 271
Tallahassee, Florida 32302

with a courtesy copy to:

Brian J. Powers, General Manager
Indiantown Gas Company
Post Office Box 8
16600 S.W. Warfield Boulevard
Indiantown, Florida 34956.

3. The agency affected by this Petition is:

Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850.

4. By this Petition, the Company seeks the Commission's approval of interim rates, the determination of a fair, just, and reasonable cost of equity capital, the determination of a fair, just, and reasonable overall rate of return on investment, the approval of new and revised rate schedules, and a permanent increase in the Company's rates and charges.

RULES AND STATUTES THAT ENTITLE THE COMPANY TO RELIEF

5. Indiantown Gas Company is entitled to the relief requested herein by Sections 366.03, 366.04, 366.041, 366.05(1), 366.06(1)&(4), and 366.071, Florida Statutes. In summary, as to the substantive aspects of the Company's proposals, the Company is required to provide service upon terms required by the Commission, subject to the Commission's plenary jurisdiction over the Company's

rates and service, and the Company is entitled to charge and collect for such service fair, just, reasonable, and compensatory rates and charges. See Fla. Stat. §§ 366.03, 366.04, 366.041, 366.05(1), and 366.06(1). The Company is entitled to seek interim rate relief by Section 366.071, Florida Statutes. As to the procedural aspects of the relief requested by the Company, the Commission is authorized to process such requests by natural gas public utilities using the Commission's proposed agency action procedure by Section 366.06(4), Florida Statutes.

FACTUAL BACKGROUND

6. Indiantown Gas Company is a public utility, and specifically a local distribution company ("LDC"), that provides natural gas transportation service to the public within its service area in Indiantown, Florida, and the surrounding area. The Company is accordingly subject to the regulatory jurisdiction of this Commission under Chapter 366, Florida Statutes. The Company presently provides service to approximately 680 customers within its service area.

7. The Company's substantial interests in providing services that meet the needs of its customers for sufficient, adequate, safe, reliable, and efficient service, and to charge therefore rates that are fair, just, reasonable, compensatory, and not unduly discriminatory will be determined by the Commission's disposition of this Petition.

8. Indiantown Gas Company is a Florida corporation that was incorporated on May 1, 1960. The Company's initial tariff was

approved by the Commission in August 1970 by Order No. 4933 in Docket No. 70377-GU. The Company has never had a general rate case in its history of being regulated by the Commission.

9. By Order No. PSC-02-1666-PAA-GU and Consummating Order No. PSC-02-1829-CO-GU,² the Commission approved the Company's new Natural Gas Tariff, Original Volume No. 2 (the "New Tariff"), which implemented restructured, but revenue-neutral, rates, and established an authorized rate of return on equity for the Company of 11.5 percent. By Order No. PSC-02-1655-TRF-GU,³ the Commission approved the Company's proposal to exit the merchant function and to transfer all remaining sales customers to transportation service. (With regard to the Company's proposal to exit the merchant function and transfer all remaining sales customers to transportation service, the Commission's approval was for Phase One of the Company's proposal, as set forth in the Company's petition. As such, the Commission approved the Company's proposal for an initial period of two years as an experimental and transitional pilot program pursuant to Section 366.075, Florida Statutes. The subsequent implementation of Phases Two and Three of the Company's proposal are subject to further Commission action.)

² In Re: Request for Limited Proceeding by Indiantown Gas Company for Approval of Natural Gas Tariff, Original Volume No. 2, Implementing Restructured Rates, Docket No. 020470-GU (Fla. Pub. Serv. Comm'n 2002).

³ In Re: Petition for Authority to Convert All Remaining Sales Customers to Transportation Service and to Terminate Merchant Function by Indiantown Gas Company, Docket No. 020471-GU (Fla. Pub. Serv. Comm'n 2002).

10. Pursuant to Rule 25-7.140, F.A.C., on September 25, 2003, the Company notified the Commission that it had selected the 12-month period ending December 31, 2004 as the projected test year for this rate proceeding. The test period for the Company's requested interim rates is the historical 12-month period ending December 31, 2002. Due to unforeseen delays in preparing its Minimum Filing Requirements ("MFRs"), on November 20, 2003, the Company sent a revised notice per letter dated November 20, 2003. By letter dated November 24, 2003, Chairman Jaber granted the requested extension for the Company to file its MFRs and associated testimony by December 15, 2003. Accordingly, the Company is herewith filing its MFRs and the testimonies and exhibits of Jeffrey M. Householder, Brian J. Powers, and Melissa M. Powers.

SUMMARY OF PETITION

11. By this Petition, Indiantown Gas Company is seeking the Commission's approval of a permanent rate increase of \$306,757 on an annual basis, based on a projected calendar 2004 test year. The Company is also seeking interim rate relief of \$131,896 on an annual basis, based on the twelve-month historical test year ending December 31, 2002. The Company is not seeking an increase in its authorized rate of return on common equity, but is seeking the Commission's approval of rates based on the Company's currently approved rate of 11.5 percent. In its proposed rates and charges, the Company is proposing changes that will move the Company's rate structure toward a Straight Fixed Variable ("SFV") or Modified Fixed Variable ("MFV") rate design that has become commonly

accepted by the Federal Energy Regulatory Commission for use in the natural gas pipeline industry and that is becoming increasingly common in LDC rate design applications.

PERMANENT RATE INCREASE

13. As stated above, the Company is seeking the Commission's approval of new rates and charges that will increase the Company's permanent base rate revenues by \$306,757 annually. There are four principal reasons for the requested rate relief, as follows.

- a. The Company has experienced a dramatic loss in total gas throughput due to reduced consumption by its largest customer, Indiantown Cogeneration, L.P., and a corresponding loss in total base rate revenues.
- b. Changes in the natural gas industry since the Company's initial tariff was approved have resulted in new costs being incurred by the Company, which the Company now seeks authority to recover.
- c. The Company's rates are no longer sufficient or compensatory to the Company for the provision of safe, adequate, reliable, and efficient service. As compared to its Commission-established rate of return on equity of 11.5 percent, without rate relief, the Company's achieved rate of return on equity for the 2004 test year is projected to be -30.5 percent, that is, **negative** 30.5 percent.
- d. The Company's reduced revenues and earnings have caused the Company to defer the purchase or replacement of several needed capital items, while always focusing on maintaining safety.

INTERIM RATE INCREASE

14. The Company is seeking interim rate relief in the amount of \$131,896 on an annual basis, based on a calendar year 2002 historic test year. The requested interim rate relief is justified by the fact that the Company's rates are not sufficient and

compensatory in that they do not provide the Company with recovery of the costs of providing service, including a reasonable return on investment. The Company recognizes that, pursuant to Commission Rule 25-7.040(3), F.A.C., any interim rate relief authorized by the Commission and collected by the Company is subject to refund pending the entry of a final order disposing of the Company's request for permanent rate relief.

RATE DESIGN AND RATE STRUCTURE

15. As noted above, the Company is proposing structural changes in its rates to incorporate the primary elements of an SFV or MFV rate design. The proposed rates would collect a significant portion of the Company's proposed revenue requirement through an increase in the existing fixed monthly customer charges and, for larger customer accounts, through a new monthly demand charge. These proposed rates recognize that, in the absence of commodity (gas sales) costs being incurred by pipelines and LDCs, few cost components remain that actually vary with the volume of gas consumed.

DISPUTED ISSUES OF MATERIAL FACT

16. The Company is not aware of any disputed issues of material fact at this time. The Company believes that the following are the principal issues of fact that are to be determined in this proceeding.

- a. What is the appropriate rate base for the Company for ratemaking purposes?

- b. What are the appropriate expenses, including operation and maintenance expenses, for the Company for ratemaking purposes?
- c. What are the appropriate capital structure, rate of return on common equity, and overall rate of return on investment for the Company for ratemaking purposes?
- d. Are the Company's proposed rates and charges fair, just, reasonable, compensatory, and not unduly discriminatory?

ULTIMATE FACTS ALLEGED

17. The ultimate facts alleged that entitle the Company to the relief requested herein are set forth in paragraphs 1 through 15 above. The key facts that entitle the Company to relief are summarized below.

- a. The Company's proposed rate base of \$755,813 is fair, just, reasonable, and appropriate for ratemaking purposes, and fairly represents the Company's reasonable and prudent investment used and useful in providing service to its customers.
- b. The Company's proposed expenses of \$542,016, including operation and maintenance expenses of \$447,301, are fair, just, reasonable, and appropriate for ratemaking purposes.
- c. The Company's proposed capital structure, rate of return on equity of 11.5 percent, and overall rate of return of 10.09 percent are fair, just, reasonable, and appropriate for ratemaking purposes.
- d. The Company's proposed rates and charges are fair, just, reasonable, compensatory, and not unduly discriminatory.

REQUEST FOR DISPOSITION USING PROPOSED AGENCY ACTION PROCEDURE

18. The Company respectfully requests that the Commission process this Petition and using the Commission's proposed agency action procedure pursuant to Section 366.06(4), Florida Statutes.

19. Although under normal circumstances, a petitioner does not file testimony and exhibits when it is anticipated that the Commission will use the proposed agency action procedure, in accord with Commission Rule 25-7.039, F.A.C., the Company is filing with its Petition its complete MFRs and the testimonies and exhibits of Jeffrey M. Householder, Brian J. Powers, and Melissa M. Powers. By submitting its prefiled testimony, the Company does not imply that it believes a protest and hearing will be required in this case. Moreover, the Company specifically reserves its rights to submit additional testimony and exhibits following the issuance of a Proposed Agency Action order in the event such order is protested.

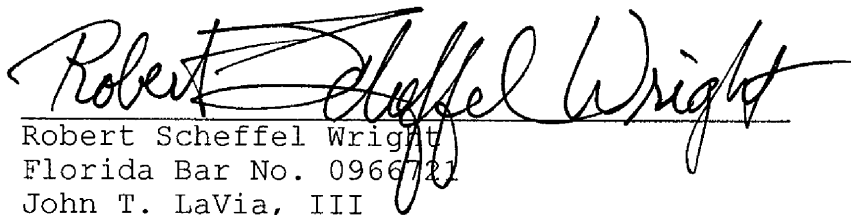
CONCLUSION AND PRAYER FOR RELIEF

20. In 33 years of being regulated by the Commission, Indiantown Gas Company has never before sought a general rate increase. Today, due to changes in the industry and due to changes in the operations of key customers on the Company's system, the Company's rates are no longer fair, just, reasonable, and compensatory in that they fail to provide the Company with recovery of its costs of its doing business and with the opportunity to earn a reasonable rate of return on investment. Accordingly, the Company seeks both interim and permanent rate relief. Also due to changes in the natural gas industry, the Company is proposing rates and charges that will recover more of the Company's costs, which are predominantly fixed and which vary only to a limited degree in relation to throughput volumes, via customer and demand charges.

21. The Company requests that the Commission's approval of the Company's requested interim rate relief be made effective for bills rendered on and after the date of the Commission vote approving same, and that the Commission's approval of the Company's requested permanent rate relief be made effective for bills rendered on and after the date of the Commission vote approving same, or as of such other dates as the Commission determines to be appropriate.

WHEREFORE, Indiantown Gas Company requests that the Commission GRANT this Petition and APPROVE the Company's request for interim rate relief, the Company's request for permanent rate relief, the continuation of the Company's currently authorized rate of return on equity of 11.5 percent, and the Company's proposed rate schedules.

Respectfully submitted this 15th day of December, 2003.



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CERTIFICATE OF SERVICE

Docket No. 030954-GU

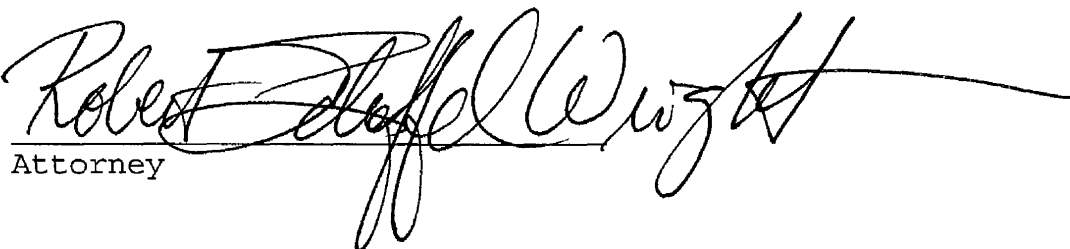
I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by hand delivery on this 15th day of December 2003, to the following:

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