State of Florida

Public Service Commission

CAPITAL CIRCLE OFFICE CENTER ● 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: July 25, 2024

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Accounting and Finance (Vogel, McGowan, Ferrer) ALM
Division of Economics (Hampson, Hudson) EJD
Office of the General Counsel (Dose, Farooqi) JSC

RE: Docket No. 20240046-GU – Petition for rate increase by St. Joe Natural Gas Company, Inc.

AGENDA: 08/06/24 – Regular Agenda – Decision on Interim Rates – Participation is at the Discretion of the Commission

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Fay

CRITICAL DATES: 08/06/24 (60-day provision of Section 366.071(2), F.S., waived by Company until 08/06/24)

SPECIAL INSTRUCTIONS: None

Case Background

On May 29, 2024, St. Joe Natural Gas Company, Inc. (SJNG or Company) filed a petition seeking Commission approval to increase rates and charges. SJNG provides sales and transportation of natural gas and is a public utility subject to the Commission's regulatory jurisdiction under Chapter 366, Florida Statutes (F.S.). SJNG currently serves approximately 3,186 residential and commercial customers in Gulf and Bay Counties. In its petition, SJNG requested an increase of $1,043,838 in additional gross annual revenues. The requested increase, according to SJNG, will provide the Company with an opportunity to earn an overall rate of return of 6.05 percent on the Company's plant and property used to serve its customers based on a midpoint return on equity of 11.00 percent. The Company based its request on a 13-month average rate base of $3,381,746 for the projected test year ending December 2024. SJNG is also proposing to restructure its residential service class to reduce stratification within the residential classes. Per Rule 25-7.140(1)(d), Florida Administrative Code (F.A.C.), SJNG has elected to use the five month Proposed Agency Action process authorized in Section 366.06(4) F.S.

SJNG's last approved rate case was in 2008 in Docket No. 20070592-GU.[1] More recently, in Docket No. 20230022-GU, the Commission approved new depreciation rates with an implementation date of January 1, 2023. Notably, in Docket No. 20160033-GU,[2] the Commission approved SJNG's request to reallocate the $285,011 annual revenue deficiency resulting from the permanent loss of its largest customer, the Arizona Chemical Company, to the remaining customer classes. Also, in Docket No. 20200039-GU,[3] the Commission approved a temporary storm cost recovery surcharge to deal with Hurricane Michael recovery.

The Utility stated that the key drivers for the proposed rate increase are: current rates not recovering its property tax expense or property insurance expense, increases to rate base associated with extensions to serve new customers, increasing operating expenses reflecting nearly 16 years of inflation, and increases in regulatory costs, particularly federal pipeline safety regulations.

In its petition, the Company also requested an interim rate increase of $612,209 based on a historic test year ended December 31, 2023. Section 366.071, F.S., addresses interim rates and procedures and requires the Commission to authorize within 60 days of a filing for an interim rate increase the collection of interim rates. On May 29, 2024, the Company waived the 60-day provision of Section 366.071(2), F.S., and agreed to defer implementation of the proposed interim rates until the issue is addressed at the scheduled August 6, 2024, Commission Conference.[4] This recommendation addresses the requested interim revenue increase and rates and the suspension of the Company's requested permanent rate increase. The Commission has jurisdiction over this request under Sections 366.06 and 366.071, F.S.

[1]Order No. PSC-2008-0436-PAA-GU, issued July 8, 2008, in Docket No. 20070592-GU, *In re: Petition for rate increase by St. Joe Natural Gas Company, Inc.*
[2]Order No. PSC-2016-0297-PAA-GU, issued July 27, 2016, in Docket No. 20160033-GU, *In re: Petition for limited proceeding to restructure rates by St. Joe Natural Gas Company, Inc.*
[3]Order No. PSC-2021-0196-AS-GU, issued June 3, 2021, in Docket No. 20200039-GU, *In re: Petition for approval to implement a temporary storm cost recovery surcharge, by St. Joe Natural Gas Company, Inc.*
[4]Document No. 04381-2024, filed May 30, 2024.

Discussion of Issues

Issue 1: Should the request for a permanent increase in rates and charges be suspended for SJNG?

Recommendation: Yes. Staff recommends that the requested permanent increase in rates and charges be suspended for SJNG. (Vogel)

Staff Analysis: Staff recommends that the requested permanent increase in rates and charges be suspended for SJNG to allow staff time to analyze the case. Pursuant to Section 366.06(3), F.S., the Commission may withhold consent to the operation of all or any portion of a new rate schedule, delivering to the utility requesting such a change, a reason, or written statement of good cause for doing so within 60 days. On May 29, 2024, the Company waived the 60-day provision of Section 366.071(2), F.S., and agreed to defer the file and suspend requirements until the issue is addressed at the scheduled August 6, 2024 Commission Conference.[5] Staff believes that the reasons stated above are good cause consistent with the requirements of Section 366.06(3), F.S.

[5]Document No. 04381-2024, filed May 30, 2024.

Issue 2: Is SJNG's proposed interim rate base appropriate?

Recommendation: No. The appropriate interim rate base for SJNG should be $3,166,968. (Vogel)

Staff Analysis: In its filing, the Company proposed an interim 13-month average rate base of $3,186,767 for the period ended December 31, 2023. Pursuant to Section 366.071(5)(a), F.S., the Company is permitted to elect either an average or year-end rate base to calculate its interim revenue request. Staff reviewed the rate base adjustments made in the current interim filing for consistency with the Commission-approved adjustments in SJNG's last rate case proceeding, where appropriate, as well as other applicable dockets.[6] Based on staff's review, it appears that the Company made applicable adjustments that are consistent with the prior Commission Orders. However, the Company made adjustments to plant and accumulated depreciation based on its non-utility allocation percentage from 2022. Therefore, staff recommends adjustments to decrease plant and accumulated depreciation by $58,773 and $38,974, respectively, to reflect non-utility allocation for the proper 2023 interim test year. As such, staff recommends that $3,166,968 is the appropriate amount of rate base for the historical interim test year ended December 31, 2023. The calculations are shown on Attachment A.

[6]Order No. PSC-2008-0436-PAA-GU.

Issue 3: Is SJNG's proposed interim return on equity and overall rate of return appropriate?

Recommendation: No. The appropriate return on equity for SJNG should be 10.00 percent and the overall cost of capital should be 4.81 percent for purposes of determining interim rates. (Vogel)

Staff Analysis: For purposes of its interim rate request, SJNG used an overall cost of capital of 5.46 percent based on a return on equity (ROE) of 11.00 percent. The Company reflected a capital structure for the 13-month average historical interim test year ended December 31, 2023. Staff believes several adjustments are necessary.

Pursuant to Section 366.071(2)(a), F.S., the appropriate ROE for purposes of determining an interim rate increase is the minimum of the Company's currently authorized ROE range. In its last rate case, SJNG's ROE midpoint was set at 11.00 percent, with a range of plus or minus 100 basis points. Therefore, staff recommends an ROE of 10.00 percent for the purpose of determining interim rates.

In the last rate case, the Commission made an adjustment to limit the Company's equity ratio to no more than 60 percent equity as a percentage of investor sources of capital.[7] In the present filing, SJNG's equity ratio exceeds 60 percent. Therefore, staff recommends making an adjustment to the capital structure to limit the equity ratio to 60 percent equity as a percentage of investor capital.

Additionally, MFR Schedule F-8 reflected total capital that was not equal to the rate base that staff is recommending. Therefore, staff made pro rata adjustments to the investor sources of capital to reconcile to rate base. These adjustments result in an overall cost of capital of 4.81 percent.

Staff recommends that the capital structure of SJNG for the historical interim 13-month average test year reflect an ROE of 10.00 percent, resulting in an overall cost of capital of 4.81 percent. Attachment B details the calculations of the overall cost of capital.

[7] Order No. PSC-2008-0436-PAA-GU.

Issue 4: Is SJNG's proposed interim test year net operating income appropriate?

Recommendation: No. The appropriate historical base year ended December 31, 2023, net operating income for SJNG should be negative $250,357. (Vogel)

Staff Analysis: The proposed net operating income for SJNG of negative $284,430 is the twelve-month amount for the historical interim test year ended December 31, 2023. Staff reviewed the net operating income adjustments made in the current interim filing for consistency with the Commission-approved adjustments in the last rate case proceeding, as well as other applicable dockets.[8] Based on staff's review, it appears that the Company made applicable adjustments that are consistent with the prior Commission Order. However, MFR Schedule F-4 failed to reflect the Company's adjustment to depreciation expense based on its non-utility allocation percentage. Therefore, staff is recommending an adjustment to reduce depreciation expense by $34,073 to reflect the appropriate 2023 allocation. Staff is also recommending adjustments to rate base in Issue 2 and cost of capital in Issue 3. These adjustments have fallout effects which have altered the proposed net operating income for SJNG.

Staff recommends that negative $250,357 is the appropriate amount of net operating income for the historical interim test year ended December 31, 2023. The calculations are shown on Attachment A.

[8]Order No. PSC-2008-0436-PAA-GU.

Issue 5: Is SJNG's proposed interim net operating income multiplier appropriate?

Recommendation: No. SJNG should be granted an interim net operating income (NOI) multiplier of 1.3503. (Vogel)

Staff Analysis: On MFR Schedule F-6, SJNG calculated an interim NOI multiplier of 1.3356 based on a revenue expansion factor of 74.8744 using a 21 percent federal income tax rate, a 4.458 percent state income tax rate, a 0.3 percent bad debt rate and a 0.5 percent factor for regulatory assessment fees. However, the appropriate state income tax rate for the interim test year should be 5.5 percent. Therefore, staff recommends that 1.3503 is the appropriate interim NOI multiplier. The calculations are shown below.

Table 5-1
Interim NOI Multiplier

Description	
Revenue Requirement	100.0000%
Regulatory Assessment Fee	-0.5000%
Bad Debt Rate	-0.3000%
Net Before Income Tax	99.2000%
State Income Tax @ 5.5%	-5.4175%
Federal Income Tax @ 21%	-19.6862%
Revenue Expansion Factor	74.0578%
NOI Multiplier (100/74.0578)	1.3503

Issue 6: Should SJNG's requested interim revenue increase be granted?

Recommendation: No. The appropriate interim revenue increase for SJNG should be $543,665. (Vogel)

Staff Analysis: SJNG requested interim rate relief of $612,209 for the historical test year ended December 31, 2013. As discussed in Issues 2, 3, 4, and 5, staff is recommending adjustments to the Company's rate base, cost of capital, NOI, and NOI multiplier. These adjustments result in fallout adjustments to the total interim revenue increase for SJNG. As such, staff recommends that the appropriate revenue increase is $543,665 for the historical test year ended December 31, 2023.

The interim revenue increases would allow SJNG an opportunity to earn an overall rate of return of 4.81 percent based on the minimum range of return on equity of 10.00 percent.

After a determination of the permanent rate increase has been made, the interim rate increase will be reviewed to determine if any portion should be refunded to customers. The calculation of interim rate relief is shown in Table 6-1.

Table 6-1
Interim Revenue Increase

Description	
Jurisdictional Adjusted Rate Base	$3,166,968
Overall Rate of Return	4.81%
Jurisdictional Net Operating Income	$152,268
Jurisdictional Adjusted Net Operating Income	($250,357)
Revenue Deficiency	$402,625
Net Operating Income Multiplier	1.3503
Interim Revenue Increase	$543,665
Base Rate Revenues	$1,293,560
Recommended Percentage Increase Factor	42.03%

Issue 7: Should SJNG's proposed interim rates and associated tariffs be approved?

Recommendation: No, SJNG's proposed interim rates and associated tariff should not be approved. If the staff-recommended adjustments are approved by the Commission, the Company should file a revised interim tariff for administrative approval by staff. The interim rates should be made effective for all meter readings occurring on or after thirty days from the date of the Commission vote. In addition, pursuant to Rule 25-22.0406(8), F.A.C., the Company should provide notice to customers of the revised rates. The notice must be approved in advance by staff and provided to the customers with the first bill containing the new rates. (Hampson)

Staff Analysis: As discussed in Issue 6, staff recommends adjustments to the interim revenue request by SJNG. Attachment C to the recommendation provides the allocation of the interim increase. Furthermore, Attachment C provides the resulting cents-per-therm increase to be applied to the rate classes to recover the staff-recommended interim revenue increase. These increases were calculated using the methodology contained in Rule 25-7.040, F.A.C., which requires that any increase be applied evenly across the board to all rate classes based on their base rate revenues.

The interim rates should be made effective for all meter readings occurring on or after thirty days from the date of the Commission vote. The Company included proposed interim tariff sheet No. 84 in its petition. If the staff-recommended adjustments are approved by the Commission, the Company should file a revised interim tariff for administrative approval by staff. Pursuant to Rule 25-22.0406(8), F.A.C., the Company should provide notice to customers of the revised rates. The notice must be approved in advance by staff and provided to the customers with the first bill containing the new rates.

Issue 8: What is the appropriate security to guarantee the amount subject to refund?

Recommendation: The appropriate security to guarantee the funds collected subject to refund is a corporate undertaking. (McGowan, Ferrer)

Staff Analysis: Staff recommends that all funds collected subject to refund be secured by a corporate undertaking. The criteria for a corporate undertaking include sufficient liquidity, ownership equity, profitability, and interest coverage to guarantee any potential refund. SJNG requested an interim revenue increase of $612,209. In Issue 6, staff recommends an interim revenue increase of $543,665. Based on an estimated eight-month collection period of interim rates, staff has calculated the maximum amount of revenues that may need to be protected is $364,256. Staff reviewed SJNG's three most recent annual reports filed with the Commission (2023, 2022, and 2021) to determine if the Company can support a corporate undertaking to guarantee the funds collected during the interim collection period. SJNG's financial information demonstrates the Company has acceptable levels of liquidity, ownership equity, and interest coverage to support a potential refund of $364,256.

Staff believes SJNG has adequate resources to support a corporate undertaking in the amount recommended in Issue 6. Based on this analysis, staff recommends that a corporate undertaking of $364,256 is acceptable. This brief financial analysis is only appropriate for deciding if the Company can support a corporate undertaking in the amount requested and should not be considered a finding regarding staff's position on other issues in this proceeding.

Issue 9: Should this docket be closed?

Recommendation: No. This docket should remain open to process the revenue increase request of the Company. (Dose)

Staff Analysis: This docket should remain open pending the Commission's final resolution of the Company's requested rate increase.

ST. JOE NATURAL GAS COMPANY, INC.
Docket No. 20240046-GU
Interim Base Year
December 31, 2023

	Adjusted Base Year Per Company	Adjustments	Adjusted Base Year Per Staff
Rate Base			
Plant in Service	$9,253,814	-	$9,253,814
Common Plant Allowed	(216,805)	(58,773)	(275,578)
Accumulated Depreciation	(6,055,109)	38,974	(6,016,135)
Net Plant in Service	$2,981,900	(19,799)	$2,962,101
Construction Work In Progress	158,646	-	158,646
Net Utility Plant	$3,140,546	(19,799)	$3,120,747
Working Capital Allowance	46,221	-	46,221
Total Rate Base	$3,186,767	(19,799)	$3,166,968
Income Statement			
Operating Revenues	$1,652,727	-	$1,652,727
Operating Expenses:			
Operation & Maintenance	$1,379,944	-	$1,379,944
Depreciation & Amortization	381,751	(34,073)	347,678
Taxes Other Than Income	175,462	-	175,462
Income Taxes - Federal	-	-	-
Income Taxes - State	-	-	-
Total Operating Expenses	$1,937,157	($34,073)	$1,903,084
Net Operating Income	($284,430)	$34,073	($250,357)
Overall Rate of Return	-8.93%		-7.91%

ST. JOE NATURAL GAS COMPANY, INC.
Docket No. 20240046-GU
Interim Base Year
December 31, 2023

Capital Component	Jurisdictional Capital Structure	Cost Ratio	Rate	Weighted Cost Rate
Long-Term Debt	$49,019	1.55%	6.50%	0.10%
Long-Term Debt – Shoaf Family	653,242	20.63%	6.50%	1.34%
Customer Deposits	64,115	2.02%	2.00%	0.04%
Common Equity	1,053,392	33.26%	10.00%	3.33%
Deferred Income Taxes	937,870	29.61%	0.00%	0.00%
Deferred Credits – FCPC & GCI	409,330	12.92%	0.00%	0.00%
Total	$319,224,069	100.00%		4.81%

Calculation Of Interim Rate Relief - Deficiency Allocation
Including Staff Recommended Adjustments
Year Ended 12/31/23

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Line No.	Rate Schedule	Bills	Therm Sales	Customer Charge	Delivery Charge	Total (4+5)	Dollar Increase	Percent Increase	Cents Per Therm Increase
1	RS-1	13,785	98,200	$179,192	$124,365	$303,557	$127,580	42.03%	$1.2992
2	RS-2	13,932	169,748	223,036	149,354	372,390	156,510	42.03%	0.9220
3	RS-3	8,151	168,591	163,163	121,807	284,970	119,769	42.03%	0.7104
4	GS-1	1,930	132,929	38,590	84,417	123,007	51,698	42.03%	0.3889
5	GS-2	412	209,923	29,260	91,068	120,328	50,572	42.03%	0.2409
6	GS-4	12	95,847	24,000	15,182	39,182	16,468	42.03%	0.1718
7	TS-4	12	164,934	24,000	26,126	50,126	21,067	42.03%	0.1277
8	Total	38,234	1,040,172	$681,241	$612,319	$1,293,560	$543,665	42.03%	$0.5227