

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for rate increase by St. Joe
Natural Gas Company, Inc.

DOCKET NO. 20240046-GU
ORDER NO. PSC-2024-0379-PCO-GU
ISSUED: August 28, 2024

The following Commissioners participated in the disposition of this matter:

MIKE LA ROSA, Chairman
ART GRAHAM
GARY F. CLARK
ANDREW GILES FAY
GABRIELLA PASSIDOMO

ORDER SUSPENDING FINAL RATES
AND GRANTING INTERIM RATES

BY THE COMMISSION:

Background

On May 29, 2024, St. Joe Natural Gas Company, Inc. (SJNG or Company) filed a petition seeking our approval to increase rates and charges. SJNG provides sales and transportation of natural gas and is a public utility subject to our 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, we approved new depreciation rates with an implementation date of January 1, 2023. Notably, in Docket No. 20160033-GU,² we approved SJNG's request to reallocate the \$285,011 annual revenue deficiency resulting from the

¹Order 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.*

²Order 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.*

permanent loss of its largest customer, the Arizona Chemical Company, to the remaining customer classes. Also, in Docket No. 20200039-GU,³ we 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 us 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 could be addressed at the scheduled August 6, 2024, Commission Conference.⁴ Due to Tropical Storm Debby, the Commission Conference scheduled for August 6, 2024, was rescheduled to August 8, 2024. This order addresses the requested interim revenue increase and rates and the suspension of the Company's requested permanent rate increase. We have jurisdiction over this request under Sections 366.06 and 366.071, F.S.

Decision

I. Suspension of Permanent Rates

The requested permanent increase in rates and charges shall be suspended for SJNG to allow our staff time to analyze the case. Pursuant to Section 366.06(3), F.S., we 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 could be addressed at the scheduled August 6, 2024 Commission Conference.⁵ Due to Tropical Storm Debby, the Commission Conference scheduled for August 6, 2024, was rescheduled to August 8, 2024. We find that the reasons stated above are good cause consistent with the requirements of Section 366.06(3), F.S.

II. Interim Rate Base

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

³Order 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.*

⁴Document No. 04381-2024, filed May 30, 2024.

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

request. We 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 our review, it appears that the Company made applicable adjustments that are consistent with our prior orders. However, the Company made adjustments to plant and accumulated depreciation based on its non-utility allocation percentage from 2022. Therefore, we shall make 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, \$3,166,968 is the appropriate amount of rate base for the historical interim test year ended December 31, 2023. The calculations are shown in Attachment A to this order.

III. Interim Return on Equity

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. 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, we find that an ROE of 10.00 percent is appropriate for the purpose of determining interim rates.

In the last rate case, we 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, we find that an adjustment to the capital structure to limit the equity ratio to 60 percent equity as a percentage of investor capital is appropriate.

Additionally, MFR Schedule F-8 reflected total capital that was not equal to the rate base that we determined. Therefore, we 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.

We find that the capital structure of SJNG for the historical interim 13-month average test year shall reflect an ROE of 10.00 percent resulting in an overall cost of capital of 4.81 percent. Attachment B to this order details the calculations of the overall cost of capital.

IV. Interim Test Year Net Operating Income

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. We reviewed the net

⁶Order No. PSC-2008-0436-PAA-GU.

⁷Order No. PSC-2008-0436-PAA-GU.

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 our review, it appears that the Company made applicable adjustments that are consistent with our prior order. However, MFR Schedule F-4 failed to reflect the Company's adjustment to depreciation expense based on its non-utility allocation percentage. Therefore, we shall make an adjustment to reduce depreciation expense by \$34,073 to reflect the appropriate 2023 allocation. We also made adjustments to rate base in Section II and cost of capital in Section III. These adjustments have fallout effects which have altered the proposed net operating income for SJNG.

We find 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 in Attachment A to this order.

V. Interim Net Operating Income (NOI) Multiplier

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 is 5.5 percent. Therefore, we find that 1.3503 is the appropriate interim NOI multiplier. The calculations are shown below.

Table 1
Interim NOI Multiplier

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

VI. Interim Revenue Increase Request

SJNG requested interim rate relief of \$612,209 for the historical test year ended December 31, 2023. As discussed in Sections II, III, IV, and V, we made 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, we find that the appropriate revenue increase is \$543,665 for the historical test year ended December 31, 2023.

⁸Order No. PSC-2008-0436-PAA-GU.

The interim revenue increases 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 2.

Table 2
Interim Revenue Increase

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

VII. Interim Rates and Associated Tariffs

As discussed in Section VI, we made adjustments to the interim revenue request by SJNG. Attachment C to this order 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 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 shall be made effective for all meter readings occurring on or after thirty days from the date of our vote. The Company included proposed interim tariff sheet No. 84 in its petition. The Company shall file a revised interim tariff for administrative approval by our staff. Pursuant to Rule 25-22.0406(8), F.A.C., the Company shall provide notice to customers of the revised rates. The notice must be approved in advance by our staff and provided to the customers with the first bill containing the new rates.

VIII. Security to Guarantee Amount Subject to Refund

We find that all funds collected subject to refund shall 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 Section VI, we found an interim revenue increase of \$543,665. Based on an estimated eight-month collection period of interim rates, we calculated the maximum amount of revenues that may need to be protected is \$364,256. We reviewed

SJNG's three most recent annual reports filed with us (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.

SJNG has adequate resources to support a corporate undertaking in the amount found in Section VI. Based on this analysis, we find 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 shall not be considered a finding regarding our position on other issues in this proceeding.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that St. Joe Natural Gas Company, Inc.'s requested permanent rate increase is suspended pending further review. It is further

ORDERED that the appropriate interim rate base for St. Joe Natural Gas Company, Inc. shall be \$3,166,968. It is further

ORDERED that the appropriate return on equity for St. Joe Natural Gas Company, Inc. shall be 10.00 percent and the overall cost of capital shall be 4.81 percent for purposes of determining interim rates. It is further

ORDERED that the appropriate historical base year ended December 31, 2023, net operating income for St. Joe Natural Gas Company, Inc. shall be negative \$250,357. It is further

ORDERED that St. Joe Natural Gas Company, Inc. shall be granted an interim net operating income multiplier of 1.3503. It is further

ORDERED that the appropriate interim revenue increase for St. Joe Natural Gas Company, Inc. shall be \$543,665. It is further

ORDERED that St. Joe Natural Gas Company, Inc. shall file a revised interim tariff for administrative approval by our staff. The interim rates shall be made effective for all meter readings occurring on or after thirty days from the date of our vote, August 8, 2024. In addition, pursuant to Rule 25- 22.0406(8), F.A.C., the Company shall provide notice to customers of the revised rates. The notice must be approved in advance by our staff and provided to the customers with the first bill containing the new rates. It is further

ORDERED that the Company shall furnish a corporate undertaking subject to refund in the amount of \$364,256. It is further

ORDERED that this docket shall remain open pending our final resolution of the Company's requested rate increase.

By ORDER of the Florida Public Service Commission this 28th day of August, 2024.



ADAM J. TEITZMAN
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399
(850) 413-6770
www.floridapsc.com

Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

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The Florida Public Service Commission is required by Section 120.569(1), 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.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

Any party adversely affected by this order suspending the permanent rates, which is preliminary, procedural or intermediate in nature, may request: (1) reconsideration within 10 days pursuant to Rule 25-22.0376, Florida Administrative Code; or (2) judicial review by the Florida Supreme Court, in the case of an electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or wastewater utility. A motion for reconsideration shall be filed with the Office of Commission Clerk, in the form prescribed by Rule 25-22.0376, Florida Administrative Code. Judicial review of a preliminary, procedural or intermediate ruling or order is available if review of the final action will not provide an adequate remedy. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.

Any party adversely affected by this order approving interim rates, which is non-final in nature, may request (1) reconsideration within 10 days pursuant to Rule 25-22.0376, Florida Administrative Code, or (2) judicial review by the Florida Supreme Court, in the case of an

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electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or wastewater utility. A motion for reconsideration shall be filed with the Office of Commission Clerk, in the form prescribed by Rule 25-22.0376, Florida Administrative Code. Citizens of the State of Florida v. Mayo, 316 So.2d 262 (Fla. 1975), states that an order on interim rates is not final or reviewable until a final order is issued. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.

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

	Adjusted Base		Adjusted Base
	Year Per Company	Adjustments	Year Per Commission
<u>Rate Base</u>			
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
<u>Income Statement</u>			
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 Commission Approved 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	<u>38,234</u>	<u>1,040,172</u>	<u>\$681,241</u>	<u>\$612,319</u>	<u>\$1,293,560</u>	<u>\$543,665</u>	<u>42.03%</u>	<u>\$0.5227</u>