

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition for limited ) DOCKET NO. 970115-GU  
proceeding to restructure rates ) ORDER NO. PSC-97-0526-FOF-GU  
by St. Joe Natural Gas Company, ) ISSUED: May 7, 1997  
Inc. )  
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The following Commissioners participated in the disposition of this matter:

JULIA L. JOHNSON, Chairman  
SUSAN F. CLARK  
J. TERRY DEASON  
JOE GARCIA  
DIANE K. KIESLING

NOTICE OF PROPOSED AGENCY ACTION  
ORDER APPROVING RATE RESTRUCTURING FOR  
ST. JOE NATURAL GAS COMPANY, INC.

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

St. Joe Natural Gas Company ("St. Joe" or the "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 this Commission obtained jurisdiction over St. Joe in 1962. In 1983, we revised St. Joe's rates from a step-type rate to a flat rate, with no change in revenue.

In Docket No. 960930-GU, we 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 stated that a petition by St. Joe to restructure rates would have no impact on the approved proposal as long as the resulting rate changes would have no effect on the Company's total revenues.

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

On January 27, 1997, St. Joe filed a Petition for Limited Proceeding to Restructure Rates (Petition). On March 13, 1997, a customer meeting was held 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. Generally, customers understood the need for the rate restructuring, but most viewed the rate adjustment as too large for the residential and commercial classes.

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 Company (SJFPC) has been St. Joe's largest customer. 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 Company's revenues. In 1991, St. Joe and SJFPC entered into a service contract in which 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, SJFPC was purchased by Florida Coast Paper Company (FCPC). 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 SJFPC. As a result, FCPC has decreased its gas usage by approximately 50 percent of the contract amount. In addition, FCPC has notified St. Joe that it will no longer assume liability for \$120,000 in Florida Gas Transmission demand charges. In the event FCPC is determined not to 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 its 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's 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. The average residential rate 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. The average commercial rate 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. The average large commercial rate 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 its rates to reflect the actual cost to serve each rate class.

Under the proposed rate restructuring, each rate class would 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. Under the proposed rates, all rate classes should produce an equal rate of return. We note that the Company will be held revenue neutral in the proposed rate restructuring.

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

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 our approval of St. Joe's petition for restructured rates, Intervals I, II, and III would begin on May 21 of 1997, 1998, and 1999, respectively.

We find that St. Joe's petition to restructure rates should be approved for several reasons. First, the new rates will be phased-in by intervals over a two-year period, thus minimizing the immediate impact on customers. Second, cross-subsidization will be minimized as each customer class pays rates that reflect the actual cost of service. Third, rate restructuring will help St. Joe retain natural gas throughput on its system, thus spreading fixed costs over a greater throughput. Finally, St. Joe residential and commercial rates will continue to be among the lowest in the state.

The effective dates for implementation of the rate restructuring shall be those dates proposed in St. Joe's petition, as shown in the table above. St. Joe has proposed these dates to coincide with its meter reading and billing cycle, and we find this reasonable.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the petition of St. Joe Natural Gas Company for rate restructuring is granted for the reasons stated in the body of this Order. It is further

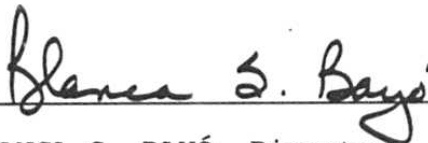
ORDERED that the effective dates for implementation of the rate restructuring shall be those dates proposed in St. Joe's petition, as stated in the body of this Order. It is further

ORDERED that if a person whose substantial interests are affected by this proposed agency action files a protest within 21 days of the issuance of this Order, the approved rates shall remain in effect, with any increase held subject to refund pending resolution of the protest. It is further

ORDERED that if no person whose substantial interests are affected by this proposed agency action files a protest within 21 days of the issuance of this Order, this Order shall become final and effective, and this Docket shall be closed.

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By ORDER of the Florida Public Service Commission, this 7th  
day of May, 1997.

  
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BLANCA S. BAYÓ, Director  
Division of Records and Reporting

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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.

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on May 28, 1997.

In the absence of such a petition, this order shall become effective on the day subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

If this order becomes final and effective on the date described above, any party substantially affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.