FILED JUL 27, 2016
DOCUMENT NO. 05626-16
FPSC - COMMISSION CLERK

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for limited proceeding to restructure rates by St. Joe Natural Gas Company, Inc.	DOCKET NO. 160033-GU ORDER NO. PSC-16-0297-PAA-GU ISSUED: July 27, 2016

The following Commissioners participated in the disposition of this matter:

JULIE I. BROWN, Chairman
LISA POLAK EDGAR
ART GRAHAM
RONALD A. BRISÉ
JIMMY PATRONIS

NOTICE OF PROPOSED AGENCY ACTION
ORDER GRANTING ST. JOE NATURAL GAS COMPANY, INC.'S REQUEST TO RESTRUCTURE RATES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission (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 (F.A.C.).

Background

On February 12, 2016, St. Joe Natural Gas Company, Inc. (St. Joe) filed a request for approval to restructure its rates to address a shortfall in revenues due to the permanent loss of its largest and only industrial customer, the Arizona Chemical Company. St. Joe is a gas utility subject to the regulatory jurisdiction of this Commission pursuant to Section 366.06, Florida Statutes (F.S.).

St. Joe filed its petition as a request for a limited proceeding pursuant to Section 366.076, F.S., and Commission Rule 25-7.0391, F.A.C., and requested that the petition be processed using this Commission's proposed agency action procedure pursuant to subsection 366.06(4), F.S. On March 10, 2016, St. Joe agreed to waive the 60-day statutory file and suspend date for the proposed tariff revisions submitted with its petition pursuant to subsection 366.06(3), F.S.

We have approved rate restructurings for gas utilities in limited proceedings filed using the proposed agency action procedure on prior occasions. In 1987, this Commission approved the reallocation of West Florida Natural Gas Company's revenue shortfall resulting from reduced

sales to interruptible industrial customers.[1] In 2002, this Commission approved Indiantown Gas Company's rate restructuring to more closely align the rates of customers with the costs to serve them, and to help ensure the retention of load associated with two large industrial customers.[2]

We approved St. Joe's current rates in 2008.[3] In the instant petition, St. Joe is not requesting any changes to the total revenue requirement, operating expenses, rate base, or cost of capital that were approved in the 2008 rate case proceeding. Rather, St. Joe seeks only to have its rates restructured so that it will be able to achieve the revenues that were authorized in that proceeding. Specifically, St. Joe requests to reallocate the $285,011 annual revenue deficiency sustained from the loss of Arizona Chemical Company (Arizona) to the remaining customer classes according to the ratio that each class's revenues had to total revenues authorized in the 2008 rate case, minus Arizona's revenue contribution.

During the evaluation of the petition, Commission staff issued a data request to St. Joe for which a response was received on March 24, 2016. A customer meeting was convened on April 11, 2016, in Port St. Joe to hear and respond to customer testimony and questions related to the utility's petition. Three customers provided comments at the customer meeting. This Commission has jurisdiction over this matter pursuant to Section 366.06, F.S.

Decision

The proposed revenue neutral restructured rates are intended to recover no more revenues than were approved in St. Joe's 2008 rate case proceeding. St. Joe seeks approval only for revisions to its residential and commercial gas delivery service rates, which recover St. Joe's costs to own and operate its distribution system. Customers also pay a customer charge and a purchased gas adjustment factor which are not affected by this proposal.

St. Joe currently serves approximately 2,954 residential and commercial customers in Port St. Joe, Mexico Beach, Wewahitchka, and unincorporated areas of Gulf County, Florida. In St. Joe's 2008 rate case proceeding, the Commission identified industrial customer Arizona as being potentially at risk regarding its ability to continue operations.[4]

For business reasons outside of St. Joe's control, Arizona closed its operations in 2009. Arizona was the only customer taking service under St. Joe's FTS-5 rate schedule and at the time

[1] Order No. 17664, issued June 5, 1987, in Docket No. 870277-GU, In re: Petition of West Florida Natural Gas Company for a limited proceeding to restructure rates. West Florida Natural Gas Company merged with Tampa Electric Company d/b/a Peoples Gas System in 1997. See Order No. PSC-97-1530-FOF-GU, issued December 8, 1997, in Docket No. 971134-GU, In re: Request for acknowledgment of change in name from West Florida Natural Gas Company to Tampa Electric Company d/b/a Peoples Gas System, due to June 30, 1997 merger of West Florida with Tampa Electric Company.
[2] Order No. PSC-02-1666-PAA-GU, issued November 26, 2002, in Docket No. 020470-GU, In re: Request for limited proceeding by Indiantown Gas Company for approval of Natural Gas Tariff, Original Volume No. 2, implementing restructured rates.
[3] Order No. PSC-08-0436-PAA-GU, issued July 8, 2008, in Docket No. 070592-GU, In re: Petition for rate increase by St. Joe Natural Gas Company, Inc.
[4] Id. at 14.

of the 2008 rate case, Arizona represented approximately 77 percent of St. Joe's gas throughput and 20 percent of its total revenues.[5] Due to the closure of Arizona, St. Joe stated that it no longer has any customers taking service under the FTS-5 rate schedule and has received no revenues from this rate class since 2009. St. Joe stated that as a result of Arizona's closure, it receives annual revenues that are $285,011 less than the revenues approved by this Commission in Order No. PSC-08-0436-PAA-GU.

As a result of general economic conditions since 2008, the number of St. Joe's residential and commercial customers and their therm usage has not changed significantly. During the 2008 rate case, St. Joe provided testimony that a proposed new development (Windmark II) had the potential to lead to new customer growth.[6] However, in response to Commission staff's data request in the instant docket, St. Joe stated that due to the recession, the Windmark II development has been scaled back from approximately 1,500 residential units to a residential subdivision of 130 lots. St. Joe also stated that to date there are approximately 38 residential homes built in Windmark II, of which 30 are currently natural gas customers of the utility. Finally, St. Joe further stated that it chose to defer seeking rate relief until the instant docket due to the loss of jobs in the community caused by the closing of Arizona and the loss of residential customers' homes as a result of the mortgage crisis.

Comparison of Limited Proceeding versus Standard Rate Case Proceeding

St. Joe asserts that filing the instant petition as a limited proceeding is advantageous because it offers the opportunity for efficient resolution of a rate relief issue that is limited in scope and benefits customers by avoiding the expenses associated with a full and lengthy rate case. This Commission approved $55,003 in rate case expense in St. Joe's last rate case proceeding.[7] In its response to Commission staff's data request, St. Joe stated that it had incurred approximately $10,000 in expenses to date in the instant limited proceeding. However, it should be noted that St. Joe is not seeking to recover any costs associated with this filing from its customers. Therefore, St. Joe's assertion that filing the instant petition as a limited proceeding is preferable to a regular rate case filing is reasonable.

Customer Meeting

Commission staff conducted a customer meeting in Port St. Joe, Florida, on April 11, 2016. Three customers provided comments for the record. The first speaker expressed objections to the increased gas delivery service rates that would result from the proposed rate restructuring; the customer suggested that the proposed increase was inappropriate since returns on bank money market accounts were so low. The customer also suggested that increases to gas rates could cause customers to convert to all-electric homes. The second speaker suggested that St. Joe take a more proactive role to solicit new customers to help in recovering the revenue shortfall from the loss of Arizona. The third speaker suggested that in general the increase appeared to be

[5] Id., pp. 13-14.
[6] Id., p. 6.
[7] Id., pp. 10-11.

reasonable when one considered that the last increase was eight years ago. Customers did not state any quality of service complaints. No written comments were received in the docket file.

Evaluation of Proposed Rate Restructuring

To recover the $285,011 annual revenue deficiency caused by the loss of Arizona, St. Joe proposes to reallocate the revenue deficiency to the remaining customer classes according to the ratio that each class's revenues had to total revenues authorized in the 2008 rate case, minus Arizona's revenue contribution. The proposed rate restructuring would result in increases to the gas delivery service rates under residential rate schedules RS-1, RS-2, and RS-3, and commercial rate schedules GS-1, GS-2, GS-4, FTS-1, FTS-2, and FTS-4.[8]

Restructuring Methodology

In schedules provided in support of the current petition, St. Joe established its starting point for the rate restructuring presentation by providing our approved rate base, revenues, expenses, and rate of return from the 2008 rate case. St. Joe removed the revenues attributable to Arizona and then determined the percentage that each rate schedule comprised of the remaining system revenues. These percentages then were used to reallocate the annual Arizona-related revenues of $285,011 proportionately among the other rate schedules. To illustrate the calculation for one rate class, in the 2008 rate case the rates for the RS-1 rate schedule were set to provide 18.63 percent of total revenues excluding Arizona. Thus, the RS-1 rate schedule is now allocated $53,099 ($285,011 x 18.63%) of the Arizona-related revenues. The same methodology was used to reallocate the expenses and taxes associated with Arizona proportionately among the other rate schedules; therefore, the proposed post-restructuring rate of return on investment of 5.44 percent is equal to the rate of return approved for St. Joe in the 2008 rate case.

In response to Commission staff's data request, St. Joe confirmed that the total rate base associated with serving Arizona was $7,849 and that this amount was retired from the company's rate base in January 2010; therefore, the company no longer earns a return on that amount. We find that the impact of this retirement on St. Joe's rate base and its rate of return on investment is de minimis. St. Joe further stated that it has not realized any material savings in operation and maintenance costs as a result of no longer serving Arizona. This is due to the close proximity of Arizona's facilities to St. Joe's natural gas main and the fact that St. Joe provided service to Arizona through only three meters with less than 50 feet of dedicated pipeline.

St. Joe also provided schedules in support of its petition indicating that in the absence of rate relief, the utility forecasts that it will have a negative net operating income and negative return on common equity. This assertion is consistent with information provided in St. Joe's Earnings Surveillance Report (ESR) for the twelve months ending December 31, 2015, in which

[8] This Commission approved the elimination of the GS-3 and FTS-3 rate schedules in Order No. PSC-11-0396-TRF-GU, issued September 21, 2011, in Docket No. 110241-GU, In re: Petition by St. Joe Natural Gas Company, Inc. to reorganize the applicability of general service rate schedules and eliminate the GS-3 rate schedule.

St. Joe reported a net operating income for the year of ($111,647). Our calculation of St. Joe's return on common equity based on information provided in the ESR is (11.03) percent.

Customer Impacts

All of St. Joe's residential customers are retail sales customers. Commercial customers may elect either sales or transportation service. Commercial sales customers receive their gas supply directly from St. Joe and take service under the GS rate schedules. Transportation customers arrange for the purchase of the gas through a gas marketer and take service under the FTS rate schedules. The base rate charges are the same for commercial sales and transportation customers. At this time, all of St. Joe's commercial customers are retail sales customers with the exception of one transportation customer that takes service under the FTS-4 rate schedule. A comparison of St. Joe's current and proposed gas delivery service rates is shown in Table 1 below. The rates shown in Table 1 do not include the cost of the gas itself.

Table 1
Comparison of Current and Approved Delivery Service Rates

Rate Schedule	Annual Usage (Therms)	Current Delivery Rate (Cost per Therm)	Approved Delivery Rate (Cost per Therm)
RS-1	Less than 150	$0.70441	$1.29614
RS-2	150 – 299	$0.56729	$0.87058
RS-3	300 or more	$0.50381	$0.72859
GS-1/FTS-1	Less than 2,000	$0.43981	$0.66605
GS-2/FTS-2	2,000 – 87,500	$0.31801	$0.42319
GS-4/FTS-4	87,500 – 1,000,000	$0.11749	$0.15840

Source: St. Joe Petition Schedule 5.

The impact to a typical customer bill of the proposed rates is shown for each rate schedule in Table 2 below. For all rate schedules shown with the exception of FTS-4, the bills listed include the customer charge, gas delivery service charge, and St. Joe's current gas cost of $0.55 per therm. The bill for rate schedule FTS-4 does not include the cost of gas because the customer is a transportation service customer. St. Joe does not currently have any customers taking service under rate schedules GS-4, FTS-1, or FTS-2. The bills do not include conservation costs, utility taxes, franchise fees, or gross receipts taxes.

Table 2
Comparison of Typical Current and Proposed Monthly Bills

Rate Schedule	Average Monthly Usage (Therms)	Current Monthly Bill	Proposed Monthly Bill
RS-1	8	$23.04	$27.77
RS-2	18	$36.11	$41.57
RS-3	31	$52.67	$59.64
GS-1	34	$53.65	$61.35
GS-2	481	$487.51	$538.11
FTS-4	31,000	$5,642.19	$6,910.37

Source: St. Joe Petition Schedule 5.

For purposes of comparison, Table 3 below shows the dollar and percentage increases in typical bills approved in this order for each rate schedule, as compared to the increases approved by this Commission in St. Joe's 2008 rate case. As the table shows, the resultant bill increases proposed in this docket would be less than the increases approved in the 2008 rate case for all rate schedules.

Table 3

Comparison of 2016 vs. 2008 Increases in Typical Monthly Bills

Rate Schedule	2008 Increase	2008 Percentage Increase	2016 Increase	2016 Percentage Increase
RS-1	$6.59	34.54%	$4.73	20.55%
RS-2	$10.36	32.70%	$5.46	15.12%
RS-3	$14.81	30.82%	$6.97	13.23%
GS-1	$13.00	25.08%	$7.70	14.34%
GS-2	$83.56	14.87%	$50.60	10.38%
FTS-4	$2,133.98	60.83%	$1,268.18	22.48%

Sources: St. Joe Petition Schedule 5, and Order No. PSC-08-0436-PAA-GU, Schedule 5.

St. Joe's FTS-5 Rate Schedule

The rates in the FTS-5 rate schedule under which Arizona formerly took service were established in the 2008 rate case based on Arizona's estimated cost to bypass St. Joe's system. This proposed target revenue for the FTS-5 rate schedule enabled St. Joe to retain Arizona as a customer, who even at reduced rates, made contributions to the recovery of St. Joe's fixed costs.

The FTS-5 rate schedule is applicable to transportation customers whose annual volumes are 1 million therms or more; there are no customers taking service under this rate schedule at the present time. St. Joe did not request any changes to its FTS-5 rate schedule in its current petition and we are not approving any changes at this time. However, in the event that a new customer desires to take service under the FTS-5 rate schedule, St. Joe shall file documentation with this Commission to illustrate that the tariff rate is adequate to recover the cost to serve the new customer.

Conclusion

The approved revenue neutral restructured rates are intended to recover no more revenues than were approved in St. Joe's 2008 rate case proceeding. The post-restructuring rate of return on investment of 5.44 percent is equal to the rate of return approved for St. Joe in the 2008 rate case. Based on our review of the 2008 rate case proceedings and the information provided in this docket, St. Joe's proposed rate restructuring reasonable.

We hereby approve St. Joe's request for rate restructuring and the associated rates as shown in Table 1 of this order. The restructured rates shall become effective for meter readings on or after August 7, 2016. Within 10 days of this Commission's vote, St. Joe shall submit revised tariff sheets reflecting the changes to the gas delivery service rates for administrative approval by Commission staff. Pursuant to Rule 25-22.0406(8), F.A.C., customers shall be notified of the revised rates in their first bill containing the new rates. St. Joe shall submit a copy of the notice to Commission staff for approval prior to its use. If in the future another customer desires to take service under St. Joe's FTS-5 rate schedule, St. Joe shall file documentation with the Commission Clerk which shows that the tariff rate is adequate to recover the cost to serve the new customer.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that St. Joe Natural Gas Company's request for rate restructuring is hereby approved. It is further

ORDERED that within 10 days of this Commission's vote, St. Joe Natural Gas Company, Inc. shall submit revised tariff sheets reflecting the approved rate restructuring to Commission staff for approval. It is further

ORDERED that St. Joe Natural Gas Company, Inc. shall submit a proposed customer notice to Commission staff for approval. The customers shall be notified of the revised rates in their first bill containing the new rates, and St. Joe shall provide proof of the date notice was given within 10 days of the date of the notice. It is further

ORDERED that the approved restructured rates shall become effective for meter readings on or after August 7, 2016. It is further

ORDERED that should any customer desire to take service under St. Joe Natural Gas Company, Inc.'s FTS-5 rate schedule, St. Joe Natural Gas Company, Inc. shall file

documentation with the Commission Clerk which shows that the tariff rate is adequate to recover the cost to serve the new customer. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that in the event this Order becomes final, this docket shall remain open for Commission staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by Commission staff. When the tariff and notice actions are complete, this docket may be closed administratively.

By ORDER of the Florida Public Service Commission this 27th day of July, 2016.

Hong Wang

HONG WANG
Chief Deputy 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.

KRM

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 that is available under Section 120.57, 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 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. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on August 17, 2016.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

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