

FLORIDA PUBLIC SERVICE COMMISSION

Fletcher Building
101 East Gaines Street
Tallahassee, Florida 32399-0850

M E M O R A N D U M

June 9, 1994

TO : DIVISION OF RECORDS AND REPORTING (BAYO) *gld* *n ppe* *Chly*

FROM: DIVISION OF ELECTRIC AND GAS (GING, BULECZA-BANKS, MAKIN, MILLS, MCCORMICK) *gld* *n ppe* *Chly*

DIVISION OF AUDITING AND FINANCIAL ANALYSIS (BRAND, SLEMKEWICZ) *JS DM* *gld* *n ppe* *Chly* *JEB*

DIVISION OF LEGAL SERVICES (ERSTLING) *gld* *n ppe* *Chly* *JDT* *gld*

RE : DOCKET NO. [REDACTED] - PETITION OF ST. JOE NATURAL GAS COMPANY, INC. FOR INCLUSION OF INVESTMENT IN WEWAHITCHKA EXPANSION PROJECT IN ITS RATE BASE

AGENDA: JUNE 21, 1994 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: I:\PSC\EAG\WP\940548.RCM

BACKGROUND

St. Joe Natural Gas Company (SJNG) is a local gas distributor that serves approximately 3,090 residential, commercial, and industrial customers in the City of Port St. Joe, Mexico Beach, and unincorporated areas of Gulf County. SJNG has not petitioned for rate relief since 1967. However, since 1967, the Commission has reduced SJNG's rates twice due to over earnings.

SJNG has one very large industrial customer, St. Joe Paper Company. This company takes approximately 66 percent of SJNG's volumes equating to a 75 percent contribution to revenues.

Until 1988, SJNG provided gas service to St. Joe Paper under a negotiated rate. While the two entities were satisfied with the negotiated rate, the revenues received from St. Joe Paper were greater than the cost to serve. During 1982, this disparity between rates and cost to serve resulted in over earnings. Exacerbating the over earnings problem, was that SJNG's rate base continued to decline over time. Since SJNG was not expanding its system, the existing rate base was being depreciated while limited additions were being made.

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05684 JUN-94

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In normal over earnings situations, monies are refunded to the customers of record, used to offset upcoming expenditures, and/or rates are reduced. In SJNG's situation, the monies could not be refunded to the customers because the existing rates were (and are) at a level that a refund would have resulted in the customers receiving free gas. SJNG did not face any future major expenditures, so the Commission's usual methods to dispose of the over earnings were impractical.

To resolve the over earnings situation, the Commission ordered SJNG to use the over earnings to construct a line to Mexico Beach. While this extension increased rate base and temporarily stopped the over earnings, in 1987 SJNG began to over earn again. In 1988, the Commission reduced the negotiated rates between the Company and St. Joe Paper Company from 5.85 cents per therm to its current 4.85 cents per therm. SJNG's March 31, 1994 unaudited surveillance report indicates they are earning a return on equity of 12.50 percent. The Commission set the return on equity range for SJNG at 10 to 12 percent effective 1/1/94. Prior to 1/1/94, the established return on equity range was 12.70 to 14.70 percent.

On May 13, SJNG filed this petition to expand its existing gas distribution system northward to provide natural gas to residents of Wewahitchka and immediate surrounding areas.

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission approve St. Joe Natural Gas' (SJNG) petition to include in rate base its proposed investment in the Wewahitchka Expansion Project?

RECOMMENDATION: Yes. The Commission should approve SJNG' petition and allow the company to include its investment in its Wewahitchka Expansion Project in rate base. (Bulecza-Banks, Ging, Makin, McCormick, Mills, Slemkewicz)

STAFF ANALYSIS: SJNG is proposing to expand its existing gas distribution system northward to provide natural gas service to the City of Wewahitchka and immediate surrounding areas. The proposed expansion was initiated through the request of the Wewahitchka City Commissioners and the Gulf County Board of County Commissioners. The expansion project will consist of 13 miles of high pressure mains, 10 miles of low pressure mains, 1,000 service lines, and associated facilities. The Company estimates that the cost of this project will be \$862,233 which will be financed through SJNG's existing cash flow.

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The project is comprised of a series of five distinct and separate construction phases, each of which will be placed in service on an ongoing basis as completed. The first phase of the project will be the installation of 13 miles of high pressure line at an approximate cost of \$348,503, this will link SJNG's existing facilities to the Wewahitchka area. The pipeline will run through a predominantly rural, sparsely populated area. Upon completion of the first phase, approximately 100 customers will be added. For each of the next four years, 20 percent of the project will be completed and 225 customers will be added. SJNG requests that at the conclusion of each phase the associated construction costs be added to its rate base.

SJNG is requesting that the proposed Wewahitchka expansion project receive prior determination by the Commission that the investment is prudent and seeks approval from the Commission that the investment in the expansion project be allowed in its rate base. Based on its most recent surveillance report, SJNG's rate base is \$4,016,966. When compared to SJNG's current rate base, the expansion project represents a 21 percent increase. It is staff's belief that because of the significance in the dollar amount of the investment relative to SJNG's current rate base, it would be appropriate for the Commission to make a prior determination of prudence.

The project as detailed in the Company's filing, appears to be prudent at this time. SJNG's existing natural gas distribution system is the closest gas utility to Wewahitchka. Based on its proximity, the proposed project would be the most cost effective means to serve the residents of Wewahitchka and surrounding areas. As the proposed route will occur within existing previously disturbed right-of-ways, the environmental impact will be minimized.

The cost estimates as detailed in the filing appear reasonable. To minimize cost, SJNG will use existing utility personnel to construct the facilities. Using existing utility personnel rather than subcontractors enables the Company to reduce labor costs and maintain control over the project. As stated in the petition, the total cost of the project is projected to be \$862,233. While these costs represent approximately 21 percent of SJNG's existing rate base, the potential dollar impact on rates would be minimal. SJNG has not filed for rate relief since 1967. However, if the Company was to file for a rate increase (with no change in its large industrial customer's rate), staff projects the impact on SJNG's existing core customers as follows:

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<u>CUSTOMER CLASS</u>	<u>EXISTING RATE (cents/therm)</u>	<u>PROJECTED RATE (cents/therm)</u>
Residential (Energy Charge)	1.97	2.30
Commercial (Energy Charge)	2.36	2.69

While the potential increase in rates on a percentage basis is moderate (17% Residential, and 14% Commercial), the projected rates remain significantly lower than the rates charged by other Florida local distribution companies (LDCs). Based on SJNG's average residential consumption of 35 therms per month, the average customer currently pays 69 cents for gas each month not including the PGA cost of gas. If the rates were increased as shown in the above chart, the average residential customer would have to pay 81 cents. Comparable rates being charged by other Florida LDCs are shown below:

<u>CUSTOMER CLASS</u>	<u>EXISTING RANGE (cents/therm)</u>	<u>AVERAGE RATE (cents/therm)</u>
Residential (Energy Charge)	6.632 to 56.654	34.950
Commercial (Energy Charge)	6.166 to 26.500	19.336

While staff does not project the need to increase the customer charge for either the existing or proposed customers, it is interesting to note that SJNG's customer charges are significantly lower than those of other Florida LDCs. The following chart provides a comparison of the customer charges currently in place for SJNG and the other Florida LDCs:

<u>CUSTOMER CLASS</u>	<u>EXISTING RANGE (per month)</u>	<u>AVERAGE RATE (per month)</u>
Other LDCs - Residential	\$5.00 - \$7.00	\$6.69
SJNG - Residential	\$3.00	
Other LDCS - Commercial	\$10.00 - \$17.00	\$12.88
SJNG - Commercial	\$5.00	

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Staff recommends that the Commission approve SJNG's petition. This project as proposed will enable SJNG to increase its customer base and provide needed natural gas service to the citizens of Wewahitchka and surrounding areas.

ISSUE 2: Should SJNG be required to file detailed costing reports after completion of each construction phase of the project?

RECOMMENDATION: Yes. SJNG should be required to file detailed costing reports with the Division of Records and Reporting. The reports should be filed every September 30. However, if the construction phase is not completed in time to file on September 30, the report should be filed 30 days after completion of that phase. (Bulecza-Banks, Ging, Makin, McCormick, Mills)

STAFF ANALYSIS: To assist the Commission in its continued prudence evaluation, SJNG should be required to file detailed costing reports. The reports should show the detail of all construction costs and indicate the number of customers obtained upon completion of each phase. The data reported should be in the format shown on Exhibit B of SJNG's petition.

ISSUE 3: Should the Commission conduct periodic economic reviews of the project to assure its continued prudence?

RECOMMENDATION: Yes. Staff should review the filings discussed in Issue 2 and if a significant deviation from the Company's projections of costs or customers is determined, this matter would be brought before the Commission for disposition. (Bulecza-Banks, Ging, Makin, McCormick, Mills)

STAFF ANALYSIS: SJNG prepared its projection of costs and new customers based on the best information available. These estimates indicate the project should be approved. However, should the cost incurred or the customers obtained differ significantly from the projection, existing customers could be substantially impacted if the Company filed for rate relief.

To protect SJNG's existing customers, staff should review the economics of the project as each phase is completed. If a major deviation between the projected data and the actual data occurred, the matter would be brought before the Commission for disposition.

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ISSUE 4: Should the Commission close the docket?

RECOMMENDATION: No. (Erstling)

STAFF ANALYSIS: This docket should remain open until SJNG submits its final detailed costing report and staff has analyzed the data. If no material variance is detected, this docket should be closed administratively.