

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition for approval of) DOCKET NO. 960385-EU
service agreement for firm) ORDER NO. PSC-96-0756-FOF-EU
transportation service with) ISSUED: June 10, 1996
Florida Department of Management)
Services and Florida Department)
of Corrections, by St. Joe)
Natural Gas Company, Inc.)
_____)

The following Commissioners participated in the disposition of this matter:

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

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING EXPANSION PROJECT
AND
ORDER APPROVING FIRM TRANSPORTATION AGREEMENT

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.

I. BACKGROUND

The Governor's Executive Order No. 92-253, Section 4(c) dated October 8, 1991, requires state agencies to develop a procedure for the cost-effective bulk purchase of natural gas and other energy-efficient fuels. As a result of this order, the Department of Management Services (DMS) executed a contract with Florida Gas Transmission Company (FGT) for the acquisition of natural gas for state agencies. The Department of Corrections (DOC) now seeks to use natural gas at the Gulf County Correctional Institution, however the correctional institution cannot obtain the gas directly from FGT. As a result, DMS and DOC have entered into an agreement with St. Joe Natural Gas Company, Inc. (St. Joe or Company) for the transportation of gas by St. Joe to the correctional institution.

DOCUMENT NUMBER-DATE

06229 JUN 10 96

FPSC-RECORDS/REPORTING

II. APPROVAL OF FIRM TRANSPORTATION AGREEMENT

Pursuant to the agreement, St. Joe will provide transportation on its system for DMS for a minimum annual amount of 400,000 therms to the correctional institution outside the city of Wewahitchka. DMS will be responsible for securing its own gas supply, for the transportation of such gas upstream of St. Joe's system, and for all costs incurred in connection with the purchase of gas and upstream transportation. Gas delivered to St. Joe for transportation under this agreement shall remain the property of DMS during such transportation. DMS agrees to comply with all applicable tariff provisions of any pipeline which transports gas for DMS upstream of St. Joe's system. DMS, or its designated agent, will furnish St. Joe copies of all nominations or scheduling which shall be made directly to FGT or which may be received by FGT five days prior to the first of the month.

The only difference between the agreement and St. Joe's tariff is the inclusion of a minimum take-or-pay provision of 33,340 therms per month, and the issuance of credits for prepaid gas (required to pay for delivery of gas or gas service not received). The rates and charges are the same as the present Contract Transportation Service rate schedule. DMS recognizes that the specific rate for service may be revised or amended from time to time under authority granted by the Commission, and such revisions or amendments will be applicable to the character of and rates for service.

The agreement will permit DMS to effectuate the objectives of the Governor's order and will provide savings to the state of Florida. In addition, there are no material differences between the agreement and St. Joe's tariff. Thus, we find that the agreement is in the public interest and should be approved.

III. APPROVAL OF EXPANSION PROJECT

St. Joe must expand its existing facilities in order to serve the correctional institution. The expansion project will require 8.52 miles of four-inch steel high pressure mains, and associated facilities at an estimated cost of \$452,843. The estimated revenue, based on the Commission approved Maximum Allowable Construction Cost (MACC) formula is \$125,000. St. Joe will finance the expansion by procuring a loan of up to \$450,000.

The investment required by St. Joe to serve the correctional institution is significant when compared to the Company's rate base of \$4,200,000; therefore, St. Joe has requested preliminary

determination that the investment is prudent. St. Joe also seeks approval that at the conclusion of the expansion project, the projected investment of \$452,843 be added to its rate base. We approved a similar request in Docket No. 940548-GU, Order No. PSC-94-0833-FOF-GU, for St. Joe's Wewahitchka expansion project.

It is not our normal practice to make a determination of cost effectiveness before an expansion project is constructed. Ordinarily, the risk of an imprudent investment is assumed by the stockholders. Because the dollar amount of the investment relative to St. Joe's rate base is significant, however, an after-the-fact disallowance of the investment would have a detrimental impact upon the Company. Prior approval will assist the Company in obtaining financing for the project. For these reasons, we believe it is appropriate for the Commission to address the issue of prudence at this time.

The cost estimates as detailed in the Company's filing appear reasonable. To minimize labor costs and maintain control over the project, St. Joe will use existing personnel to construct the facilities rather than subcontractors. While the projected costs for the expansion represent approximately 10 percent of St. Joe's existing rate base, the Company is not seeking to increase its rates at this time.

St. Joe currently serves approximately 3,090 residential, commercial, and industrial customers in the City of Port St. Joe, Mexico Beach, and unincorporated areas of Gulf County. St. Joe has not petitioned for rate relief since 1967. However, since 1967, we have reduced St. Joe's rates twice due to over earnings.

St. Joe has one very large industrial customer, St. Joe Paper Company, which takes approximately 66 percent of St. Joe's volumes equating to a 75 percent contribution to revenues. Until 1988, St. Joe 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 continually lead to overearnings for St. Joe. Exacerbating the over earnings problem is the continued decline of St. Joe's rate base. Since St. Joe's ability to expand its system, is limited, the existing rate base is being depreciated.

This project is different from most large industrial gas loads in that it is a government owned facility and there is a low risk of contract default. By accepting a take-or-pay provision, DMS/DOC is guaranteeing revenue to St. Joe. There is also a potential for increased gas load with any future expansion of the facility. Any additional increase in gas load by the prison or new customers on

the line has not been factored into the review. Increased gas usage is likely and would result in a more favorable feasibility analysis.

Because of the unique circumstances relating to this project and St. Joe, we find the project should be approved even though it does not meet the MACC formula at this time. If approved, this project will not impact the existing ratepayers at this time unless St. Joe files for rate relief. As noted above, St. Joe has not filed for rate relief since 1967. In addition, the expansion will provide savings to the state of Florida, and will allow St. Joe to increase its customer base by providing natural gas service to customers who otherwise would not have natural gas available.

To aid our continued prudence evaluation, St. Joe shall file a detailed costing report 30 days after completion of the expansion project. If no deviation from the company's projections of costs is determined, this docket shall be closed administratively.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the firm transportation agreement between the Department of Management Services, the Department of Corrections and St. Joe Natural Gas Company, Inc. is hereby approved. It is further

ORDERED that St. Joe Natural Gas Company, Inc. may include the Gulf County Correctional Institution expansion project in its rate base in accordance with the terms and conditions discussed in the body of this order. It is further

ORDERED that St. Joe Natural Gas Company, Inc. shall file reports as discussed in the body of this order. It is further

ORDERED that if a protest of Section II is filed in accordance with the requirement set forth below, the tariff shall remain in effect with any increase in revenues held subject to refund pending resolution of the protest. It is further

ORDERED that Section III, issued as proposed agency action, shall become final and effective unless an appropriate petition, in the form provided by Rule 25-22.036, Florida Administrative Code, is received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings or Judicial Review" attached hereto. It is further

ORDER NO. PSC-96-0756-FOF-EU
DOCKET NO. 960385-EU
PAGE 5

By ORDER of the Florida Public Service Commission, this 10th
day of June, 1996.

BLANCA S. BAYÓ, Director
Division of Records and Reporting

by: Kay J. Lynn
Chief, Bureau of Records

(S E A L)

VDJ

DISSENT

Commissioner Deason dissents only to the extent that St. Joe did not justify the departure from the requirement to collect the main extension charge from the customer in order to finance the expansion project.

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW
AS TO SECTION II, APPROVAL OF FIRM TRANSPORTATION AGREEMENT

The Florida Public Service Commission is required by Section 120.59(4), 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.

The Commission's decision on this tariff is interim in nature and will become final, unless a person whose substantial interests are affected by the action proposed files a petition for a formal proceeding, as provided by Rule 25-22.036(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a)(d) and (e), 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 July 1, 1996.

In the absence of such a petition, this order shall become final on the day subsequent to the above date.

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 on the date described above, any party adversely 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 date this Order becomes final, 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.

ORDER NO. PSC-96-0756-FOF-EU
DOCKET NO. 960385-EU
PAGE 7

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW
AS TO SECTION III, APPROVAL OF EXPANSION PROJECT

The Florida Public Service Commission is required by Section 120.59(4), 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.

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 July 1, 1996.

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.