

ST. JOE NATURAL GAS COMPANY, INC.

P.O. BOX 549 PHONE 229-8216
PORT ST. JOE, FLORIDA 32456

EXPAN/CONSPORT

August 15, 1996

Blanca S. Bayo, Director
Division of Records & Reporting
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850

Re: Docket No. 940548-GU
Petition for inclusion of investment in Wewahitchka expansion
project in rate base by St Joe Natural Gas Company, Inc.
Pre-Phase III Construction Cost Report

Dear Ms. Bayo,

Accept this letter and attachments for filing in the
above referenced docket. Please be advised, effective July
1, 1996, construction for the Wewahitchka Expansion project
ceased and no additional gas mains have been installed and
no additional gas mains will be installed until the staff
proposed excess earnings have been mutually resolved and
approved by a commission order.

The gas bureau staff has suggested SJNG experienced
excess earnings in the range of \$200,000 to \$300,000 during
the years 1994 and 1995.

SJNG's short term operations, particularly new
construction, cannot be maintained with the potential
threat to the company to refund or otherwise dedicate this
amount of funds to some other liability account. SJNG's
cash flow has been used primarily to fund the Wewa
expansion project. In the event \$200,000 to \$300,000 has to
be diverted away from capitalization, SJNG would be unable
to continue its Wewa expansion until the liability no
longer existed.

The attached letter copy mailed July 3 provides
further information addressing this matter and its impact
on SJNG's ability to continue its expansion projects.

Thank you.

Very truly yours,

Stuart Shoaf
Stuart Shoaf
President

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FPSC-RECORDS/REPORTING

cc: David A. Ging, FPSC Gas Bureau

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JOE NATURAL GAS COMPANY, INC.

P.O. BOX 549 PHONE 229-8216
PORT ST. JOE, FLORIDA 32456

FPSC/EARNSUR6

July 3, 1996

Denise N. Vandiver
Chief, Bureau of Auditing
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850

Re: Audit Control No. 96-039-1-1
Surveillance Audit, Undocketed

Dear Ms. Vandiver

In reviewing information recently furnished, it appears that staff's overearnings calculations are based, in part, upon an adjustment of \$58,372.00 in 1994 by reason of staff's disallowance of long-term interest expense and operating expense. Likewise for the year 1995, there has been an adjustment of \$54,446.00. Based on staff's preliminary calculations, St Joe Natural Gas Company ("SJNG") would have potential overearnings of \$306,272.00. We were first advised of the disallowance of this interest expense on June 27, 1996. In light of this revelation, SJNG is faced with a predicament as to its future solvency and operation.

In March of 1996, SJNG entered into a contract with the State of Florida, Department of Corrections to provide gas service to the prison facility in Gulf County, Florida. This contract which will require an expenditure of \$450,000.00 was approved by the Public Service Commission. SJNG would like to begin construction soon which would entail 100% of long term financing. The question which we are presented with is whether we should borrow funds given the potential liability for overearnings.

Additionally, SJNG's five (5) year expansion project into the City of Wewahitchka was approved by the Public Service Commission in 1994. As you are aware, this plan required SJNG to finance this project ourselves through regular operating funds without the necessity of outside financing. Now that we are faced with a large potential payback, we will have to hold the prison expansion in abeyance indefinitely. Similarly, the Wewahitchka project is jeopardized insofar as we may not have the operating capital to follow our five (5) year plan.

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FPSC/EARNSUR6

July 3, 1996
Page Two

As you are aware, there has been a change in ownership of the paper mill in Port St Joe. Several years ago, our Directors envisioned a long range plan which would encompass expansion to White City, Wewahitchka and, perhaps, Apalachicola, Florida. We understood that the viability of our company was primarily determined by the gas volumes used by St Joe Paper Company as they provide approximately 54% of our revenue. Naturally, if something were to happen to this mill, our continued operations would be substantially jeopardized. Hence, we proposed further expansion to lessen the inevitable "rate shock" to residential customers that would occur in the event the mill shut down. Presently, the new owners are using more #6 fuel oil and less natural gas which has affected our operating revenue. As you are aware, this company has made every effort to expand its service area. We have invested almost 100% of the NOI in 1994 and 1995 into expansion.

The potential overearnings problem will not be alleviated by merely postponing consideration of overearnings for an additional year. It must be addressed or all of a sudden we will be faced with an insurmountable overearnings liability. We would propose that the Commission allow us to take what is ultimately deemed overearnings, if any, and invest into the Wewahitchka expansion project. We simply are at a stalemate now as to current and future expansion prospects and cannot prudently borrow money for expansion without a prompt resolution of this issue. We suggest a meeting be set as soon as possible wherein we can discuss possible resolutions to our problem.

Please phone at your earliest convenience.

Very truly yours,



Stuart Shoaf
President

cc: Lee Romig