

Law Offices

HOLLAND & KNIGHT LLP

315 South Calhoun Street
Suite 600
P.O. Drawer 810 (ZIP 32302-0810)
Tallahassee, Florida 32301

850-224-7000
FAX 850-224-8832
www.hklaw.com

RECEIVED-PPSC

SEP 15 PM 4:41

RECORDS AND REPORTING

Atlanta
Boston
Bradenton
Chicago
Fort Lauderdale
Jacksonville
Lakeland
Melbourne
Mexico City
Miami
New York

Northern Virginia
Orlando
Providence
San Francisco
St. Petersburg
Tallahassee
Tampa
Washington, D.C.
West Palm Beach
Representative Offices:
Buenos Aires

D. BRUCE MAY, *Att. v.*
850-425-5607

Internet Address:
dbmay@hklaw.com

September 15, 2000

J. Terry Deason, Chairman
Florida Public Service Commission
2540 Shumard Oak Blvd.
Gerald L. Gunter Bldg., Suite 3335
Tallahassee, FL 32399-0850

VIA HAND DELIVERY

undocketed

Re: **Test Year Notification Pursuant to
Florida Administrative Code Rule 25-7.140.**

Dear Chairman Deason:

In accordance with Florida Administrative Code Rule 25-7.140, St. Joe Natural Gas Company, Inc. ("SJNG") notifies the Commission that it intends to file a petition for a general rate increase on November 15, 2000. As part of its notification, SJNG submits the following information:

A. Test Year

SJNG intends to use the projected twelve-month period ending December 31, 2001 as the test year in its forthcoming rate proceeding. This period constitutes SJNG's fiscal year for purposes of budgeting and financial reporting. SJNG prepares internal budgets on a calendar year basis and has drawn on that internal budgeting process to project revenues and expenses for the projected test period. Thus, SJNG respectfully submits that the projected test year period will be representative of conditions in which the newly established rates will function.

B. Major Factors Necessitating an Increase in Rates

The Commission obtained jurisdiction over SJNG in 1962. Since that time, SJNG has never requested or been granted a rate increase.¹ However, the following recent events and factors have created an immediate need for a rate increase:

1. Until recently, SJNG's largest industrial customer was Florida Coast Paper Company, L.L.C. ("Florida Coast"), formerly St. Joe Paper

APR _____
CAL _____
CMP _____
COM _____
CTR _____
ECR _____
LEG _____
OPC _____
PAI _____
RGO _____
SEC I _____
SER _____
OTH _____

RECEIVED & FILED

PPSC BUREAU OF RECORDS

¹ In 1983, the Commission revised SJNG's rates from a step-type rate to a flat rate, with no change in revenue. On May 7, 1997, the Commission issued an order approving the restructuring of SJNG's rates on a revenue neutral basis. See Order No. PSC-97-0526-FOF-GU, issued in Docket No. 970115-GU.

DOCUMENT NUMBER 11638

11638 SEP 15 2000

PPSC-RECORDS/REPORTING

Company, which operated a pulp and paper mill in Gulf County, Florida. Florida Coast had historically taken approximately 66% of SJNG's natural gas volume, which equated to a 75% contribution to SJNG's revenues. On April 2, 1999, Florida Coast declared bankruptcy and permanently closed its operations. The unanticipated loss of SJNG's largest customer has had a devastating negative effect on the company's revenues. For the four-year period immediately preceding the paper mill closure (1992 through 1995), SJNG's annual therm sales averaged 30,511,250 therms per year or 2,542,604 therms per month. After the mill closure in late 1998, the 1999 annual therm sales were 10,723,860 therms for the year or 893,655 therms per month. This represents a 63% reduction in annual therm sales.

While the paper mill was operating, annual operating revenue levels from 1992 through 1995 averaged approximately \$726,674. After the closure of the paper mill, operating revenue levels for the twelve months ending December 31, 1999 were **negative** \$12,506.

2. SJNG's current rates on file do not produce revenues sufficient to yield an adequate return on SJNG's investment. SJNG's current range for allowed rate of return is between 5.64% and 6.69% as established in its last Surveillance Reporting Period ending June, 2000. SJNG's actual earned rate of return for the same period is -1.21%. If not quickly resolved, this deficiency in earnings will create serious cash flow problems and threaten the continued viability of the company. Rectifying this problem on an expedited basis is the primary objective of the forthcoming rate case.
3. In an effort to mitigate the potential impact of the requested rate increase, SJNG will turn back pipeline capacity to Florida Gas Transmission Company in early 2001, which is the earliest opportunity that the capacity can be returned. The return of this capacity will have a favorable impact on SJNG's PGA rate, and help mitigate the overall impact of the rate increase on customers.
4. The revenue short-fall crisis confronting SJNG imposes a hardship on the company and hampers its ability to serve its customers. The current financial crisis has caused SJNG to defer replacement of aging utility vehicles, and prevented the company from implementing expansion plans to meet anticipated growth in its service area.

C. Steps Taken to Avoid an Increase

SJNG has made every reasonable effort to avoid a rate increase proceeding. SJNG has frozen operating costs, implemented no staff salary increases, delayed replacing needed utility vehicles, ceased paying dividends to shareholders, and not contributed to its retirement plan for the first time since the creation of that plan.

Moreover, SJNG has undertaken extensive efforts to restructure its rates in order to retain existing industrial customers. On January 27, 1997, SJNG filed a petition for limited proceeding to restructure its rates in Docket No. 970115-GU. In approving the rate restructuring, the Commission specifically noted that SJNG's "proposed rate restructuring is designed to retain existing industrial customers and ensure equity among rate classifications." Order No. PSC-97-0526-FOF-GU at page 2. SJNG has also entered into special service agreements with large industrial customers in an effort to retain those customers and the revenue associated with those customers.

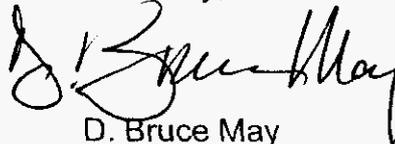
Notwithstanding these measures, SJNG has lost its largest industrial customer and the resulting revenue short fall has seriously threatened the company's continued financial viability. Thus, the urgent need to preserve the financial integrity of the company requires SJNG to file a request for a rate increase at this time.

D. Procedure

SJNG requests the Commission to utilize its proposed agency action for the processing of its general rate increase proceeding as authorized in Section 366.06(4), Florida Statutes.

Based on the foregoing, SJNG respectfully requests that the Commission approve the period ending December 31, 2001 as the test year for the permanent rate increase.

Sincerely,

A handwritten signature in black ink, appearing to read "D. Bruce May". The signature is stylized with a large initial "D" and a long horizontal stroke.

D. Bruce May

DBM:kjg

Distribution List

The Florida Public Service Commission

Commissioner Terry Deason
Commissioner Leon Jacobs
Commissioner Lila Jaber
Commissioner Braulio Baez
William Talbot, Executive Director
Blanca S. Bayo, Director, Division of Records and Reporting

Office of Public Counsel

Jack Shreve, Public Counsel

St. Joe Natural Gas Company, Inc.

Stuart Shoaf, President
Jeff Householder, Consultant