



303 Long Ave, Port St Joe, FL 32456

March 21, 2024

**BY HAND DELIVERY**

The Honorable Mike La Rosa  
Chairman  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0850

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2024 MAR 21 PM 3:36  
COMMISSION  
CLERK

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

Dear Chairman La Rosa:

St. Joe Natural Gas Company, Inc. (“St. Joe” or “Company”) operates a natural gas utility serving communities in Gulf County and a small portion of Bay County and is subject to regulation by the Commission under Chapter 366, Florida Statutes. The Company provides safe and reliable service to approximately 3,412 residential and commercial customers in the communities of Port St. Joe, St. Joe Beach, Mexico Beach, White City, Overstreet, and Wewahitchka.

Rates established in St. Joe’s last base rate case became effective July 17, 2008 – nearly sixteen (16) years ago.<sup>1</sup> Since that time, St. Joe has had to petition the Commission for a rate restructuring due to the loss of its only industrial customer, Arizona Chemical.<sup>2</sup> It was also significantly impacted by Hurricane Michael in 2018, which ultimately necessitated its request for storm cost recovery relief. That request was resolved through Commission approval of a settlement agreement between the Company and the Office of Public Counsel.<sup>3</sup> While that approved settlement contemplates a rate increase to be implemented January 1, 2025 to begin recovering the remaining life of the capital assets lost as a result of Hurricane Michael, that nominal increase, which will begin the 10-year recovery of a \$77,761 regulatory asset, will have no impact on the Company’s ability to earn within its authorized range.

The Company has undertaken efficiency and cost saving measures; however, the impacts of inflation on the cost of materials and labor since the last rate proceedings have further contributed to declining returns for the Company, which are also projected to decline further in the future.

<sup>1</sup> Order No. PSC-2008-0436-PAA-GU, issued July 8, 2008, in Docket No. 20070592-GU.

<sup>2</sup> See Order No. PSC-2016-0297-PAA-GU, issued July 27, 2016, in Docket No. 20160033-GU.

<sup>3</sup> See Order No. PSC-2021-0196-AS-GU, issued June 3, 2021, in Docket No. 20200039-GU.

Consequently, the Company estimates that an increase in gross annual revenue requirement of \$1.0 million to \$1.3 million is necessary to produce sufficient revenues to allow the Company to continue to provide the safe and reliable natural gas service our customers deserve and have come to expect. These additional revenues will enable the Company to invest in the safety of our employees, customers, and communities as well as the reliability of our natural gas distribution system, customer service operations, and the training and development of our employees. The Company, therefore, submits this Test Year Notification letter, along with the following required information.

*A. Test Year Selection*

In accordance with Rule 25-7.140, Florida Administrative Code, the Company has selected the twelve-month period ending December 31, 2024, as the projected test year for purposes of the Company's request for a permanent base rate increase. The Company's request will seek an effective date for new rates within 30-days of issuance a consummating order reflecting that any Proposed Agency Action Order of the Commission addressing St. Joe's requested increase has become final, and in any instance, not later than January 1, 2025. The Company believes that the requested test year is appropriate in that it will: (1) best reflect the economic conditions impacting the Company during the first 12-month period that the new rates will be in effect; and (2) provide the most accurate picture of revenues as compared to the Company's cost to serve during the initial period new rates would be placed into effect.

*B. Major Factors Necessitating Base Rate Increase and Efforts and Actions Taken to Avoid a Base Rate Increase*

The overarching factor necessitating the Company's need to seek rate relief is the increase in operating costs over the 16 years since its last rate case, which is particularly notable with regard to increased costs for materials and labor.

While St. Joe's projected rate base has grown by approximately \$650,000 since its last rate case, its net operating income has not kept pace with that growth. Likewise, its annual commodity sales in therms has fallen from almost 6.5 million therms in 2008 to a projected 1.1 million in the projected test year 2024, while total Operations and Maintenance Expense in the 2008 proceeding was \$898,000 but is projected to be \$1.5 million for the projected test year. As a result, the Company's average earned rate of return at year end 2023 of -3.64% and a return on equity of -1.44%. Without rate relief, St. Joe's projected net operating income at year end 2024 is projected to be a negative amount of at least \$600,000.

The Company's ongoing standard operating procedures are now and always have been to offer a quality product at the lowest possible price. The Company has taken several actions to hold down operating costs and avoid a request for rate increases. There has, however, been a significant increase in operating expenses of approximately 68% since the Company's last rate case. For

example, property taxes have increased 120%, and the Company has also experienced substantial increases in property insurance, motor fuel and other general expenses. In response to these increases in expenses, the Company has implemented several measures to reduce costs and delay any request for a rate increase. Discretionary expenses, such as travel expenses, are kept to a minimum. The Company has also given lower salary increases, reduced funding to the employee pension fund and held its medical insurance contributions constant.

Going forward, St. Joe anticipates further investment will have to be made to ensure access to gas supplies for all customers, enhance its distribution facilities to maintain safe and reliable natural gas service, and ensure that its customers experience the best possible customer service when interfacing with the Company.

C. *Interim Rates*

The Company intends to request interim rate relief in accordance with Section 366.071, Florida Statutes, using the period January 1, 2022 through December 31, 2022, as the historic test period. The Company will be seeking interim relief to allow the Company the opportunity to earn within its authorized range while its request for permanent rate relief is processed.

D. *Proposed Agency Action*


St. Joe is requesting that the Commission process the Company's petition for a rate increase using the proposed agency action process authorized in Section 366.06(4), F.S.

Conclusion

To conclude, the Company anticipates filing its Petition as soon as practicable after the expiration of the notification period, but in any instance not before May 20, 2024. If the Company is unable to file on May 20, 2024, the Company will so notify the Commission in writing prior to that date, including an explanation as to the reasons for the delayed filing and an indication of the revised target date.

The Company has only undertaken this request upon thoughtful deliberation and considerable study. While the Company has made significant efforts to control its expenses, maintaining high quality service to its customers on an ongoing basis necessitates a change in its current base rates. A base rate increase is necessary in order to ensure that the Company maintains a reliable and safe natural gas system, which ultimately inures to the benefit of the Company's customers and our local communities.

Sincerely,

  
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Stuart Shoaf, President



The Honorable Mike La Rosa

March 21, 2024

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cc: // Honorable Art Graham, Commissioner  
Honorable Gary F. Clark, Commissioner  
Honorable Andrew G. Fay, Commissioner  
Honorable Gabriella Passidomo, Commissioner  
Ana Ortega, Chief Advisor to Chairman La Rosa  
Eddie Phillips, Chief Advisor to Commissioner Fay  
Amanda Marsh, Chief Advisor to Commissioner Clark  
Jim Varian, Chief Advisor to Commissioner Graham  
Katherine Fleming, Chief Advisor to Commissioner Passidomo  
Braulio Baez, Executive Director (via email)  
Keith Hetrick, General Counsel (via email)  
Elisabeth Draper, Director/Economics (via email)  
Andrew Maurey, Director/Accounting and Finance (via email)  
Tom Ballinger, Director/Engineering (via email)  
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