

ate of Florida



## Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

### -M-E-M-O-R-A-N-D-U-M-

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**DATE:** July 21, 2005

**TO:** Director, Division of the Commission Clerk & Administrative Services (Bayó)

**FROM:** Division of Competitive Markets & Enforcement (Broussard, Bulecza-Banks,  
Makin)  
Office of the General Counsel (Rodan)

**RE:** Docket No. 050420-GU – Petition for approval of modifications to tariff provisions governing extension of mains and services, by St. Joe Natural Gas Company, Inc.

**AGENDA:** 08/02/05 – Regular Agenda – Tariff Filing – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Administrative

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** None

**FILE NAME AND LOCATION:** S:\PSC\CMP\WP\050420.RCM.DOC

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### Case Background

St. Joe Natural Gas Company, Inc. (SJNG) extends main lines and service lines in accordance with Rule 25-7.054, Florida Administrative Code (attached), and the provisions of its Commission approved tariff. The rule requires a utility to develop a standard policy governing the amount of main and/or service extension which will be made at no cost to connect a new customer. Free extensions are required when the capital investment necessary to extend the facilities in order to provide service is equal to or less than the maximum allowable cost (MACC). Rule 25-7.054, Florida Administrative Code, defines the MACC as an amount equal to Four times the estimated annual revenues to be derived from the facilities, less the cost of gas. The rule further provides direction on handling an extension request that exceeds the MACC.

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The rule also allows gas utilities to establish extension policies more favorable to consumers so long as no discrimination is practiced between consumers.

From 1975, when Rule 25-7054 was implemented, until August 5, 1996, SJNG operated with a MACC which was four times its estimated annual revenue less the cost of gas, as provided in the rule. Historically, there were no significant quantities of new residential homes built in SJNG's service territory.

By Order No. PSC-96-1000-FOF-GU, issued August 5, 1996, Docket No. 960657-GU, In Re: Petition for approval of modifications to tariff that would add late payment charge to customers' past due balances and revise method for calculating Maximum Allowable Construction Cost (MACC), by St. Joe Natural Gas Company, Inc., the Commission approved a new MACC for SJNG of ten times its estimated annual revenue less the cost of gas.

On December 15, 2000, SJNG filed a petition for a permanent rate increase, which was granted by Order No. PSC-01-1274-PAA-GU, issued June 5, 2001, in Docket No. 001447-GU, In Re: Request for rate increase by St. Joe Natural Gas Company, Inc. The new rates increased SJNG's average monthly residential bill to \$18.52 and increased the Company's average MACC to \$2,222.40. At the same time, the average cost to extend main and/or service facilities remained around \$500.00. Again, SJNG elected to continue offering a more favorable extension policy to attract new customers. The increase in rates, coupled with the stable extension costs, were factors which contributed to SJNG Bringing this petition to lower its MACC rates from ten to years to four years.

On June 21, 2005, SJNG filed a petition for approval of modifications to its tariff provisions governing extension of mains and service. This recommendation addresses that petition.

Jurisdiction over the matter is vested in the Commission by several provisions of Chapter 366, Florida Statutes, including Sections 366.04, 366.05, and 366.06.

### **Discussion of Issues**

**Issue 1:** Should St. Joe Natural Gas Company (SJNG), Inc. be allowed to modify its tariff rules and regulations governing main and/or service extensions as permitted under Rule 25-7.054, Florida Administrative Code, to reduce its MACC as calculated under the company's existing tariff from 10 times the estimated annual revenue less the cost of gas to four times the estimated annual revenue less the cost of gas?

**Recommendation:** Yes. The Commission should approve the modifications to tariff provisions governing Mains and Service Extensions requested by SJNG effective August 2, 2005, the date of the Commission vote in this matter, because the tariff modification meets the requirements of Rule 25-7.054, Florida Administrative Code. (E.Broussard, W. Makin, C. Bulecza-Banks)

**Staff Analysis:** St. Joe Natural Gas (SJNG) is proposing a modification of its existing tariff rules and regulations governing Main and Service Extensions. Its most recent tariff provisions governing Mains and Service Extensions were approved by Order No. PSC-96-1000-FOF-GU. SJNG's tariff defined the MACC to be 10 times the estimated annual revenue to be derived from the extended facilities, less the cost of gas.

The Commission has approved modifications to the MACC for other gas companies: City Gas Company of Florida<sup>1</sup> and the Central Florida Division of Chesapeake utilities<sup>2</sup> both apply a multiplier of six, while Florida Public Utilities Company<sup>3</sup> and Peoples Gas System<sup>4</sup> apply a multiplier of four.

SJNG states that modifying its tariff to yield a MACC of four would be consistent with Rule 25-7.054, Florida Administrative Code, and will ensure that SJNG is not required to make extensions of mains and/or services to the detriment of its existing customers.

Rule 25-7.054, Florida Administrative Code, provides that, unless special circumstances prevent, the Commission will be guided by the general principle that MACC is equal to four times the estimated annual gas revenue to be derived from the facilities less the cost of gas. Reviewing the petition, staff finds no special circumstances to prevent the Commission from being guided by the requirements of Rule 25-7.054, Florida Administrative Code.

Accordingly, staff recommends SJNG's requested modification to tariff provisions governing Mains and Service Extensions be approved, effective August 2, 2005, the date of the Commission vote in this matter.

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<sup>1</sup> Order No. PSC-95-0506-FOF-GU, issued April 24, 1995, in Docket 950206-GU

<sup>2</sup> Order No. PSC-95-0817-FOF-GU issued July 6, 1995, in Docket 950523-GU

<sup>3</sup> Order No. PSC-95-0162-FOF-GU issued February 7, 1997, in Docket 941291-GU

<sup>4</sup> Order No. PSC-04-0165-CO-GU issued January 26, 2004, in Docket 030923-GU

**Issue 2:** Should this docket be closed?

**Recommendation:** Yes. If the Commission approves the staff recommendation in Issue 1, and a protest is filed within 21 days of the issuance of an Order, the tariff should remain in effect with any increase held subject to refund pending resolution of the protest; however, if no timely protest is filed, this docket should be closed upon the issuance of a Consummating Order. (J. Rodan)

**Staff Analysis:** If the Commission approves the staff recommendation in Issue 1, and a protest is filed within 21 days of the issuance of an Order, the tariff should remain in effect with any increase held subject to refund pending resolution of the protest; however, if no timely protest is filed, this docket should be closed upon the issuance of a Consummating Order.

**25-7.054 Extension of Facilities.**

(1) Each utility shall develop a standard policy governing the amount of main and/or service extension which will be made free to connect a new customer. The amount of free extension made should be related to the investment that can prudently be made for the anticipated revenue to be received.

(2) A detailed statement of its standard main extension policy shall be filed by each utility as part of its rules and regulations. This policy shall have uniform application and shall be nondiscriminatory between consumers whose service requirements are similar.

(3) If a utility and consumer shall be unable to agree in regard to an extension, either party may appeal to the Commission for a review. The Commission, unless special circumstances prevent, will be guided by the following general principles:

(a) Free extensions. The maximum capital investment to be made by the utility for main and service facilities without cost to the customer shall be defined as the maximum allowable construction cost. The maximum allowable construction cost shall equal four times the estimated annual gas revenue to be derived from the facilities less the cost of gas.

(b) Extensions above free limit. When the cost of the extension required to provide service is greater than the free limit specified in (a) above, the utility may require a non-interest bearing advance in aid of construction of the cost in excess of such free limit provided that:

1. At the end of the first year the utility shall refund to the person paying the advance in aid of construction or his assigns an amount equal to the excess, if any, of the maximum allowable construction cost calculated using actual gas revenues, less the actual cost of gas, over the maximum allowable construction cost used to determine the amount of the advance in aid of construction.

2. For each additional customer taking service at any point on the extension within a period of five (5) years from date of construction, the utility shall refund to the person paying the advance in aid of construction or his assigns an amount by which the maximum allowable construction cost for the new customer exceeds the cost of connecting the customer, provided that an additional main extension shall have not been necessary to serve the additional customer.

3. The aggregate refund to any customer made through the provisions of 1. and 2. above shall at no time exceed the original advance in aid of construction of such customer.

4. The extension shall at all times be the property of the utility and any unrefunded portion of the advance in aid of construction at the end of five (5) years shall be credited to the plant account of the utility.

(c) Nothing in this subsection (3) shall be construed as prohibiting any utility from establishing extension policies more favorable to consumers so long as no discrimination is practiced between consumers.

(4) The customer may be required to install or to pay in full or in part for the service line from the property line to the customer's piping in accordance with the utility's filed rules and regulations.

*Specific Authority 366.05(1), 350.127(2) FS. Law Implemented 366.05(1) FS. History- Repromulgated 1-8-75, 5-4-75, Amended 12-7-82, Formerly 25-7.54.*

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Attachment

**25-7.055 Liquefied Petroleum Gas Facilities.**

*Specific Authority 366.05(1) FS. Law Implemented 366.05(1) FS. History-Repromulgated 1-8-75, 5-4-75, Amended 5-27-82, Formerly 25-7.55, Repealed 7-14-98.*