

State 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:** November 21, 2024

**TO:** Office of Commission Clerk (Teitzman)

**FROM:** Division of Accounting and Finance (Vogel, D. Buys, Ferrer, Gatlin, McGowan, Norris, Przygocki, Quigley) *ALM*  
Division of Economics (Galloway, Hampson, Hudson, Kunkler, McClelland, Ward) *EJD*  
Division of Engineering (King, Lewis, Ramos, Smith) *TB*  
Office of the General Counsel (Dose, Crawford, Farooqi) *JSC*

**RE:** Docket No. 20240046-GU – Petition for rate increase by St. Joe Natural Gas Company, Inc.  
  
Docket No. 20240004-GU – Natural gas conservation cost recovery.

**AGENDA:** 12/03/24 – Regular Agenda – Proposed Agency Action for All Issues, Except for Issues 37 and 39 - Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Fay

**CRITICAL DATES:** 10/29/24 (5-Month Effective Date - PAA Rate Case waived through 12/03/24)

**SPECIAL INSTRUCTIONS:** None

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## Case Background

On May 29, 2024, St. Joe Natural Gas Company, Inc. (SJNG or Company) filed a petition seeking the Commission's approval to increase rates and charges. SJNG provides sales and transportation of natural gas and is a public utility subject to the Commission's regulatory jurisdiction under Chapter 366, Florida Statutes (F.S.). SJNG currently serves approximately 3,186 residential and commercial customers in Gulf and Bay Counties. In its original petition, SJNG requested an increase of \$1,043,841 in additional gross annual revenues. According to SJNG, the requested increase will provide the Company with an opportunity to earn an overall rate of return of 6.05 percent on the Company's plant and property used to serve its customers based on a midpoint return on equity of 11.00 percent. The Company based its request on a 13-month average rate base of \$3,381,746 for the projected test year ending December 2024. SJNG is also proposing to restructure its residential service class to reduce stratification within the residential classes. Per Rule 25-7.140(1)(d), Florida Administrative Code (F.A.C.), SJNG has elected to use the five month Proposed Agency Action process authorized in Section 366.06(4) F.S.

SJNG's last approved rate case was in 2008 in Docket No. 20070592-GU.<sup>1</sup> More recently, in Docket No. 20230022-GU, the Commission approved new depreciation rates with an implementation date of January 1, 2023. Notably, in Docket No. 20160033-GU, the Commission approved SJNG's request to reallocate the \$285,011 annual revenue deficiency resulting from the permanent loss of its largest customer, the Arizona Chemical Company, to the remaining customer classes.<sup>2</sup> Also, in Docket No. 20200039-GU, the Commission approved a temporary storm cost recovery surcharge to deal with Hurricane Michael recovery, as well as a base rate increase in January 2025 to reflect recovery of a regulatory asset of \$77,761 associated with the remaining life value of lost capital assets.<sup>3</sup> By Order No. 2024-0272-TRF-GU, the temporary storm cost recovery surcharge that was set to cease at the end of 2024 was terminated early on July 9, 2024, due to the Company reaching the agreed-upon amount the surcharge was intended to recover.<sup>4</sup>

The Company stated that the key drivers for the proposed rate increase are: current rates not recovering its property tax expense or property insurance expense, increases to rate base associated with extensions to serve new customers, increasing operating expenses reflecting nearly 16 years of inflation, and increases in regulatory costs, particularly federal pipeline safety regulations.

In its petition, the Company also requested an interim rate increase of \$612,209 based on a historic test year ended December 31, 2023. In Order No. PSC-2024-0379-PCO-GU, the Commission approved an interim rate increase of \$543,665. Due to the timeframe of the

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<sup>1</sup>Order No. PSC-2008-0436-PAA-GU, issued July 8, 2008, in Docket No. 20070592-GU, *In re: Petition for rate increase by St. Joe Natural Gas Company, Inc.*

<sup>2</sup>Order No. PSC-2016-0297-PAA-GU, issued July 27, 2016, in Docket No. 20160033-GU, *In re: Petition for limited proceeding to restructure rates by St. Joe Natural Gas Company, Inc.*

<sup>3</sup>Order No. PSC-2021-0196-AS-GU, issued June 3, 2021, in Docket No. 20200039-GU, *In re: Petition for approval to implement a temporary storm cost recovery surcharge, by St. Joe Natural Gas Company, Inc.*

<sup>4</sup>Order No. PSC-2024-0272-TRF-GU, issued July 26, 2024, in Docket No. 20200039-GU, *In re: Petition for approval to implement a temporary storm cost recovery surcharge, by St. Joe Natural Gas Company, Inc.*

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projected test year and available data reflected in the historic interim test year, the Company provided an updated filing reflecting actual data for the intermediate 2023 test year, which in turn updated the projected test year ending December 31, 2024. Based on this update to the 2023 intermediate test year, SJNG's request increased to \$1,113,241. Audit staff reviewed this updated filing, instead of auditing the 2022 historic base year.

One virtual customer meeting was held on September 4, 2024. No customers participated in this meeting. No customer comments or letters have been filed in the correspondence side of the docket.

This recommendation addresses the Company's requested permanent rate increase. The final rates based on the Commission vote will be addressed at the subsequent rates agenda, currently scheduled for January 7, 2025. The Commission has jurisdiction over this matter pursuant to Chapter 366, F.S., including Sections 366.06 and 366.071, F.S.

## Discussion of Issues

**Issue 1:** Is SJNG’s projected test period of the twelve months ending December 31, 2024, appropriate?

**Recommendation:** Yes, SJNG’s projected test period of the twelve months ending December 31, 2024, is appropriate. (Kunkler)

**Staff Analysis:** In general, a projected test year methodology uses forecasted data for a 12-month period to match revenues and expenses with rate base investment. SJNG proposed the year ending December 31, 2024 as its test year for this docket, stating that it will “best reflect the Company’s on-going operations with respect to customer base, investment requirements, throughput levels and overall cost of service at the time that the rates set in this proceeding will be in effect.”<sup>5</sup>

Staff believes that the 12-month period ending December 31, 2024, is a reasonable period for assessing SJNG’s financial and operational performance, allowing for a thorough evaluation of revenues, expenses, and rate base investment. Further, staff notes this proposed test period allows for projections that reflect current trends and anticipated future conditions, making it a sound period for regulatory and financial planning.

Staff believes that SJNG’s proposed 2024 test year provides a balanced approach that accounts for the evolving needs of the Company and its customers, while maintaining regulatory efficiency and transparency. Therefore, staff recommends that the projected test period of the 12 months ending December 31, 2024, is appropriate.

## CONCLUSION

Staff recommends that SJNG’s projected test period of the twelve months ending December 31, 2024, is appropriate.

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<sup>5</sup>Direct Testimony of Stuart Shoaf, page 17.

**Issue 2:** Should the Commission approve SJNG’s forecasts of customers and therms by rate class for the projected test year ending December 31, 2024? If not, what adjustments should be made?

**Recommendation:** The Commission should approve SJNG’s forecasts of customers and therms by rate class for the projected test year ending December 31, 2024 with two exceptions: (1) the test year sales projections for the GS-4 rate class should be increased by 42,391 therms, and (2) the test year sales projections for the FTS-4 rate class should be decreased by 2,694 therms. (Kunkler)

**Staff Analysis:** SJNG prepared its forecasts for the projected test year, for both customer counts and therm usage, utilizing historical data trends to develop its projections. As detailed in its MFRs, SJNG projected its customer count to increase by 7.1 percent to 3,412 customers, and its therm sales to increase by 5.5 percent to 1,103,398 therms in the 2024 test year.

In October 2018, SJNG suffered a significant loss of its customer base due to the effects of Hurricane Michael. In the years since (2019-2023), SJNG has experienced relatively steady recovery growth. In those years, the Company’s average annual customer growth was approximately 6.0 percent. Staff believes this average increase when compared to SJNG’s projected customer count increase of 7.1 percent for the test year is reasonable.

Similarly, in the same years since Hurricane Michael, the Company experienced average annual therm sales growth of approximately 11.5 percent. While the Company’s forecast of 5.5 percent therm sales growth for the test year may appear low, staff believes the average therm sales for the post-Hurricane Michael years is skewed due to significant therm sales increases in 2020 and 2021. Sales growth for the Company has slowed considerably in each year since 2021.

Staff has reviewed SJNG’s customer count and therm sales projections at each customer class level for the 2024 test year. Staff believes the Company’s customer and therm sales projections for each customer class are reasonable with the exception of the therm sales projection for one customer class, the GS-4 rate class. As discussed in more detail below, this rate class includes Sacred Heart Hospital and the Gulf Correctional Institute (GCI). As SJNG explained, therm sales to GCI under the GC-4 rate class only occur during months when GCI experiences higher demand than is allowed under its contract with its gas vendor.<sup>6</sup>

SJNG explained that GCI has a contractual agreement with Gas South. This gas is provided over SJNG’s distribution system. GCI was included in the Company’s filing as a customer, and listed in the FTS-4 rate class, which is the Company’s lone transportation service rate class.

Staff noted that, as of August 30, 2024, SJNG’s GS-4 customer class had already exceeded the Company’s annual therm projection for that class. SJNG explained that when GCI requires more gas than scheduled from Gas South, SJNG will supply its system gas as needed to GCI and bill this additional system gas under the GS-4 customer class. Since this “additional” gas is unscheduled, and according to SJNG “without notice,” no additional therm sales for GCI were included in Company’s forecast of therm sales for the GS-4 rate class for the test year. SJNG

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<sup>6</sup>FPSC Data Requests

acknowledged that it has supplied 44,203 therms of system gas to GCI in 2024 as of September 30, 2024.

Based on the updated information from the Company, staff believes that SJNG's determination to not recognize these additional therm sales to GCI in its original filing will result in an underestimated revenue forecast at current rates and potentially distort the Company's revenue requirement percentage increase amount. An under-forecast of test year revenue at current rates, if not corrected, can be expected to impact the proposed test year percentage increase in revenues and ultimately customer rates.

Staff believes an adjustment to SJNG's therm sales will not only provide a more accurate representation of total therm sales and revenue for the test year, but also prevent SJNG's customers from paying higher rates that may result from the under-forecasting of GS-4 therm sales. On October 21, 2024, SJNG provided an updated 2024 Test Year therm sales forecast for both the GS-4 and FTS-4 rate classes that properly accounts for the excess therm sales to GCI.

Staff has reviewed the updated forecasts for the GS-4 and FTS-4 rate classes provided by SJNG and believe them to be a more accurate projection of the projected test year sales that the Company will actually realize. The updated therm sales information results in a 42,391 increase to the projected test year therm sales for the GS-4 rate class and a 2,694 reduction to the projected test year FTS-4 rate class.

### **CONCLUSION**

The Commission should approve SJNG's forecasts of customers and therms by rate class for the projected test year ending December 31, 2024 with two exceptions: (1) the projected test year sales projections for the GS-4 rate class should be increased by 42,391 therms, and (2) the FTS-4 rate class sales should be decreased by 2,694 therms.



**Issue 3:** Are SJNG’s estimated revenues from sales of gas by rate class at present rates for the projected test year appropriate? If not, what adjustments should be made?

**Recommendation:** No. SJNG’s estimated revenues from sales of gas by rate class at present rates for the projected test year are underestimated for the GS-4 rate class and overestimated for the FTS-4 rate class. SJNG’s estimated revenues from the sales of gas for all other rate classes are appropriate. The Company’s GS-4 rate class test year revenues should be increased by \$6,715 and the FTS-4 rate class revenues should be decreased by \$427, resulting in a net \$6,288 increase to SJNG’s estimated test year revenues from sales of gas at present rates. (Kunkler)

**Staff Analysis:** This issue addresses whether SJNG’s estimated revenues from sales of gas by rate class at present rates for the projected test year is appropriate. As explained in Issue 2, SJNG provided forecasted customer counts and therm sales for all of the Company’s rate classes for the 2024 test year. Once the forecasted customer counts and therm sales are established, they are multiplied by the Company’s respective current rates for each customer class and summed to yield total revenues from the sale of gas.

Staff confirmed that SJNG used the correct current rates for all customer classes in its calculations of test year revenue. However, as discussed in Issue 2, staff believes SJNG’s therm sales forecasts for the GS-4 and FTS-4 rate classes should be adjusted to reflect more accurate and updated year-to-date sales data.

**Table 3-1  
 2024 Test Year Revenues from Sales of Gas: GS-4 and FTS-4 Rate Classes**

	SJNG Proposed	Staff Proposed	Difference
GS-4 Therm Sales	108,755	151,146	42,391
Current Rate (per therm)	\$0.15840	\$0.15840	-
Energy Charge Revenue	\$17,227	\$23,942	\$6,715
FTS-4 Therm Sales	127,567	124,873	(2,694)
Current Rate (per therm)	\$0.15840	\$0.15840	-
Energy Charge Revenue	\$20,207	\$19,780	(\$447)

Source: SJNG MFR Schedule E-2, page 1 of 2; DN 09805-2024

If the Commission approves staff’s recommendation in Issue 2, SJNG’s test year revenues from sales of gas at present rates should be increased from \$1,401,291 to \$1,407,579, an increase of \$6,288.

### CONCLUSION

SJNG’s estimated revenues from sales of gas by rate class at present rates for the projected test year are underestimated for the GS-4 and overestimated for the FTS-4 rate classes. SJNG’s estimated revenues from the sales of gas for all other rate classes are appropriate. The

Company's GS-4 rate class test year revenues should be increased by \$6,715 and the FTS-4 rate class revenues should be decreased by \$427, resulting in a net \$6,288 increase to SJNG's estimated test year revenues from sales of gas at present rates.

**Issue 4:** Is the quality of service provided by SJNG adequate?

**Recommendation:** Yes. SJNG's quality of service is adequate. (Lewis)

**Staff Analysis:** Pursuant to Section 366.041, F.S., in fixing rates, the Commission is authorized to give consideration, among other things, to the efficiency, sufficiency, and adequacy of the facilities provided and the services rendered. As part of its review, Commission staff held a virtual customer meeting on September 4, 2024. The purpose of the meeting was to gather information regarding customer concerns about SJNG's quality of service and its request for a rate increase. No customers participated in the meeting, and no customer comments were filed in the docket. SJNG serves approximately 3,186 customers.

A review of the Commission's Consumer Activity Tracking System indicated that there were nine complaints received from January 1, 2019, through October 28, 2024. Of the nine complaints, there were six complaints pertaining to billing and three complaints regarding improper disconnects. There was one apparent rule violation identified by staff that occurred in August 2023. A proper disconnect notice was not sent to the customer, resulting in the interruption of service for one day. The Company apologized to the customer and restored service.

Pursuant to Rule 25-7.018, F.A.C., each gas utility shall keep a complete record of all interruptions affecting the lesser of 10 percent or 500 or more of its division meters. Based on the Company's filing, there were no customer interruptions affecting either 10 percent or 500 meters during the historic 2023 test year.

## CONCLUSION

Based on a review of the information discussed above, staff recommends that SJNG's quality of service is adequate.

**Issue 5:** Should the depreciation rates approved in SJNG’s last depreciation study by Order No. PSC-2023-0215-PAA-GU, issued July 26, 2023, be used in this docket for calculating the projected test year’s depreciation expense?

**Recommendation:** Yes, the depreciation rates approved in SJNG’s last depreciation study and appearing in Order No. PSC-2023-0215-PAA-GU, issued July 26, 2023, should be used for calculating the projected test year’s depreciation expense. (Kunkler)

**Staff Analysis:** Depreciation is a significant component of a utility’s cost, and an accurate calculation of depreciation expense is critical for projecting a utility’s total expenses for the test year. Utilizing the most current depreciation rates allow for a utility to closely align its financial projections with the actual, observed decline in asset value over time, resulting in the most accurate estimate of the revenue requirement for the projected test year.

Pursuant to Rule 25-7.0435(4)(a), F.A.C., SJNG filed its last depreciation study in January 2023, in Docket No. 20230022-GU. The depreciation rates were approved by Order No. PSC-2023-0215-PAA-GU in that docket, and were developed through a detailed analysis of SJNG’s assets and reflect their most current life and usage patterns.<sup>7</sup> No new depreciation rates have been approved for this Company since the issuance of the aforementioned order.

Further, Rule 25-7.0435(2)(a), F.A.C., prescribes that no utility shall change any existing depreciation rate or initiate any new depreciation rate without prior Commission approval. Therefore, staff believes that the depreciation rates approved by Order No. PSC-2023-0215-PAA-GU not only provide a reliable and accurate basis for determining the test year depreciation expense and will lead to the most accurate financial projections for the test year, but are also the rates that are required by the Commission’s depreciation rule.

## CONCLUSION

Staff recommends that the depreciation rates approved in SJNG’s last depreciation study by Order No. PSC-2023-0215-PAA-GU, issued July 26, 2023, should be used for calculating the projected test year’s depreciation expense.

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<sup>7</sup>Order No. PSC-2023-0215-PAA-GU, issued July 26, 2023, in Docket No. 20230022-GU, *In re: Petition for approval of 2022 Depreciation Study by St. Joe Natural Gas Company, Inc.*

**Issue 6:** Has SJNG made the proper adjustments to remove all non-utility activities from the projected test year rate base? If not, what adjustments should be made?

**Recommendation:** No. Plant-in-Service should be decreased by \$58,773 and Accumulated Depreciation increased by \$16,080 in the projected test year rate base related to non-utility activities. (Przygocki)

**Staff Analysis:** In Audit Finding No. 8, staff found that adjustments to Common Plant Allocated and Accumulated Depreciation listed in MFR Schedule F-1 were incorrect. Staff adjusted Common Plant Allocated from \$216,805 to \$275,578 and Accumulated Depreciation from \$125,229 to \$141,309. Therefore, Plant-in-Service should be decreased by \$58,773 and Accumulated Depreciation should be increased by \$16,080. The Company reviewed this audit finding and agreed with the adjustments.

### CONCLUSION

Plant-in-Service should be decreased by \$58,773 and Accumulated Depreciation increased by \$16,080 in the projected test year rate base related to non-utility activities.

**Issue 7:** What level of projected test year Plant-in-Service should be approved?

**Recommendation:** The appropriate amount of Plant-in-Service for the projected test year is \$9,431,217. Staff recommends a reduction to the 13-month average Plant-in-Service of \$59,800 associated with SJNG's 2024 plant additions. Staff also recommends that SJNG provide the Commission a written update on the purchase status of the trucks within one calendar year of the issuance of the final order in this proceeding. (Lewis, Przygocki)

**Staff Analysis:** SJNG filed Plant-in-Service of \$9,549,790. Based on the adjustment from Issue 6, staff reduced Plant-in-Service by \$58,773. Additional adjustments to the Company's requested plant additions in the projected test year are necessary.

### **Requested Plant Additions**

As discussed in the direct testimony of Andy Shoaf, SJNG requested cost recovery for two capital projects, as well as two vehicles, power operated equipment, and two office computers. Staff's total recommended cost for plant additions is \$340,045, which represents a reduction of \$176,693. The reduction to the 13-month average Plant-in-Service balance in the projected test year is \$59,800. The requested plant additions, amounts, staff's recommendations, and adjustments to the Company's MFRs are discussed below.

#### ***Encoder Receiver Transmitters (ERTs)***

SJNG is in the process of replacing ERTs, which are used for the automatic meter reading of gas meters. SJNG began deploying the ITron 100-G ERT system approximately 13 years ago. SJNG's existing ERTs need to be replaced due to battery failure. The Company most recently replaced 200 meters in January 2023 at a cost of \$16,214 (\$81.07 each). As part of this rate case, the Company requested cost recovery for the 3,000 residential meters remaining to be replaced and indicated that it anticipates these replacements would be completed over the next three years at a cost of \$333,254. However, SJNG stated that it has been unable to purchase the remaining ERTs due to back order issues. While staff does not dispute the need for the ERTs, there is no certainty as to when SJNG will obtain the replacement ERTs and it would not be appropriate for SJNG to recover costs for a plant addition that does not have an anticipated in-service date. Due to the uncertainty of SJNG's ability to obtain the ERTs, staff does not recommend approval of this plant addition at this time. The Company may petition the Commission to recover the costs of the remaining meters once they have been acquired.

#### ***Trucks***

SJNG requested two trucks, a regular cab and a crew cab, as replacements for existing vehicles. The vehicles being replaced are the oldest in its fleet with the highest mileage. These trucks were purchased more than 5 years ago and maintenance costs are increasing due to age and usage. SJNG stated that the new standard cab truck is used as a service vehicle, and the crew cab is used by the Company's Operation Manager to inspect the distribution system. System inspections require a four-wheel drive vehicle in order to access remote areas of the system. The crew cab is also used to transport multiple employees to job sites. The Company explained that all of its service and manager vehicles are set up the same way in order to have all necessary equipment to perform duties and protect the trucks from wear and tear. This includes: added toolboxes, toroidal propane tanks and conversion kits, vinyl wraps with the Company's name, and bed liners. The toroidal tanks are used to convert the trucks to run on propane, which saves SJNG

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fuel costs for these vehicles. SJNG included \$127,988 in its MFRs to reflect the purchase of the two trucks. However, in response to staff's data requests, the Company provided invoices and quotes, for trucks and accompanying accessories it purchased in late 2022 and 2023, as examples of costs to be incurred. This amounted to more than what was originally recorded in the MFRs. Staff questioned this discrepancy through data requests and SJNG replied that the estimates included in the MFRs were early projections. Staff does not dispute SJNG's need for the truck replacements and believes they are reasonable. Therefore, staff recommends \$144,243 for the purchase of the trucks, toroidal propane tanks, conversion kits, toolboxes, vinyl wraps, and bed liners. This represents an increase of \$16,255 over the amounts included in SJNG's MFRs. However, SJNG has not yet purchased these trucks and indicated it intends to purchase them once cash flow allows. While staff recommends the purchase of these trucks and accompanying accessories, staff also recommends that SJNG provide the Commission a written update on the purchase status of the trucks within one calendar year of the issuance of the final order to this in this proceeding.

### ***Tractor***

In August 2024, SJNG purchased a new tractor. The Company also purchased various accessory components such as a backhoe, front loader, and a trailer for hauling the tractor to worksites. SJNG explained that this tractor is used to maintain more than 22 miles of right-of-way in its service territory. SJNG's previous tractor was in disrepair, requiring \$17,750 of engine repairs. Based on provided invoices, SJNG purchased the new tractor and its accessories for \$77,600. At the time of purchase, SJNG received \$20,000 as the trade-in value for the old tractor. In addition, SJNG stated that 25 percent of the tractor should be allocated to its non-utility business. Based on the above information, staff believes this is a necessary replacement. Therefore, staff recommends \$58,200 for the tractor and accessories. This represents an increase of \$10,500 to the Company's MFRs. However, staff also recommends an adjustment be made to the Company's depreciation reserve by adding \$15,000 ( $\$20,000 \times 75$  percent) to reflect the trade-in of the old tractor. Therefore, the overall rate base affect would be a reduction of \$4,500.

### ***Computers***

In its filing, SJNG requested \$7,796 for two desktop computers, which were purchased in July 2024. These computers are replacements for older computers that were starting to show their age in terms of their operating systems' speed. Based on a paid invoice submitted by SJNG, the total cost for the two Dell OptiPlex 7000-ST computers was \$2,520 (\$1,255 each), which is \$5,276 less than SJNG's original filing. Staff believes that this request is reasonable and recommends \$2,520 for recovery of the costs of these computers.

### ***City Gate Replacement***

SJNG's 2024 capital plan included replacing its primary City Gate Receipt Point (the point where the Company receives gas from the transmission system) to include a check meter for comparison of delivered volumes of gas from its supplier, Florida Gas Transmission Company (FGT). SJNG requested a check meter be included as part of this project due to recent billing issues with FGT. FGT's meter is currently the only meter at SJNG's receipt point from the FGT pipeline and installing this check meter would avoid any potential billing issues in the future. SJNG's obtained quote included the purchase of an assembly to allow for remote monitoring. The contracted cost to build the new meter station and install the new check meter is \$81,411.

The meter and accompanying components were purchased for \$34,439. This project also required an estimated \$15,233 of preparatory site work and an additional \$4,000 for a contractor to keep the site drained during the four-day installation. SJNG stated that it expects to have the city gate replacement completed by December 2024.

Despite the fact that witness Andy Shoaf included the need for the City Gate replacement in his testimony, no estimates for the project were included in the Company's MFRs. This is because the MFRs were prepared prior to the testimony and prior to SJNG finding a reasonable bid from a contractor to complete the work. Due to heightened concerns regarding FGT's measuring capabilities, the Company felt it necessary to request this project in the instant case. Staff agrees this is a valid concern and SJNG's request is reasonable. Therefore, based on the estimates and invoices provided by the SJNG, staff recommends that the total cost of the project is \$135,083.

### ***Summary***

In total, SJNG's requested 2024 plant additions should be decreased by \$176,693. The Commission should approve an adjusted amount of \$340,045 for SJNG's 2024 plant additions. The resulting reduction to the 13-month average Plant-in-Service balance in the projected test year is \$59,800. Staff also recommends that SJNG provide the Commission a written update on the purchase status of the trucks within one calendar year of the subsequent Order to this recommendation.

### **CONCLUSION**

The appropriate amount of Plant-in-Service for the projected test year is \$9,431,217. Staff recommends a reduction to the 13-month average Plant-in-Service of \$59,800 associated with SJNG's 2024 plant additions. Staff also recommends that SJNG provide the Commission a written update on the purchase status of the trucks within one calendar year of the issuance of the final order to this in this proceeding.



**Issue 8:** What level of projected test year Accumulated Depreciation should be approved?

**Recommendation:** Staff recommends an Accumulated Depreciation balance of \$6,254,754 for the projected test year. Staff recommends increasing Accumulated Depreciation by \$11,930. (Przygocki, Kunkler)

**Staff Analysis:** SJNG's original filing reflected a projected test year Accumulated Depreciation balance of \$6,242,825. In addition to the adjustment discussed in Issue 6 and corresponding adjustments from the Plant-in-Service adjustments in Issue 7, there is one additional audit finding addressing Accumulated Depreciation.

As reflected in Audit Finding No. 4, the wrong depreciation rate was applied to Account 390. The Company used 1.8 percent, whereas the Commission-approved rate is 2.2 percent. Audit staff noted that 23.93 percent of Account 390 was allocated to the Company's non-regulated operations. The Accumulated Depreciation for Account 390 should be increased by \$357 and the allocated Accumulated Depreciation for Account 390 should be increased by \$86.

### **CONCLUSION**

Based on the above adjustments and previous issues, staff recommends increasing Accumulated Depreciation by \$11,930. Staff, therefore, recommends an Accumulated Depreciation balance of \$6,254,754.

**Issue 9:** What level of projected test year Construction Work in Progress (CWIP) should be approved?

**Recommendation:** The level of projected test year CWIP that should be approved is \$0. (Przygocki)

**Staff Analysis:** On MFR Schedule G-1, page 1, the Company reflects a projected test year balance of CWIP to be \$0. Staff does not recommend any adjustments.

**Issue 10:** What level of projected test year Working Capital should be approved?

**Recommendation:** The amount of projected test year Working Capital should be \$74,822. (Przygocki)

**Staff Analysis:** On MFR Schedule G-1, page 1, the Company reflected a projected test year balance of Working Capital of \$74,822. Staff reviewed the levels of the components, including a cash balance of \$126,764, non-utility adjustments, and verified that SJNG did not include unamortized rate case expense in Working Capital for the projected test year. Staff has no reductions to Working Capital.

### **CONCLUSION**

As such, staff does not recommend any adjustments. The amount of projected test year Working Capital should be \$74,822.

**Issue 11:** What level of projected test year rate base should be approved?

**Recommendation:** The level of projected test year rate base that should be approved is \$3,251,285. (Przygocki)

**Staff Analysis:** This is a fallout issue. SJNG reflected a projected test year rate base of \$3,381,787. Based on the adjustments in Issues 6, 7, and 8, staff recommends reducing rate base by \$130,502. As such, staff recommends a projected test year rate base of \$3,251,285.

### **CONCLUSION**

The level of projected test year rate base that should be approved is \$3,251,285.

**Issue 12:** What amount of projected accumulated deferred taxes should be approved for the projected test year capital structure?

**Recommendation:** The amount of accumulated deferred income taxes to include in the 2024 projected test year capital structure is \$602,050. (Ferrer)

**Staff Analysis:** SJNG requested a total accumulated deferred income tax (ADITs) balance of \$989,098 be included in the 2024 projected test year capital structure, which is presented on MFR Schedule G-3, page 2. The Company filed supplemental MFR Schedules on August 19, 2024 which updated the amount to \$1,235,741. SJNG witness Stitt testified that the appropriate level of deferred income taxes to be used in the determination of the Company's capital structure for the projected test year is \$989,098, based on the amount submitted in the original MFR Schedules. Upon review, staff had concerns about the large amount of ADITs as compared to the Company's rate base amount of \$3,381,787, which is 36.54 percent of its capital structure. Upon staff's request, SJNG consulted with its accountant and determined that the ADIT balance included in its MFR Schedule reflected the per books total for both the Company's regulated and non-regulated businesses. Subsequently, SJNG provided a calculation of the projected 2024 ADIT balance of \$626,216 based on the regulated portion of the Company's ADIT Balance.<sup>8</sup> Staff believes the revised amount is more reasonable given the ADIT balance approved in the Company's 2008 rate case relative to the 2008 test year capital structure. After reconciliation of the capital structure to the recommended rate base amount, the amount of ADITs is \$602,050. Accordingly, the amount of accumulated deferred income taxes to include in the 2024 projected test year capital structure is \$602,050.

## CONCLUSION

The amount of accumulated deferred income taxes to include in the 2024 projected test year capital structure is \$602,050.

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<sup>8</sup>DN 09929-2024

**Issue 13:** What amount and cost rate for customer deposits should be approved for the projected test year capital structure?

**Recommendation:** The amount and cost rate for customer deposits for the 2024 projected test year capital structure is \$50,111 at a cost rate of 2.00 percent. (Quigley)

**Staff Analysis:** In its initial filing, SJNG presented its 2024 projected test year capital structure based on a 13-month average reflecting a customer deposit per book balance of \$189,447 at a cost rate of 2.00 percent as shown on MFR schedule G-3, page 2 of 11, line 4. The Company made a specific adjustment of \$137,325 to remove the customer deposits for the non-regulated business for an adjusted balance of \$52,122.

Staff reviewed Supplemental MFR schedule G-3, page 7 of 11, and confirmed the calculation of interest on customer deposits complies with the requirements set forth in Rule 25-7.083(6)(a), F.A.C. After reconciliation of the capital structure to the recommended rate base amount, the amount of customer deposits is \$50,111. Accordingly, staff recommends the amount and cost rate for customer deposits that should be approved for the 2024 projected test year capital structure is \$50,111 at a cost rate of 2.00 percent.

### **CONCLUSION**

The amount and cost rate for customer deposits for the 2024 projected test year capital structure is \$50,111 at a cost rate of 2.00 percent.

**Issue 14:** What amount and cost rate of long-term debt should be approved for inclusion in the projected test year capital structure?

**Recommendation:** An amount of \$883,741 for long-term debt at a cost rate of 8.36 percent should be approved for inclusion in the projected test year capital structure. (McGowan)

**Staff Analysis:** In its initial filing, SJNG presented its 2024 projected test year capital structure based on a 13-month average consisting of long-term debt in the adjusted amount of \$335,752 at a cost rate of 8.50 percent as reflected on MFR Schedule G-3, page 2 of 11. The Company filed supplemental MFR Schedules on August 19, 2024, which updated the amount to \$302,639. SJNG witness Stitt affirmed that the Company is forecasting the capital budget requirements and some operating requirements will be funded with debt and all Company debt in the projected test year is anticipated to be long-term.

On MFR Schedule G-3, page 3 of 11, the Company calculated an embedded cost of long-term debt of 7.95 percent. This cost rate was based on dated interest rates. The long-term debt consisted of four debt issuances. Two of the loans are from the Shoaf Family Trust and the Costin Family Trust in the amounts of \$150,000 each, at a cost rate of 6.50 percent, and included maturity dates of December 31, 2023. The other two loans are projected loans from Centennial Bank in the amounts of \$500,000 and \$300,000. SJNG's President, Stuart Shoaf, testified the projected cost rate of long-term debt for the Centennial Bank Loans was based on conversations with local lending institutions and the actual 8.50 percent interest rate for a loan the Company recently obtained from Centennial Bank on February 9, 2024, for non-utility purposes.<sup>9</sup> Staff confirmed the cost rate of 8.50 percent is reflected in the loan agreement and believes it is reasonable based on the current prime rate of 7.75 percent.<sup>10</sup>

Regarding the loans from the Shoaf Family Trust and Costin Family Trust, SJNG explained the Company was unable to pay off the loans at maturity and the lenders renewed the loans in April 2024 at an interest rate of 8.00 percent. Given the documentation and information provided by the Company, and after recalculating the interest for the renewed loans, the proper cost rate for long-term debt is 8.36 percent for the projected test year. In Issue 15, staff recommends that the equity ratio be capped at 60.00 percent which increases the long-term debt balance to \$919,213. After reconciliation of the capital structure to the recommended rate base amount, the amount of long-term debt is \$883,741.

## CONCLUSION

An amount of \$883,741 for long-term debt at a cost rate of 8.36 percent should be approved for inclusion in the projected test year capital structure.

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<sup>9</sup>Document No. 09343-2024.

<sup>10</sup><https://www.federalreserve.gov/releases/h15/>.

**Issue 15:** What equity ratio should be approved for the projected test year capital structure?

**Recommendation:** An equity ratio of 60.00 percent, based on investor sources, should be approved for the projected test year capital structure. (D. Buys)

**Staff Analysis:** In its filing, SJNG requested an equity ratio of 82.00 percent, based on investor sources. In SJNG's last rate case in 2008, the Commission capped the Company's equity ratio at 60.00 percent, reducing SJNG's requested equity ratio of 84.40 percent. In its Order, the Commission expressed its concern that SJNG was not using lower cost debt to leverage its operations and minimize its overall cost of capital.<sup>11</sup> The Commission also found that allowing SJNG an equity ratio that is greater than the average equity ratio maintained by other natural gas distribution companies offsets the business risks facing a small, privately held utility that is exposed to the financial and business risks discussed in Issue 16. The equity ratios of the four other natural gas companies in Florida are summarized in Table 15-1.

**Table 15-1**  
**Natural Gas Company Equity Ratio**

<b>Natural Gas Company</b>	<b>Equity Ratio</b>
Peoples Gas System, Inc.	54.70%
Florida City Gas	59.60%
Florida Public Utilities Co.	55.10%
Sebring Gas System, Inc.	38.43%
AVERAGE	51.96%

Source: Staff Analysis

The authorized equity ratios of the Florida natural gas utilities reflect the actual capitalization of the companies, and average 52.00 percent. Capping the equity ratio at 60.00 percent is greater than the equity ratio of the four Florida natural gas companies and would help offset SJNG's business risks as compared to the other natural gas companies. This adjustment is consistent with the decision in SJNG's last two rate cases in 2008<sup>12</sup> and 2001<sup>13</sup>. Therefore, staff believes an equity ratio of 60.00 percent is reasonable and recommends an equity ratio of 60.00 percent, based on investor sources, should be approved for the projected test year capital structure. The amount of equity that should be included in the projected test year capital structure is \$1,325,612.

## **CONCLUSION**

An equity ratio of 60.00 percent, based on investor sources, should be approved for the projected test year capital structure.

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<sup>11</sup>Order No. PSC-08-0436-PAA-GU, Issued July 8, 2008, in Docket No. 070592-GU, *In re: Petition for rate increase by St. Joe Natural Gas Company, Inc.*

<sup>12</sup>Id.

<sup>13</sup>Order No. PSC-01-1274-PAA-GU, Issued June 8, 2008, in Docket No. 001447-GU, *In re: Petition for rate increase by St. Joe Natural Gas Company, Inc.*



**Issue 16:** What return on equity (ROE) should be approved for establishing SJNG’s projected test year revenue requirement?

**Recommendation:** An authorized ROE of 10.50 percent, with a range of plus or minus 100 basis points, should be approved for establishing SJNG’s projected test year revenue requirement. (D. Buys)

**Staff Analysis:** SJNG’s currently authorized return on equity (ROE) of 11.00 percent was last established in 2008 by Order No. PSC-08-0436-PAA-GU.<sup>14</sup> In its petition, SJNG requested the Commission maintain this same return on common equity for purposes of this proceeding. The Company did not file traditional cost of capital testimony with its petition in this case, citing the high cost of retaining an expert cost of capital witness, and that using the typical cost of equity analyses using financial models is problematic for a Company as small as SJNG. Instead, the Company submitted pre-filed testimony on what it believes is the appropriate cost rate for common equity. In his testimony, witness Stuart Shoaf, President of SJNG, recommended the Commission set SJNG’s ROE based on an assessment of the Company’s business risk, financial risk, and comparability with other similarly-situated natural gas utilities operating in Florida. Witness Shoaf also requested the Commission set rates in this proceeding that would allow the Company an opportunity to earn a return on its investment consistent with the standards established by the U.S. Supreme Court decisions in the *Hope* and *Bluefield* cases.<sup>15</sup> Those standards are summarized as follows: (1) the rate of return for a public utility should be similar to the returns of other financially sound businesses with comparable risk profiles, (2) the rate of return should be adequate to assure confidence in the financial integrity of the utility, and (3) the rate of return should be sufficient to support the credit requirements of the utility and enable it to attract the capital, at reasonable costs, needed to provide adequate and reliable service to consumers.

SJNG’s President provided a general assessment of the Company’s business risk factors. He explained that SJNG is an extremely small company compared to the other regulated natural gas distribution companies operating in Florida. A smaller company is more susceptible to a slow down in the economy, increased operating expenses, and declining gas consumption. Also, natural gas is not a monopoly fuel and all natural gas customers have fuel alternatives, including electric and propane. In addition, SJNG is dependent on a single large volume transportation customer, Gulf Correctional Institute, for 10 percent of its throughput and sales. In SJNG’s last rate case, the Company indicated 80 percent of its total sales were for two industrial customers, Gulf Correctional Institution and Arizona Chemical. Since the last rate case, Arizona Chemical closed its operations in 2009, and consequently, SJNG saw an annual revenue shortfall of just under \$300,000. Additionally, in October 2018, Hurricane Michael targeted the heart of SJNG’s service territory causing catastrophic damage to the Company’s natural gas distribution system and the homes and businesses of its customers. Many of the customers rebuilt homes with more efficient gas or all electric appliances that reduced the amount of gas consumed. Witness Shoaf

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<sup>14</sup>Order No. PSC-08-0436-PAA-GU, Issued July 8, 2008, in Docket No. 070592-GU, *In re: Petition for rate increase by St. Joe Natural Gas Company, Inc.*

<sup>15</sup>*Bluefield Water Works & Improvement Company v. Public Service Commission of West Virginia, et.al*, 262 U.S. 679 (1923), and *Federal Power Commission v. Hope Natural Gas Company*, 320 U.S. 501 (1944).

contended, and staff is persuaded, that SJNG is exposed to greater business risk than the average natural gas distribution company in Florida.

Regarding financial risk, the Company has requested a capital structure containing an equity ratio as a percentage of investor supplied capital of 82.00 percent. In Issue 15, staff recommends that the Commission cap the equity ratio at 60.00 percent, based on investor sources. This level of equity capitalization is greater than the relative level of equity capital maintained by all four of the other Florida natural gas distribution companies. Normally, a company with a higher equity ratio is exposed to less financial risk than a comparable company with a lower equity ratio. In this case, even when capped at 60.00 percent SJNG has a comparably higher equity ratio than the average natural gas distribution company in Florida.

As pointed out in witness Shoaf’s testimony, Sebring Gas System, Inc. (Sebring) is the most comparable to SJNG due to its size and business risks. However, Sebring’s ROE of 11.00 percent was set based on an investor supplied equity ratio of 38.43 percent, which is less than half that of SJNG’s actual equity ratio of 82.00 percent. Even with an imputed equity ratio of 60.00 percent, SJNG has significantly less financial risk than Sebring. Accordingly, the authorized ROE should reflect SJNG’s low financial risk as compared to the other Florida natural gas distribution companies.

The table below summarizes the equity ratio, authorized ROE, WACC, and rate base as of June 30, 2024, of the five natural gas distribution companies in Florida. As shown in Table 16-1, SJNG currently has the lowest WACC of all the Florida gas companies. In Issue 17, staff recommends a WACC of 6.58 percent based on an equity ratio of 60.00 percent and an ROE of 10.50 percent. This capital structure and resulting WACC would bring SJNG within the range of WACCs currently authorized by the Commission for the other Florida natural gas companies.

**Table 16-1  
 Comparable Natural Gas Companies**

<b>Company</b>	<b>Rate Base</b>	<b>Equity Ratio</b>	<b>ROE</b>	<b>WACC</b>	<b>Year Set</b>
Peoples Gas System, Inc.	\$2,203,576,000	54.70%	10.15%	7.02%	2023
Florida City Gas	\$488,147,944	59.60%	9.50%	6.44%	2023
Florida Public Utilities Co.	\$482,410,455	55.10%	10.25%	5.97%	2023
Sebring Gas System, Inc.	\$4,464,446	38.43%	11.00%	6.81%	2020
St. Joe Natural Gas Co. Inc.	\$3,037,553	60.00%	11.00%	5.44%	2009

Source: Staff Analysis

In addition, the most recent returns on equity authorized by the Commission for natural gas distribution companies have been similar, ranging from 9.50 percent to 10.25 percent. The average of the most recent authorized ROEs for the other natural gas utilities is 10.225 percent, excluding SJNG. SJNG and Sebring have the highest ROE to reflect their smaller size and greater exposure to other business risks. Table 16-2 shows the most recent returns on equity authorized by the Commission for Florida natural gas distribution companies.

**Table 16-2  
 Commission Orders for Comparable Natural Gas Companies**

<b>Company</b>	<b>Order Number</b>	<b>Issued</b>	<b>ROE</b>
Peoples Gas System, Inc.	PSC-2023-0388-FOF-GU	December 27, 2023	10.15%
Florida City Gas	PSC-2023-0177-FOF-GU	June 9, 2023	9.50%
Florida Public Utilities Co.	PSC-2023-0103-FOF-GU	March 15, 2023	10.25%
Sebring Gas System, Inc.	PSC-2020-0047-PAA-GU	February 3, 2020	11.00%
St. Joe Natural Gas Co. Inc.	PSC-08-0436-PAA-GU	July 8, 2009	11.00%

Source: Staff Analysis

In addition, at the time of the Commission’s decision in SJNG’s last rate case in July 2008, the yield on 30-year U.S. Treasury Bonds was 4.53 percent and is currently 4.49 percent. However, the long-term Baa corporate bond yield has declined by approximately 135 basis points from around 7.00 percent in July 2008 to 5.64 percent currently. This indicates capital costs between the two periods have declined slightly which suggests the access to capital at reasonable terms has remained similar, if not slightly improved.

In SJNG’s last rate case, the Commission authorized an ROE of 11.00 percent with an equity ratio of 60.00 percent, which equated to a weighted average cost of equity of 3.65 percent in the Company’s approved capital structure in the 2008 rate case. Staff’s recommended ROE of 10.50 percent in this proceeding, combined with an equity ratio of 60.00 percent provides the Company with a weighted average cost of equity of 4.28 percent. Although staff is recommending a reduction to the Company’s ROE from the rate that was authorized in its last rate case, SJNG’s equity ratio of 60.00 percent provides the Company with a strong balance sheet and lower financial risk as compared to other utilities operating in Florida. Therefore, staff believes an ROE of 10.50 percent combined with an equity ratio of 60.00 percent is reasonable, comports with the *Hope* and *Bluefield* requirements to set a fair rate of return commensurate with returns set for other companies of comparable risk, and will enable the Company to obtain the needed capital at reasonable terms to provide adequate and reliable service to its consumers.

Based on the aforementioned, staff recommends an authorized ROE of 10.50 percent for SJNG, with a range of plus or minus 100 basis points.

### CONCLUSION

An authorized ROE of 10.50 percent, with a range of plus or minus 100 basis points, should be approved for establishing SJNG’s projected test year revenue requirement.

**Issue 17:** What capital structure and weighted average cost of capital should be approved for establishing SJNG’s projected test year revenue requirement?

**Recommendation:** The projected test year capital structure that should be approved consists of 40.77 percent common equity, 27.18 percent long-term debt, 1.54 percent customer deposits, 18.52 percent deferred taxes, and 11.99 percent for the Florida Coast Paper Company (FCPC) deferred credits. The appropriate WACC that should be approved for establishing SJNG’s projected test year revenue requirement is 6.58 percent. (Quigley, D. Buys)

**Staff Analysis:** For the projected test year ending December 31, 2024, SJNG filed a revised capital structure consisting of 82.00 percent common equity and 18.00 percent long term debt, based on investor sources. In Issue 15, staff recommends the Commission cap the equity ratio at 60.00 percent. When reconciled to the rate base pro rata over all sources, the equity ratio decreased to 40.77 percent, and the long-term debt ratio increased to 27.18 percent. In addition to the investor sources of capital, the Company’s capital structure also includes 1.54 percent of customer deposits, 18.52 percent of ADITs, and 11.99 percent of deferred credits related to the imputation of pre-paid revenue for FCPC.<sup>16</sup>

The 13-month average amounts reflect staffs recommended amounts in Issues 12 through 15. As discussed in Issue 14, staff recommends a cost rate for long-term debt of 8.36 percent. As discussed in Issue 16, staff recommends an ROE of 10.50 percent. After these adjustments, a pro rata adjustment is made over all sources of capital to reconcile the capital structure to the rate base amount in Issue 11. The recommended capital structure and WACC for establishing the revenue requirement is summarized in Table 17-1.

**Table 17-1  
 Staff Recommended Capital Structure and WACC**

Capital Component	Adjusted Amount	Ratio	Cost Rate	Weighted Cost
Common Equity	\$1,325,612	40.77%	10.50%	4.28%
Long-Term Debt	\$883,741	27.18%	8.36%	2.27%
Customer Deposits	\$50,111	1.54%	2.00%	0.03%
ADITs	\$602,050	18.52%	0.00%	0.00%
FCPC Deferred Credits	\$389,771	11.99%	0.00%	0.00%
<b>TOTAL</b>	<b>\$3,251,285</b>	<b>100.00%</b>		<b>6.58%</b>

Source: Staff Analysis

The net effect of these adjustments is an increase in the weighted average cost of capital from 6.05 percent as originally requested by the Company to 6.58 percent. Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year ending

<sup>16</sup>In Order PSC-01-1274-PAA-GU, Issued June 8, 2001, in Docket No. 001447-GU, *In re: Request for rate increase by St. Joe Natural Gas Company, Inc.*, p. 20-21, the Commission approved an accounting adjustment to recognize prepaid taxable extraordinary income related to the bankruptcy of FCPC that included the addition of a deferred tax liability to be amortized over 31 years in the capital structure at zero cost.

December 31, 2024, the projected test year capital structure that should be approved for establishing SJNG's projected test year revenue requirement is 6.58 percent.

### **CONCLUSION**

The projected test year capital structure that should be approved consists of 40.77 percent common equity, 27.18 percent long term debt, 1.54 percent customer deposits, 18.52 percent deferred taxes, and 11.99 percent for the Florida Coast Paper Company (FCPC) deferred credits. The appropriate WACC that should be approved for establishing SJNG's projected test year revenue requirement is 6.58 percent.

**Issue 18:** Has SJNG made the proper adjustments to remove all non-utility activities from projected test year net operating expenses, including depreciation and amortization expense? If not, what adjustments should be made?

**Recommendation:** No. SJNG did not remove all non-utility activities from projected test year net operating expenses. Staff recommends a decrease of \$14,393 to the projected test year operations and maintenance (O&M) expense for non-utility activities, as well as a corresponding increase of \$14,494 to projected test year revenues. (Vogel)

**Staff Analysis:** SJNG did not make the proper adjustments to remove all non-utility activities from projected test year net operating expenses. Staff found three items the Company included in its filing that need to be addressed.

### **Property Insurance Expense**

The Company noted an error in the calculation of property insurance expense because it was estimated using 2017 data. When the Company applied the 2023 allocation percentages, it reduced the actual 2023 amount to \$43,382 from \$60,501. Therefore, the projected test year property insurance expense should be reduced by \$17,633.

### **Rental Income and Expense**

SJNG recorded rental expense of \$9,865 for the projected test year. In response to staff's fourth data request, dated September 23, 2024, SJNG stated that, "[o]ffice rental income from non-regulated divisions ... was omitted from the original MFRs filed and needs to be taken into account." The rental adjustments include rental income of \$14,494 for one building and additional rental expense of \$3,240 from a different building. Both of these buildings are shared locations and the adjusted amounts have correct allocations.

### **Advertising Expense**

SJNG included advertising expense of \$1,276 for the projected test year. Audit Finding No. 11 found advertising expenses of \$1,454 in the 2023 base year. SJNG included in that amount an incorrect allocation for a Chamber of Commerce expense, resulting in a reduction of \$38. Staff also noted that the Company failed to allocate a cost for promotional attire totaling \$735. To properly allocate that cost, staff recommends reducing this cost by \$100. Staff's total reduction for advertising expense is \$138. Staff's reductions result in a 2023 total expense of \$1,316. Staff believes the Company should properly allocate these expenses in the future, but does not recommend an adjustment to the \$1,276 expense included in the projected test year.

## **CONCLUSION**

SJNG did not remove all non-utility activities from projected test year net operating expenses. Staff recommends a decrease of \$14,393 to the projected test year O&M expense for non-utility activities, as well as a corresponding increase of \$14,494 to projected test year revenues.

**Issue 19:** What is the appropriate amount of salaries and benefits to include in the projected test year?

**Recommendation:** The appropriate amount of projected salaries and benefits that should be included in the test year is \$769,803. (Vogel)

**Staff Analysis:** SJNG included a salaries expense of \$769,803 for the projected test year. Audit staff verified the salaries and hours of all regulated employees and did not have any findings. Staff sent additional data request questions regarding the work hours, allocation methodology, and employee count to verify that this level of salary is appropriate for the Company.

Staff verified 2023 labor expenses of \$724,588 for the regulated utility and verified that the appropriate amount of allocations took place for that year. Staff, therefore, has no allocation adjustments to make for salaries expense.

SJNG used a compound multiplier, found on MFR Schedule C-37, to justify the increased expenses from 2011. They take into account the increased number of customers and the increase in consumer price index (CPI) over the timeframe of 2011-2022. The calculations result in a multiplier of 1.3779. The Company then used this multiplier as a benchmarking tool to justify the increases requested. For most expenses, the Company used the 2006 base year to compare the benchmark to the requested expenses. The resulting calculations present a matching problem as the multiplier does not include the years prior to 2011, or the year 2023. Even with this discrepancy, the Company's benchmark versus requested comparisons show little variance.

In regard to SJNG's salaries expense, SJNG includes a comparison of CPI increases and salary increases from the years 2019-2022 on MFR Schedule C-33. This comparison shows that the Company has not increased wages at the same rate of CPI over that timeframe.

Staff does not believe the increase in salaries expense seen since 2022 is unreasonable. Staff believes that the expenses were allocated correctly and that the expenses have been reasonable based on inflation increases in the years prior to the filing of the rate case. Therefore, staff recommends no adjustments. Staff recommends including a salaries expense of \$769,803 for the projected test year.

## CONCLUSION

Staff recommends no adjustments to salaries and benefits. The appropriate amount of projected salaries and benefits that should be included in the test year is \$769,803.

**Issue 20:** What amount of projected test year Rate Case Expense should be approved? What amortization period should be used?

**Recommendation:** The appropriate amount of rate case expense is \$137,500. This expense should be recovered over four years for an annual expense of \$34,375. The annual amortization expense should be increased by \$14,875. (Vogel)

**Staff Analysis:** In its MFRs, SJNG requested \$137,500 for rate case expense. Staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. On October 18, 2024, the Company submitted its current invoices supporting a portion of the requested rate case expense, which totaled \$71,770. They also provided a breakdown of the estimated expenses included in the filing of \$130,000 for legal expenses and \$7,500 for CPA/other expenses.

Pursuant to Section 367.081(7), F.S., the Commission shall determine the reasonableness of rate case expense and shall disallow all rate case expense determined to be unreasonable. Staff has examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. Based on its review, staff believes the following adjustments to SJNG requested rate case expense are appropriate.

In its MFRs, SJNG included \$130,000 in legal fees to complete the rate case. In response to staff's eighth data request, the Company provided all current invoices for legal fees in relation to rate case expense totaling \$71,770. The Company stated that the rest of the estimated expense is based off of a cost estimate provided by the attorney. Staff received an updated estimated legal fee for the case of \$130,000, which did provide more detail as to how the amount was appropriate for the case. Staff believes this estimate is sufficient and recommends legal fee expense of \$130,000.

In its MFRs, SJNG included \$7,500 in other expenses to complete the rate case. In response to staff's eighth data request, the Company provided information that this expense was to cover the expenses of the CPA to complete the rate case. The expense was calculated based on previous billings from the CPA.

Based on the adjustments above, staff recommends that the requested rate case expense of \$137,500 be approved. In its MFRs, the Company requested a total rate case expense of \$137,500. When amortized over four years, this represents an annual expense of \$34,375. However, its original filing reflected annual amortization expense of \$19,500. In the Company's response to staff's eighth data request, it stated that the amount of \$19,500 was accidentally left in the MFRs from a previous filing. As such the net increase in annual amortization expense should be \$14,875.

## CONCLUSION

The appropriate amount of rate case expense is \$137,500. This expense should be recovered over four years for an annual expense of \$34,375. The annual amortization expense should be increased by \$14,875.



**Issue 21:** What amount of projected test year O&M expenses should be approved?

**Recommendation:** Staff recommends a total O&M expense of \$1,548,893 for the projected test year. Staff, therefore, recommends an increase of \$51,072 to projected test year O&M expenses. (Vogel)

**Staff Analysis:** SJNG reflected projected O&M expenses of \$1,497,821 in its original filing. In addition to Issues 18 and 20, additional adjustments are recommended.

The Company's updated filing reflected an increase to O&M expenses of \$69,790. In addition to audit staff reviewing the updated 2023 O&M expenses, staff verified that the increase to the projected test year reflected the same factors used in the Company's original filing. The updated O&M expenses requested is \$1,567,611.

In addition to adjustments recommended in Issues 18 and 20, staff recommends an additional adjustment to the Company's Director Fees expense. The regulated utility has been paying the full amount of Director Fees prior to 2000 and has not been adjusted after the creation of the appliance and propane divisions of the Company. The Company stated that the Director Fees are only paid by the regulated operations because the Directors only operate as directors for the regulated division of the Company. However, staff reviewed the minutes of past Annual Meetings of Shareholders and Directors and found that these meetings included discussion of all business of SJNG, including non-regulated businesses. Therefore, staff recommends allowing only 36 percent of the Director's Fees, the same allocation as payroll, which would create a reduction of \$19,200 to O&M expense.

## CONCLUSION

Staff recommends a total O&M expense of \$1,548,893 for the projected test year. Staff, therefore, recommends an increase of \$51,072 to projected test year O&M expenses.

**Issue 22:** What amount of projected test year Depreciation and Amortization Expense should be approved?

**Recommendation:** The amount of Depreciation and Amortization Expense that should be approved for the projected test year is \$370,803. Based on adjustments in Issues 6, 7, and 8, staff recommends a decrease in depreciation expense of \$3,246. (Vogel)

**Staff Analysis:** The Company reflected Depreciation and Amortization Expense of \$374,049 for the projected test year in its original filing. Based on adjustments in Issues 6, 7, and 8, staff recommends a decrease in depreciation expense of \$3,246. Staff recommends Depreciation and Amortization Expense of \$370,803 for the projected test year.

### **CONCLUSION**

The amount of Depreciation and Amortization Expense that should be approved for the projected test year is \$370,803. Based on adjustments in Issues 6, 7, and 8, staff recommends a decrease in depreciation expense of \$3,246.

**Issue 23:** What amount of projected test year Taxes Other than Income should be approved?

**Recommendation:** The appropriate amount of Taxes Other Than Income (TOTI) for the 2024 projected test year is \$129,363. TOTI should be increased by \$1,000 for the projected test year. (Vogel)

**Staff Analysis:** The Company recorded TOTI of \$128,363 in its original MFRs. In its supplemental MFRs the Company made an adjustment of \$41,990 to bring the total amount of TOTI to \$170,353.

In its response to staff's eighth data request, it explained that the increase was due to Gross Receipts Tax expense being removed from the calculation because it was not included in revenues. However, this does not explain the increase in the expense, unless it was accounting for the expense not included in the original filing. In Order No. PSC-01-1274-PAA-GU, the Commission removed the Gross Receipts Tax embedded in base rates and separately stated on customer bills.<sup>17</sup> As such, staff does not recommend increasing TOTI by \$41,990 to reflect the Gross Receipts Tax in the adjusted filing amount.

An additional fallout adjustment for regulatory assessment fees (RAFs) is necessary based on the adjustments in Issues 4 and 18, resulting in an increase of \$1,000. As such, staff recommends TOTI of \$129,363 for the projected test year.

### CONCLUSION

The appropriate amount of TOTI for the 2024 projected test year is \$129,363. TOTI should be increased by \$1,000 for the projected test year.

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<sup>17</sup>Order No. PSC-2001-1247-PAA-GU, issued June 8, 2001, in Docket No. 20001447-GU, *In re: Petition for rate increase by St. Joe Natural Gas Company, Inc.*

**Issue 24:** What amount of projected test year Income Tax Expense should be approved?

**Recommendation:** The appropriate amount of projected test year Income Tax Expense is \$0. Projected Income Tax Expense should be decreased by \$102,452. (Vogel)

**Staff Analysis:** SJNG reflected total income taxes for the test year ending December 31, 2024 of \$102,452, which was comprised entirely of deferred tax expense. Based on the Company's updated filing and staff's Audit Finding No. 9, this amount was an error and should be removed. No additional fallout adjustments are necessary based on the negative net operating income reflected in Issue 26, and accordingly, the income tax expense for the projected test year should be \$0. Staff's recommended revenue increase in Issue 28 reflects the multiplier in Issue 27, which reflects income tax expense on the revenue increase.

### **CONCLUSION**

The appropriate amount of projected test year Income Tax Expense is \$0. Projected Income Tax Expense should be decreased by \$102,452.

**Issue 25:** What amount of projected test year Total Operating Expenses should be approved?

**Recommendation:** The appropriate amount of Total Operating Expenses in the projected test year should be \$2,049,059. Total Operating Expenses should be reduced by \$76,915. (Vogel)

**Staff Analysis:** SJNG included total operating expense of \$2,125,974 in the test year. The Company updated its filing with a total operating expense of \$2,203,302.

In the Company's original filing, it reflected a projected test year amount of \$23,289 labeled Interest Synchronization." In its updated filing, it increased this amount by \$68,000, for a total of \$91,289. Staff believes this adjustment was made in error and is actually the interest expense that is associated with the additional loans discussed in Issue 14. MFR Schedule G-6 also describes it as interest expense. Interest expense on loans is not included in Interest Synchronization and should be removed. Staff recommends decreasing total operating expense by \$23,289 to reflect the removal of the projected test year amount in its original filing.

Based on the adjustments made in previous issues and the adjustment to Interest Synchronization, staff is recommending a reduction of total operating expenses of \$76,915. Staff recommends a total operating expense of \$2,049,059 (\$2,125,974 - \$76,915) for the projected test year.

### **CONCLUSION**

Staff recommends a Total Operating Expense of \$2,049,059, for the projected test year. Total Operating Expenses should be reduced by \$76,915.

**Issue 26:** What amount of projected test year Net Operating Income should be approved?

**Recommendation:** The appropriate amount of Net Operating Income in the projected test year, prior to the rate increase, should be negative \$479,274. (Vogel)

**Staff Analysis:** SJNG included a net operating income of negative \$576,971 in the projected test year. Based on the adjustments in the previous issues, staff recommends an increase in net operating income of \$97,697 for the projected test year. Staff recommends a net operating income of negative \$479,274 for the projected test year.

### **CONCLUSION**

Staff recommends a Net Operating Income of negative \$479,274, prior to the rate increase, for the projected test year.

**Issue 27:** What revenue expansion factor and net operating income multiplier should be approved for the projected test year?

**Recommendation:** The appropriate revenue expansion factor and net operating income multiplier is 74.058 percent and 1.3503, respectively. (Vogel)

**Staff Analysis:** SJNG included a revenue expansion factor of 74.874 percent in the filing. For the projected test year, the Company did not use the correct state income tax factor of 5.5 percent. The corrected state income tax decreases the revenue expansion factor to 74.058 percent. Staff recommends including a revenue expansion factor of 74.058 percent and a net operating income multiplier of 1.3503, for the projected test year.

**Issue 28:** What annual operating revenue increase should be approved for the projected test year?

**Recommendation:** The appropriate annual operating revenue increase for the projected test year should be \$936,224. (Vogel)

**Staff Analysis:** Based on staff adjustments made in all previous issues, the appropriate annual operating revenue increase for the projected test year should be \$936,224. In its original filing, the Company's MFRs reflected a total increase \$1,043,841. Based on its update to the 2023 intermediate test year, SJNG's request increased to \$1,113,241.

**Table 28-1**  
**Revenue Increase**

	Company's Request	Staff Recommended	\$ Decrease	% Decrease
Original Filing	\$1,043,841	\$936,224	(\$107,617)	10.3%
Updated Filing	\$1,113,241	\$936,224	(\$177,017)	15.9%



**Issue 29:** What is the appropriate cost of service methodology to be used in allocating costs to the rate classes?

**Recommendation:** The appropriate cost of service methodology to be used in allocating costs to the various rate classes is reflected in the cost of service study contained in the MFRs. SJNG should file a revised cost of service study, including rates and tariffs that reflect the Commission's vote on all issues by December 16, 2024, close of business. (Ward)

**Staff Analysis:** The purpose of a cost of service study is to allocate the approved total revenue requirement of the utility system among the various rate classes. Then, base rates are designed to recover the total revenue requirement attributable to that class. Base rates for SJNG include the monthly fixed customer charge and the variable per-therm gas delivery service rate, which are addressed in Issues 35 and 36, respectively. In rate design, the fixed customer charge is typically determined first and represents a portion of the overall rate requirement. The per-therm gas delivery service rate is determined by taking the remaining revenue requirement, and dividing by the projected therm volume of each rate class.

Witness Andy Shoaf stated that the standard methodology traditionally used by Commission staff formed the principal basis of the cost of service study. Traditionally, the Commission follows the practice of gradualism, which limits the increase of each rate class to 1.5 times the system average increase in revenue, including adjustment clauses. The practice of gradualism, including limiting the increase to no greater than 1.5 times the system average percentage increase in total, has been affirmed in several prior Commission orders. However, SJNG is proposing to increase revenues by 110.04 percent for the GS-2 rate class, which is more than 1.5 times the system average. In response to staff's fifth data request, SJNG stated that it would agree to limit the increase to 1.5 times the system total revenue increase as long as the revenue reduction in GS-2 is added back to one or more other rate classes. SJNG's proposed cost of service also combined the RS-1 and RS-2 rate classes. As discussed in Issue 34, Staff recommends approval of the rate class consolidation.

Based on the above, the appropriate cost of service methodology to be used in allocating costs to the various rate classes is reflected in the cost of service study contained in the MFRs. SJNG should file a revised cost of service study, including rates and tariffs that reflect the Commission's vote on all issues by December 16, 2024, close of business.

**Issue 30:** What are the appropriate customer charges?

**Recommendation:** This is a fallout issue and will be addressed at the rates agenda on January 7, 2025. (McClelland)

**Staff Analysis:** This is a fallout issue and will be addressed at the rates agenda on January 7, 2025.

**Issue 31:** What are the appropriate per therm Gas Delivery Service Rates?

**Recommendation:** This is a fallout issue and will be addressed at the rates agenda on January 7, 2025. (McClelland)

**Staff Analysis:** This is a fallout issue and will be addressed at the rates agenda on January 7, 2025.

**Issue 32:** What are the appropriate miscellaneous service charges?

**Recommendation:** The appropriate miscellaneous service charges are contained in Table 32-1 below. The Company should file a revised tariff sheet to reflect returned charges as pursuant to Section 68.065, F.S. (Ward)

**Staff Analysis:** The miscellaneous service charges are fixed charges that are paid when a specified activity occurs, such as the initial connection of a residence or business, a change of account, or a late payment. The miscellaneous service charges are designed to recover the billing, personnel, and other overhead costs associated with the specific charge.

Staff’s recommended miscellaneous service charges are contained in the table below. The table also shows SJNG’s present and proposed charges.

**Table 32-1  
 SJNG Miscellaneous Service Charges**

Miscellaneous Service Charges	Present	Proposed	Staff Recommended
Residential Connect	\$40	\$80	\$80
Residential Reconnect	\$40	\$90	\$90
Non-residential Connection and Reconnection	\$60	\$120	\$120
Change of Account	\$26	\$66	\$66
Late Payment	\$3 or 1.5%	\$13 or 1.5%	\$13 or 1.5%
Returned Check	\$25 or 5%	\$35 or 5%	Pursuant to Section 68.065, F.S.
After Normal Business Hours Service	2x normal rate	2x normal rate	2x normal rate

Source: SJNG’s First Revised Tariff Sheets No. 27 and 28

The cost support for the increase in miscellaneous service charges is shown in Schedule E-3 of the MFRs, and illustrates that the increased rates are largely driven by increases in the cost of labor. As shown in the table, staff recommends the same miscellaneous service charges as proposed by SJNG except for the returned check charge. The Company proposed a charge of \$35 or 5 percent or whichever is greater. Section 68.065, F.S. prescribes the appropriate assessment of charges for the collection of worthless checks, or orders of payment. SJNG’s proposed minimum charge of \$35 exceeds the amount allowed by statute. As currently set forth in Section 68.065(2), F.S., the following non-sufficient funds (NSF) charges may be assessed:

1. \$25, if the face value does not exceed \$50,
2. \$30, if the face value exceeds \$50 but does not exceed \$300,
3. \$40, if the face value exceeds \$300,

4. or five percent of the face amount of the check, whichever is greater.

In order to be consistent with the statute, staff recommends that the returned check charges be consistent with Section 68.065, F.S.

Based on the above, the appropriate miscellaneous service charges are contained in Table 32-1. The Company should file a revised tariff sheet to reflect returned charges as pursuant to Section 68.065, F.S.

**Issue 33:** Should the new Realtor Inspection Charge be approved?

**Recommendation:** Yes, the new Realtor Inspection Charge of \$105 should be approved.  
(Ward)

**Staff Analysis:** SJNG proposed a new Realtor Inspection Charge of \$105 for service activated for less than seven days for the sole purpose of an inspection to facilitate a real estate transaction. Pursuant to Rule 25-7.057, F.A.C., in the case of temporary service for short-term use, the Company may require the customer to pay all costs of making the service connection and removing the material after service has been discontinued, or to pay a fixed amount in advance to cover such expense; provided, however, that the customer shall be credited with reasonable salvage realized by the Company when service is terminated.

In response to staff's fifth data request, SJNG stated that it has been using the existing \$40 connection charge for realtor inspections and classifying them as the same. SJNG also provided cost support for the Realtor Inspection Charge similar to a Schedule E-3 included in the MFRs. The cost support provided illustrates that the charge includes costs for both the initial connection and for a second trip to lock off the meter at the site to discontinue service. The Company additionally clarified that whoever requests the service is responsible for the charge. Staff believes the requested charge is reasonable and consistent with the rule. Based on the above, staff recommends that the new Realtor Inspection Charge of \$105 should be approved.

**Issue 34:** Is SJNG’s proposal to combine the RS-1 class into RS-2 class appropriate?

**Recommendation:** SJNG’s proposal to combine the RS-1 class into RS-2 is appropriate and should be approved. SJNG should file revised energy conservation cost recovery (ECCR) factors and associated ECCR tariffs based on the two residential rate classes, for Commission approval at the rates agenda on January 7, 2025. (McClelland)

**Staff Analysis:** During its 2008 rate proceeding, the Commission approved SJNG’s request to stratify its residential rate structure into three classes: RS-1, with an annual usage of less than 150 therms, RS-2, with an annual usage of 150-299 therms, and RS-3, with an annual usage of over 300 therms. However, in this rate proceeding, SJNG has proposed to consolidate its RS-1 and RS-2 rate classes due to similarity in usage and to improve administrative efficiency. Witness Stuart Shoaf explained that “with experience over time since the last rate case, the Company reached the conclusion that the stratification in its existing residential class is not warranted or practical.” In addition, witness Stuart Shoaf indicated the year-to-year revising of customers between the RS-1 and RS-2 rate classes based on relatively marginal changes in usage created administrative inefficiencies.

The proposed restructuring would leave SJNG with stratification over two rate classes, RS-2 and RS-3. The proposed RS-2 class will be available to customers who use less than 300 therms annually. The RS-3 class would continue to be available for customer who use over 300 therms annually. Staff believes this change is reasonable and appropriate because it minimizes administrative inefficiencies due to shifting customers between RS-1 and RS-2.

Reducing the stratification to the residential classes will have an impact on the ECCR factors determined in the 20240004-GU docket due to the timing of the final rates in this proceeding. The Commission approved ECCR factors for the RS-1, RS-2, and RS-3 rate classes at the November 5, 2024 ECCR hearing. The currently approved ECCR factors differ for the three residential rate classes. If the Commission approves the reduction of stratification to two residential rate classes, SJNG should be required to file recalculated ECCR factors, to reflect the combined RS-1 and RS-2 rate classes, for Commission approval at the subsequent rates agenda. The revised ECCR factors should be filed in the 20240004-GU ECCR docket.

Based on the above, SJNG’s proposal to combine the RS-1 class into RS-2 is appropriate and should be approved. SJNG should file revised tariffs to reflect the appropriate ECCR factors based on the two residential rate classed for Commission approval. The revised ECCR factors should be effective concurrent with the effective date of revised base rates in this proceeding.

**Issue 35:** Should the Commission give staff administrative authority to approve tariffs reflecting Commission-approved rates and charges?

**Recommendation:** This is a fallout issue and will be addressed at the rates agenda on January 7, 2025. (McClelland)

**Staff Analysis:** This is a fallout issue and will be addressed at the rates agenda on January 7, 2025.



**Issue 36:** What is the effective date for SJNG's revised rates and charges?

**Recommendation:** This is a fallout issue and will be addressed at the rates agenda on January 7, 2025. (Ward)

**Staff Analysis:** This is a fallout issue and will be addressed at the rates agenda on January 7, 2025.

**Issue 37:** Should any portion of the interim increases granted be refunded to the customers?

**Recommendation:** No. The proper refund amount should be calculated by using the same data used to establish final rates, excluding rate case expense and other items not in effect during the interim period. This revised revenue requirement for the interim collection period should be compared to the amount of interim revenues granted. Based on this calculation, no refund is required. Further, upon issuance of the final order in this docket, the corporate undertaking should be released. (Vogel)

**Staff Analysis:** By Order No. PSC-2024-0379-PCO-GU, issued August 19, 2024, the Commission authorized the collection of interim rates, subject to refund, pursuant to Section 366.071, F.S. The approved interim revenue requirement for SJNG was \$2,196,392. The interim collection period is September 2024 through January 2025.

According to Section 366.071, F.S., adjustments made in the rate case test period that do not relate to the period interim rates are in effect should be removed. Rate case expense is an example of an adjustment which is recovered only after final rates are established.

In this proceeding, the test period for establishment of interim rates is the 12-month period ended December 31, 2023. FPUC's approved interim rates did not include any provisions for pro forma or projected operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs, and the lower limit of the last authorized range for return on equity.

To establish the proper refund amount, staff has calculated a revised interim revenue requirement utilizing the same data used to establish final rates for the 2024 projected test year. Items, such as rate case expense, were excluded because these items are prospective in nature and did not occur during the interim collection period. Using the principles discussed above, because the revenue requirement, granted in Order No. PSC-2024-0379-PCO-GU, for the December 2023 interim test year is less than the revenue requirement of \$2,374,319, staff recommends that no refund is required. Further, upon issuance of the final order in this docket, the corporate undertaking should be released.

## CONCLUSION

The proper refund amount should be calculated by using the same data used to establish final rates, excluding rate case expense and other items not in effect during the interim period. This revised revenue requirement for the interim collection period should be compared to the amount of interim revenues granted. Based on this calculation, no refund is required. Further, upon issuance of the final order in this docket, the corporate undertaking should be released.

**Issue 38:** Should SJNG be required to establish and maintain a Cost Allocation Manual (CAM)?

**Recommendation:** Yes. SJNG should be required to establish and maintain a CAM. The Company should be required to file its CAM with the Commission, in Docket No. 20240046-GU, by December 31, 2025. (Vogel)

**Staff Analysis:** SJNG operates natural gas, propane gas, and appliance businesses. As noted by Audit Finding No. 1, the Company provided how some costs are allocated between its three businesses, but it does not have a written CAM. This results in a lack of consistency and clarity in the Company's allocation policies and procedures. This posed many difficulties in staff's review of SJNG's filing.

Section 366.05(9), F.S., provides that the Commission may require the filing of reports and other data by a public utility or its affiliated companies, including its parent company, regarding transactions, or allocations of common costs, among the utility and such affiliated companies. The Commission may also require such reports or other data necessary to ensure that a utility's ratepayers do not subsidize nonutility activities.

Staff recommends that the Commission require SJNG to establish and maintain a CAM, as it is now involved in nonregulated activities. Additionally, this would facilitate the rate case process in a subsequent proceeding. The CAM should show whether transactions involve regulated or nonregulated products or services, and be organized and indexed so that the information contained therein can be easily accessed. The Company should be required to file its CAM with the Commission, in Docket No. 20240046-GU, by December 31, 2025.

## CONCLUSION

For the reasons outlined above, SJNG should be required to establish and maintain a CAM. The Company should be required to file its CAM with the Commission, in Docket No. 20240046-GU, by December 31, 2025.

Date: November 21, 2024

**Issue 39:** Should SJNG be required to file, within 90 days after the date of the final order in this docket, a description of all entries or adjustments to its annual report, rate of return reports, and books and records which will be required as a result of the Commission's findings in this rate case?

**Recommendation:** Yes. SJNG should be required to file, within 90 days after the date of the final order in this docket, a description of all entries or adjustments to its annual report, rate of return reports, and books and records which will be required as a result of the Commission's findings in this rate case. (Gatlin)

**Staff Analysis:** Yes. SJNG should be required to file, within 90 days after the date of the final order in this docket, a description of all entries or adjustments to its annual report, rate of return reports, and books and records which will be required as a result of the Commission's findings in this rate case.

**Issue 40:** Should this docket be closed?

**Recommendation:** This docket should remain open for the Commission to determine the final rates at a subsequent Commission Conference. (Dose, Farooqi)

**Staff Analysis:** This docket should remain open for the Commission to determine the final rates at a subsequent Commission Conference.

COMPARATIVE AVERAGE RATE BASE

ST. JOE NATURAL GAS COMPANY, INC.  
DOCKET NO. 20240046-GU  
PTY 12/31/24

ATTACHMENT 1

ISSUE NO.	TOTAL PER BOOKS	COMPANY ADJS.	COMPANY ADJUSTED	STAFF ADJS.	STAFF ADJUSTED
UTILITY PLANT					
	\$9,848,703				
		(298,913)			
6				(58,773)	
7				(59,800)	
	\$9,848,703	(\$298,913)	\$9,549,790	(\$118,573)	\$9,431,217
CONSTRUCTION WORK IN PROGRESS					
	\$140,262				
		(140,262)			
	\$140,262	(\$140,262)	\$0	\$0	\$0
TOTAL UTILITY PLANT					
	\$9,988,966	(\$439,176)	\$9,549,790	(\$118,573)	\$9,431,217
DEDUCTIONS					
	(\$6,407,028)				
		164,203			
8				(357)	
8				(86)	
8				(16,080)	
8				4,593	
	(\$6,407,028)	\$164,203	(\$6,242,825)	(\$11,930)	(\$6,254,754)
TOTAL DEDUCTIONS					
	(\$6,407,028)	\$164,203	(\$6,242,825)	(\$11,930)	(\$6,254,754)
NET UTILITY PLANT					
	\$3,581,938	(\$274,973)	\$3,306,965	(\$130,502)	\$3,176,463
WORKING CAPITAL ALLOWANCE					
	(\$281,217)				
		356,039			
	(\$281,217)	\$356,039	\$74,822	\$0	\$74,822
TOTAL RATE BASE					
	\$3,300,721	\$81,066	\$3,381,787	(\$130,502)	\$3,251,285

CAPITAL STRUCTURE

ST. JOE NATURAL GAS COMPANY, INC.  
DOCKET NO. 20240046-GU  
PTY 12/31/24  
13-Month Average

ATTACHMENT 2

COMPANY POSITION	COMPANY		PRO RATA	COMPANY ADJUSTED	RATIO	COST RATE	WEIGHTED COST
	PER BOOKS	SPECIFIC					
COMMON EQUITY	\$5,221,313	\$0	(\$3,627,616)	\$1,593,697	47.13%	11.00%	5.18%
LONG TERM DEBT	1,100,000	0	(764,248)	\$335,752	9.93%	8.50%	0.84%
LONG TERM DEBT (NON-UTILITY)	1,230,000	(1,230,000)	0	\$0	0.00%	0.00%	0.00%
SHORT TERM DEBT	0	0	0	0	0.00%	0.00%	0.00%
CUSTOMER DEPOSITS	189,447	0	(131,622)	57,825	1.71%	2.00%	0.03%
DEFERRED TAXES	989,098	0	0	989,098	29.25%	0.00%	0.00%
DEFERRED CREDITS - FCPC	405,416	0	0	405,416	11.99%	0.00%	0.00%
<b>TOTAL</b>	<u>\$9,135,274</u>	<u>(\$1,230,000)</u>	<u>(\$4,523,487)</u>	<u>\$3,381,787</u>	<u>100.00%</u>		<u>6.05%</u>

STAFF RECOMMENDED	COMPANY ADJUSTED	SPECIFIC	60 PERCENT EQUITY		STAFF ADJUSTED	RATIO	COST RATE	WEIGHTED COST
			PRO RATA	PRO RATA				
COMMON EQUITY	\$1,593,697	\$295,640	(\$510,517)	(\$53,208)	\$1,325,612	40.77%	10.50%	4.28%
LONG TERM DEBT	335,752	72,944	510,517	(35,472)	883,741	27.18%	8.36%	2.27%
LONG TERM DEBT (NON-UTILITY)	0	0	0	0	0	0.00%	0.00%	0.00%
SHORT TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.00%
CUSTOMER DEPOSITS	57,825	(5,703)	0	(2,011)	50,111	1.54%	2.00%	0.03%
DEFERRED TAXES	989,098	(362,882)	0	(24,166)	602,050	18.52%	0.00%	0.00%
DEFERRED CREDITS - FCPC	405,416	0	0	(15,645)	389,771	11.99%	0.00%	0.00%
<b>TOTAL</b>	<u>\$3,381,787</u>	<u>(\$1)</u>	<u>\$0</u>	<u>(\$130,502)</u>	<u>\$3,251,285</u>	<u>100.00%</u>		<u>6.58%</u>

COMPARATIVE NET OPERATING INCOME

ST. JOE NATURAL GAS COMPANY, INC.  
DOCKET NO. 20240046-GU  
PTY 12/31/24

ATTACHMENT 3

ISSUE NO.	TOTAL PER BOOKS	COMPANY ADJS.	COMPANY ADJUSTED	STAFF ADJS.	STAFF ADJUSTED
OPERATING REVENUES					
	\$2,575,806				
		(1,026,803)			
3				6,715	
3				(427)	
18				14,494	
	\$2,575,806	(\$1,026,803)	\$1,549,003	\$20,782	\$1,569,785
OPERATING EXPENSES:					
COST OF GAS					
	\$1,021,694				
		(1,021,694)			
	\$1,021,694	(\$1,021,694)	\$0	\$0	\$0
OPERATION & MAINTENANCE EXPENSE					
	\$1,497,821				
18				(17,633)	
18				3,240	
20				14,875	
21				69,790	
21				(19,200)	
	\$1,497,821	\$0	\$1,497,821	\$51,072	\$1,548,893
DEP. & AMORT. EXP. - PLANT					
	\$408,122				
		(34,073)			
22				(3,246)	
	\$408,122	(\$34,073)	\$374,049	(\$3,246)	\$370,803
TAXES OTHER THAN INCOME					
	\$133,471				
		(5,108)			
23				1,000	
	\$133,471	(\$5,108)	\$128,363	\$1,000	\$129,363
INCOME TAX EXPENSE					
	\$0				
	102,452				
	23,289				
24				(102,452)	
25				(23,289)	
	\$125,741	\$0	\$125,741	(\$125,741)	(\$0)
TOTAL OPERATING EXPENSES					
	\$3,186,850	(\$1,060,876)	\$2,125,974	(\$76,915)	\$2,049,059
NET OPERATING INCOME					
	(\$611,044)	\$34,073	(\$576,971)	\$97,697	(\$479,274)



NET OPERATING INCOME MULTIPLIER

ST. JOE NATURAL GAS COMPANY, INC.  
 DOCKET NO. 20240046-GU  
 PTY 12/31/24

ATTACHMENT 4

DESCRIPTION	COMPANY PER FILING	STAFF RECOMMENDED
REVENUE REQUIREMENT	100.0000%	100.0000%
REGULATORY ASSESSMENT RATE	0.5000%	0.5000%
BAD DEBT RATE	0.3000%	0.3000%
NET BEFORE INCOME TAXES	<u>99.2000%</u>	<u>99.2000%</u>
STATE INCOME TAX RATE	4.6000%	5.5000%
STATE INCOME TAX	4.4223%	5.4560%
NET BEFORE FEDERAL INCOME TAXES	<u>94.7777%</u>	<u>93.7440%</u>
FEDERAL INCOME TAX RATE	21.0000%	21.0000%
FEDERAL INCOME TAX	19.9033%	19.6862%
REVENUE EXPANSION FACTOR	<u>74.8744%</u>	<u>74.0578%</u>
NET OPERATING INCOME MULTIPLIER	<u>1.3356</u>	<u>1.3503</u>

COMPARATIVE REVENUE DEFICIENCY CALCULATIONS

ST. JOE NATURAL GAS COMPANY, INC.

ATTACHMENT 5

DOCKET NO. 20240046-GU

PTY 12/31/24

	COMPANY ADJUSTED	STAFF RECOMMENDED
RATE BASE (AVERAGE)	\$3,381,787	\$3,251,285
RATE OF RETURN	X <u>6.05%</u> X	<u>6.58%</u>
REQUIRED NOI	<u>\$204,598</u>	<u>\$214,072</u>
Operating Revenues	<u>\$1,549,003</u>	<u>\$1,569,785</u>
Total Operating Expenses	<u>2,125,974</u>	<u>2,049,059</u>
ACHIEVED NOI	<u>(\$576,971)</u>	<u>(\$479,274)</u>
NET REVENUE DEFICIENCY	\$781,569	\$693,346
REVENUE EXPANSION FACTOR	1.3356	1.3503
REVENUE DEFICIENCY	<u><u>\$1,043,841</u></u>	<u><u>\$936,224</u></u>