



DOCKET NO. 20220212-GU

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December 15, 2022

VIA ELECTRONIC FILING

Mr. Adam J. Teitzman
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: New Docket No. 2022 _____; Peoples Gas System's Petition for Approval of Depreciation Rate and Subaccount for Renewable Natural Gas Facilities Leased to Others

Dear Mr. Teitzman:

Please find the attached Petition for Approval of Depreciation Rate and Subaccount for Renewable Natural Gas Facilities Leased to Others, being filed on behalf of Peoples Gas System.

Thank you for your assistance in connection with this matter.

Sincerely,

A handwritten signature in blue ink that reads 'Jeff Wahlen'.

Jeff Wahlen

JJW/ne
Attachment

cc: Richard Gentry, Office of Public Counsel
Charles Rehwinkel, Office of Public Counsel
Mary Wessling, Office of Public Counsel
Jon Moyle, Florida Industrial Power Users Group
Karen Putnal, Florida Industrial Power Users Group

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

Petition for Approval of Depreciation Rate)
For Leased Renewable Natural Gas)
Equipment by Peoples Gas System)
_____)

DOCKET NO.: 2022____-GU
FILED: December 15, 2022

**PETITION FOR APPROVAL OF DEPRECIATION RATE AND SUBACCOUNT
FOR RENEWABLE NATURAL GAS FACILITIES LEASED TO OTHERS**

Peoples Gas System (“Peoples”), pursuant to Section 366.06, Florida Statutes, and Rule 25-7.054, Florida Administrative Code, hereby petitions the Florida Public Service Commission (“Commission”) for approval of a new depreciation rate and sub-account for renewable natural gas facilities leased to others for a 15-year term, and in support thereof states:

I. Preliminary Information

1. The Petitioner’s name and address is:

Peoples Gas System
P.O. Box 2562
Tampa, Florida 33601-2562

2. The persons to whom notices, orders, pleadings and correspondence in this docket should be addressed are:

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3. Peoples owns and operates natural gas distribution facilities in Florida and is a natural gas distribution utility subject to the Commission’s regulatory jurisdiction under Chapter 366, Florida Statutes.

4. The Commission is vested with jurisdiction of this matter in accordance with Section 366.06(1) of the Florida Statutes, which directs the Commission to “investigate and determine the actual legitimate costs of the property of each utility company,” which “shall be the money honestly and prudently invested by the public utility company in such property used and useful in serving the public, less accrued depreciation...” (emphasis added).

5. Rule 25-7.045(3)(a), Florida Administrative Code, requires each natural gas utility to “maintain depreciation rates and accumulated depreciation reserves in accounts or subaccounts in accordance with the Uniform System of Accounts for Natural Gas Companies...”

6. That Rule also requires each natural gas utility to file a depreciation study at least once every five years. Among other things, this study must set out an “explanation and justification for each study category of depreciable plant defining the specific factors that justify the life and salvage components and rates being proposed.” Rule 25-7.045(4)(f), F.A.C.

7. Rule 25-7.046(2)(a), Florida Administrative Code, states:

No company shall establish a new sub-account that would represent less than 10% of the original primary account unless it meets the following criteria:

1. Introduction of a new technology.
2. The present inclusion of an obsolescent/dying technology in a viable technology.

8. Rule 25-7.045(3)(b) also states: “Upon establishing a new account or subaccount classification, each utility shall request Commission approval of a depreciation rate for the new plant category.”

9. This Petition seeks approval of a new FERC subaccount classifying Renewable Natural Gas (“RNG”) plant owned by the utility but leased to others under Account 104 (Gas Plant Leased to Others) to be denominated “Account 336.01 – RNG Plant Leased – 15 Years” and a depreciation rate of 6.7 percent for that subaccount for use by Peoples.

II. Statement on Disputed Issues of Material Fact

10. In compliance with Rule 28-106.201 of the Florida Administrative Code, Peoples is not aware of any disputed issues of material fact at this time and does not believe any disputed issues of material fact will arise in this docket.

III. Statement of Ultimate Facts Providing the Basis for Relief

11. The ultimate facts providing the basis for relief requested in this petition are set forth in paragraphs 1 and 3 through 9, above, and the following:

12. RNG is produced from capturing and conditioning biogas generated by the decomposition of organic waste. RNG is interchangeable with conventional natural gas, meaning it can be injected into Peoples’ natural gas distribution system.

13. Production of RNG offers multiple benefits to the State of Florida and the customers of Peoples, including economic development, local natural gas supply, increased supply resiliency, and environmental benefits. For example, injection of RNG into Peoples’ distribution system can offset an equivalent portion of conventional natural gas, thereby reducing overall emissions.

14. Peoples currently offers tariffed RNG services to its customers. Under Peoples’ RNG Tariff,¹ the company may provide a customer with services including upgrading or conditioning of biogas to RNG and transportation of that RNG to a pipeline system (“RNG Service”). The tariff contemplates that Peoples and the customer seeking RNG Service will enter into an agreement

¹ See First Revised Sheet No. 7.404.

outlining the equipment necessary to provide these services as well as the design, location, construction, and operation of that equipment.

15. Under the RNG Tariff, the customer must take service under either Rate Schedule GS-3, GS-4, or GS-5. The customer must also pay a “Monthly Services Charge” designed to recover the total installed cost of the RNG equipment provided by Peoples, including a reasonable rate of return on that investment. The customer taking RNG Service may also be required to purchase RNG Service for a minimum period, to pay a contribution in aid of construction, and/or to furnish a guarantee such as a surety bond. These provisions mitigate risk to the general body of ratepayers.

16. In Peoples’ most recent base rate case (Docket No. 20200051-GU), the company proposed several changes to the company’s RNG Tariff. These changes recognized that “each RNG project is unique” and that the language should “allow for flexibility in the utilization of the tariff.”² The Commission ultimately approved these changes as a part of the Stipulation and Settlement Agreement that resolved the base rate case.³

RNG Equipment Depreciation Rate

17. Peoples filed its most recent depreciation study in 2020. In that study, Peoples proposed a new depreciation subaccount – No. 336.00 – for RNG Plant assets. The company proposed a useful life estimate of 30 years and a net salvage parameter of negative five percent for RNG Plant assets.⁴

18. The Commission consolidated the docket opened for review of Peoples’ 2020 depreciation study with the company’s 2020 base rate case. The Commission approved Peoples’ 2020 depreciation study and the associated depreciation rates as part of the rate case Stipulation and

² Direct Testimony of Timothy O’Connor, filed June 8, 2020 in Docket No. 20200051-GU, at 37.

³ See Order No. PSC-2020-0485-FOF-GU, issued December 10, 2020 in Docket No. 20200051-GU, at 13.

⁴ Direct Testimony of Dane A. Watson, filed June 8, 2020 in Docket No. 20200166, Exhibit No. DAW-1, Document No. 2, at 94 of 166.

Settlement Agreement.⁵ That settlement established an accrual rate of 3.5 percent for Subaccount 336.00 – RNG Plant.⁶

Brightmark Project

19. Brightmark LLC (“Brightmark”) is a global waste solutions company that develops waste-to-energy projects, including projects that convert organic waste into RNG.

20. In 2021, Peoples entered into a series of agreements with Brightmark Sobek RNG LLC, a subsidiary of Brightmark, for development of an RNG project at Larson Dairy⁷ in Okeechobee County, Florida pursuant to the company’s RNG Tariff.

21. The key provisions of these agreements are:

- a. Peoples will extend its gas service facilities to receive, compress, and transport RNG produced at Larson Dairy to an interstate pipeline. Peoples will also provide transportation service to Brightmark to deliver gas to the interstate pipeline.
- b. Brightmark will construct four anaerobic digesters, two biogas upgrade facilities, and related facilities to collect and condition biogas at Larson Dairy.
- c. Once the biogas collection and conditioning equipment is complete and ready for service, Peoples will buy that RNG plant and then lease it back to Brightmark for a 15-year term. Per the terms of the lease, Brightmark will be responsible for operating and maintaining the leased collection and conditioning equipment.
- d. In exchange, Brightmark will pay Peoples a combination of monthly payments designed to recover Peoples’ investment in the line extension and biogas collection and conditioning equipment, plus a reasonable return, as contemplated

⁵ Order No. PSC-2020-0485-FOF-GU, issued December 10, 2020 in Docket No. 20200051-GU, at 14-15.

⁶ Order No. PSC-2020-0485-FOF-GU, issued December 10, 2020 in Docket No. 20200051-GU, at 217.

⁷ Larson Dairy is the largest dairy in Florida, with four barns and over 10,000 milking cows.

by Peoples' RNG Tariff.⁸ Brightmark will also pay any applicable transportation tariff charges related to the transportation services provided by Peoples.

- e. Brightmark will retain ownership of any gas produced at the facility, as well as any associated environmental attributes.
- f. At the end of the 15-year lease term, Brightmark is obligated to purchase the leased RNG plant from Peoples for \$1 and is responsible for any costs related to dismantling, decommissioning, and removing the leased RNG plant. Brightmark will continue to pay any applicable tariffed gas transportation rate for services provided after the end of the 15-year lease term.

22. This lease-based contract structure is advantageous for Peoples' general body of ratepayers in several ways. First, Brightmark is responsible for construction, operation, and maintenance of the biogas collection and conditioning equipment and bears the risk associated with those activities. Second, Brightmark's payments to Peoples are designed to recover Peoples' entire investment in the project, as well as a reasonable rate of return. Third, while Brightmark will bear construction and operation risk and will pay the full revenue requirement for the project over the 15-year lease term, Peoples' general body of ratepayers and the communities Peoples serves will nonetheless receive the emissions reductions, enhanced resiliency, and economic benefits of the project.

⁸ The assets to be owned by Peoples and provided to Brightmark under the RNG Tariff include facilities for feedstock reception, preprocessing, and storage; anaerobic digestion and control; biogas conditioning, upgrade and flare control; digestate dewatering and drying; electrical and mechanical interconnection; buildings and building improvements; and general mechanical and electrical control (SCADA). The installed project cost will include traditional project costs such as engineering, design and project management; site upgrades and civil engineering; project management and overhead; and owners costs.

Request for New Subaccount and New Depreciation Rate

23. As mentioned above, Peoples' current approved depreciation rate for RNG Plant is based on a service life of 30 years, a net salvage value of negative five percent, and a resulting annual accrual of 3.5 percent. If this rate were applied to the RNG plant to be used in the Brightmark project, the equipment would not be fully depreciated at the end of the 15-year contract term in the RNG Services Agreement and Lease Agreement, respectively.

24. Pursuant to Paragraph 4(a) of the Stipulation and Settlement Agreement, "Peoples may not propose changes to the depreciation rates shown on Exhibit C during the Term of this Agreement without the consent of the other Parties to this Agreement." This Petition does not conflict with this provision of the Stipulation and Settlement, because Peoples is not requesting any changes to the existing depreciation rates for Account 336.00 – RNG Plant.

25. Instead, Peoples seeks Commission approval of a new FERC subaccount to classify plant in Account 104 (Gas Plant Leased to Others) for leased RNG plant to be named "Account 336.01 – RNG Plant Leased– 15 Years." Peoples proposes a service life of 15 years with no net salvage resulting in an annual depreciation rate of 6.7 percent. No net salvage is appropriate because the customer is contractually responsible for any costs related to dismantling, decommissioning, and removing the project equipment at the end of the contract.

26. This depreciation rate would apply to the RNG plant assets subject to the contract as specified in footnote 8 and would also apply to similar equipment leased to other customers taking RNG Service under a similar 15-year lease structure in the future, if any.⁹ Peoples will include the new Account 336.01 in its next depreciation study filed with the Commission.

⁹ If the company enters similar contracts with different contract lengths in the future, the company will petition the Commission for permission to create a new 336.XX subaccount for RNG Plant Leased to Others with a life and

Conclusion

27. Approval of a new depreciation subaccount “Account 336.01 – RNG Plant Leased – 15 Years” and a 6.7 percent depreciation rate will facilitate the Brightmark project and the associated resiliency, emissions reductions, and economic benefits that will inure to Peoples’ general body of ratepayers and the communities it serves. It will ensure that the period of cost recovery for the assets to be owned by Peoples matches the period over which the project will generate revenues, and that the costs of the project will be recovered by the time the customer takes ownership of the RNG plant assets at the end of the contract term. It will also prevent the company from experiencing a gain or loss on the sale of the assets at the end of the contract term. Each of these considerations are consistent with sound ratemaking and depreciation principles.

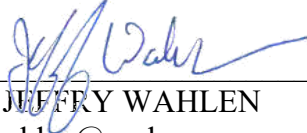
28. This Petition is consistent with Rules 25-7.045 and 25-7.046, the Stipulation and Settlement Agreement that resolved Peoples’ last base rate case, and with the company’s existing RNG Tariff. Peoples is entitled to the relief requested pursuant to Chapters 366 and 120, Florida Statutes, and Rule 25-7.045 and Rule 25-7.046(2)(a), Florida Administrative Code.

WHEREFORE, Peoples respectfully requests that the Commission approve a new subaccount under Account 104 (Gas Plant Leased to Others) to be denominated “Account 336.01 – RNG Plant Leased – 15 Years” and a depreciation rate of 6.7 percent for that subaccount for use by Peoples.

depreciation rate that matches the length of the new contract. For example, if the term of the contract is 10 years, the company would seek approval for a new subaccount denominated “Account 336.XX – RNG Plant Leased – 10 Years” with a depreciation rate to match the term of the contract (approximately 10 percent).

DATED this 15th day of December, 2022.

Respectfully submitted,



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ATTORNEYS FOR PEOPLES GAS SYSTEM

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing Petition, filed on behalf of Peoples Gas System, has been served by electronic mail on this 15th day of December, 2022 to the following:

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