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State of Florida

# Public Service Commission

CAPITAL CIRCLE OFFICE CENTER ● 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

**DATE:** March 21, 2024

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

**FROM:** Division of Economics (Ward, Hampson) EJD
Office of the General Counsel (Stiller) JSC

**RE:** Docket No. 20230124-GU – Petition for approval of limited variance from area extension program (AEP) tariff, by Florida Public Utilities Company.

**AGENDA:** 04/02/24 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Administrative

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** None

## Case Background

On November 3, 2023, Florida Public Utilities Company (FPUC or the utility) filed a petition for approval of a limited variance from its existing area extension program (AEP) tariff. In accordance with Rule 25-7.054, Florida Administrative Code, (F.A.C.), the AEP tariff applies to new customers or areas that require an extension of gas distribution facilities to receive service. FPUC seeks Commission approval of a limited variance from the AEP tariff to allow it to: (a) include expenses related to acquiring and converting facilities related to mains, services, and behind-the-meter facilities in the investment costs for the AEP calculation for certain communities; and (b) to charge the AEP surcharge based on a volumetric basis, as opposed to a fixed amount.

The AEP tariff was first approved by the Commission in 1995 and is designed to provide FPUC with an optional method for funding main and service extensions for customers who would otherwise not be served natural gas.[1] The AEP tariff provides an alternative option for FPUC to recover the cost of main extensions as required by Rule 25-7.054, Extension of Facilities, F.A.C.

The AEP tariff provides for the determination of a surcharge applicable to each designated expansion area. Once set, the AEP surcharge will remain constant for the projected term of the collection period. Pursuant to the tariff, the monthly AEP surcharge is applied on a fixed basis and added to the applicable transportation charge of the monthly rate for each respective customer. The AEP surcharge is calculated by a formula based on the amount of investment required and the projected gas sales and resulting revenues collected from customers in the AEP area. The AEP tariff specifies the formula to calculate the surcharge and the AEP surcharge itself does not require Commission approval. The amortization period is applied individually to each premise and shall not exceed 72 months, or six years.

Florida City Gas (FCG) has a similar AEP tariff and the Commission has approved variances from the AEP tariff for FCG in previous orders.[2] Staff issued five data requests for which responses were received January 10, February 19, March 1, March 18, and March 19, 2024. In addition, staff had phone calls with the utility on February 12 and March 15, 2024.

The Commission has jurisdiction over this matter pursuant to Sections 366.04, 366.05, 366.06, Florida Statutes (F.S.).

[1] Order No. PSC-95-0162-FOF-GU, issued February 7, 1995, in Docket No. 941291-GU, *In re: Petition for approval of modification to tariff provisions governing main and service extensions by Florida Public Utilities Company.*

[2] Order No. PSC-16-0066-PAA-GU, issued February 5, 2016, in Docket No. 150232-GU, *In re: Petition for approval of variance from area extension program (AEP) tariff to delay true-up and extend amortization period, by Florida City Gas*; and Order No. PSC-2021-0416-PAA-GU, issued November 8, 2021, in Docket No. 20210126-GU, *In re: Petition for approval of variance to modify the Sebastian area extension program true-up and extend the amortization period, by Florida City Gas.*

## Discussion of Issues

***Issue 1:*** Should the Commission approve FPUC's request for a limited variance from its AEP tariff?

***Recommendation:*** Yes, the Commission should approve FPUC's request for a limited variance from its AEP tariff. Based on staff's review, FPUC's proposal to include costs related to the acquisition and conversion of two Community Gas Systems in Newberry into the AEP calculation and charge the AEP on a volumetric basis provides benefits to affected customers. (Ward)

***Staff Analysis:***

### Newberry Community Gas Systems

In 2023, the Commission approved a firm transportation service agreement between FPUC and Peninsula Pipeline Company (Peninsula).[3] The agreement facilitates the construction of a natural gas pipeline to be used by FPUC to provide natural gas service to the City of Newberry (Newberry) in Alachua County, Florida. Currently, Newberry does not have natural gas service and residential customers have utilized propane to meet their energy needs. To facilitate delivery of propane to these customers, propane companies have developed Community Gas Systems (CGS's) in some residential communities. A CGS operates in a similar manner to a natural gas system by delivering propane directly to a customer's home through an underground pipeline system.

In the instant petition, the utility explained that CGS's can be converted and utilized to deliver natural gas to customers. In a discussion with staff, the utility stated that Peninsula estimates the Newberry pipeline to be completed by the third quarter of 2024, but natural gas service could be available as soon as the second quarter of 2024. The utility explained that work done in the third quarter of 2024 will consist of restoration and other ancillary work.

Two of these CGS's are operated by Crescent Propane, an affiliate of FPUC, and are located in the communities of Newberry Newtown and Newberry Oaks. These CGS's currently serve 380 active residential customers. FPUC and Crescent Propane have come to an agreement for the sale of the CGS's existing mains, services, meters, and other facilities to FPUC at fair market value.

### Requested Variance from AEP Tariff

#### *Acquisition and Conversion Costs*

The utility stated that it utilized a consultant to conduct an independent assessment of the systems. In response to staff's first data request, FPUC stated that the consultant was selected due to the firm's experience providing valuations in the propane industry and that the cost of the assessment is not included in the AEP charge calculation.[4] The consultant determined a market value of $629,607. FPUC stated in its petition that building a replacement system would cost

[3] Order No. PSC-2023-0212-PAA-GU, issued July 25, 2023, in Docket No. 20230063-GU, *In re: Petition for approval of transportation service agreement with Florida Public Utilities Company by Peninsula Pipeline Company, Inc.*
[4] Response to Staff's First Data Request, Response No. 4.

about $2.7 million. A copy of the assessment is included in Exhibit A of FPUC's response to staff's first data request.

The AEP tariff is designed to be used for the construction of new facilities that are needed to serve new customers or a new area. However, as discussed above, FPUC proposes to purchase the existing propane infrastructure instead of constructing new facilities, as that would be more cost effective. The utility's first request in its petition is to include the expenses related to the acquisition and conversion of the two CGS's in the calculation of the investment costs for the AEP charge for the two communities. The estimated total expense to convert the mains and services for the two communities is $219,900. In response to staff's first data request, the utility stated that these costs include materials and supplies, contractor charges, direct labor, and engineering and permitting.[5]

Additionally, the utility is requesting to include the expenses related to behind-the-meter conversions in its AEP calculation for the two communities. In its petition, the utility stated that this will include changing propane hookups to common household appliances to facilitate the delivery of natural gas. In response to staff's fifth data request the utility clarified that pool heaters will be included, but other appliances outside the home such as gas grills and generators will not be included. FPUC explained that it is limiting the program to common appliances to decrease the likelihood that customers in a neighborhood carry the burden of costs to convert outdoor appliances that only a limited number of customers have. The utility estimates that the cost for behind-the-meter conversions would be $1,509 per customer for a total estimated cost of $573,548. The utility is also requesting to include $240,000 of additional construction costs in its AEP calculation. In response to staff's third data request the utility explained that this expense is for the construction of an approach main needed to reach a CGS community.[6]

Pursuant to the utility's AEP tariff, the AEP monthly rate shall be calculated by dividing the estimated amount of additional revenue required in excess of the Maximum Allowable Construction Cost (MACC) by the number of customer premises to be served at the end of year six. Pursuant to FPUC's tariff, the MACC is the maximum capital cost to be incurred by the utility for an extension of facilities. It equals six times the estimated annual revenue less the cost of gas, taxes, and franchise fees. The MACC for this project is $932,514, with an estimated allowed cost of capital of $174,089. When combined with the total estimated costs of $1,663,055, the final AEP recovery amount is $904,630.

In its petition, FPUC explained that it is including behind-the-meter conversion costs in the AEP calculation because it believes some customers may be unlikely to convert if they were charged a one-time expense of $1,509. In response to staff's second data request, FPUC clarified that it will keep costs for behind-the-meter facilities in a regulatory asset to be amortized over a 72-month period.[7] If there is an under-recovery at the conclusion of the 72-month amortization period, in the absence of any approved extension or other adjustment of the AEP surcharge, the remaining costs would be recorded below the line and would not flow through to customers in current or

[5] Responses to Staff's First Data Request, Response No. 1.
[6] Responses to Staff's Third Data Request, Response No. 1.
[7] Response to Staff's Second Data Request, Response No. 1.

future rates.[8] In response to staff's first data request, the utility stated that because the proposed AEP will be based upon actual customer usage and is designed based upon existing propane usage, the utility believes that there is a high probability that it will recover the full amount within the 72-month period.[9]

Staff believes the inclusion of these costs in the proposed AEP should not impact the general body of ratepayers considering the savings associated with the conversion of an existing system, FPUC's ability to recover AEP costs from existing propane customers, and FPUC's treatment of remaining costs in the event of an under-recovery. The calculation of the AEP recovery amount is shown in Table 1-1 below.

**Table 1-1**
**Calculation of AEP Recovery Amount**

| | |
|---|---|
| 1. Acquisition Price of CGS Communities | $629,607 |
| 2. Main Conversion Costs | $219,900 |
| 3. Customer Conversion Costs | $573,548 |
| 4. Additional Construction | $240,000 |
| 5. Total Estimated Costs | =$1,663,055 (Lines 1+2+3+4) |
| 6. Maximum Allowable Construction Cost | $932,514 (6 Years Estimated Annual Revenue) |
| 7. Estimated Allowed Cost of Capital | $174,089 |
| 8. AEP Recovery Amount | $904,630 (Lines (5+7)-6) |

Source: Response to Staff's First Data Request, Exhibit C

### *Proposed Volumetric AEP Surcharge*

FPUC is also requesting in this petition that it be allowed to depart from its current AEP tariff and utilize a volumetric (per therm) charge for the AEP in the two Newberry CGS communities. In its petition, the utility stated that a per therm charge would help provide an immediate savings to more customers and help facilitate their switch from propane to natural gas. In its petition, the utility estimated that approximately 56 percent of customers would see immediate savings under the proposed per therm charge, as the estimated bills for these customers would be lower than their current propane bills. Additionally, the utility believes that the other 44 percent of customers would see savings by the end of the AEP period, as natural gas is a more "consumer price friendly" fuel source than propane.[10]

The proposed AEP charge is $2.83 per therm. The utility calculated a fixed AEP charge of $33.06[11] and divided it by a projected monthly gas usage of 11.7 therms to arrive at the proposed volumetric charge. FPUC explained in response to staff's data request that it calculated the volumetric AEP based on actual gas usage over a 13-month period of August 2022 to August

[8] Response to Staff's Second Data Request, Response No. 1.
[9] Responses to Staff's First Data Request, Response No. 21.
[10] Response to Staff's Third Data Request, Response No. 2.
[11] $904,630 (AEP Recovery Amount) divided by 27,630 (total number of bills over six years) = $33.06

2023.[12] The utility provided its calculation of the volumetric AEP charge in Exhibit C to FPUC's responses to staff's first data request. A customer who uses 20 therms per month would have a bill impact from the AEP of $56.51 per month, for an average total bill of $132.33. A bill for a customer who uses the equivalent amount of propane would be $139.29. Once the six-year AEP period is completed, the per therm AEP charge will be removed from bills.

### *Billing and Customer Conversions*

If the limited variance is approved, FPUC estimates that the AEP billing period will begin between May and June 2024. The charge would be shown on the bill as a line item titled "AEP Volumetric." In response to staff's first data request, the utility stated that it would notify customers by mail 4 to 6 weeks in advance of the system conversion.[13] Staff has reviewed the customer notice and believes it is informative and accurate. FPUC stated that it estimates it can convert approximately 50 customers per month. If a customer does not want to convert to natural gas, they will be free to stay on propane, but they would need to contact a local propane company for supply. In response to staff's third data request, the utility clarified that costs to remain on propane may include tank rental or purchase, tank installation, and tank maintenance costs.[14]

## Conclusion

Based on staff's review, the Commission should approve FPUC's request for limited variance from its AEP tariff to include the expenses related to acquiring and converting facilities related to mains, services, and facilities located behind-the-meter in the investment costs for the AEP calculation for certain communities and to charge the AEP based on a volumetric basis, as opposed to a fixed amount. FPUC's proposal to include costs related to the acquisition and conversion of two Community Gas Systems in Newberry into the AEP calculation and charge the AEP on a volumetric basis provides benefits to affected customers.

[12] Responses to Staff's First Data Request, Response No. 8.
[13] Responses to Staff's First Data Request, Response No. 16.
[14] Response to Staff's Third Data Request, Response No. 4.

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

***Recommendation:*** Yes. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, this docket should be closed upon the issuance of a consummating order. (Stiller)

***Staff Analysis:*** If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, this docket should be closed upon the issuance of a consummating order.