

FLORIDA PUBLIC SERVICE COMMISSION
Fletcher Building, 101 East Gaines Street
Tallahassee, Florida 32399-0850

M E M O R A N D U M

April 6, 1995

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF ELECTRIC & GAS (MILLS, MAKIN, BULECZA-BANKS) ^{CM} ^{CM} ^{CR}
DIVISION OF AUDITING & FINANCIAL ANALYSIS (SALAK, SLEMKEWICZ) ^S
DIVISION OF LEGAL SERVICES (BROWN) ^{MP} ^{JOJ} ^{pmf}

RE: DOCKET NO. 950206-GU - CITY GAS COMPANY - APPROVAL OF MODIFICATIONS TO TARIFF PROVISIONS GOVERNING MAIN AND SERVICE EXTENSIONS

AGENDA: APRIL 18, 1995 - REGULAR AGENDA - TARIFF FILING - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE - PETITIONER HAS WAIVED THE APPLICABLE STATUTORY TIME LIMITS.

SPECIAL INSTRUCTIONS: I:\PSC\EAG\WP\950206.RCM

BACKGROUND

City Gas Company (Company) presently extends its facilities to provide service in accordance with the provisions of Rule 25-7.054, Florida Administrative Code. The rule requires extensions to be made at no cost to the customer when the capital investment necessary to extend the Company's facilities to provide service is equal to or less than the maximum allowable construction cost. The maximum allowable construction cost (MACC) is defined as being an amount equal to four times the estimated annual gas revenues to be derived from the facilities, less the cost of gas.

In the event the required capital investment exceeds the MACC, the Company requires the customer(s) to make a non-interest bearing contribution for aid of construction in an amount equal to the difference provided that:

1. At the end of the first year the Company shall refund to the customer(s) paying the advance in aid of construction an amount equal to the excess, if any, of the MACC calculated using actual gas revenues, less actual cost of gas, over the MACC used to determine the amount of the advance in aid of construction.

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

DOCKET NO. 950206-GU
DATE: April 6, 1995

2. For each additional customer taking service at any point on the extension within a period of five years from date of construction, the Company shall refund to the customer that paid the advance in aid of construction an amount by which the MACC for the new customer exceeds the cost of connecting the customer, provided that an additional main extension shall not have been necessary to serve the additional customer.

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission approve City Gas Company's petition for approval of modifications to tariffs governing main and service extensions?

RECOMMENDATION: Yes. The Commission should approve the Company's petition to modify its tariffs.

STAFF ANALYSIS: The Company is proposing to increase the MACC to an amount that is the equivalent of six times the estimated annual gas revenues from its current four times annual revenues. This change is permitted under Commission Rule 25-7.054, Florida Administrative Code, the rule controlling gas service extension policies.

The company also proposes an optional, alternative method of recovering capital investment in excess of the MACC when extending its facilities to provide service to customers who presently do not have natural gas service available and do not meet the Commission's approved feasibility formula. This method allows new gas customers that do not now meet feasibility criteria to obtain gas service without increasing costs to existing customers of the Company. The Company will fund the amount above the MACC required to construct the facilities and recover the investment from customers served by the extension by collecting an Area Expansion Program (AEP) surcharge.

The AEP provides for determination of a specific surcharge applicable to each designated expansion area by class of customer. It is calculated by a formula based on the amount of excess capital investment required, the Company's authorized rate of return approved by the Commission in its last rate proceeding, the projected sales to be made on the extension, the period of time the surcharge is applicable and the competitive conditions in the prevailing expansion area. Once set, the AEP surcharge will remain constant for the projected term of the collection period. There will be a prompt refund of any revenues in excess of the projected surcharge total to all existing customers in the AEP area if the

DOCKET NO. 950206-GU
DATE: April 6, 1995

revenues collected exceed the estimated AEP projection. The refund to any customer is not to exceed the amount contributed through the AEP.

For ratemaking and earnings surveillance report purposes, the excess cost above the MACC will not be included in rate base, and the related surcharge recovery will be excluded from the income statement. Specific adjustments will be made on the earnings surveillance report to eliminate these items. In addition, specific subaccounts will be established to clearly identify the amounts related to the excess cost above the MACC and its recovery.

Staff has reviewed the potential income tax impact of the contributions. Since the amount collected will be only the differential between what is and is not economically feasible and there is a potential for a refund, we believe that the tax impact of the contribution is immaterial. If the company's amount or quantity of contributions increase, there may be a need to review this again in the future.

The AEP surcharge option for funding main & service extension will allow customers that could not otherwise be served natural gas under existing tariff provisions to have gas service. This might include: existing L.P. gas (propane) customers; new areas not yet constructed; and areas fully developed that are remote from existing gas systems. The existing customers and the Company will be protected by the surcharge recovery of any amount by which the investment exceeds the MACC. Staff recommends that the tariff modification be approved.

ISSUE 2: If approved, when should the new tariff changes take effect?

RECOMMENDATION: The date of the Commission vote approving the new changes to the tariffs should be the effective date. The approved tariff should remain in effect pending resolution of any protest that may be filed.

STAFF ANALYSIS: The petitioner has requested that the tariff changes become effective at the time of the Commission vote. The staff concurs with the requested effective date. If the approval is protested, staff recommends that the tariff remain in effect pending resolution. These changes will only apply to a small group of new customers.

DOCKET NO. 950206-GU
DATE: April 6, 1995

ISSUE 3: Should this docket be closed?

RECOMMENDATION: Yes. If no timely protest is filed, this docket should be closed.

STAFF ANALYSIS: This docket should be closed if no person whose substantial interests are affected by the action of the Commission files a petition for a formal proceeding within the allowed 21-day protest period.