

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:** October 11, 2013

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

**FROM:** Division of Economics (Garl) *EDD PD JWD*  
Office of the General Counsel (Lawson) *M 5/2 JSC*

**RE:** Docket No. 110320-GU – Petition for approval of Cast Iron/Bare Steel Pipe Replacement Rider (Rider CI/BSR), by Peoples Gas System.

**AGENDA:** 10/24/13 – Regular Agenda – Tariff Filing - Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Administrative

**CRITICAL DATES:** 8-Month Effective Date: 5/5/14

**SPECIAL INSTRUCTIONS:** None

**FILE NAME AND LOCATION:** S:\PSC\ECO\WP\110320.RCM.DOC

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### Case Background

On September 5, 2013, Peoples Gas System (Peoples) filed a petition for approval of its Cast Iron/Bare Steel Pipe Replacement Rider (CI/BSR Rider) revenue requirements and surcharges for the period January through December 2014. The Rider was approved in Order No. PSC-12-0476-TRF-GU<sup>1</sup> to recover the cost of accelerating the replacement of cast iron and bare steel distribution pipes through a surcharge on customers' bills. According to quarterly reports Peoples filed on the progress of the replacement program for the period January through June 2013, Peoples replaced 36.16 miles of pipes.

<sup>1</sup> Order No. PSC-12-0476-TRF-GU, issued September 18, 2012, in Docket No. 110320-GU, In re: Petition for approval of Case Iron/Bare Steel Pipe Replacement Rider (Rider CI/BSR), by Peoples Gas System.

The order approving the Rider addressed the reliability and safety rationale for pipeline replacement, the scope of the program, similar actions in other states, and the procedure for annually setting the surcharge to recover the costs of the program. The procedure requires an annual filing with three components:

1. A final true-up showing the actual replacement costs and actual surcharge revenues for the most recent 12-month historical period from January 1 through December 31 that ends prior to the annual petition filing, including the final over- or under-recovery for the final true-up period;
2. An actual/estimated true-up showing seven months of actual and five months of projected costs and revenues;
3. A projection showing 12 months of projected Rider revenue requirement for the period beginning January 1 following the annual filing.

The Commission concluded the order by stating:

We find that replacement of these types of pipelines is in the public interest to improve the safety of Florida's natural gas infrastructure, and reduce the possibility of loss of life and destruction of property should an incident occur. Given the length of time these pipelines have been installed and the leak history due to corrosion, it is appropriate to approve the proposed accelerated replacement program. Without the Rider, it is reasonable to expect that Peoples will have to file for more frequent base rate proceedings to recover the expenses of the program. The annual filings will provide us with the oversight to ensure that projected expenses are trued-up and only actual costs are recovered. The Rider and its associated surcharges will terminate when all replacements have been made and the revenue requirement has been rolled into rate base.

Order No. PSC-12-0476-TRF-GU at p. 9.

In its petition, Peoples waived the 60-day file and suspend provisions of Section 366.06(3), Florida Statutes (F.S.). The Commission has jurisdiction over this matter pursuant to Sections 366.03, 366.04, 366.05, and 366.06, F.S.

### Discussion of Issues

**Issue 1:** Should the Commission approve Peoples' proposed CI/BSR Rider surcharges for 2014?

**Recommendation:** Yes. Peoples' calculation of the CI/BSR Rider surcharge for each rate class is reasonable and accurate. (Garl)

**Staff Analysis:** The CI/BSR Rider surcharges have been in effect since January 2013. Therefore, Peoples' calculations for the 2014 revenue requirements and surcharges include an actual/estimated true-up for 2013 and projected costs for 2014. Each component is addressed separately below.

Actual/Estimated 2013 true-up. In developing its 2014 revenue requirement for its CI/BSR program, Peoples provided actual revenues received (January through July) and estimated revenues (August through December) for 2013. Exhibit A of Peoples' petition shows this total is \$560,176. The actual/estimated revenue requirement for 2013 is \$542,074 and includes a return on investment, depreciation, and ad valorem taxes. The resulting over-recovery is \$18,101. After adding the interest provision of \$180, the 2013 total over-recovery is \$18,281 as shown below:

2013 CI/BSR Revenues	\$560,176
2013 CI/BSR Revenue Requirement	(\$542,074)
Over-Recovery	\$18,101
Interest Provision	\$180
2013 Total Over-Recovery	\$18,281

Projected 2014 costs. Peoples projects capital expenditures of \$10,250,000 for the replacement of cast iron/bare steel infrastructure in 2014. The return on investment, depreciation expense, and ad valorem tax expense associated with the projected capital expenditures is \$2,214,536. Subtracting the 2013 over-recovery provides the 2014 revenue requirement of \$2,196,256 as shown below:

2014 Projected Replacements	\$10,250,000
Return on Investment	\$1,620,663
Depreciation Expense	\$455,609
Tax Expense	\$138,265
Revenue Requirement	\$2,214,536
Less 2013 Over-Recovery	(\$18,281)
Total 2014 Revenue Requirement	\$2,196,256

The calculation of the CI/BSR Rider surcharges by rate class is shown in Attachment 1 to the recommendation. As established in the order approving the Rider, the total 2014 revenue requirement is allocated to the rate classes using the same methodology that was used for the allocation of mains and services in the cost of service study used in Peoples' most recent rate

case. After calculating the percentage of total plant costs attributed to each rate class, the respective percentages were multiplied by the 2014 revenue requirement, resulting in the revenue requirement by rate class. Dividing each rate class' revenue requirement by projected therm sales provides the CI/BSR Rider surcharge for each rate class. The CI/BSR Rider surcharge for residential customers is \$0.01117 per therm. The monthly bill impact for a residential customer who uses 20 therms is \$0.22 beginning January 1, 2014.

Staff believes the calculation of the 2014 CI/BSR revenue requirement and surcharges for each rate class is reasonable and accurate. Staff therefore recommends approval of Peoples' proposed CI/BSR Rider surcharges for 2014.

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Date: October 11, 2013

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

**Recommendation:** Yes. If Issue 1 is approved, the tariffs should become effective on January 1, 2014. If a protest is filed within 21 days of the issuance of the order, the tariffs should remain in effect, with any revenues held subject to refund, pending resolution of the protest. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order. (Lawson)

**Staff Analysis:** If Issue 1 is approved, the tariffs should become effective on January 1, 2014. If a protest is filed within 21 days of the issuance of the order, the tariffs should remain in effect, with any revenues held subject to refund, pending resolution of the protest. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order.

Peoples Gas System  
 Cast Iron/Bare Steel Replacement Rider  
 Summary of CVBSR Surcharge Calculation  
 January 2014 Through December 2014

Docket No. 110320-GU  
 Exhibit C  
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<u>RATE SCHEDULE</u>	<u>MAINS NET PLANT*</u>	<u>SERVICES NET PLANT*</u>	<u>TOTAL NET PLANT*</u>	<u>% OF TOTAL PLANT</u>	<u>CVBSR REVENUES</u>	<u>THERMS</u>	<u>CVBSR SURCHARGE PER THERM</u>
RS & RS-SG	\$59,806,570	\$79,163,368	\$138,969,938	34.96%	\$767,830	68,740,920	\$0.01117
SGS	5,474,814	5,937,386	11,412,200	2.87%	63,054	7,695,000	\$0.00819
GS-1 & CS-SG	45,983,103	12,635,366	58,618,469	14.75%	323,876	79,188,252	\$0.00409
GS-2	81,315,915	8,975,978	90,291,893	22.71%	498,876	129,526,000	\$0.00385
GS-3	46,157,083	2,496,659	48,653,742	12.24%	268,819	87,403,000	\$0.00308
GS-4	25,447,491	447,292	25,894,783	6.51%	143,073	51,996,000	\$0.00275
GS-5	22,396,181	427,101	22,823,282	5.74%	126,102	105,000,000	\$0.00120
NGVS	244,131	48,338	292,469	0.07%	1,616	153,000	\$0.01056
CSLS	534,119	10,816	544,935	0.14%	3,011	716,000	\$0.00421
WHS	786,453	35,448	821,901	0.21%	4,541	3,719,000	\$0.00122
<b>TOTAL</b>	<b>\$287,359,407</b>	<b>\$110,142,304</b>	<b>\$397,501,711</b>	<b>100.00%</b>	<b>\$2,196,256</b>	<b>530,418,172</b>	

\* Source: Data in these columns are from Schedule H-2 of the Cost of Service Study approved in Peoples' last rate case