

State of Florida



Public Service Commission

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COMMISSION
CLERK

DATE: January 21, 2016

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Economics (Guffey, Draper) *E&D SKG*
Office of the General Counsel (Barrera) *ASB*

RE: Docket No. 150232-GU – Petition for approval of variance from area extension program (AEP) tariff to delay true-up and extend amortization period, by Florida City Gas.

AGENDA: 02/02/16 – 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 October 27, 2015, Florida City Gas (FCG or Company) filed a petition for approval of a variance from its Area Extension Program (AEP) tariff to delay the true-up and extend the amortization period by two years.

The AEP tariff is designed to provide FCG with an optional method to recover its capital investment to provide natural gas service to customers in a discrete geographic area who do not have gas service available.¹ The AEP tariff provides for the determination of a charge applicable to all gas customers located in the geographic area over a 10-year amortization period. The AEP charge is applied on a per therm basis in addition to all other tariffed charges. The AEP charge is

¹ Order No. PSC-95-0506-FOF-GU, issued April 24, 1995, Docket No. 950206-GU, *In re: Petition for approval of tariffs governing extension of facilities by City Gas Company of Florida.*

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 charge; the AEP charge itself does not require Commission approval.

The AEP tariff requires FCG to recalculate and true-up the AEP charge on the third anniversary of the date when the facilities to provide gas service were placed into service, or on the date when 80 percent of the originally forecast annual load is connected, whichever comes first. The Company can true-up the AEP charge only once, and the new charge will be applied prospectively over the remainder of the amortization period. The AEP tariff includes a provision that the length of the amortization period may be modified upon Commission approval.

FCG stated that it has utilized the AEP tariff eight times since its 1995 implementation and the AEP mechanism has proven very helpful in facilitating projects to extend natural gas service to customers who would otherwise not been served. In 2012, FCG extended its facilities pursuant to the AEP tariff to serve a large commercial customer, who is a citrus producer, located in Hendry County. The project is referred to as the Glades Project. The Glades Project has not developed as projected and FCG therefore is requesting in this petition to deviate from the AEP tariff requirements for the Glades Project. FCG is not requesting to change any provisions of the AEP tariff itself. On December 8, 2015, FCG responded to Staff's First Set of Data Requests. The Commission has jurisdiction over this matter pursuant to Section 366.06, Florida Statutes.

Discussion of Issues

Issue 1: Should the Commission approve FCG's request to delay the true-up of the AEP charge applicable to the Glades Project by two years until October 31, 2017, and extend the 10-year amortization period by two years?

Recommendation: Yes. The Commission should approve FCG's request to delay the true-up of the AEP charge applicable to the Glades Project by two years until October 31, 2017, and extend the 10-year amortization period by two years.

Staff Analysis: In 2012, pursuant to the AEP tariff, FCG extended its East-West pipeline to provide gas service to a large commercial customer located in Hendry County. Based on the initial projected cost of the facilities and projected annual therm usage, FCG calculated an initial AEP charge of \$0.241 per therm, which the commercial customer in the Glades Project area has been paying since November 2012.

As required by the AEP tariff, FCG recalculated the AEP charge for the Glades Project based on updated project costs and therm usage by the end of the third year, which was on October 31, 2015. FCG stated that due to unexpected project cost increases and lower gas consumption, the recalculated AEP charge would increase from \$0.241 per therm to \$0.515 per therm, which would be applied beginning November 1, 2015 through the remainder of the 10-year amortization period (2015 through 2022). While FCG calculated the true-up, FCG did not implement the revised AEP charge pending the Commission's decision in this docket. FCG explained that three factors resulted in the significant increase of the AEP charge, which are listed below:

- The commercial customer did not use the amount of natural gas initially projected due to an outbreak of citrus canker which lowered production and therefore gas usage.
- The cost of the line extension exceeded the initial cost estimated due to unanticipated environmental issues. The 2012 projected facilities cost of \$13,500,000 increased to \$17,766,616 in 2015.
- New customers did not come on line as anticipated when the line was extended.

FCG stated that while applying the recalculated higher AEP charge starting in November 2015 would be consistent with the AEP tariff, FCG is sensitive to the issues faced by the large commercial customer who is a citrus producer, in the Glades Project area and the impact the higher AEP charge would have on the customer. FCG stated that while the citrus canker disease has abated, new trees will not begin producing fruit for another two years. Once the trees begin producing, FCG anticipates that the customer's gas usage will also begin to increase. FCG explained that deferring the AEP true-up and implementation of a revised AEP charge until October 31, 2017, will provide additional time for gas usage to increase and provide more time for potential new customers to come on line, therefore resulting in the recalculated AEP charge to reflect a much less significant increase. To further mitigate any rate impacts on the

commercial customer, FCG proposed to extend its 10-year amortization period for an additional two years in order to spread the amount to be collected over a slightly longer period of time.

FCG's proposal only impacts the customers in the Glades Project and does not impact the general body of ratepayers. FCG's proposal will benefit the large commercial customer in the Glades Project area who is facing unique economic challenges. FCG stated that it has communicated with the commercial customer and the customer does not oppose FCG's proposal. In response to staff's data request, FCG explained that the seven other AEP projects are performing as projected or better. Staff therefore recommends that the Commission should approve FCG's request to delay the true-up of the AEP charge applicable to the Glades Project by two years until October 31, 2017, and extend the 10-year amortization period by two years.

Issue 2: Should this docket be closed?

Recommendation: If no protest is filed by a person whose substantial interests are affected within 21 days of the issuance of the Order, this docket should be closed upon the issuance of a Consummating Order. (Barrera)

Staff Analysis: If no protest is filed by a person whose substantial interests are affected within 21 days of the issuance of the Order, this docket should be closed upon the issuance of a Consummating Order.