

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: November 22, 2016

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Economics (Guffey) *ESD SKG BPN*
Office of the General Counsel (Leathers) *mf jsc*

RE: Docket No. 160199-GU – Joint petition for approval of gas reliability infrastructure program cost recovery factors by Florida Public Utilities Company, Florida Public Utilities Company-Fort Meade, and the Florida Division of Chesapeake Utilities Corporation.

AGENDA: 12/06/16 – Regular Agenda – Tariff Filing - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: 8-Month Effective Date: 05/01/17 (60-day suspension date waived by the utility to the December 6, 2016 Agenda)

SPECIAL INSTRUCTIONS: None

Case Background

On September 1, 2016, Florida Public Utilities Company (FPUC), FPUC-Fort Meade (Fort Meade), and the Florida Division of Chesapeake Utilities Corporation (Chesapeake), collectively the company, filed a joint petition seeking approval to implement their Gas Reliability Infrastructure Program (GRIP) cost recovery factors for the period January 2017 through December 2017.

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CLERK

The GRIP program for FPUC and Chesapeake was originally approved in September 2012 in Order No. PSC-12-0490-TRF-GU¹ to recover the cost of accelerating the replacement of cast iron and bare steel distribution mains and services through a surcharge on customer's bills. The program is expected to be complete in 2022. FPUC's and Chesapeake's currently effective surcharges were approved in Order No. PSC-15-0578-TRF-GU.² Additionally, the same order established Fort Meade's new GRIP program and required Fort Meade to file a petition for 2017 GRIP factors concurrent with the annual FPUC and Chesapeake GRIP filings in September 2016. FPUC, Fort Meade, and Chesapeake's proposed 2017 surcharges are discussed in Issue 1 of this recommendation. As provided for in the 2012 order, the filing includes a final true-up for 2015, an actual/estimated true-up for 2016, and the projected revenue requirement for 2017 for the three companies.

In its email, the company waived the 60-day suspension deadline to the December 6, 2016 Agenda Conference pursuant to Section 366.06(3), Florida Statutes (F.S.). On October 13, 2016, the company filed responses to staff's first data request. On October 25, 2016, the company filed corrected data tables per staff's request. The Commission has jurisdiction over this matter pursuant to Sections 366.03, 366.04, 366.05, and 366.06, F.S.

¹ Order No. PSC-12-0490-TRF-GU, issued September 24, 2012, in Docket No. 120036-GU, *In re: Joint petition for approval of Gas Reliability Infrastructure Program (GRIP) by Florida Public Utilities Company and the Florida Division of Chesapeake Utilities Corporation.*

² Order No. PSC-15-0578-TRF-GU, issued December 21, 2015, in Docket No. 150191-GU, *In re: Joint petition for approval to implement gas reliability infrastructure program (GRIP) for Florida Public Utilities Company-Fort Meade and for approval of GRIP cost recovery factors by Florida Public Utilities Company, Florida Public Utilities Company-Fort Meade and the Florida Division of Chesapeake Utilities Corporation.*

Discussion of Issues

Issue 1: Should the Commission approve FPUC, Fort Meade, and Chesapeake's proposed GRIP surcharge factors for 2017?

Recommendation: Yes. The Commission should approve FPUC, Fort Meade, and Chesapeake's proposed GRIP surcharge factors for 2017 commencing with bills rendered for meter readings taken on or after January 6, 2017. (Guffey)

Staff Analysis: The FPUC and Chesapeake GRIP surcharges have been in effect since January 2013, while Fort Meade's surcharges will be first implemented in January 2017. The petitioners assert that certain replacement projects in high consequence areas within cities and larger municipalities continue to be on an accelerated track. In response to staff's data request, the company stated that it has performed replacement projects in West Palm Beach, Lake Worth, Deland, Debarry, Winter Haven, Haines City, Auburndale, Lake Wales, Palm Beach, and North Palm Beach. The accelerated status of these projects has resulted in increased GRIP costs due to various construction requirements imposed by the municipalities. The company anticipates that as the projects in high consequence areas are completed and the activity shifts to less populated areas, the overall GRIP costs will decline.

Attachment 1 provides an update of mains and services replaced and replacement forecasts through the end of the term of the GRIP programs for the companies. The companies appear to be on track to complete the replacements on time. Attachments 2 through 4 show the proposed tariffs.

FPUC's True-Ups by Year

FPUC's calculations for the 2017 GRIP revenue requirement and surcharges include a final true-up for 2015, an actual/estimated true-up for 2016, and projected costs for 2017. Staff notes that FPUC recovers \$747,733 of annual GRIP expenses in base rates. This amount included in base rates is excluded from the GRIP surcharge calculation.

Final True-Up for 2015

FPUC stated that the GRIP revenues for 2015 were \$4,089,962, compared to a revenue requirement of \$5,774,298. The resulting under-recovery is \$1,684,336. After adding interest of \$1,954 and the end of 2014 under-recovery of \$1,281,394, the final 2015 true-up is an under-recovery of \$2,967,684.

Actual/Estimated True-Up for 2016

FPUC provided actual GRIP revenues for January through July and estimated revenues for August through December 2016, totaling \$8,026,637. The actual/estimated revenue requirement for 2016 is \$8,938,870, and it includes a return on investment, depreciation expense, and property tax expense. The forecasted under-recovery for 2016 is \$912,233. After adding interest of \$7,444, and the final 2015 under-recovery of \$2,967,684, the total 2016 under-recovery is \$3,887,361.

Projected Costs for 2017

FPUC projects capital expenditures of \$5,139,504 for the replacement of cast iron/bare steel infrastructure in 2017. This compares with final 2015 expenditures of \$27,181,346 and actual/estimated 2016 expenditures of \$17,944,442. The return on investment, net depreciation expense, customer notification, and property tax expenses associated with that investment are \$11,090,358. Subtracting the revenue requirement for bare steel replacement investment included in base rates results in a 2017 revenue requirement of \$10,342,631. After adding the total 2016 under-recovery of \$3,887,361, the 2017 revenue requirement is \$14,229,992. Table 1-1 shows FPUC's 2017 revenue requirement calculation.

**Table 1-1
 FPUC 2017 Revenue Requirement Calculation**

2017 Projected Expenditures	\$5,139,504
Return on Investment	\$7,516,062
Depreciation Expenses	\$2,021,364
Tax and Customer Notice Expenses	\$1,552,932
2017 Revenue Requirement	\$11,090,358
Less Revenue Requirement in Base Rates	\$747,727
2017 GRIP Revenue Requirement	\$10,342,631
Plus 2016 Under-Recovery	\$3,887,361
2017 Total Revenue Requirement	\$14,229,992

Source: GRIP Schedule C-2 of Exhibit MC-1, page 4 of 14

Chesapeake's True-Ups by Year

Chesapeake does not have a replacement recovery amount embedded in base rates. Chesapeake's calculations for the 2017 GRIP revenue requirement and surcharges include a final true-up for 2015, an actual/estimated true-up for 2016, and projected costs for 2017.

Final True-Up for 2015

Chesapeake stated that the GRIP revenues for 2015 were \$1,775,375, compared to total replacement costs of \$1,689,514. The resulting over-recovery is \$85,861. After adding interest of \$105 and the end of 2014 under-recovery amount of \$211,175, the final 2015 under-recovery is \$125,419.

Actual/Estimated True-Up for 2016

Chesapeake provided actual GRIP revenues for January through July and estimated revenues for August through December 2016, which total \$2,237,448. The actual/estimated GRIP revenue requirement for 2016 is \$2,424,705 and includes a return on investment, depreciation expense, and property tax expense. The forecasted under-recovery for 2016 is \$187,257. After adding interest of \$121 and the 2015 under-recovery amount of \$125,419, the total 2016 under-recovery is \$312,797.

Projected Costs for 2017

Chesapeake projects capital expenditures of \$1,623,012 for the replacement of cast iron/bare steel infrastructure in 2017. This compares with final 2015 expenditures of \$5,692,055 and actual/estimated 2016 expenditures of \$5,340,859. The return on investment, depreciation expense, and property tax expense to be recovered in 2017 totals to \$2,877,498. After adding the total 2016 under-recovery of \$312,797, the total 2017 revenue requirement is \$3,190,295. Table 1-2 shows Chesapeake's 2017 revenue requirement calculation.

**Table 1-2
Chesapeake 2017 Revenue Requirement Calculation**

2017 Projected Expenditures	\$1,623,012
Return on Investment	\$1,927,204
Depreciation Expenses	\$519,182
Tax and Customer Notice Expenses	\$431,112
2017 Revenue Requirement	\$2,877,498
Plus 2016 Under-Recovery	\$312,797
2017 Total Revenue Requirement	\$3,190,295

Source: GRIP Schedule C-2 of Exhibit MC-1, page 9 of 14

Fort-Meade's True-Ups by Year

When the Commission first approved the Fort Meade GRIP program in Order No. PSC-15-0578-TRF-GU, the Commission allowed Fort Meade to start the replacement of approximately 250 steel services in 2016; however, the utility was required to defer collecting GRIP surcharges from customers until January 2017. As stated in the order approving the Fort Meade GRIP program, FPUC acquired Fort Meade's natural gas system in 2013, and the implementation of the GRIP surcharge for Fort Meade prior to October 2016 would be in violation of a term in the purchase agreement of the Fort Meade system. Fort Meade will provide notice to its customers of the proposed GRIP factors in the December bills.

Actual/Estimated True-Up for 2016

Fort Meade did not have a GRIP surcharge in 2016. Therefore, GRIP revenues for 2016 are \$0. The actual/estimated GRIP revenue requirement for 2016 is \$4,208 and includes a return on investment and depreciation expense. After adding interest of \$2, the total 2016 under-recovery is \$4,210.

Projected Costs for 2017

Fort Meade projects capital expenditures of \$277,081 for the replacement of cast iron/bare steel infrastructure in 2017. This compares with actual/estimated 2016 expenditures of \$197,915. The return on investment, depreciation expense, and property tax expense to be recovered in 2017 totals \$45,648. After adding the total 2016 under-recovery of \$4,210, the total 2017 revenue requirement is \$49,858. Table 1-3 shows Fort Meade's 2017 revenue requirement calculation.

Table 1-3
Fort Meade 2017 Revenue Requirement Calculation

2017 Projected Expenditures	\$277,081
Return on Investment	\$31,380
Depreciation Expenses	\$10,332
Tax and Customer Notice Expenses	\$3,936
2017 Revenue Requirement	\$45,648
Plus 2016 Under-Recovery	\$4,210
2017 Total Revenue Requirement	\$49,858

Source: GRIP Schedule C-2 of Exhibit MC-1, page 13 of 14

Proposed Surcharges for FPUC, Chesapeake, and Fort Meade

As established in the 2012 order approving the GRIP, the total 2017 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 the companies' most recent rate case. Fort Meade has the same rate schedules as FPUC and FPUC's allocation factors are used to calculate the GRIP surcharges for Fort Meade. After calculating the percentage of total plant costs attributed to each rate class, the respective percentages were multiplied by the 2017 revenue requirement, resulting in the revenue requirement by rate class. Dividing each rate class' revenue requirement by projected therm sales provides the GRIP surcharge for each rate class.

The proposed 2017 GRIP surcharge for residential FPUC customers on the RS Schedule is \$0.34225 per therm (compared to the current surcharge of \$0.26393 per therm). The monthly bill impact is \$6.85 beginning January 6, 2017 for a residential customer who uses 20 therms per month. The proposed FPUC tariff page is provided in Attachment 2.

The proposed 2017 GRIP surcharge for residential Chesapeake customers on the FTS-1 schedule is \$0.10371 per therm (compared to the current surcharge of \$0.08568 per therm). The monthly bill impact is \$2.07 beginning January 6, 2017 for a residential Chesapeake customer who uses 20 therms per month. The proposed Chesapeake tariff page is provided in Attachment 3.

The proposed 2017 GRIP surcharge for residential Fort Meade customers on the RS Schedule is \$0.36931 per therm. The monthly bill impact is \$7.39 beginning January 6, 2017 for a residential Fort Meade customer who uses 20 therms per month. The proposed Fort Meade tariff page is provided in Attachment 4.

Conclusion

Staff believes the calculation of the 2017 GRIP surcharge revenue requirement and the proposed GRIP surcharges for FPUC, Chesapeake, and Fort Meade are reasonable and accurate. Therefore, staff recommends approval of FPUC, Chesapeake, and Fort Meade's proposed 2017 GRIP surcharge for each rate class commencing with bills rendered for meter readings taken on or after January 6, 2017.

Issue 2: Should this docket be closed?

Recommendation: If Issue 1 is approved and 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. (Leathers)

Staff Analysis: If Issue 1 is approved and 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.

Table 1
FPUC Pipe Replacement Program Progress

Year	Main Replacement					Service Replacement	
	Replaced Cast Iron (miles)	Replaced Bare Steel (miles)	Remaining Cast Iron at Year End (miles)	Remaining Bare Steel at Year End (miles)	Total Miles Remaining	Replaced Number of Bare Steel Services	Total Number of Remaining Steel Services
July 2012			0.9	197.10	198.00		7980
2012		6.00	0.9	191.10	192.00	91	7889
2013	0.6	26.40	0.3	164.70	165.00	2071	5818
2014		38.00	0.3	126.70	127.00	1275	4543
2015		30.00	0.3	96.70	97.00	605	3938
2016		29.00	0.3	67.70	68.00	815	3123
2017	0.3	13.70	0	54.00	54.00	650	2473
2018		14.00	0	40.00	40.00	650	1823
2019		14.00	0	26.00	26.00	650	1173
2020		14.00	0	12.00	12.00	650	523
2021		10.00	0	2.00	2.00	465	58
2022		2.00	0	0.00	0.00	58	0

Source: Response to staff's first data request/Attachment A, Revised 10/21/2016

Table 2
Chesapeake Pipe Replacement Program Progress

Year	Main Replacement					Service Replacement	
	Replaced Cast Iron (miles)	Replaced Bare Steel (miles)	Remaining Cast Iron at Year End (miles)	Remaining Bare Steel at Year End (miles)	Total Miles Remaining	Replaced Number of Bare Steel Services	Total Number of Remaining Steel Services
July 2012			0	152.00	152.00		762
2012		5.00	0	147.00	147.00	34	728
2013		3.00	0	144.00	144.00	139	589
2014		19.00	0	125.00	125.00	47	542
2015		34.00	0	91.00	91.00	284	258
2016		30.00	0	61.00	61.00	52	206
2017		13.00	0	48.00	48.00	42	164
2018		13.00	0	35.00	35.00	42	122
2019		13.00	0	22.00	22.00	42	80
2020		13.00	0	9.00	9.00	42	38
2021		7.00	0	2.00	2.00	26	12
2022		2.00	0	0.00	0.00	12	0

Source: Response to staff's first data request/Attachment A, Revised 10/21/2016

Table 3
Fort Meade Pipe Replacement Program Progress

Year	Main Replacement				Service Replacement		
	Replaced Cast Iron (miles)	Replaced Bare Steel (miles)	Remaining Cast Iron at Year End (miles)	Remaining Bare Steel at Year End (miles)	Total Miles Remaining	Replaced Number of Bare Steel Services	Total Number of Remaining Steel Services
Jan. 2016			0	0	0		250
2016		0	0	0	0	100	150
2017		0	0	0	0	125	25
2018		0	0	0	0	25	0

Source: Response to staff's first data request/Attachment A, Revised 10/21/2016

Florida Public Utilities Company
F.P.S.C. Gas Tariff
Third Revised Volume No. 1

Twelfth Revised Sheet No. 35.4
Cancels Eleventh Revised Sheet No. 35.4

BILLING ADJUSTMENTS

(Continued from Sheet No. 35.3)

Gas Reliability Infrastructure Program (GRIP)

Applicability

The bill for gas or transportation service supplied to a Customer in any Billing Period shall be adjusted as follows:

The GRIP factors for the period from the first billing cycle for January 2017 through the last billing cycle for December 2017 are as follows:

<u>Rate Class</u>	<u>Rates Per Therm</u>
Rate Schedule RS	\$0.34225
Rate Schedule GS-1	\$0.23903
Rate Schedule GS-2	\$0.23903
Rate Schedule GSTS-1	\$0.23903
Rate Schedule GSTS-2	\$0.23903
Rate Schedule LVS	\$0.12689
Rate Schedule LVTS	\$0.12689
Rate Schedule IS	\$0.11461
Rate Schedule ITS	\$0.11461
Rate Schedule GLS	\$0.49951
Rate Schedule GLSTS	\$0.49951
Rate Schedule NGV	\$0.23903
Rate Schedule NGVTS	\$0.23903

(Continued to Sheet No. 35.5)

Issued by: Jeffrey Householder, President

Effective:

Florida Public Utilities Company-Fort Meade
F.P.S.C. Gas Tariff
Original Volume No. 1

Original Sheet No. 64

BILLING ADJUSTMENTS

Gas Reliability Infrastructure Program (GRIP)

Applicability

The bill for gas or transportation service supplied to a Customer in any Billing Period shall be adjusted as follows:

The GRIP factors for the period from the first billing cycle for January 2017 through the last billing cycle for December 2017 are as follows:

<u>Rate Class</u>	<u>Rates Per Therm</u>
Rate Schedule RS	\$0.36931
Rate Schedule GS-1	\$0.11672
Rate Schedule GS-2	\$0.11672
Rate Schedule GSTS-1	\$0.11672
Rate Schedule GSTS-2	\$0.11672
Rate Schedule LVS	\$0.00000
Rate Schedule LVTS	\$0.00000
Rate Schedule IS	\$0.00000
Rate Schedule ITS	\$0.00000
Rate Schedule GLS	\$0.00000
Rate Schedule GLSIS	\$0.00000
Rate Schedule NGV	\$0.00000
Rate Schedule NGVTS	\$0.00000

Issued by: Jeffrey Householder, President

Effective: