

State of Florida



Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

DATE: January 31, 2017

TO: Carlotta S. Stauffer, Commission Clerk, Office of Commission Clerk

FROM: Jenny X. Wu, Economic Analyst, Division of Economics

RE: Docket No. 160159-GU, Petition for approval of settlement agreement pertaining to Peoples Gas System's 2016 depreciation study, environmental reserve account, problematic plastic pipe replacement, and authorized ROE.

FPSC Staff Overview of Settlement Agreement Proposal by Peoples Gas System and the Office of Public Counsel

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FPSC Staff Overview of
Settlement Agreement Proposal by
Peoples Gas System (PGS)
and
the Office of Public Counsel (OPC)

Docket No. 160159-GU

January 31, 2017

Background

- On June 28, 2016, PGS filed its 2016 Depreciation Study, proposing depreciation rates resulting in a reduction in depreciation expense of \$4.9 million (M) for 2016.
- On August 11, 2016, the FPSC issued an order acknowledging OPC's intervention.
- On October 14, 2016, and October 25, 2016, PGS submitted revisions to its proposed depreciation rates resulting in a revised reduction in expense of \$8.5 M for 2016.
- On November 4, 2016, OPC filed a report, proposing an adjustment to PGS's proposed depreciation rates resulting in an additional reduction of \$20.1 M from PGS's final proposed 2016 depreciation expense.
- On December 15, 2016, PGS and OPC (the signatories) filed a document titled "Joint Motion Seeking Commission Approval of Settlement Agreement."
- Staff issued multiple sets of data requests and staff reports to PGS, and held several noticed informal meetings with respect to the depreciation study and the Settlement Agreement.

Highlights of the Settlement Agreement

A. New depreciation rates and certain depreciation reserve transfers

The Settlement Agreement, if approved, is expected to result in:

- A reduction in 2016 depreciation expense of \$16.1 M;
- A reduction in depreciation expense included in Cast Iron/Bare Steel Replacement (CI/BSR) Rider surcharges. The Commission-approved 2017 surcharges will not be revised; through the annual true-up mechanism of the Rider, the 2017 reduction will be included in 2018 surcharges that will be subject to Commission approval.

B. Increase in the annual accrual to PGS's environmental reserve account

- In 1986, PGS was permitted to recover costs associated with the assessment, monitoring, and remediation/cleanup of environmental contaminants produced by old manufactured gas plants (MGPs).
- In 1998, a reserve accounting treatment was approved with an annual accrual of \$0.64 M which has not been revisited since that time.
- The MGP-related costs have now increased since PGS's responsibilities have evolved from assessment & monitoring to cleanup & monitoring. The estimated total cost is \$55 M, which would require approximately 85 years for full recovery with the current accrual rate.

PGS's environmental reserve account – continued

- The signatories propose:
 - a) Amortization of \$21 M current reserve balance deficiency over 2 years beginning in 2016;
 - b) Amortization of at least \$32 M of the prudently incurred current/future MGP environmental liability over the period 2016 – 2020 (inclusive of the amount specified in a);
 - c) Accrual of additional reasonably and prudently incurred MGP environmental expense over the years 2016 – 2020, wherein amounts above \$55 M are subject to being contested by OPC;
 - d) The accrual/amortization of MGP expense would not be used by PGS to drive its achieved ROE below the bottom of its authorized range.

C. Inclusion of Problematic Plastic Pipe Replacements for Cost Recovery in the CI/BSR Rider

- PGS has approximately 550 miles of installed “problematic plastic pipe” (PPP), manufactured pre-1983, which has significant safety concerns, and which, in certain areas, is interspersed with, or connected to, the cast iron and bare steel pipe that is being replaced.

- The signatories propose to:
 - a) Include PPP replacements as “Eligible Replacements” for cost recovery under the CI/BSR Rider until 2028;

 - b) Initiate replacement of PPP where feasible to benefit ratepayers, with CI/BSR still being the priority until 2022;

 - c) Revise the tariff wherein new materials identified as obsolete and potential safety threats are considered “Eligible Replacements.” In response to a FPSC staff data request, PGS indicates it would discuss the proposed replacements with FPSC staff and the OPC, after which such replacements would be identified in PGS’s annual CI/BSR Rider filing.

D. Modification to PGS's authorized ROE

- PGS's authorized ROE is 10.75% with an earnings range of 9.75% to 11.75%.
- The signatories propose:
 - a) Reducing the bottom of the authorized range to 9.25%;
 - b) This "bottom" shall remain in effect until the earlier of:
 - (i) the effective date of new base rates in a rate case resulting from PGS's earnings falling below 9.25% prior to December 31, 2020, or
 - (ii) December 31, 2020, after which time the bottom of PGS's authorized ROE range will return to 9.75%;
 - c) PGS will not file a request for a general base rate proceeding before December 31, 2020, unless its earnings fall below 9.25%.

E. Effective date of the Settlement Agreement

The signatories propose an effective date of the Settlement Agreement to be the day after it is approved.