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March 17, 2017

**BY E-PORTAL**

Ms. Carlotta Stauffer
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

**Re: Docket No. 170029-GU - Petition for approval of modifications to extension of facilities and area extension program tariffs, by Florida City Gas.**

Dear Ms. Stauffer:

Attached, for electronic filing, please find Florida City Gas's revised responses to Commission Staff's First Set of Data Requests in the above-referenced docket.

Thank you for your assistance with this filing. As always, please do not hesitate to contact me if you have any questions whatsoever.

Sincerely,

Beth Keating

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**Docket No. 170029-GU - Petition for approval of modifications to extension of facilities and area extension program tariffs, by Florida City Gas**

**Responses of Florida City Gas to Commission Staff's First Data Requests (*Revised*)**

Florida City Gas submits these *revised* data responses to amend its response to Data Request No. 1. The remaining data responses remain unchanged from those submitted in the Docket on March 3, 2017. The responses of Florida City Gas to the Staff's First Data Requests in the referenced docket are as follows:

1. How many times has the Area Extension Program (AEP) been used since its 1995 approval? Please provide a general description of the current AEP projects.

   *Revised* Company Response:

   The Area Extension Program (AEP) has been utilized ten times since its 1995 approval. To date, the Company has fully recovered the AEP investment on two projects (Fellsmere and Vero Connector AEPs) and discontinued AEP rate recovery. There are eight active AEP projects. Four of the currently active AEP projects (Homestead, Sweetwater, Sebastian and Clewiston AEPs) extended natural gas service into cities and counties where natural gas was not previously available. Two AEP projects (Vero Beach and Miramar) brought natural gas service to commercial areas where gas was not readily available. One, the Glades project, brought service both to cities and counties where natural gas service was not previously available, as well as a commercial area. The remaining AEP project (Sailfish), a small residential extension provided natural gas to a residential area.

2. How many times have "Extensions of Mains and Service Above Free Limit" been used for general tariff customers (general tariff extension customers) since 1995?

   Company Response:

   The Company utilizes the "Extensions of Mains and Service Above Free Limit" tariff provision several hundred times per year. By way of example, over the five year period from 2012 – 2016, a little over 4,400 customers paid the Aid to Construction (ATC) for costs above the free limit of service, which reflects that the tariff is utilized, on average, more than 880 times per year.

3. Please explain the reasons, other than the Glades expansion (Docket No. 150232-GU), that led FCG to bring this petition to the Commission at this time, e.g., potential AEP customers, potential general tariff extension customers, etc.

Company Response:

The Company believes that the ability to require a "take or pay" provision provides it with another tool to mitigate the risk associated with high-cost extensions to serve new customers in a way that protects both the Company and its customers. Specifically, when the volumes used by a customer differ dramatically from the estimated amounts utilized to calculate the MACC, the ability of the Company to fully recover its investment to serve a customer may be significantly impaired. In situations where a customer's actual volumes are significantly less than the estimated amounts used to calculate the MACC, there are minimal, or no, opportunities to adjust, or "true up," the calculation in a manner that holds other customers harmless, regardless of whether the customer is a general tariff customer or an AEP customer. As such, in instances in which significant differences between the estimated and actual volumes used by a new customer will impact the MACC, inclusion of a "take or pay" provision will provide an additional level of protection that will ensure ratepayers are not required to shoulder the burden associated with the stranded investment when a new customer's actual volumes do not approximate their volume commitment. Given that the Company relies upon business information provided by the customer, such as hours of operation, equipment type and use, and expansion plans, in order to calculate the MACC, the inclusion of a "take or pay" provision in the agreement will also encourage new customers to provide accurate business information to the Company that will produce a realistic, as opposed to inflated, calculation of the customer's anticipated volumes.

4. Please refer to paragraphs 11-12 of the petition for the following questions:

    a. Please explain and describe how FCG will decide that a "take or pay" provision is necessary and provide illustrative examples for AEP customers and for general tariff extension customers.

Company Response:

The key factors in evaluating whether a "take or pay" provision is appropriate will be:

1. Value of the capital investment to serve the customer;
2. What the customer's use(s) for natural gas are, i.e., a hospital that uses natural gas for boilers, kitchens and laundry are common

thereby the risks are low, a new start up that will use gas for a process that is not widely used represents a higher risk; and

3. Whether the business is a start-up or an established business with verifiable consumption data to verify the annual natural gas use estimates.

Generally speaking, the hypotheticals in which the Company may consider a "take or pay" provision appropriate will be quite similar whether the customer is a general tariff customer or an AEP customer. The Company will, as stated above, consider the overall capital investment necessary to extend service for and foremost. The Company will then assess the risk associated with the new customer based on the criteria above. As noted, new businesses with new equipment, projected high volumes, and little history in business or as gas users will assess at a higher risk point. Businesses that have an existing natural gas profile, are implementing equipment which has a historical gas usage profile, or can otherwise provide verifiable usage data, perhaps from affiliate locations, would be assessed at a lower risk. The ultimate factor, in any situation, will be the impact to the Company and its ratepayers should the new customer's volumes be inconsistent with projections.

b. Please explain how the "take or pay" amount would be determined and provide illustrative examples including the calculations for AEP customers and for general tariff extension customers.

*Revised* Company Response:

The process to determine the minimum take or pay requirement for AEP customers, as well as general tariff customers, would be as follows:

1. The first step is to determine the maximum allowable construction cost (MACC) as follows:
    - Estimate the customer's annual consumption of natural gas for each year following the customer's account activation.
    - The qualifying tariff rate is factored in based on the level of consumption identified for each year.
    - Base revenue for each year will be determined by adding up 12 months of customer charges, demand charge (if applicable) and the volumetric margin by multiplying the annual volume by the distribution rate per therm. The base revenue for each year will be added together to arrive at the

MACC the company may invest based on its free limit of service tariff requirements.

2. The next step is to estimate the capital investment to extend a gas main, service line, regulators and meter set size designed to meet the customer's requirements for gas flow and pressure.
3. If the MACC exceeds the cost of the capital investment to serve the customer, the customer will not be required to provide an ATC.
4. The "take or pay" provision will require the customer to agree to take or pay for the level of natural gas volume each year. The volumes will be identified in a schedule that is part of their gas extension contract with the company.
5. The company will audit on an annual basis following the anniversary date of the customer's account activation, the actual metered and billed volume of natural gas and compare to the take or pay schedule in the gas extension contract. If the volume falls short of the requirement, the company will promptly bill for the volume shortfall in accordance with the applicable charges associated with the customer's tariff rate. In the case of an AEP project, the applicable AEP surcharge will be included in the billing of the volume shortfall.

c. Would the "take or pay" provision be recalculated if, for example, a customer uses more than the "defined minimum level" of service? Please explain.

<u>Company Response:</u>

No. The Company intends to require the customer's commitment to be the minimum annual consumption outlined for the duration of the "take or pay" commitment..

d. Does FCG expect that all, some, or most of AEPs will need a "take or pay" provision? Please explain your response.

<u>Company Response:</u>

The Company does not anticipate the "take or pay" provision will be used frequently. AEP projects generally consist of small to mid-sized commercial customers, most of which have requested natural gas service in advance of an AEP project being approved. In most instances, the Company is not relying upon one large commercial or industrial customer to make the project economics. But in the event that a single large commercial or industrial customer, whose consumption is vital to the financial performance of the entire project, would fail to live up to their consumption commitment or estimate, this would be a case for a take or pay agreement with the large customer. This would help mitigate the risks of an unexpected AEP rate increase to the rest of the AEP project participants.

e. Does FCG expect that all, some, or most of general tariff extension customers will need a "take or pay" provision? Please explain your response.

Company Response:

The Company does not expect to use a "take or pay" provision on a frequent basis for most general tariff customers. Nonetheless, from time to time there will be large commercial or industrial customers that do represent a relatively large investment to serve in which the investment to serve poses a risk to the general body of rate payers should the new customer's consumption fail to match up to the initial estimates. Such situations are not the norm and generally these circumstances are unique.

5. If the Commission were to approve FCG's proposed "take or pay" provision for AEP and/or general tariff extension customers, would there be any impact on the general body of ratepayers? Please explain your response.

Company Response:
There would be no harm to the general body of ratepayers. To the contrary, the inclusion of a "take or pay" provision is consistent with the regulatory maxim that the "cost causer pays," thereby ensuring that service to certain customers in not inappropriately subsidized by other AEP customers or the general body of ratepayers.

6. Excluding the Glades expansion (Docket No. 150232-GU), are there projects where FCG would have used its proposed "take or pay" provision if it had been available (either under AEP or for general tariff extension customers)? Please explain your response.

Company Response:
Yes. There has been at least one prior situation in which inclusion of a "take or pay" provision would have provided a beneficial level of protection when a large

customer's actual volumes proved to be significantly lower than estimated for purposes of calculating the MACC. In that situation, the difference arose from an unintentional error on the customer's part regarding the specifications of their installed equipment. While the error was unintentional, had a "take or pay" provision been in effect, the customer would have been required to share in the burden associated with that mistake, rather than having the Company and its ratepayers bear that burden in full. The Company further notes that a "take or pay" provision will provide that much needed level of protection for a potential project under consideration in an existing AEP area. Should the new customer's volumes hold true to estimates, the volume of gas the customer is projected to utilize will result in a significant reduction to the AEP rate, following the 3-year true-up of the project. The Company notes that this customer is amenable to a "take or pay" provision.