

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-**

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**DATE:** October 18, 2018

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

**FROM:** Division of Economics (Gulfey) *EDJ*  
Division of Accounting and Finance (D. Buys, Cicchetti, Hightower) *SKG DB PD MC*  
Office of the General Counsel (Davis) *ASD*

**RE:** Docket No. 20180164-GU – Petition for approval of safety, access, and facility enhancement program true-up and 2019 cost recovery factors, by Florida City Gas. *ALM*

**AGENDA:** 10/30/18 – Regular Agenda – Tariff Filing – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Administrative

**CRITICAL DATES:** 11/05/18 (60-day Suspension Date)

**SPECIAL INSTRUCTIONS:** None

*RECEIVED-FPSC  
2018 OCT 18 AM 9:40  
COMMISSION CLERK*

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## Case Background

On September 4, 2018, Florida City Gas (City Gas or company) filed a petition for approval of its safety, access, and facility enhancement program (SAFE program) true-up and 2019 cost recovery factors. The SAFE program was originally approved by the Commission in Order No. PSC-15-0390-TRF-GU (2015 order) to recover the cost of relocating on an expedited basis certain existing gas mains and associated facilities from rear lot easements to the street front.<sup>1</sup> In the 2015 order, the Commission found that the relocation of mains and services to the street front provides for more direct access to the facilities and will enhance the level of service provided to all customers through improved safety and reliability. The SAFE factor is a surcharge on customers' bills. The Commission ordered the company to file an annual petition, beginning in

<sup>1</sup> Order No. PSC-15-0390-TRF-GU, issued September 15, 2015, in Docket No. 150116-GU, *In re: Petition for approval of safety, access, and facility enhancement program and associated cost recovery methodology, by Florida City Gas.*

2016, for review and resetting of the SAFE factors to true-up any prior over- or under-recovery and to set the surcharge for the coming year. The SAFE program is a 10-year program effective from 2015 through 2025.

In City Gas's 2017 rate case, the Commission approved a Stipulation and Settlement Agreement (settlement) among the parties to the rate case.<sup>2</sup> The settlement included a provision that the \$3.5 million SAFE investment at the time of the rate case be moved into rate base and recovered through base rates (instead of being recovered through a separate SAFE surcharge on customers' bills) and the 2018 SAFE factors were reset to \$0 for the period June through December 2018. Since the SAFE program is a 10-year program projected to continue until 2025, City Gas filed the instant petition for SAFE factors effective January 2019. The settlement further required City Gas to use a 21 percent federal tax rate for the six-month January through May 2018 true-up calculation and for the 12-month 2019 calculation. The federal tax rate is included in the SAFE return on investment calculation.

During the review process of the current petition, staff issued a data request to the company, for which the responses were received on September 28, 2018. The responses included revised tariff Sheet No. 79 to include a minor correction. The revised tariff is shown in Attachment 2 to this recommendation. On October 12, 2018, the company filed an amended response to question 4 of staff's first data request regarding notifications to customers. The Commission has jurisdiction over this matter pursuant to Sections 366.03, 366.04, 366.05, 366.06, and 368, Florida Statutes (F.S.).

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<sup>2</sup> Order No. PSC-2018-0190-FOF-GU, issued April 20, 2018, in Docket No. 20170179-GU, *In re: Petition for rate increase by Florida City Gas.*

## Discussion of Issues

**Issue 1:** Should the Commission approve City Gas's proposed SAFE factors for the period January through December 2019?

**Recommendation:** Yes. The Commission should approve City Gas's proposed SAFE factors for the period January through December 2019. (Guffey)

**Staff Analysis:** Under the SAFE program, City Gas will relocate or replace 254.3 miles of mains and 12,462 associated services from rear property easements to the street front over a 10-year period ending in 2025. City Gas began its mains and services replacements at the end of 2015, as provided for in the 2015 order, and the surcharges have been in effect since January 2016. As of 2018, the company has replaced 82.2 miles of mains and 4,667 services as shown in Attachment 1 to this recommendation.

As stated in City Gas's response to staff's data request, the company's current 2018 replacement plans include 10 projects located in Merritt Island in Brevard County, City of Hialeah, City of Miami Gardens, South Miami Heights neighborhood, and Westchester neighborhood in Miami-Dade County. The company's projected 2019 replacement plans include nine additional projects located in the City of Port Saint Lucie in Saint Lucie County, the City of Miami Gardens, the City of Hialeah, Sierra neighborhood, and Westchester neighborhood in Miami-Dade County.

City Gas stated that its replacement projects are generally prioritized based on the risk assessment model in the company's Distribution Integrity Management Program. Prioritization factors include, but are not limited to, location of the pipeline, rear lot pipelines with maintenance access complications and customer encroachments, leak incident rate, material of pipe, age of the pipeline, and operating pressure of the pipeline.

### **True-ups by Year**

As required in the 2015 order, City Gas's calculations for the 2019 revenue requirement and SAFE factors include a final true-up for 2017, an actual/estimated true-up for 2018, and projected costs for 2019. City Gas currently does not include interest on any over- or under-recoveries in its calculations.

#### **Final True-up for 2017**

City Gas stated that the revenues collected for 2017 were \$2,018,776 compared to a revenue requirement of \$2,283,402, resulting in an under-recovery of \$264,626. Adding the 2016 final over-recovery of \$182,647, and the \$264,626 under-recovery of 2017, results in a final 2017 under-recovery of \$81,979.

#### **Actual/Estimated 2018 True-up**

As stated in the case background, the SAFE factor was reset to \$0 for the period June through December 2018; therefore, the actual/estimated 2018 true-up only includes actual data for January through May 2018. The company collected \$1,450,631 from January to May compared to the revenue requirement of \$1,029,927 for the same period, resulting in an over-recovery of \$420,704. Adding the final 2017 under-recovery of \$81,979 to the 2018 over-recovery of \$420,704, the resulting total 2018 true-up is an over-recovery of \$338,727.

### **Projected 2019 Costs**

The company's projected investment for 2019 is \$10,530,795 for its nine projects located in Saint Lucie and Miami-Dade Counties. The revenue requirement, which includes a return on investment, depreciation, and taxes, is \$629,977. The return on investment calculation includes federal income taxes, regulatory assessment fees, and bad debt. After adding the 2018 over-recovery of \$338,727, the total 2019 revenue requirement is \$291,250. Table 1-1 displays the projected 2019 revenue requirement calculation.

**Table 1-1**  
**2019 Revenue Requirement Calculation**

2019 Projected Investment	\$10,530,795
Return on Investment	\$427,027
Depreciation Expense	152,868
Property Tax Expense	50,082
2019 Revenue Requirement	\$629,977
Less 2018 Over-recovery	<u>-338,727</u>
Total 2019 Revenue Requirement	\$291,250

Source: Attachment A of the Petition and Attachment 1 (Excel file)  
in response to Staff's First Data Request No. 9.

### **Proposed 2019 SAFE Factors**

The SAFE factors are fixed monthly charges. City Gas's cost allocation method was approved in the 2015 order and was used in the instant filing. The approved methodology allocates the current cost of a 2-inch pipe to all customers on a per customer basis and allocates the incremental cost of replacing a pipe larger than 2 inches to customers who use over 6,000 therms per year. For customers who require 4-inch pipes, the cost takes into account that the minimum pipe is insufficient to serve their demand and, therefore, allocates an incremental per foot cost in addition to the all-customer cost. The resulting allocation factors are applied to the 2019 total revenue requirement to develop the monthly SAFE factors.

The proposed fixed monthly SAFE factor is \$0.21 for customers using less than 6,000 therms per year (current factor is \$0). The proposed fixed monthly SAFE factor for customers using more than 6,000 therms per year is \$0.40 (current factor is \$0).

### **Conclusion**

Staff has reviewed City Gas's filings and supporting documentation and believes that the calculations are consistent with the methodology approved in the 2015 order and are reasonable and accurate. Staff also reviewed City Gas's calculation of the 2018 true-up and 2019 projected cost calculations and verified that the calculation includes the 21 percent federal tax rate, as required by the settlement. Therefore, staff recommends approval of City Gas's proposed SAFE factors for the period January through December 2019.

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

**Recommendation:** Yes. 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. (Davis)

**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**  
**Florida City Gas's SAFE Program Progress**

Year*	Main Replacements		Service Replacement	
	Replaced Main (miles)	Total Miles Remaining	Replaced Services (number)	Total Remaining Services
2014	0.0	254.3	0	12,462
2015	0.0	254.3	49	12,413
2016	17.1	237.2	1,433	10,980
2017	37.5	199.7	1,551	9,429
2018	27.6	172.1	1,634	7,795
2019	31.2	141.0	1,312	6,483
2020	30.0	111.0	1,200	5,283
2021	25.0	86.0	1,200	4,083
2022	25.0	61.0	1,200	2,883
2023	25.0	36.0	1,200	1,683
2024	25.0	11.0	1,200	483
2025	11.0	0.0	483	0

Source: FCG Response to Staff's First Data Request, Response to Question 3.

\*Actuals 2014-July 2018. Projections August 2018-2025.

Florida City Gas  
 FPSC Natural Gas Tariff  
 Volume No. 10

Original-First Revised Sheet No. 79

RIDER "D"

SAFETY, ACCESS AND FACILITY ENHANCEMENT (SAFE) PROGRAM  
 (Continued)

- i. all Customers regarding the implementation of the SAFE Program and the approved surcharge factors;
  - ii. the immediately affected Customers where the eligible infrastructure is being replaced; and
  - iii. the general public through publications (newspapers) covering the geographic areas of the eligible infrastructure replacement activities;
4. Ad valorem taxes; and
5. Federal and state income taxes.

The Company is utilizing a surcharge mechanism in order to recover the costs associated with the SAFE Program. The Company has developed the revenue requirement for the SAFE Program using the same methodology approved in its most recent rate case. The SAFE revenue requirement will be allocated to each Customer class (Rate Schedule) using allocation factors established by the Florida Public Service Commission for the SAFE Program. The per Customer SAFE surcharge is calculated by dividing the revenue requirement allocated to each Customer class by the number of Customers in the class.

The cost recovery factors including tax multiplier for the twelve month period from ~~June~~ January 1, 2018-2019 through December 31, ~~2018-2019~~ are:

<u>Rate Class</u>	<u>Rates Per Customer</u>
Rate Schedule RS-1	<u>\$0.000.21</u>
Rate Schedule RS-100	<u>\$0.000.21</u>
Rate Schedule RS-600	<u>\$0.000.21</u>
Rate Schedule GS-1	<u>\$0.000.21</u>
Rate Schedule GS-6K	<u>\$0.000.40</u>
Rate Schedule GS-25K	<u>\$0.000.40</u>
Rate Schedule GS-120K	<u>\$0.000.40</u>
Rate Schedule GS-1,250K	<u>\$0.000.40</u>
Rate Schedule GS-11M	<u>\$0.000.40</u>
Rate Schedule GS-25M	<u>\$0.000.40</u>
Rate Schedule GL	<u>\$0.000.21</u>
Rate Schedule RSG	<u>\$0.00NA</u>
Rate Schedule CSG	<u>\$0.00NA</u>

Issued by: Carolyn Bermudez  
 Vice President, Florida City Gas

Effective: