

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: October 18, 2018

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Economics (Merryday) *HM EJM RD*
Division of Accounting and Finance (D. Buys, Cicchetti, Hightower) *9/24 MC*
Office of the General Counsel (Trierweiler) *CSB ALM JSC*

RE: Docket No. 20180173-GU – Petition for approval of 2017 true-up, projected 2018 true-up, and 2019 revenue requirements and surcharges associated with cast iron/bare steel pipe replacement rider, by Peoples Gas System.

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

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: 11/13/2018 (60-Day Suspension Date)

SPECIAL INSTRUCTIONS: None

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2018 OCT 18 AM 10:34
COMMISSION
CLERK

Case Background

On September 12, 2018, Peoples Gas System (Peoples or company) filed a petition for approval of its final 2017 true-up, projected 2018 true-up, and 2019 revenue requirement and surcharges associated with the cast iron/bare steel replacement rider (Rider CI/BSR or rider). The rider was originally approved in Order No. PSC-12-0476-TRF-GU (2012 order) to recover the cost of accelerating the replacement of cast iron and bare steel distribution pipes through a surcharge on customers' bills.¹ Peoples' current surcharges were approved in Order No. PSC-2017-0433-TRF-

¹ Order No. PSC-12-0476-TRF-GU, issued September 18, 2012, in Docket No. 110320-GU, *In re: Petition for approval of Cast Iron/Bare Steel Pipe Replacement Rider (Rider CI/BSR), by Peoples Gas System.*

GU.² In the 2012 order, the Commission found that “replacement of these types of pipelines is in the public interest to improve the safety of Florida’s natural gas infrastructure, and reduce the possibility of loss of life and destruction of property should an incident occur.”

The Commission approved a comprehensive settlement agreement between Peoples and the Office of Public Counsel (OPC) in Order No. PSC-17-0066-AS-GU.³ The settlement agreement, in part, added problematic plastic pipe (PPP) installed in the company’s distribution system to eligible replacements under the rider. PPP was manufactured before 1983 and has significant safety concerns. In certain areas, the PPP is interspersed with, or connected to, the cast iron/bare steel pipe that is being replaced under the rider. As provided for in the settlement agreement, PPP replacements are included in the calculation of the 2019 rider surcharges.

On September 12, 2018, the Commission approved a settlement agreement between Peoples, OPC, and the Florida Industrial Power Users Group in Docket No. 20180044-GU addressing certain impacts of the Tax Cuts and Jobs Act of 2017 on Peoples.⁴ The settlement agreement provides for a reduction of Peoples’ 2019 depreciation expense of approximately \$10.3 million resulting from extending the lives of certain mains and service assets, which, consequently, reduces the depreciation expense collected through the rider. Additionally, the settlement agreement provides that Peoples’ revenue requirement calculations incorporate the lower federal income tax rate effective February 6, 2018.

Peoples filed a revised petition and tariff sheet on October 17, 2018, to remove the Regulatory Assessment Fee (RAF) adjustment of \$76,118 that Peoples had included in the original petition in the instant docket. The RAF adjustment was intended to correct an error Peoples had made in its rider surcharge calculations for the years 2013 through 2017. Peoples explained that while it remitted the correct RAF amounts to the Commission, it did not include a gross-up for RAF fees in its rider surcharge calculations from 2013 through 2017 (i.e., the rider surcharges for the years 2013 through 2017 did not include \$76,118 in RAF fees paid to the Commission).

Peoples filed its response to staff’s first data request on October 3, 2018. OPC intervened in this docket on September 18, 2018, which was acknowledged by Order No. PSC-2018-0467-PCO-GU, issued September 19, 2018. The proposed revised tariff page is contained in Attachment B. The Commission has jurisdiction over this matter pursuant to Sections 366.03, 366.04, 366.05, and 366.06, Florida Statutes (F.S.).

² Order No. PSC-2017-0433-TRF-GU, issued November 14, 2017, in Docket No. 20170192-GU, *In re: Petition for approval of 2017 true-up, projected 2017 true-up, and 2018 revenue requirements and surcharges associated with cast iron/bare steel pipe replacement rider, by Peoples Gas System.*

³ Order No. PSC-17-0066-AS-GU, issued February 28, 2017, in Docket No. 20160159-GU, *In re: 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.*

⁴ Joint motion seeking Commission approval of settlement agreement, filed August 8, 2018, in Docket No. 20180044-GU, *In re: Consideration of the tax impacts associated with Tax Cuts and Jobs Act of 2017 for Peoples Gas System.* At the time of the filing of this recommendation, the order on the settlement agreement has not been issued.

Discussion of Issues

Issue 1: Should the Commission approve Peoples' proposed rider surcharges for 2019?

Recommendation: Yes, the Commission should approve Peoples' proposed 2019 rider surcharges as revised on October 17, 2018, for the period January through December 2019. (Merryday)

Staff Analysis: The rider surcharges have been in effect since January 2013. In 2018, Peoples' cast iron and bare steel replacement activity focused in St. Petersburg, Tampa, Miami, Jacksonville, and Sarasota, and Peoples' PPP replacement activity focused in Pompano Beach, Orlando, and Lakeland. In 2019, Peoples states it will focus on replacement projects in Miami, Tampa, St. Petersburg, Orlando, and Sarasota. The original projected completion date for the CI/BSR replacement program was 2022 for mains and services, but Peoples now expects to complete the mains replacement activity in 2021 and services replacement activity in 2022. Replacement of PPP is expected to continue until 2028.

In the company's 2017 Rider CI/BSR filing (Docket No. 20170192-GU), Peoples stated that it planned to secure additional contractors so that the replacement of cast iron and bare steel, as well as PPP, can be accelerated. In response to staff's first data request in the instant docket, Peoples stated that construction costs were higher than estimated due to increased activity in congested urban areas and additional requirements for more extensive post-construction site restoration. This led to higher capital expenditures for replacements than anticipated.

Attachment A contains tables which display the replacement progress and forecasts for Rider CI/BSR (Table 1) and for PPP (Table 2). In addition, Peoples provided a third table which consolidates actual and projected CI/BSR and PPP miles replaced, investment, and revenue requirement for each year of the replacement program, both actual and forecast.

True-ups by Year

Peoples' calculation for the 2019 revenue requirement and surcharges includes a final true-up for 2017, an actual/estimated true-up for 2018, and projected costs for 2019. Pursuant to the 2012 order, the capital expenditures for 2017 through 2019 exclude the first \$1 million of facility replacements each year because that amount is included in rate base and is thus excluded from recovery through the rider. Peoples has included depreciation expense savings as discussed in the 2012 order; however, Peoples has not identified any operations and maintenance savings.

Final True-up for 2017

Peoples stated that the revenues collected for 2017 were \$4,273,612 compared to a revenue requirement of \$6,942,323, resulting in an under-recovery of \$2,668,711. The final 2016 over-recovery of \$1,708,878, 2017 under-recovery of \$2,668,711, and interest of \$5,397 associated with any over- and under-recoveries results in a final 2017 under-recovery of \$954,434.

Actual/Estimated 2018 True-up

Peoples provided actual revenues for January through July and forecast revenues for August through December of 2018, totaling \$11,620,032, compared to an actual/estimated revenue requirement of \$9,242,243, resulting in an over-recovery of \$2,377,789. The 2017 under-recovery of \$954,434, 2018 over-recovery of \$2,377,789, and interest of \$13,809 associated with any over- and under-recoveries results in a total 2018 over-recovery of \$1,437,164.

Projected 2019 Costs

Peoples projects investment or capital expenditures of \$35,630,000 for the replacement of cast iron/bare steel infrastructure and PPP in 2019. As shown in Table 3 of Attachment A, this consists of the CI/BSR investment of \$27,080,000 and the PPP investment of \$8,550,000. The return on investment (which includes federal income taxes, regulatory assessment fees, and bad debt), depreciation expense (less savings), and property tax expense associated with that investment are \$12,317,077. After subtracting the total 2018 over-recovery of \$1,437,164, the total 2019 revenue requirement is \$10,879,912. Table 1-1 displays the 2019 revenue requirement calculation.

**Table 1-1
2019 Revenue Requirement**

2019 Projected Expenditures	\$35,630,000
Return on Investment	\$8,968,072
Depreciation Expense (less savings)	1,639,999
Property Tax Expense	<u>1,709,005</u>
2018 Revenue Requirement	\$12,317,077
Less 2018 Over-recovery	<u>-1,437,164</u>
Total 2019 Revenue Requirement	\$10,879,912

Source: Exhibit C, page 1 of the Revised Petition.

Proposed Surcharges

As established in the 2012 order, the total 2019 revenue requirement is allocated to rate classes using the same methodology that was used for the allocation of mains and services in the cost of service study used in Peoples' most recent rate case. After calculating the percentage of total plant costs attributed to each rate class, the respective percentages were multiplied by the 2019 revenue requirement resulting in the revenue requirement by rate class. Dividing each rate class's revenue requirement by projected therm sales provides the rider surcharge for each rate class.

The proposed 2019 rider surcharge for residential customers is \$0.05274 per therm (compared to the current surcharge of \$0.05285). The monthly bill impact is \$1.05 for a residential customer who uses 20 therms. The proposed tariff page as revised on October 17, 2018, is provided in Attachment B.

Conclusion

Staff reviewed Peoples' filings and supporting documentation and believes that the calculations are consistent with the methodology approved in the 2012 order and are reasonable and accurate. Staff also reviewed Peoples' calculation of the 2018 true-up and 2019 projected cost calculations

and verified that the calculation includes the 21 percent federal tax rate starting February 6, 2018. Staff also verified that Peoples lowered the deprecation expense effective January 2019. Therefore, staff recommends approval of Peoples' proposed 2019 Rider CI/BSR surcharges as revised on October 17, 2018, effective 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 tariff 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. (Trierweiler)

Staff Analysis: If Issue 1 is approved and a protest is filed within 21 days of the issuance of the order, the tariff 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
 Peoples' CI/BSR Replacement Program Progress**

Year	Main Replacement					Service Replacements	
	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 of CI/BS Mains	Replaced Number of Bare Steel Services	Total Number of Remaining Bare Steel Services
2012			100	354	454		14978
2013	13	38	87	316	403	907	14071
2014	2	18	85	298	383	7964	6107
2015	26	60	59	238	297	1019	5088
2016	15	35	44	203	247	1050	6963
2017	15	36*	29	178*	207	1135	4279
2018 **	10	64	19	114	133	1500	4685
2019	9	51	10	63	73	1200	3485
2020	5	45	5	18	23	1200	2285
2021	5	18	0	0	0	1200	1085
2022	0	0	0	0	0	0	0

*13 miles reclassified as Bare Steel and added to 2017 BS remaining total.

**Projected

Table 2
Peoples' PPP Replacement Program Progress

	PPP (miles)	Total Remaining PPP Mains (miles)	Replaced Number of PPP Services	Total Number of Remaining PPP Services
2016	0	551	0	-
2017	*	509	1396	26,841*
2018	51	458	2100	24,741
2019	33	425	Not yet determined	-
2020	50	375	Not yet determined	-
2021	50	325	Not yet determined	-
2022	50	275	Not yet determined	-
2023	50	225	Not yet determined	-
2024	45	180	Not yet determined	-
2025	45	135	Not yet determined	-
2026	45	90	Not yet determined	-
2027	45	45	Not yet determined	-
2028	45	0	Not yet determined	-

*Estimated from any plastic service installed prior to 1983

Table 3
Peoples' CI/BSR Replacement Program Progress

	CI/BS Miles Replaced	PPP Miles Replaced	CI/ BS Investment	PPP Investment	CI/BS Revenue Requirement	PPP Revenue Requirement
2017	51	*	\$17,588,366	\$2,915,802	\$6,868,302	\$74,021
2018	74	51	23,663,223	14,068,995	8,361,137	881,106
2019	60	33	27,080,000	8,550,000	10,175,696	2,141,380
2020	50	50	19,617,274	16,065,338	12,655,856	3,307,722
2021	23	50	9,479,959	16,936,076	14,173,638	4,847,383
2022		50		17,359,478	14,618,848	6,350,953
2023		50		17,793,465	14,452,013	7,778,876
2024		45		16,563,052	14,267,295	9,223,330
2025		45		16,824,833	14,082,002	10,687,428
2026		45		17,245,454	13,896,689	12,171,746
2027		45		17,676,591	13,711,388	13,676,795
2028		45		18,118,505	13,526,075	15,203,100

*2017 investment costs for retiring PPP in early 2018

REVISED: 10/17/2018

Peoples Gas System
a Division of Tampa Electric Company
7.806
Original Volume No. 3

Seventh-Eighth Revised Sheet No. 7.806
Cancels Sixth-Seventh Revised Sheet No.
7.806

**CAST IRON/BARE STEEL REPLACEMENT RIDER
RIDER CI/BSR**

The monthly bill for Gas Service in any Billing Period shall be increased by the CI/BSR Surcharge determined in accordance with this Rider. CI/BSR Surcharges approved by the Commission for bills rendered for meter readings taken on or after January 1, 2017, are as follows with respect to Customers receiving Gas Service under the following rate schedules:

<u>Rate Schedule</u>	<u>CI/BSR Surcharge</u>
Residential/Residential Standby Generator / Residential Gas Heat Pump Service	\$0.052850.05274 per therm
Small General Service	\$0.033370.03345 per therm
General Service - 1/ Commercial Standby Generator Service / Commercial Gas Heat Pump Service	\$0.048490.01765 per therm
General Service - 2	\$0.046950.01708 per therm
General Service - 3	\$0.044650.01465 per therm
General Service - 4	\$0.009240.00892 per therm
General Service - 5	\$0.004700.00500 per therm
Commercial Street Lighting	\$0.023760.02427 per therm
Natural Gas Vehicle Service	\$0.037890.04289 per therm
Wholesale	\$0.006420.00611 per therm

The CI/BSR Surcharges set forth above shall remain in effect until changed pursuant to an order of the Commission.

CI/BSR Surcharges shall be determined in accordance with the provisions of this Rider set forth below.

Definitions

For purposes of this Rider:

"Eligible Replacements" means the following Company plant investments that (i) do not increase revenues by directly connecting new customers to the plant asset, (ii) are in service and used and useful in providing utility service and (iii) were not included in the Company's rate base for purposes of determining the Company's base rates in its most recent general base rate proceeding:

Mains and service lines, as replacements for existing materials recognized/identified by the Pipeline Safety and Hazardous Materials Administration as being obsolete and that present a potential safety threat to operations and the general public, including cast iron, wrought iron, bare steel, and specific polyethylene/plastic facilities, and regulators and other pipeline system components the installation of which is required as a consequence of the replacement of the aforesaid facilities.

"CI/BSR Revenues" means the revenues produced through CI/BSR Surcharges, exclusive of revenues from all other rates and charges.

Issued By: T. J. Szelistowski, President
Issued On: ~~June 26, 2018~~

Effective: August 7, 2018