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April 12, 2019

Mr. Adam J. Teitzman
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

**Re: NEW FILING - In re: Petition of Peoples Gas System for Authority to
Accrue AFUDC**

Dear Mr. Teitzman:

Attached for electronic filing with the Commission on behalf of Peoples Gas System, please find Peoples' Petition referenced above.

We appreciate your usual assistance.

Sincerely,

Andrew M. Brown

AB/plb

Attachment

cc: Ms. Paula K. Brown
Ms. Kandi M. Floyd

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition of Peoples Gas System)
for Authority to Accrue AFUDC)
_____)

DOCKET NO. _____

FILED: April 12, 2019

**PETITION OF PEOPLES GAS SYSTEM
FOR AUTHORITY TO ACCRUE AFUDC**

Peoples Gas System ("Peoples" or "the company"), pursuant to Rule 25-7.0141, and 25-22.036, Florida Administrative Code ("FAC") petitions the Florida Public Service Commission ("the Commission") for authority to accrue an allowance for funds used during construction ("AFUDC"), and for expedited treatment of this petition and in support thereof, says:

1. The persons to whom all notices and other documents should be sent in connection with this docket are:

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2. Peoples is a natural gas local distribution company providing sales and transportation delivery of natural gas throughout most of the state of Florida and is a public utility

subject to the Commission's regulatory jurisdiction under Chapter 366, Florida Statutes. The company's principal offices are located at 702 N. Franklin Street, Tampa, FL 33602.

3. Peoples intends to develop three expansion projects to meet increasing customer demand, improve reliability and provide long-term flexibility within its system. Each of these projects is discussed below in greater detail.

Jacksonville Expansion Project

4. Jacksonville is one of Peoples' largest divisions and has one of the highest economic growth rates in Florida. Jacksonville is experiencing strong natural gas demand growth with an increase in residential and commercial customers, industrial demand, and opportunities for the expansion of liquefied natural gas ("LNG") facilities. Existing Peoples gas infrastructure in the Jacksonville area is approaching its capacity limits, and new Peoples gas infrastructure investments are required to meet the increased near-term demand.

The Jacksonville Expansion project consists of three components: (a) an uprate of the southern portion of the existing 12-inch steel Fernandina Beach Pipeline that would allow natural gas to flow north to south from the Callahan Pipeline interconnect towards Jacksonville; (b) construction of a new 16-inch steel pipeline originating on the uprated Fernandina Beach 12-inch steel pipeline near the intersection of Pecan Park Road and Main Street and terminating at the existing 24-inch steel pipeline on Hecksher Drive near the Port of Jacksonville to allow increased natural gas flow north to south; and (c) a new compressor station near Peoples' Baldwin gate station that would allow gas being transported on Southern Natural Gas Company's ("SONAT's")

South Georgia Lateral to flow more efficiently into Jacksonville. Peoples' comprehensive plan to increase capacity into the area includes both the Jacksonville Expansion project and subscribing to new transportation capacity on the Callahan Pipeline, a new 25-mile 16-inch steel pipeline in Nassau County that will be jointly owned by Peninsula Pipeline Company, Inc. and Peoples' affiliate SeaCoast Gas Transmission, LLC. Coupled with capacity on SONAT's Cypress pipeline, this incremental capacity on the Callahan Pipeline will enable Peoples to meet current and future natural gas demand in the Jacksonville area.

The Jacksonville Expansion project is expected to cost approximately \$59 million and be in service by December 2020. The Jacksonville Expansion project combined with the added capacity from the Callahan Pipeline is the most efficient way for Peoples to meet near term and long-term demand, increase system reliability and support future economic growth in the Jacksonville area.

Southwest Florida Expansion

5. The Fort Myers/Naples region continues to have one of the highest population growth rates in Florida. Peoples' existing distribution system in this area requires expansion to meet demand and to maintain overall system reliability. The Southwest Florida Expansion project involves the construction of 71 miles of 8-inch steel main to expand Peoples' Fort Myers system. This system expansion will provide gas to the communities of Ava Maria, Immokalee, Rural Lands West and surrounding areas. Because the Fort Myers division receives gas off a single feed from Florida Gas Transmission's ("FGT's") interstate pipeline system, this project includes the buildout of a system feed that will bolster the Fort Myers distribution system by adding increased reliability

downstream of the FGT system. The Southwest Florida Expansion is expected to cost approximately \$47 million and be placed in service in phases as gas service can be delivered to new customers, with final completion by December 2020. This project is the most cost-effective solution to meet current and near-term growth in the company's Fort Myers division.

Panama Express

6. Peoples' Panama City division, with approximately 16,000 customers, is principally fed by a single FGT 8-inch steel pipeline (the "Panama City Lateral"). A second existing FGT-owned 18-inch line (the "18-Inch Lateral") serves Peoples' customers in the area near the Panama City Airport but is not interconnected with the remaining Peoples' Panama City division infrastructure. Reliance on the Panama City Lateral has created situations in which customers on Peoples' distribution system are vulnerable to supply disruptions. In May 2018, FGT halted gas delivery on the Panama City Lateral for one week during required federal pipeline safety inspections. During that week, FGT was forced to supply natural gas to Peoples' firm customers via compressed natural gas and liquefied natural gas trailers. In addition to risk of supply disruptions, Peoples' existing forecast gas demand in the division exceeds the transportation capacity held by Peoples on the Panama City Lateral, and FGT has no incremental capacity available on that lateral.

Peoples' Panama Express project would mitigate FGT capacity constraints on the Panama City Lateral by providing another feed into Panama City off the 18-inch Lateral, increase system reliability by having a secondary feed to Panama City, provide for additional natural gas pressure and support future growth in this area. Peoples would construct two new gate stations and build 19 miles of 8-inch steel pipeline that would connect Peoples' Panama City division to both the FGT Panama City Lateral and the 18-inch Lateral.

This project is expected to cost approximately \$30 million and be in-service by December 2020. It is the most cost-effective solution to meet current and near-term growth in the Panama City area.

REQUEST FOR AUTHORITY TO ACCRUE AFUDC

7. In accordance with Rule 25-7.0141, Florida Administrative Code, Peoples requests permission to capitalize interest and financing cost on the construction of the project facilities described above and in support thereof, states as follows:


- a. The projects (including all construction costs and estimated accrued interest and financing costs) represent an estimated total cost of \$136 million, which is approximately 8% of Peoples' total natural gas distribution plant in service (Account 101) and Account 106 (Completed Construction not Classified) as of January 31, 2019. The project cost and estimated AFUDC are further described by specific project in Exhibit A attached to this petition. This amount is material and significant to Peoples. Exhibit B to this petition provides the basis for the proposed AFUDC rate calculation using data obtained from Peoples' December 2018 Surveillance Report. Exhibit C, calculated in accordance with FAC Rule 25-6.0141, demonstrates that each proposed project individually exceeds 0.5 percent of the sum of the balances in Accounts 101 and 106 as of January 31, 2019;
- b. Federal income tax considerations require capitalization of interest on projects of this size. Peoples' taxable income would increase in the year of construction if Peoples is not allowed to capitalize interest for book purposes;

- c. The projects would be removed from rate base while under construction, resulting in a better match of rate base with associated income and expenses. Construction on each project is expected to take in excess of a year to complete, with each project beginning in 2019; and
- d. The interest cost and equity requirements associated with financing each project is material. The Commission's approval of this request to accrue AFUDC on these large capital projects, and subsequently, future large projects, would ensure consistency in treatment provided to other Florida utilities under FAC Rules 25-6.0141 and 25-30.116.

WHEREFORE, Peoples requests that the Commission expedite the processing of this petition and authorize the accrual of AFUDC by the company as set forth in the body of the Petition.

DATED this 12th day of April 2019.

Respectfully submitted,



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ATTORNEYS FOR PEOPLES GAS SYSTEM

EXHIBIT "A"

**PEOPLES GAS SYSTEM'S
ESTIMATED AFUDC BY PROJECT**

EXHIBIT A

ESTIMATED AFUDC BY PROJECT

Project	In-Service Date	Total Capex (\$ millions)	Total AFUDC (\$ millions)
Jacksonville Expansion	12/31/2020	\$ 59	\$ 2
Southwest Florida Expansion	12/31/2020	47	1
Panama City Express Expansion	12/31/2020	30	1
	Grand Total	\$ 136	\$ 4

EXHIBIT "B"

**PEOPLES GAS SYSTEM'S
CAPITAL STRUCTURE AFUDC RATE CALCULATION**

EXHIBIT B

**CAPITAL STRUCTURE
AFUDC RATE CALCULATION**

**December 2018
(In \$ Thousands)**

<u>AFUDC</u>	<u>ADJUSTED AVERAGE BALANCE</u>	<u>RATIO (%)</u>	<u>YEAR END AVERAGE COST RATE</u>	<u>WEIGHTED COST</u>
LONG TERM DEBT	240,802	27.93%	4.45	1.24
SHORT TERM DEBT	42,319	4.91%	2.42	0.12
RESIDENTIAL DEPOSITS	6,509	0.75%	2.00	0.02
COMMERCIAL DEPOSITS	20,011	2.32%	3.00	0.07
INACTIVE DEPOSITS	134	0.02%		
COMMON EQUITY	362,630	42.06%	10.75	4.52
DEFERRED INCOME TAX	189,723	22.01%		
TAX CREDITS - ZERO COST	-	0.00%		
TOTAL	862,127	100.00%		5.97

Debt Ratio	24.29%
Equity Ratio	75.71%

Note: Above data is per PGS December 2018 Surveillance Report Schedule 4, except the long-term debt cost rate, which is calculated using the twelve month ended 2018 interest expense divided by the year-end 2018 long-term debt balance.

EXHIBIT "C"

PEOPLES GAS SYSTEM'S

PROJECT AFUDC ELIGIBILITY THRESHOLD USING F.A.C. 25-6.014

EXHIBIT C

PROJECT AFUDC ELIGIBILITY THRESHOLD USING F.A.C. 25-6.0141

Florida Administrative Cost 25-6.0141

Projects that involve gross additions to plant in excess of 0.5 percent of the sum of the total balance in Account 101 – Electric Plant in Service, and Account 106, Completed Construction not Classified, at the time the project commences and

- a. Are expected to be completed in excess of one year after commencement of construction, or
- b. Were originally expected to be completed in one year or less and are suspended for six months or more, or are not ready for service after one year.

PGS balances as of January 31, 2019	
101 - Utility Plant in Service	\$ 1,574,185,211
106 - Completed Construction not Classified	\$ <u>187,836,789</u>
Sum of total balance	\$ 1,762,022,000
Multiplied by 0.5 percent	0.5%
Eligible projects in excess of amount	<u>\$ 8,810,110</u>
CAPEX By Project (\$ millions)	
Jacksonville Expansion	\$ 59
Southwest Florida Expansion	47
Panama City Express Expansion	<u>30</u>
Total CAPEX	\$ 136