

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: August 19, 2020

TO: Adam J. Teitzman, Commission Clerk, Office of Commission Clerk

FROM: William F. Coston, Economic Supervisor, Division of Economics

RE: Docket 20200093-GU -- Petition for approval of tariff modifications for liquified natural gas service by Peoples Gas System.

Please add the attached document into the above referenced docket file.

**BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION**

In re: Petition for approval of tariff)
modifications for liquified natural gas)
service by Peoples Gas System)

**DOCKET NO. 20200093-GU
FILED: JULY 06, 2020**

**PEOPLES GAS SYSTEM'S
ANSWERS TO FIRST SET OF INTERROGATORIES (NOS. 1-7)
OF
OFFICE OF PUBLIC COUNSEL**

Peoples Gas files this its Answers to Interrogatories (Nos. 1 - 7)
propounded and served on June 5, 2020 by the Office of Public Counsel.

PEOPLES GAS SYSTEM
DOCKET NO. 20200093-GU
INDEX TO OPC'S 1ST SET OF INTERROGATORIES (NOS. 1-7)

<u>Number</u>	<u>Witness</u>	<u>Subject</u>	<u>Bates Stamped Page</u>
1	Floyd	Describe in detail the infrastructure PGS expects to be required for any LNG facilities built by PGS pursuant to the instant Petition and related Tariff.	1
2	Floyd	If the instant Petition and Tariff are approved, under what circumstances will the purchase gas costs for the general body of ratepayers be affected?	2
3	Floyd	List and explain in detail the circumstances under which PGS believes it would be appropriate to spread the LNG facility and infrastructure costs to other ratepayers who are not under contract for LNG services. a. Quantify and describe in detail the probability that each of the referenced circumstances will in fact happen, such that the general body of PGS' ratepayers will sustain a rate impact.	3
4	Floyd	Regarding the potential that PGS will build infrastructure and facilities related to the proposed Tariff, describe in detail the risks to the general body of ratepayers if PGS is wrong in its assumption that the related costs will be fully recovered by PGS via the individual LNG contracts between PGS and the customers who are under contract.	4
5	Floyd	Regarding the potential that PGS will build infrastructure and facilities related to the proposed Tariff, describe in detail the benefits to the general body of ratepayers if PGS is wrong in its assumption that the related costs will be fully recovered by PGS via the individual LNG contracts between PGS and the customers who are under contract.	6
6	Floyd	List and describe all measures and risk contingencies PGS is taking to ensure that the LNG customers under contract will pay all the costs related to any LNG facilities and related infrastructure built as a result of the Petition and proposed Tariff.	7
7	Floyd	List and describe in detail the scenarios under which the costs related to LNG facilities and related infrastructure will impact rate base.	8

Kandi Floyd
Director, Regulatory Affairs

Peoples Gas System
702 N. Franklin Street
Tampa, Florida 33602

**PEOPLES GAS SYSTEM
DOCKET NO. 20200093-GU
OPC'S FIRST SET OF
INTERROGATORIES
INTERROGATORY NO. 1
PAGE 1 OF 1
FILED: JULY 06, 2020**

1. Describe in detail the infrastructure PGS expects to be required for any LNG facilities built by PGS pursuant to the instant Petition and related Tariff.

A Peoples contemplates that each LNG facility built by Peoples pursuant to the Tariff will be unique to the particular customer(s) and industries served by such facility. Peoples anticipates that the infrastructure required for any new LNG facilities will fall into the following three categories (1) LNG liquefaction, storage, regasification and truck loading facilities; (2) LNG storage facilities; (3) LNG mobile storage and regasification facilities. The infrastructure required for the above referenced facilities may include, but is not limited to, blowers, chillers, condensate removal equipment, compressors, heat exchangers, driers, pumps, interstage and aftercoolers, heavy constituent knockout equipment, filters, turbo expanders, liquid/vapor separators, distillation columns, fractionators, drivers, control valves (JT), vacuum insulated piping, condensers, accumulators, instrumentation, vaporizers, fire protection equipment, safety equipment, monitoring equipment, truck scales, vent and flare systems, waste water disposal systems, instrument air, power, communications, fuel gas, N2 systems, gas constituent removal equipment, quality monitoring equipment, storage, controls, piping, metering, propane injection, and any other related appurtenances, including any redundancy necessary to provide reliable LNG services.

**PEOPLES GAS SYSTEM
DOCKET NO. 20200093-GU
OPC'S FIRST SET OF
INTERROGATORIES
INTERROGATORY NO. 2
PAGE 1 OF 1
FILED: JULY 06, 2020**

- 2.** If the instant Petition and Tariff are approved, under what circumstances will the purchase gas costs for the general body of ratepayers be affected?
 - A.** Approval of the Petition and Tariff is not contemplated to have any impact on the purchased gas costs for the general body of ratepayers.

**PEOPLES GAS SYSTEM
DOCKET NO. 2020093-GU
OPC'S FIRST SET OF
INTERROGATORIES
INTERROGATORY NO. 3
PAGE 1 OF 1
FILED: JULY 06, 2020**

3. List and explain in detail the circumstances under which PGS believes it would be appropriate to spread the LNG facility and infrastructure costs to other ratepayers who are not under contract for LNG services.
 - a. Quantify and describe in detail the probability that each of the referenced circumstances will in fact happen, such that the general body of PGS' ratepayers will sustain a rate impact.
- A. Peoples does not intend that infrastructure cost associated with the proposed Tariff should be appropriate to spread to other rate payers. The proposed LNG Tariff will provide Peoples the ability to build LNG facilities that are fully subscribed with creditworthy customers paying for the projects.

In certain circumstances, LNG has proven to be an economical solution in meeting peak gas demand of customers. As such, a future possible scenario could exist where Peoples includes LNG as part of its capacity supply portfolio for diversity and reliability. This could be accomplished by expanding a facility, which has been subscribed to through the proposed tariff or there may be economies of scale when constructing an LNG facility which would benefit all parties including the general body of rate payers.

At this time, it is impossible to say if such circumstances would arise as it is dependent on a number of economic factors including the company's need for LNG service at the location of a given facility and the cost to Peoples of alternatives to the use of LNG, including the cost of obtaining additional pipeline capacity. Any investment in LNG facilities to serve the system capacity and/or reliability needs of the general body of rate payers would require a general base rate proceeding to seek recovery of that asset.

**PEOPLES GAS SYSTEM
DOCKET NO. 2020093-GU
OPC'S FIRST SET OF
INTERROGATORIES
INTERROGATORY NO. 4
PAGE 1 OF 2
FILED: JULY 06, 2020**

4. Regarding the potential that PGS will build infrastructure and facilities related to the proposed Tariff, describe in detail the risks to the general body of ratepayers if PGS is wrong in its assumption that the related costs will be fully recovered by PGS via the individual LNG contracts between PGS and the customers who are under contract.
- A. Peoples believes that any investment based on the proposed tariff will be recovered fully from the subscribed service contract with little risk to the general body of rate payers. Risks that exist include construction risk, operating risk and credit risk, similar to that of other natural gas services Peoples provides (i.e., Compressed Natural Gas, pipelines, etc.).

Regarding construction and operating risk, Peoples has extensive experience engineering, constructing and operating natural gas facilities and providing services. Peoples believes that the procedures, standards and professional experience of staff significantly reduce the extent of these risks to the general body of rate payers. Additionally, Peoples exhausts all contractual opportunities to further reduce these risks.

Regarding credit risk, an LNG facility is a capital investment that will be underpinned by well capitalized customers across different industries. Market demand for LNG services is from customers with significant financial resources that have already built or will be making long-term commitments for facilities using LNG.

Before Peoples commits to making any large capital investment, the Company will screen the customer(s) to ensure that the customer(s) and industries served have the financial capability to perform their obligations throughout the term of the contract to justify an investment by Peoples.

Any project approved by Peoples' Management would require a contract with appropriate safeguards regarding contractual commitments and credit support to protect Peoples against an event of default. As a part of the agreements, Peoples would require credit support either in the forms of parental guarantees, payment or performance bonds, letters of credit or other financial instruments to ensure that there are sufficient cash flows to protect the Company's investment.

In the event of a default, Peoples would exercise its remedies under the applicable agreements, including, without limitation, its rights under the applicable credit support provisions and pursue any other legal and/or equitable remedies available to Peoples.

**PEOPLES GAS SYSTEM
DOCKET NO. 20200093-GU
OPC'S FIRST SET OF
INTERROGATORIES
INTERROGATORY NO. 4
PAGE 2 OF 2
FILED: JULY 06, 2020**

Finally, in the unlikely event that any of the above risks impact an LNG investment based on the proposed tariff any application of cost to the general body of rate payers would have to be sought through a general base rate increase proceeding and approved by the Public Service Commission.

**PEOPLES GAS SYSTEM
DOCKET NO. 2020093-GU
OPC'S FIRST SET OF
INTERROGATORIES
INTERROGATORY NO. 5
PAGE 1 OF 1
FILED: JULY 06, 2020**

- 5.** Regarding the potential that PGS will build infrastructure and facilities related to the proposed Tariff, describe in detail the benefits to the general body of ratepayers if PGS is wrong in its assumption that the related costs will be fully recovered by PGS via the individual LNG contracts between PGS and the customers who are under contract.

- A.** As previously described, Peoples believes all costs of investments associated with the proposed tariff would be recovered by the subscribers contract(s). As previously described in Interrogatory Number 3, Peoples believes there may be opportunities to leverage economies of scale to provide cost efficient improvements to meeting system capacity needs and enhanced reliability by expanding a facility.

**PEOPLES GAS SYSTEM
DOCKET NO. 20200093-GU
OPC'S FIRST SET OF
INTERROGATORIES
INTERROGATORY NO. 6
PAGE 1 OF 1
FILED: JULY 06, 2020**

- 6.** List and describe all measures and risk contingencies PGS is taking to ensure that the LNG customers under contract will pay all the costs related to any LNG facilities and related infrastructure built as a result of the Petition and proposed Tariff.
 - A.** Please see Peoples' response to Interrogatory Number 4.

**PEOPLES GAS SYSTEM
DOCKET NO. 20200093-GU
OPC'S FIRST SET OF
INTERROGATORIES
INTERROGATORY NO. 7
PAGE 1 OF 1
FILED: JULY 06, 2020**

7. List and describe in detail the scenarios under which the costs related to LNG facilities and related infrastructure will impact rate base.
 - A. LNG facilities constructed for a customer(s) pursuant to the proposed Tariff will increase Peoples rate base, however, the revenue requirement for these projects will be recovered directly from the customer(s) receiving service under the proposed Tariff.

AFFIDAVIT

STATE OF FLORIDA)

COUNTY OF Hillsborough

I hereby certify that on this 6th day of July, 2020, before me, an officer ^{in physical presence} duly authorized in the State and County aforesaid to take acknowledgments, personally appeared Kandi M. Floyd, who is personally known to me, and ~~he~~ she acknowledged before me that ~~he~~ she provided the answers to interrogatory number(s) 1-7 from CITIZENS' FIRST SET OF INTERROGATORIES TO PEOPLES GAS SYSTEM (NOS. 1-7) in Docket No. 20200093-EI, and that the responses are true and correct based on ~~his~~ her personal knowledge.

In Witness Whereof, I have hereunto set my hand and seal in the State and County aforesaid as of this 6th day of July 2020.

Kandi M. Floyd

Pamela L. Brown
Notary Public
State of Florida, at Large

My Commission Expires

