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April 8, 2021

**VIA E-PORTAL FILING**

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

In Re: Petition for Approval of Tariff Modifications for Liquefied Natural Gas  
Service by Peoples Gas System, Docket No. 20200093-GU

Dear Mr. Teitzman:

Attached for electronic filing in the above docket, on behalf of Peoples Gas System,  
please find its Response to Staff's Third Data Request (Nos. 1-3).

Your assistance in this matter is greatly appreciated.

Very truly yours,

Andrew M. Brown

AB/plb

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1. In its petition, Peoples states that it has removed liquefaction services from the proposed tariff, and in doing so, the Company anticipates that the overall construction costs could be reduced by 40 to 60 percent.
  - a. Please provide details regarding how the Company determined the anticipated cost reduction percentage.
  - b. Please update Peoples' response to staff's first data request No. 3 to incorporate the proposed tariff modifications.
  - c. Please update Peoples' response to staff's first data request No. 7 to incorporate the proposed tariff modifications.
  
- A.
  - a. The capital and operating cost for an LNG facility will depend upon the size of the LNG storage facility. Converting natural gas to liquefied natural gas is a highly capital intensive process with significant operating costs. The operating costs associated with liquefaction include the amount of electricity required for the liquefaction process, increased fuel costs and an increased number of personnel required to operate and maintain a liquefaction plant. These operating costs are not present in operating an LNG storage facility and constitute a large portion of the overall project costs of an LNG facility with liquefaction compared to an LNG storage facility without liquefaction. Peoples has determined the anticipated cost reduction percentage by evaluating existing and proposed LNG liquefaction and storage facilities in Florida, and has consulted with contractors and engineering firms to provide capital and operating cost estimates for different sized facilities to confirm Peoples' estimates.
  - b. The range of construction costs for an LNG facility can vary depending on the location, service(s) (storage and re-gasification), and capacity of the facility. Some facilities may include all of these services, whereas others may only have storage facilities. The storage facility requirements significantly impacts the cost to construct a facility. Peoples expects a typical facility will cost between \$5 million and \$35 million. However, an LNG facility with larger LNG storage than typical LNG facilities would have construction costs greater than this range. These larger projects typically serve the needs of energy production or high-volume maritime shipping needs. It is anticipated that long-term contracts with creditworthy

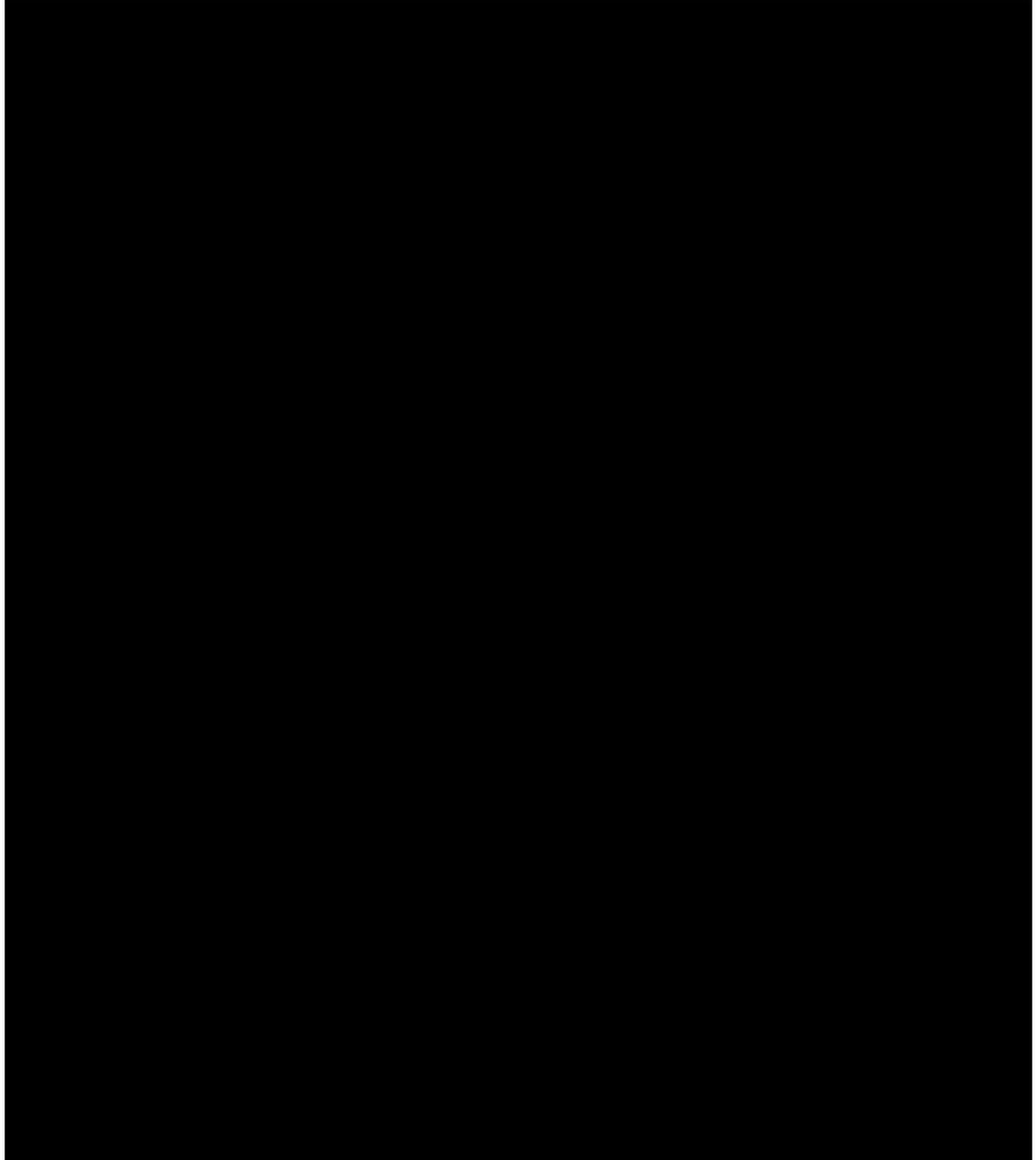
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counterparties will support the LNG projects and cover the costs of building, operating, and maintaining these facilities.

- c. Since each project will vary in its scope, scale and type of facility, the project's unique characteristics will drive the calculation for the monthly service charge. The hypothetical example below assumes a capital investment of \$12,000,000 with the customer procuring its own fuel. This calculation is predicated on a cost-of-service model designed to recover Peoples' revenue requirement and associated O&M expenses related to the LNG facility. This model has also been revised to reflect the new life of the LNG asset for depreciation purposes, the new ROE, and the new debt to equity ratio as per the Settlement Agreement approved by the Florida Public Service Commission in Order PSC-2020-0485-FOF-GU dated December 10, 2020.

**REDACTED**

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- 2.** As noted in your petition, several Commissioners expressed concerns at the September 2020 Agenda Conference about the tariff language and the potential risk to the general body of ratepayers. Outside of removing the liquefaction service language from the tariff, please explain how the proposed modified tariff language would alleviate these concerns.
  
- A.** Peoples' removal of the liquefaction portion of the proposed LNG tariff significantly reduces the cost of such projects and therefore significantly reduces the magnitude of risk to the Company and its ratepayers. The reduced project cost, Peoples financial evaluation of projects and counterparties, and the financial guaranties the Company can include in a customer contract such as requiring the customer to furnish a guarantee (e.g. a surety bond, a letter of credit, or another means of establishing credit), and/or to comply with other provisions as determined appropriate by the Company, provides protections and assurances that should help to alleviate the Commissions' concerns about the risk to ratepayers. Finally, Peoples will be evaluating these projects with the understanding that no costs would be able to be passed on to the general body of ratepayers without Commission approval of such an action in a rate proceeding.

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3. In Docket 20200216-GU, Florida City Gas included the following language in its Renewable Natural Gas tariff No. 74.1:

Service under this Rate Schedule is contingent upon the Company and the Customer entering a mutually satisfactory RNG Service Agreement; provided, however, that in no event shall the service provided to the Customer under this Rate Schedule cause any additional cost to the Company's other rate classes.

Would Peoples be willing to include such language in its proposed tariff No. 7.406? Please explain.

- A. Yes, Peoples is willing to commit to the concept that entering into a contract with an LNG customer would not result in an increase in any of the Company's other rate schedules as a means of helping to pay the cost of LNG service under a contract. However, Peoples is concerned that the above quoted language from the Florida City Gas RNG tariff could be interpreted more broadly than intended.

Peoples intends that the Company and the LNG customer would agree on a customer charge based on the cost of providing LNG service to the customer and that charge would provide the revenue to pay for the LNG service and a reasonable rate of return for Peoples.

Peoples would be willing to agree to a modified version of the Florida City Gas RNG tariff which states:

*Service under this Rate Schedule is contingent upon the Company and the Customer entering a mutually satisfactory LNG Service Agreement. Peoples' entry into an LNG Service Agreement with a Customer and the provision of LNG services pursuant to the LNG rate schedule with that Customer will not cause any additional costs to the Company's other rate classes.*