

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 21, 2021

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Economics (Ward, Coston) *JWH*
Office of the General Counsel (Sandy) *JSC*

RE: Docket No. 20210126-GU – Petition for approval of variance to modify the Sebastian area extension program true-up and extend the amortization period, by Florida City Gas.

AGENDA: 11/02/21 – Regular Agenda – Proposed Agency Action -- Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

On July 30, 2021, Florida City Gas (FCG or utility) filed a petition for approval of variance to modify the Sebastian area extension program (AEP) true-up and extend the amortization period. Specifically, FCG seeks Commission approval of the following modifications to the Sebastian AEP Project surcharge: (a) waive the year seven true-up and retain the current AEP surcharge subject to future true-ups; (b) extend the amortization period from ten years to fifteen years subject to earlier termination of the AEP surcharge upon full payment of the balance to be recovered through the AEP; and (c) retain the year nine true-up per the tariff and add true-ups for years thirteen and fourteen.

The AEP tariff was first approved by the Commission in 1995 and is designed to provide FCG with an optional method to recover its capital investment to extend distribution facilities to

provide natural gas service to new customers in a discrete geographic area.¹ The AEP tariff provides an alternative option for FCG to recover the cost of main extensions as required by Rule 25-7.054, Extension of Facilities, Florida Administrative Code (F.A.C.).

The AEP tariff provides for the determination of a surcharge applicable to all gas customers located in the specified geographic area over a 10-year amortization period. The tariff requires FCG to recalculate and true-up the AEP surcharge on the third anniversary of the in-service date, or on the date when 80 percent of the originally forecasted annual load is connected, whichever comes first. The recalculated AEP surcharge is applied prospectively over the remainder of the amortization period. In addition, the AEP tariff provides for true-ups on the fifth, seventh and ninth anniversary of the in-service date of an AEP project. The requirement to include true-ups on the fifth, seventh and ninth anniversary of the in-service date was approved in FCG's 2018 rate case.²

The AEP surcharge is applied on a per-therm basis in addition to all other tariffed charges. The AEP surcharge is calculated by a formula based on the amount of investment required and the projected gas sales and resulting revenues collected from customers in the AEP area. The AEP tariff specifies the formula to calculate the surcharge and the AEP surcharge itself does not require Commission approval. The AEP tariff includes a provision that the length of the 10-year amortization period may be modified upon Commission approval.

Staff issued two data requests in this docket, for which FCG responded on August 25, 2021 and on October 14, 2021. The Commission has jurisdiction over this matter pursuant to Sections 366.04, 366.05, 366.06, Florida Statutes (F.S.).

¹ Order No. PSC-95-0506-FOF-GU, issued April 24, 1995, Docket No. 950206-GI, *In re: Petition of approval of tariffs governing extension of facilities by City Gas Company of Florida.*

² 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 FCG's proposed AEP tariff variance to modify the Sebastian AEP Project true-up timeline and extend the amortization period?

Recommendation: Yes, the Commission should approve FCG's tariff variance request to waive the year seven true-up requirement, extend the amortization period from ten years to fifteen years, and add additional true-up requirements to years thirteen and fourteen for the Sebastian AEP Project. (Ward, Coston)

Staff Analysis: In December of 2014, FCG placed the Sebastian AEP Project in-service. The Sebastian AEP Project was designed to serve commercial and industrial customers in the Sebastian-Vero Beach area, as well as to serve additional residential, commercial, and industrial customers that the utility anticipated to connect to the Sebastian AEP Project over time. At the onset, the qualifying AEP extension project was estimated to be an additional \$1,224,318 above the utility's Maximum Authorized Construction Contribution (MACC) allowance.³ This amount would be the responsibility of the new customers subscribing to the extension project. The utility stated that the original surcharge was calculated based on having 80 new customers and approximately 808,900 annual therm sales by the tenth and final year of the amortization period.

However, as of July 30, 2021, the utility only had 48 customers paying the AEP surcharge. In addition, the utility stated that as of May 31, 2021, there is a remaining balance of \$1,094,587 to be recovered through the AEP by the end of the ten-year amortization period. FCG stated that the rate of new customer growth and conversion to natural gas along this extension has been slower than the original forecast. The utility highlighted that one large commercial customer (which accounted for 29 percent of the original forecasted volume) was delayed, resulting in lower revenues during the first six years of the amortization period. In addition, FCG noted that the economic impact of the COVID-19 pandemic has contributed to the lower than expected growth and sales forecast.

In response to staff's second data request, FCG explained that the utility reassessed the Sebastian AEP surcharge on the third and fifth anniversary of the in-service date as required by the AEP tariff. FCG stated that they did not revise the AEP surcharge at those times because, based on the information available, the utility forecasted customer growth and conversion to natural gas shortly after those true-up years. However, FCG stated that new customer growth and conversion to natural gas did not materialize as expected after the year three and five true-ups.

As required by the AEP tariff, the year seven true-up for the Sebastian Project is due in December 2021. FCG explained that in recalculating the year seven true-up amount, the AEP surcharge would increase from the current \$0.4638 per therm to \$1.3851 per therm, or an approximate 197 percent increase, which would be applied to the bills of the Sebastian AEP customers from January 2022 through December 2024. FCG stated that this increase would be

³ Maximum Authorized Construction Contribution (MACC) is the maximum capital cost to be incurred by a utility for an extension of main and service pipeline facilities. Customers are required to pay any additional main extension costs exceeding the MACC. FCG's tariff defines the MACC at six times the estimated annual gas revenues to be derived from the facilities less the cost of gas.

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uneconomical for most customers, which could potentially lead to customers switching to alternative fuel sources.

To reduce the rate impact to the Sebastian AEP Project customers, the utility has requested to waive the year seven true-up and retain the current surcharge amount until the year nine true-up. In addition, the utility requested to extend the amortization period from ten to fifteen years. FCG explained that extending the amortization period would give the utility more time to attract new customers and increase volumes, and to collect the remaining balance. Finally, the utility also requested to add additional true-ups for year thirteen and fourteen, in order to further promote stability in the AEP surcharge through the remainder of the amortization period.

FCG's proposal only impacts the customers within the Sebastian AEP Project and does not impact the general body of ratepayers. Also, this request would not apply to any other AEP tariff projects. In response to staff's data request, FCG stated that, if approved by the Commission, it would notify customers of the changes prior to implementation.

Conclusion

The Commission has previously approved a delay in true-up and an extension of the amortization period for FCG's AEP projects. Specifically, in 2016, the Commission approved a delay in the true-up and an extension of the amortization period for two years for an AEP project located in Hendry County (Glades Project).⁴ In 2018, the Commission approved additional modifications to the AEP surcharge calculations in the Glades Project.⁵

Staff believes that FCG's proposal is reasonable and appropriate because it will limit the risk to the Sebastian AEP Project customers by minimizing rate impact while also providing the utility time to add additional customers onto the system. Additional customers would disperse the remaining Sebastian AEP Project costs over a larger customer base. Therefore, the Commission should approve FCG's tariff variance request to waive the year seven true-up requirement, extend the amortization period from ten years to fifteen years, and add additional true-up requirements to years thirteen and fourteen for the Sebastian AEP Project.

⁴Order No. PSC-16-0066-PAA-GU, issued February 5, 2016, in Docket No. 150232-GU, *In re: Petition for approval of variance from area extension program (AEP) tariff to delay true-up and extend amortization period, by Florida City Gas.*

⁵Order No. PSC-2018-0273-PAA-GU, issued May 31, 2018, in Docket No. 20180043-GU, *In re: Petition for approval of area extension plan rate extension agreement with United States Sugar Corporation, by Florida City Gas.*

Issue 2: Should this docket be closed?

Recommendation: Yes. If no protest is filed by a person whose substantial interests are affected within 21 days of the issuance of the Order, this docket should be closed upon the issuance of a Consummating Order. (Sandy)

Staff Analysis: Yes. If no protest is filed by a person whose substantial interests are affected within 21 days of the issuance of the Order, this docket should be closed upon the issuance of a Consummating Order.