State of Florida

Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: January 16, 2008

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Baxter)
Office of the General Counsel (Klancke)

RE: Docket No. 070688-GU – Petition for approval of tariff modifications relating to main and service extension amortization surcharge, by Peoples Gas System.

AGENDA: 01/29/08 – Regular Agenda – Tariff Filing - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\070688.RCM.DOC

Case Background

On November 13, 2007, Peoples Gas System (Peoples) filed a petition for approval of modifications to its natural gas tariff. The proposed modifications will change the methodology used for calculating People's Main and Service Extension Amortization (MSEA) surcharge. The MSEA surcharge is used in lieu of a contribution in aid of construction (CIAC) when extension of facilities into a new area would incur such a large CIAC that collecting a one time, up-front charge would not be feasible.

The Commission has jurisdiction over this matter pursuant to Sections 366.03, 366.04, 366.06, and 366.07, Florida Statutes.

Discussion of Issues

Issue 1: Should the Commission approve Peoples' revisions to its Main and Service Extension Amortization surcharge?

Recommendation: Yes, the proposed changes to the Main and Service Extension Amortization surcharge more equitably distributes the costs to be recovered among the customers who are paying for the extension of facilities. (Baxter)

Staff Analysis: Peoples Gas System's current tariff provides for a Main and Service Extension Amortization surcharge (MSEA) that applies when Peoples needs to extend its facilities to serve one or more delivery points in a discrete geographic area. The MSEA surcharge takes the place of the contribution-in-aid of construction (CIAC), which is usually a one time, up-front charge paid before service is extended. On Peoples' Tariff Sheets 7.101-7, 7.101-8, and 7.101-9, the Company sets out the parameters for a development to participate in the MSEA. At the company's discretion, a development may participate in the MSEA if the cost of the project's facilities exceeds the maximum allowable construction cost (MACC) for all customers to be served, and the forecasted revenues for ten years (including the MSEA and cost of gas) are sufficient to recover the cost of the project facilities.

Current Charge Overview

The current MSEA surcharge recovers the costs of a project's facilities (the mains, meters, piping, and other equipment) as a per therm charge assessed on all gas sold to customers initiating service within the development for ten years starting from the time the mains are placed in service. The per therm charge is based on the expected per residence usage times the projected number of hook ups to be connected during the 10 year amortization term. On either the third anniversary of the project's facilities being placed in service, or the date on which 80% of the originally forecast annual load is connected, whichever occurs first, Peoples' reassesses the amount of additional revenue required to recover the unamortized excess cost of the facilities and adjusts the MSEA surcharge.

The current per therm charge is collected from all customers during the ten year amortization period, so a customer moving into the development in month one of year one will pay the MSEA for 120 months, while a customer moving into the development in month one of year 10 would pay the MSEA for 12 months. If a residence remains vacant for a period during the initial ten years and generates no revenues, the projected revenues associated with that location are rolled back into the total amount to be amortized and would be reflected in a higher MSEA. If a project developed faster than was forecast, the additional net base rate revenues would be deducted from the remaining principal balance amount being amortized. If a project failed to develop as quickly as anticipated, the party or parties requesting the extension would pay Peoples' the remaining amount due pursuant to a guaranty agreement, absolving the general body of ratepayers from the financial risk of the extension.

Proposed Charge Overview

Peoples proposes to change the calculation of the MSEA from a variable per therm charge to a fixed per premise charge and change the name of the MSEA to the Main Extension Program (the MEP charge). The ten year period over which the MEP surcharge was collected would not change, and a guarantor would continue to be responsible for an unamortized amount left at the end of ten years. Peoples would continue to adjust the MEP on either the third anniversary of the project's facilities being placed in services, or the date on which 80% of the originally projected number of premises have activated gas service, whichever occurs first.

The key problem with the current MSEA surcharge is the assessment of fixed costs for construction and expansion on a variable per therm basis. A related problem with this recovery method is the seasonal impact on revenues. The cost of the expansion is known when a subdivision or development is placed into service. Under a per therm charge, a unit with four appliances would potentially pay four times the amount of a unit with only one appliance when the cost of installing the facilities does not vary with usage. The MEP surcharge as proposed is designed to recover the fixed cost of extending facilities which provide equal benefits in terms of access to all units no matter how much gas they actually use.

Conclusion

Peoples proposed MEP charge will eliminate the current problem of assessing what is a fixed cost on a variable per therm basis. By more equitably allocating the costs of extending service to a development from a customer, and removing those costs from variables such as usage and weather, the proposed MSEA surcharge diminishes the potential for either default or for a large amount of costs to be recovered at the end of the 120-month amortization period. Staff, therefore, recommends approval of the Main Extension Program charge.

Issue 2: Should this docket be closed?

Recommendation: Yes. If Issue 1 is approved, this tariff should become effective on January 16, 2008. If a protest is filed within 21 days of the issuance of the order, this 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. (Klancke)

Staff Analysis: If Issue 1 is approved, this tariff should become effective on January 16, 2008. If a protest is filed within 21 days of the issuance of the order, this 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.