

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

DATE: September 12, 2013

TO: Office of Commission Clerk (Cole)

FROM: Division of Economics (Garl) *Garl*
Office of the General Counsel (Corbari) *Corbari*

RE: Docket No. 130197-GU – Request for approval of tariff modifications related to natural gas vehicles and fueling facilities by People's Gas System.

AGENDA: 09/25/13 – Regular Agenda – Tariff Filing – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: 03/26/14 (8-Month Effective Date)

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECO\WP\130197.RCM.DOC

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Case Background

On July 26, 2013, Peoples Gas System (Peoples or the Company) filed a petition for approval of tariff revisions regarding its Natural Gas Vehicle Service (NGVS) tariff. Specifically, Peoples proposed to close its current NGVS tariff to new customers, with new customers being able to take service under the newly proposed NGVS-2 tariff. The NGVS-2 tariff applies to customers buying natural gas for the purpose of compression and delivery into motor vehicle fuel tanks.

In Order No. 25626¹ the Commission approved Peoples' original program for the use of compressed natural gas (CNG) in motor vehicles. The program was designed to assist fleet operators and filling station operators in obtaining compressor units to encourage the development of a compressed natural gas infrastructure. In August 2013, the Commission approved three new NGV tariffs for Florida Public Utilities Company, Florida Public Utilities Company – Indiantown Division, and Chesapeake Utilities,² and one revised NGV tariff for Florida City Gas.³

Since Peoples' NGV program was originally approved, there has been a dramatic expansion of access to natural gas reserves in the U.S. largely due to new drilling technology. The increased supply of natural gas has resulted in an equally dramatic reduction in natural gas prices. The U.S. Energy Information Agency reported that over 95 percent of the natural gas used in March 2013 was from domestic sources. Prices have also dropped over the past 10 years from a high of \$13.422 per mmbTU in October 2005, to \$4.166 per mmbTU in April 2013, at the Henry Hub distribution center.⁴

The Florida Legislature has taken action in recent years to encourage the use of natural gas as a motor fuel. During the 2012 Florida Legislative Session, changes to Section 334.044, Florida Statutes (F.S.), were passed which encourage the use of natural gas motor fuels to reduce transportation costs for businesses and residents within the state.⁵ The passage of the Natural Gas Motor Fuel bill during the 2013 Session provides significant tax benefits and incentives for use of natural gas as a motor fuel.⁶ The Commission has jurisdiction in this matter pursuant to Chapter 366, F.S.

¹ See, Order No. 25626, issued January 22, 1992, in Docket No. 910942-EG, In re: Petition for approval of its natural gas vehicle program of People's Gas System, Inc.

² See, Order No. PSC-13-0395-PAA-GU, issued August 28, 2013, in Docket No. 130135-GU, In re: Joint petition of Florida Public Utilities Company, Florida Public Utilities-Indiantown Division and the Florida Division of Chesapeake Utilities Corporation for approval of Commercial Natural Gas Service Programs.

³ See, Order No. PSC-13-0398-TRF-GU, issued August 29, 2013, in Docket No. 130147-GU, In re: Request for approval of tariff modifications applicable to natural gas vehicles and fueling facilities, by Florida City Gas.

⁴ http://www.eia.gov/oil_gas/natural_gas/data_publications/natural_gas_monthly/ngm.html, Table 1, May 2013

⁵ Section 334.044(33)(a)(4), F.S.

⁶ Chapter 2013-198, Laws of Florida

Discussion of Issues

Issue 1: Should the Commission approve Peoples Gas System's petition to revise its tariffs applicable to NGV service?

Recommendation: Yes, the Commission should approve Peoples' petition to revise its tariffs applicable to NGV service. Peoples' proposed NGV programs and tariffs are reasonable and will allow Peoples to recover its cost of providing NGV service. The current NGVS tariff should be closed to new customers effective September 25, 2013, and be renamed NVGS-1. New NGV customers would take service under the new NGVS-2 tariff. (Garl)

Staff Analysis: Peoples proposed to close its current NGVS tariff to new customers. Existing NGV customers would be grandfathered until the next rate case. Peoples stated that 19 customers currently take service for natural gas vehicles using their own compression and dispensing equipment. Only 5 customers, however, use the NGVS tariff, while the 14 others are charged under the appropriate volume-based General Service (GS) rate schedule at a lower cost to the customer. Any new NGV customers would take service under the proposed NGVS-2 tariff and would be required to sign a standard agreement. Peoples also proposed to rename its existing NGVS tariff NGVS-1.

The current NGVS tariff contains a customer charge of \$45.00 and a \$0.18392 per therm distribution charge applicable to NGV service. Under the proposed NGVS-2 tariff, customers would be billed under the otherwise applicable Residential Service (RS), Small General Service (SGS), or General Service (GS-1 through GS-5) rate schedule, based on the customer's annual therm usage. Peoples' RS tariff contains 3 volume-based levels of service with customer charges varying from \$12 to \$20 per month and a distribution charge of \$0.26782 per therm for all RS levels of service. Peoples' 6 volume-based GS rate schedules include customer charges ranging from \$25.00 to \$300.00 and distribution charges from \$0.33894 to \$0.11321.

In addition to the change in NGV pricing, the NGVS-2 tariff provides three facility options to provide for customer choice while allowing Peoples to recover its cost to provide these options. The three options are discussed below.

Company-provided facilities on customer's premises. Under this option, Peoples will provide and maintain the necessary company-owned equipment at the customer's premise for compression and dispensing natural gas to vehicles. The customer will be responsible for the actual compression and dispensing of CNG, so there would be no dispensing fee. These facilities may include residential fueling stations.

In addition to the otherwise applicable RS or GS charges, customers choosing this option will pay a monthly facilities charge to allow Peoples to recover the cost associated with the facilities provided. The facilities may include piping, metering, compressors, or dispensers. The monthly facilities charge is 1.6 percent multiplied by Peoples' gross investment in facilities required to serve the customer. This charge would be adjusted if the customer provides a contribution in aid of construction. The monthly facilities charge assures recovery of Peoples' equipment investment (return, depreciation, income and property taxes, and operations & maintenance costs). The customers' significant investment in purchasing or converting vehicles

to use natural gas provides assurance the customer will continue to be served by Peoples for a period sufficient for Peoples to recover its investment in the facilities

Limited access facilities located on Company premises. This option addresses the situation where one or more customers wish to contract with Peoples to locate a NGV compression and fueling station on Peoples' property. Peoples will provide, maintain, and operate the facilities. In addition to the otherwise applicable RS or GS charges, the customer would pay a monthly facility charge (1.6 percent multiplied by Peoples' gross investment in facilities required to serve the customer) and a compressed gas dispensing fee. The dispensing fee is designed to recover all costs related to dispensing CNG into a vehicle and will be pro-rated among the fleet providers using the limited access station. Such costs include the cost of electricity used for compression, attendants and security, if any, and billing and transaction fees. The dispensing fee will be stated in the standard agreement. Access to the NGV station would be limited to customers who have contracted with Peoples to use the station.

Publicly accessible facilities located on Company premises. This option is designed to allow Peoples to provide publicly accessible facilities on its premises. Service to the general public would fall under this option. Customers under this option will not be billed under the otherwise applicable RS or GS rate. Customers instead will pay a \$0.50 per therm distribution and dispensing fee and the cost of gas. The \$0.50 fee was developed to recover the estimated cost of providing the CNG to a vehicle in a public station. The cost of gas would be determined by Peoples based on the market rate; however, in no instance would the cost of the gas be set lower than the monthly Purchased Gas Price (PGA) factor. Any difference between the \$0.50 fee and the market based cost of gas will be accounted for in the annual PGA amount, to the benefit of the general body of ratepayers.

Special Contracts. Finally, due to the quickly developing NGV market, Peoples recognizes it may have to respond to competitive situations. The company included a tariff provision that would allow Peoples to enter into a special contract with a government agency or commercial customer that has volumes greater than 100,000 therms per year as a response to such situations. The special contract would include negotiated rates and charges set above incremental cost. Any such contract would be subject to prior Commission approval.

Conclusion. Peoples' proposed NGV programs and tariffs are reasonable and will allow Peoples to recover its cost of providing NGV service. Staff recommends that the Commission approve the proposed programs and associated tariffs. The current NGVS tariff should be closed to new customers effective September 25, 2013, and renamed NGVS-1. New NGV customers would take service under the new NGVS-2 tariff.

Docket No. 130197-GU
Date: September 12, 2013

Issue 2: Should this docket be closed?

Recommendation: Yes. If Issue 1 is approved, the revised tariffs should become effective on September 25, 2013. If a protest is filed within 21 days of the issuance of the order, the existing tariffs 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. (Corbari)

Staff Analysis: If Issue 1 is approved, the revised tariffs should become effective on September 25, 2013. If a protest is filed within 21 days of the issuance of the order, the existing tariffs 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.