

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-**

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**DATE:** October 20, 2016

**TO:** Office of Commission Clerk (Stauffer)

**FROM:** Division of Economics (Ollila) *A.O. P. E. J. D. R.*  
Office of the General Counsel (Taylor) *W. T. J. S. C.*

**RE:** Docket No. 160198-GU – Petition for approval of safety, access, and facility enhancement program (SAFE) true-up and associated cost recovery factors, by Florida City Gas.

**AGENDA:** 11/01/16 – Regular Agenda – Tariff Filing – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Administrative

**CRITICAL DATES:** 8-Month Effective Date: 04/30/17 (60-day suspension date waived by the utility)

**SPECIAL INSTRUCTIONS:** None

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### Case Background

On August 31, 2016, Florida City Gas (City Gas or Company) filed a petition for approval of its safety, access, and facility enhancement program (SAFE) true-up and associated cost recovery factors. The SAFE program, approved by the Commission in 2015, is a 10-year program that will relocate mains and associated facilities from rear lot easements to the street front.<sup>1</sup> According to City Gas, relocation to the street front provides for more direct access to facilities and will enhance the level of service provided to all customers through improved safety and reliability. The Commission ordered the Company to file an annual petition, beginning in 2016, for a review

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<sup>1</sup> Order No. PSC-15-0390-TRF-GU, issued September 15, 2015, in Docket No. 150116-GU, *In re: Petition for approval of safety, access, and facility enhancement program and associated cost recovery methodology, by Florida City Gas.* (2015 order)

Docket No. 160198-GU

Date: October 20, 2016

and reset of the surcharge factors to true-up any prior over- or under-recovery and to set the surcharge for the coming year.

In its filing, City Gas waived the 60-day suspension deadline pursuant to Section 366.06(3), Florida Statutes (F.S.). The Office of Public Counsel (OPC) requested interested party status in this docket on September 15, 2016. City Gas filed its responses to staff's first data request on September 23, 2016, and to staff's second and third data requests on October 10, 2016. The proposed tariff page is contained in Attachment 2. The Commission has jurisdiction over this matter pursuant to Sections 366.03, 366.04, 366.05, 366.06, and 368, F.S.

## Discussion of Issues

**Issue 1:** Should the Commission approve City Gas' proposed SAFE surcharges for 2017?

**Recommendation:** Yes. The Commission should approve City Gas' proposed 2017 SAFE surcharge factors with an effective date of the first billing cycle of 2017. (Ollila)

**Staff Analysis:** Under the SAFE program, City Gas plans to relocate and replace 254.3 miles of mains and associated facilities from rear property easements to the street front over a 10-year period, ending in 2025. The surcharges have been in effect since January 2016; City Gas began its replacements at the end of 2015, as provided for in the 2015 order.

The Company's 2015 - 2016 replacement plan includes 10 projects. Six projects are in the Miami area (Cutler Bay, Hialeah, and Opalocka). Four projects are in Brevard County (Rockledge and three on Merritt Island). Attachment 1 displays City Gas's replacement progress, both actual and forecasted.

City Gas stated in response to staff's data request that its replacement projects are generally prioritized based on the risk assessment model in its Distribution Integrity Management (DIM) program. Prioritization factors include, but are not limited to, the location of the pipeline, pipeline material, leak incident rates, and rear lot pipelines with maintenance access complications and customer encroachments.

### True-up

There is no true-up for 2015; however, the revenue requirement associated with the net plant in service installed in 2015 was included in the rates implemented for 2016. The 2016 true-up includes seven months of actual and five months of estimated 2016 expenses and revenues. The actual/estimated revenue requirement for 2016 is \$736,045 and includes a return on investment, depreciation, and taxes.<sup>2</sup> The estimated 2016 revenue is \$931,494, resulting in an over-recovery of \$195,449 for 2016.

The Company's total projected expenditures for 2017 are \$9,583,423. The corresponding revenue requirement, which includes return on investment, depreciation, and taxes, is \$2,204,344. After the 2016 over-recovery is subtracted, the 2017 revenue requirement is \$2,008,895. Table 1-1 displays the true-up calculation for 2017.

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<sup>2</sup> Beginning with its second annual filing in 2017, the Company will report any operations and maintenance and depreciation expense savings or incremental costs associated with the SAFE program that may occur.

**Table 1-1  
True-up Calculation for 2017**

2017 Projected Replacements	\$9,583,423
Return on Investment	\$1,502,702
Depreciation Expense	\$547,033
Property Tax Expense	\$154,609
2017 Revenue Requirement	\$2,204,344
Less 2016 True-up	(\$195,449)
Total 2017 Revenue Requirement	\$2,008,895

Source: Schedule 2 of the Petition

### **Proposed Surcharges**

The Company's cost allocation method was approved in the 2015 order, and according to City Gas, used for the instant filing. The methodology allocates the cost of a 2-inch pipe to all customers (other than those with pre-existing contracts) on a per customer basis and allocates the incremental cost of replacing pipe larger than 2 inches to customers who use 6,000 or more therms per year. For larger customers, the cost pool takes into account that the minimum pipe is insufficient to serve their demand, and therefore, allocates an incremental per foot cost in addition to the all-customer cost. The resulting allocation factors are applied to the revenue requirement to develop the monthly customer surcharges.

Staff notes that the average residential customer uses 240 therms per year. The proposed fixed monthly surcharge is \$1.53 for customers using less than 6,000 therms per year, compared to the current charge of \$0.71 per month. For customers using 6,000 therms or more per year, the proposed fixed monthly surcharge is \$2.77, compared to the current charge of \$1.31 per month. The surcharge is cumulative; therefore, if City Gas files a rate case before 2025, the then-current SAFE surcharge program would be folded into any newly approved rate base, and the surcharge would begin anew.

### **Conclusion**

Staff has reviewed the filing and supporting documentation and believes that the calculations are consistent with the methodology and are reasonable and accurate. Therefore, staff recommends approval of City Gas' proposed 2017 SAFE surcharge factors with an effective date of the first billing cycle of 2017.

**Issue 2:** Should this docket be closed?

**Recommendation:** If Issue 1 is approved and a protest is filed within 21 days of the issuance of the order, the 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. (Taylor)

**Staff Analysis:** If Issue 1 is approved and a protest is filed within 21 days of the issuance of the order, the 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.

**Florida City Gas' SAFE Program Progress**

Year	Main Replacements			Service Replacements		
	Replaced main (miles)	Remaining main at Year End (miles)	Total Miles Remaining	Replaced Services (No.)	Remaining Services at year end	Total Remaining Services
2014	0.0	254.3	254.3	0	13956	13956
2015	0.0	254.3	254.3	0	13956	13956
2016	14.2	240.1	240.1	706	13250	13250
2017	46.8	193.3	193.3	2536	10713	10713
2018	28.2	165.1	165.1	1545	9168	9168
2019	25.0	140.1	140.1	1372	7797	7797
2020	25.0	115.1	115.1	1372	6425	6425
2021	25.0	90.1	90.1	1372	5053	5053
2022	25.0	65.1	65.1	1372	3681	3681
2023	25.0	40.1	40.1	1372	2309	2309
2024	25.0	15.1	15.1	1372	937	937
2025	15.1	0.0	0.0	937	0	0

Florida City Gas  
 FPSC Natural Gas Tariff  
Volume No. 8

Second Revised Sheet No. 71

RIDER "F"

SAFETY, ACCESS AND FACILITY ENHANCEMENT (SAFE) PROGRAM

(Continued)

- i. all customers regarding the implementation of the SAFE Program and the approved surcharge factors;
  - ii. the immediately affected customers where the eligible infrastructure is being replaced; and
  - iii. the general public through publications (newspapers) covering the geographic areas of the eligible infrastructure replacement activities;
4. Ad valorem taxes; and
5. Federal and state income taxes.

The Company is utilizing a surcharge mechanism in order to recover the costs associated with the SAFE Program. The Company has developed the revenue requirement for the SAFE Program using the same methodology approved in its most recent rate case. The SAFE revenue requirement will be allocated to each customer class (Rate Schedule) using allocation factors established by the Florida Public Service Commission for the SAFE Program. The per customer SAFE surcharge is calculated by dividing the revenue requirement allocated to each customer class by the number of customers in the class.

The cost recovery factors including tax multiplier for the twelve month period from January 1, 2017 through December 31, 2017 are:

<u>Rate Class</u>	<u>Rates Per Customer</u>
Rate Schedule GS-1	\$ 1.53
Rate Schedule GS-100	\$ 1.53
Rate Schedule GS-220	\$ 1.53
Rate Schedule GS-600	\$ 1.53
Rate Schedule GS-1.2k	\$ 1.53
Rate Schedule GS-6k	\$ 2.77
Rate Schedule GS-25k	\$ 2.77
Rate Schedule GS-60k	\$ 2.77
Rate Schedule GS-120k	\$ 2.77
Rate Schedule GS-250k	\$ 2.77
Rate Schedule GS-1.250k	\$ 2.77
Rate Schedule GL	\$ 1.53
Rate Schedule RSG	\$ 1.53
Rate Schedule CSG	\$ 1.53

Issued by: Carolyn Bermudez Vice President, Southern Operations	Effective: January 1, 2017
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