

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for authority to accrue AFUDC,  
by Peoples Gas System.

DOCKET NO. 20190091-GU  
ORDER NO. PSC-2019-0291-PAA-GU  
ISSUED: July 22, 2019

The following Commissioners participated in the disposition of this matter:

ART GRAHAM, Chairman  
JULIE I. BROWN  
DONALD J. POLMANN  
GARY F. CLARK  
ANDREW GILES FAY

NOTICE OF PROPOSED AGENCY ACTION  
ORDER AUTHORIZING PEOPLES GAS SYSTEM TO ACCRUE AN ALLOWANCE FOR  
FUNDS USING DURING CONSTRUCTION

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code (F.A.C.).

**I. Background**

Peoples Gas System (Peoples Gas or Company) is a natural gas local distribution company providing sales and transportation delivery of natural gas through much of the state of Florida. On April 12, 2019, Peoples Gas filed a petition for authority to accrue an Allowance for Funds Used During Construction (AFUDC) in order to develop three expansion projects totaling \$136 million. The Company subsequently filed an amended petition on May 16, 2019, which included the appropriate schedules.

We have jurisdiction over this matter pursuant to Sections 350.115, 350.127(2), 366.05(1), and 366.06(1), Florida Statutes.

**II. Decision**

**A. Authorization for Peoples Gas to accrue AFUDC**

In accordance with Rule 25-7.0141, F.A.C., Peoples Gas has requested that we allow the Company to accrue AFUDC to develop three expansion projects estimated to cost \$136 million

in total. Peoples Gas is not currently authorized to accrue AFUDC and does not have a Commission-approved AFUDC cost rate. Prior to 1995, Rule 25-7.0141, F.A.C., set forth comprehensive eligibility requirements and a methodology regarding AFUDC for gas utilities. In 1995, this rule was amended to state simply that “a utility shall not accrue allowance for funds used during construction without prior Commission approval.”

While the rule regarding AFUDC for natural gas companies does not specify eligibility requirements and methodology, Commission rules regarding AFUDC for water and wastewater (WAW) and electric utilities do provide such eligibility requirements and methodology.

Rule 25-6.0141(1)(a), F.A.C. (Electric AFUDC Rule), applies to electric utilities, and provides that the threshold requirements for projects to be eligible to accrue AFUDC include the following:

- The projects involve gross additions to plant in excess of 0.5 percent of the sum of the total balance in Account 101 – Utility Plant in Service, and Account 106 – Completed Construction not Classified, at the time the project commence, and
  - Are expected to be completed in excess of one year after commencement of construction, or
  - Were originally expected to be completed in one year or less and are suspended for six months or more, or are not ready for service after one year.

Rule 25-30.116(1)(a), F.A.C., (WAW AFUDC Rule) applies to WAW utilities and provides that the threshold requirements for projects to be eligible to accrue AFUDC include the following:

- Projects that involve gross additions to plant in excess of \$5,000 and
  - Are expected to be completed in excess of sixty days after commencement of construction or
  - Were originally expected to be completed in sixty days or less but are not ready for service after sixty days.

Neither the Electric AFUDC Rule nor WAW AFUDC Rule would be controlling on the natural gas industry; however, these rules can still provide instructive guidance in considering Peoples Gas’s request here.

Exhibit C submitted with the Company’s petition demonstrates that each proposed project individually exceeds 0.5 percent of the sum of the balances in Gas Plant in Service (Account 101) and Gas Completed Construction not Classified (Account 106); and construction on each project is expected to take in excess of one year to complete, with each project beginning in 2019. The total project cost of \$136 million is approximately 8 percent of Account 101 and Account 106 as of January 31, 2019.

The Company stated that our approval of its request to accrue AFUDC on the large capital projects, and subsequently future large projects, would ensure consistency in regulatory treatment provided to the Florida electric utilities and the WAW utilities.

We find the Company's request to accrue AFUDC is reasonable and appropriate and authorize Peoples Gas to accrue AFUDC.

**B. Approval of Peoples Gas's requested 5.97 percent AFUDC rate**

Peoples Gas requested an AFUDC rate of 5.97 percent based on a 13-month average capital structure for the period ended December 31, 2018. Peoples Gas used the same formulaic approach as the electric industry to determine the appropriate AFUDC rate.

Similarly to the electric industry, Peoples Gas used the midpoint of the last allowed return on common equity, the most recent 13-month average cost of short-term debt and customer deposits and a zero cost rate for deferred taxes and all investment tax credits. The cost of long-term debt was based on end of period cost. The annual percentage rate was calculated to two decimal places.

In support of the requested AFUDC rate of 5.97 percent, Peoples Gas provided its calculations and capital structure in Schedules A and B attached to its request. We have reviewed the schedules and find that the proposed rate was calculated correctly. Peoples Gas used the midpoint return on equity of 10.75 percent, which was approved by Order No. PSC-2009-0411-FOF-GU.<sup>1</sup>

Based on our review, we find the AFUDC rate of 5.97 percent based on a 13-month average capital structure for the period ended December 31, 2018, is appropriate, and it is hereby approved.

**C. Appropriate monthly compounding rate to achieve the approved AFUDC rate**

Peoples Gas requested a monthly compounding rate of 0.484385 percent to achieve an annual AFUDC rate of 5.97 percent. In support of the requested monthly compounding rate of 0.484385 percent, the Company provided its calculations in Schedule C attached to the amended request. The methodology used to calculate the monthly compounding rate is consistent with the methodology used by the Florida electric utilities. We have reviewed the Company's calculations and find that they are correct. Therefore, we approve a monthly AFUDC rate of 0.484385 percent.

**D. Effective date for implementing the AFUDC rate**

Peoples Gas's proposed AFUDC rate was calculated using a 13-month average capital structure for the period ended December 31, 2018. Peoples Gas requests that the new AFUDC

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<sup>1</sup>Order No. PSC-2009-0411-FOF-GU, issued June 9, 2009, in Docket No. 20080318-GU, *In re: Petition for rate increase by Peoples Gas System.*

rate be effective the month following the end of the 12-month period used to establish that rate; this is consistent with the practice for Florida electric and WAW utilities.

The Company's requested effective date of January 1, 2019, does not precede the period used to calculate the rate, and therefore, we approve the requested January 1, 2019 effective date.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Peoples Gas System is approved to accrue an Allowance for Funds Used During Construction. It is further

ORDERED that the appropriate AFUDC rate for Peoples Gas is 5.97 percent, based on a 13-month average capital structure for the period ended December 31, 2018. It is further

ORDERED that the appropriate monthly compounding rate to maintain the approved annual AFUDC rate of 5.97 percent is 0.484385 percent. It is further

ORDERED that the AFUDC rate shall be effective January 1, 2019. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that if no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of this order, this docket shall be closed upon the issuance of a consummating order.

By ORDER of the Florida Public Service Commission this 22nd day of July, 2019.



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ADAM J. TEITZMAN  
Commission Clerk  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399  
(850) 413-6770  
www.floridapsc.com

Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

KMS

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing that is available under Section 120.57, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on August 12, 2019.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

Any objection or protest filed in this/these docket(s) before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.