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 20, 2022

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Economics (Hampson, Draper) JGH
Office of the General Counsel (Watrous, Crawford, Trierweiler) JSC

RE: Docket No. 20220153-GU – Petition for approval of safety, access, and facility enhancement program true-up and 2023 cost recovery factors, by Florida City Gas.

AGENDA: 11/01/22 – Regular Agenda – Tariff Filing – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: 05/01/23 (8-month Effective Date)

SPECIAL INSTRUCTIONS: None

Case Background

On September 1, 2022, Florida City Gas (FCG or utility) filed a petition for approval of its safety, access, and facility enhancement program (SAFE) true-up and 2023 cost recovery factors. The SAFE program was originally approved by the Commission in Order No. PSC-15-0390-TRF-GU (2015 order) to recover the cost of relocating on an expedited basis certain existing gas mains and associated facilities from rear lot easements to the street front.[1] In the 2015 order, the Commission found that the relocation of mains and services to the street front provides for more direct access to the facilities and will enhance the level of service provided to all customers through improved safety and reliability. The SAFE factor is a surcharge on customers' bills.

---

[1] Order No. PSC-15-0390-TRF-GU, issued September 15, 2015, in Docket No. 20150116-GU, *In re: Petition for approval of safety, access, and facility enhancement program and associated cost recovery methodology, by Florida City Gas.*

The Commission ordered the utility to file an annual petition, beginning in 2016, for review and resetting of the SAFE factors to true-up any prior over-or under-recovery and to set the surcharge for the coming year. The SAFE program is a 10-year program that started in 2015 and should finish in 2025. The utility's annual progress in the SAFE program is shown in Attachment A to the recommendation. The current 2022 SAFE factors were approved by Order No. PSC-2021-0430-TRF-GU (2021 order).[2] The proposed 2023 SAFE factors are shown in Attachment B to the recommendation on Tariff Sheet No. 79.

In the pending rate case, Docket No. 20220069-GU (2022 rate case), FCG has proposed to move the SAFE investment and related expenses as of December 31, 2022, from clause recovery to base rates, in compliance with the 2015 order.[3] Specifically, the 2015 order stated that "…if FCG files a base rate case prior to 2025, the then-current SAFE surcharge program would be folded into any newly approved rate base, and the surcharge would begin anew."[4] The direct testimony of FCG witness Fuentes filed in the 2022 rate case supports the calculations of the SAFE investments ($42.7 million plant-in-service balance as of December 31, 2022) and $5.7 million transfer of SAFE revenue requirement from SAFE factor recovery to bases rates in the 2023 test year.

Accordingly, the SAFE tariffs provided in the petition, and shown in Attachment B to the recommendation, have been calculated using the assumption that the Commission would approve FCG's request to roll SAFE investments into rate base. If the Commission has not made a decision in the 2022 rate case prior to the January 1, 2023 effective date of the proposed SAFE factors, then any SAFE revenue requirement not collected in 2023 would be trued-up in the next SAFE filing.

Consistent with the 2015 order, the SAFE program activities would be scheduled to terminate at the end of 2025. However, FCG has proposed in its 2022 rate case to continue the program to replace approximately 150 miles of additional mains and services and to expand the program to replace approximately 160 miles of early vintage polymer pipelines and mains.[5] FCG Witness Howard explains in his direct testimony filed in the rate case that, if approved in the 2022 rate case, FCG will update the SAFE program in its next annual filing in September 2023 for 2024 factors to reflect the continuation and expansion of the SAFE program.

On September 15, 2022, FCG waived its 60-day file and suspend provision of Section 366.06(3), Florida Statutes (F.S.), via an e-mail, which has been placed in the docket file. During the review process of the petition, staff issued one data request and responses were received on October 10, 2022. The Commission has jurisdiction over the matter pursuant to Sections 366.03, 366.04, 366.05, and 366.06 and Chapter 368, F.S.

---

[2] Order No. PSC-2021-0430-TRF-GU, issued November 19, 2021, in Docket No. 20210149-GU, *In re: Petition for approval of safety, access, and facility enhancement program true-up and 2022 cost recovery factors, by Florida City Gas.*
[3] Docket No. 20220069-EI, Petition for approval of rate increase and request for approval of depreciation rates, filed May 31, 2022.
[4] See Page No. 4 of Order No. PSC-15-0390-TRF-GU.
[5] See direct testimony of Kurt S. Howard, Page Nos. 34-37 (DN 03277-2022) filed in Docket No. 20220069-GU.

Discussion of Issues

Issue 1: Should the Commission approve FCG's proposed SAFE tariff for the period January through December 2023?

Recommendation: Yes. The Commission should approve FCG's proposed SAFE tariff for the period January through December 2023. After reviewing FCG's filings and supporting documentation, the calculations of the 2023 SAFE factors appear consistent with the methodology approved in the 2015 order and are reasonable and accurate. (Hampson)

Staff Analysis: Under the SAFE program, FCG was ordered to relocate or replace 254.3 miles of mains and 11,443 associated service lines from rear property easements to the street over a 10-year period, ending in 2025. The utility began its mains and services replacements at the end of 2015. The surcharges have been in effect since January 2016. During 2022, the utility has replaced 36.5 miles of mains and 1,503 services, as shown in Attachment A to the petition.

True-ups by Year

As required by the 2015 order, the utility's calculations for the 2023 revenue requirement and SAFE factors include a final true-up for 2021, and an estimated/actual true-up for 2022, and projected costs for 2023.

Final True-up for 2021

FCG stated that the revenues collected for 2021 were $2,615,885, compared to a revenue requirement of $3,016,838, resulting in an under-recovery of $400,953. Adding the 2020 final over-recovery of $90,225 and the $400,953 under-recovery of 2021, including interest, results in a final 2021 under-recovery of $326,217.[6]

Actual/Estimated 2022 True-up

FCG provided actual revenues for January through June and forecast revenues for July through December 2022, totaling $4,616,422, as compared to a projected revenue requirement of $4,223,438, resulting in over-recovery of $392,984. Adding the 2021 under-recovery of $326,217 to the 2022 over-recovery of $392,984, the resulting total 2022 true-up, including interest, is an over-recovery of $74,528.

Projected 2023 Costs

The utility's projected investment for 2023 is $11,679,589 for its projects located in Miami-Dade County. The revenue requirement, which includes a return on investment, depreciation, and taxes is $714,310. The return on investment calculation includes federal income taxes, regulatory assessment fees, and bad debt. After adding the 2022 over-recovery of $74,528, the total 2023 revenue requirement is $639,783. Table 1-1 displays the projected 2023 revenue requirement calculation.

[6] The calculation also includes a December 2020 true-up of $7,789 booked in January 2021 plus a December 2021 true-up credit of $7,690.

Table 1-1
2023 Revenue Requirements Calculation

2023 Projected Investment	$11,679,589
Return on Investment	$466,970
Depreciation Expense	140,344
Property Tax Expense	106,996
2023 Revenue Requirement	$714,310
Minus 2022 Over-recovery	$74,528
Total 2023 Revenue Requirement	$639,783

Source: Attachment C of the petition and Attachment 1 in response to Staff's First Data Request No. 3

Proposed 2023 SAFE Factors

The SAFE factors are fixed monthly charges. FCG's cost allocation methodology was approved in the 2015 order and was used in the instant filing. The approved methodology allocates the current cost of a 2-inch pipe to all customers on a per customer basis and allocates the incremental cost of replacing a 4-inch pipe to customers who use over 6,000 therms per year. For customers who require 4-inch pipes, the cost 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 2023 total revenue requirement to develop the monthly SAFE factors.

The proposed fixed monthly SAFE factor is $0.44 for customers using less than 6,000 therms per year (current factor is $3.17). The proposed fixed monthly SAFE factor for customers using more than 6,000 therms per year is $0.98 (current factor is $6.39). The proposed 2023 SAFE factors decreased because as discussed in the case background FCG assumed the SAFE investment as of December 31, 2022 was moved from SAFE factor recovery to base rates and the SAFE factors are beginning anew.

Conclusion

The Commission should approve FCG's proposed SAFE tariff for the period January through December 2023. After reviewing FCG's filings and supporting documentation, the calculations of the 2023 SAFE factors appear consistent with the methodology approved in the 2015 order and are reasonable and accurate.

Issue 2: Should this docket be closed?

Recommendation: Yes. 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. (Watrous)

Staff Analysis: Yes. 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.

Table 1
Florida City Gas's SAFE Program Progress

	Main Replacements		Service Replacements	
Year*	**Replaced Main (miles)**	**Total Miles Remaining**	**Replaced Services (number)**	**Total Remaining Services**
2014	0.0	254.3	0	11,443
2015	0.0	254.3	49	11,394
2016	17.1	237.2	1,433	9,961
2017	37.5	199.7	1,551	8,410
2018	27.6	172.1	1,634	6,776
2019	37.8	134.3	1,183	5,593
2020	25.5	108.8	1,186	4,407
2021	26.0	82.8	1,105	3,302
2022	36.5	46.4	1,503	1,799
2023	12.8	33.6	671	1,128
2024	16.8	16.8	564	564
2025	16.8	0.0	564	0

Source: Attachment A to the petition.
*Actuals 2014-July 2022. Projections August 2022-2025.

Florida City Gas
FPSC Natural Gas Tariff
Volume No. 10

~~Fourth~~ Fifth Revised Sheet No. 79
Cancels Fourth~~Third~~ Revised Sheet No. 79

RIDER "D"

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, ~~2022~~2023 through December 31, ~~2022~~2023 are:

Rate Class	Rates Per Customer
Rate Schedule RS-1	$~~3.17~~0.44
Rate Schedule RS-100	$~~3.17~~0.44
Rate Schedule RS-600	$~~3.17~~0.44
Rate Schedule GS-1	$~~3.17~~0.44
Rate Schedule GS-6K	$~~6.39~~0.98
Rate Schedule GS-25K	$~~6.39~~0.98
Rate Schedule GS-120K	$~~6.39~~0.98
Rate Schedule GS-1,250K	$~~6.39~~0.98
Rate Schedule GS-11M	$~~6.39~~0.98
Rate Schedule GS-25M	$~~6.39~~0.98
Rate Schedule GL	$~~3.17~~0.44

Issued by: Kurt Howard
General Manager, Florida City Gas

Effective: ~~January 1, 2022~~

Florida City Gas
FPSC Natural Gas Tariff
Volume No. 10

~~Third~~ Fourth Revised Sheet No. 81
Cancels Third~~Second~~ Revised Sheet No. 81

RIDER "D"

SAFETY, ACCESS AND FACILITY ENHANCEMENT (SAFE) PROGRAM
(Continued)

Calculation of the SAFE Revenue Requirements and SAFE Surcharges

In determining the SAFE Revenue Requirements, the Commission shall consider only (a) the net original cost of Eligible Replacements (i.e., the original cost); (b) the applicable depreciation rates as determined and approved by the Commission based on the Company's most recent depreciation study; (c) the accumulated depreciation associated with the Eligible Replacements; (d) the current state and federal income and ad valorem taxes; and (e) the Company's weighted average cost of capital as calculated on Tariff Sheet No. 78.

The SAFE Revenue Requirements shall be calculated as follows:

Line	Description	Value	Source
1	Revenue Expansion Factor	~~1.34930~~ 1.36420	As calculated in most recent base rate proceeding, using current tax rates
2	Ad Valorem Tax Rate	%	Effective Property Tax Rate for most recent 12 Months ended December 31
3	Mains	$	Eligible Replacement Mains
4	Services	$	Eligible Replacement Services
5	Regulators	$	Eligible Replacement Regulators
6	Other	$	Eligible Replacement Other
7	Gross Plant	$	L3+L4+L5+L6
8	Accumulated Depreciation	$	Previous Period Balance +L13
9	Construction Work In Progress	$	Non-interest Bearing
10	Net Book Value	$	L7-L8+L9
11	Average Net Book Value	$	(L10 + Balance From Previous Period)/2
12	Return on Average Net Book Value	$	L 11 X Company's calculated weighted average cost of capital
13	Depreciation Expense	$	Lines 3,4,5 & 6 X applicable approved Depreciation Rates
14	Property Tax	$	(L7-L8) X L 2
15	Customer and general public notification and other applicable expense	$	O&M expense incurred as a result of eligible plant replacement
16	SAFE Revenue Requirement	$	(L12+L13+L14+L15) X L 1

Issued by: Kurt Howard
General Manager, Florida City Gas

Effective: ~~January 1, 2021~~