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October 27, 2015

BY HAND DELIVERY

Ms. Carlotta Stauffer
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

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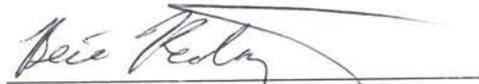
Re: **New Filing - In re: Petition for Approval of Variance to Delay Area Extension Program True-Up and Extend Amortization Period by Florida City Gas.**

Dear Ms. Stauffer:

Enclosed for filing, please find the original and seven copies of Florida City Gas Company's Petition for Approval of Variance to Delay Area Extension Program True-Up and Extend Amortization Period. Under separate cover, the Company is submitting a Request for Confidential Classification for certain information set forth in the Petition.

Thank you for your assistance with this filing. As always, please do not hesitate to contact me if you have any questions whatsoever.

Sincerely,



Beth Keating
Gunster, Yoakley & Stewart, P.A.
215 South Monroe St., Suite 601
Tallahassee, FL 32301
(850) 521-1706

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for Approval of Variance to Delay Area) Docket No. _____
Extension Program True-Up and Extend Amortization)
Period by Florida City Gas.) Filed: October 27, 2015
_____)

PETITION FOR APPROVAL OF VARIANCE
FROM AREA EXTENSION PROGRAM ("AEP") TARIFF TO DELAY TRUE-UP AND
EXTEND AMORTIZATION PERIOD

Florida City Gas ("FCG" or "Company"), by and through its undersigned attorney, hereby requests, in accordance with Sections 366.04 and 366.05, Florida Statutes, that the Florida Public Service Commission ("Commission") approve a limited variance of the requirements of FCG's tariffed Area Extension Program ("AEP") to allow FCG to take steps to mitigate the impact of the AEP surcharge on the customers in the Glades AEP project. Specifically, FCG asks that it be allowed to delay the true-up contemplated in the tariff for an additional two-year period and to also extend the Amortization Period for the project by two years, as further discussed herein.

In support of this request, FCG states:

1. The name and address of the petitioner are:

Florida City Gas
933 East 25th Street
Hialeah, FL 33013-3498

2. The names and mailing addresses of the persons to whom notices, orders and correspondence regarding this petition are to be sent are:

Beth Keating
Gunster Law Firm
215 South Monroe St., Suite 601
Tallahassee, FL 32301
(850) 521-1706

Shannon O. Pierce, Vice President, State
and Federal Regulatory Affairs
AGL Resources Inc.
10 Peachtree Place
Atlanta, GA 30309

3. FCG is a natural gas local distribution company (“LDC”) providing sales and transportation delivery of natural gas in parts of Florida, and is a public utility subject to the Commission’s regulatory jurisdiction under Chapter 366, Florida Statutes.

4. By this petition, FCG seeks the Commission’s approval of a variance from the Company’s tariff to allow FCG to delay the reassessment or “true-up” of the AEP surcharge applicable to the Glades project area for a period of two additional years, thereby allowing the Company to reassess and recalculate the surcharge for this particular project at the fifth anniversary of the date when the project facilities were placed in service, instead of at the third anniversary as contemplated at Sheet No. 17 of the Company’s Natural Gas Tariff, Volume 8, on file with the Commission. The Company also seeks to extend the 10-year Amortization Period contemplated at Sheet No. 16 of the Company’s Natural Gas Tariff, Volume 8, for two additional years. When the surcharge is recalculated, the additional time added to the Amortization Period will place downward pressure on the surcharge by spreading the remaining amount to be collected over a slightly longer period of time.

5. The Commission has broad jurisdiction, including jurisdiction to grant the relief requested herein, under Sections 366.04, 366.05, and 366.07, Florida Statutes, pursuant to which the Commission is authorized to establish rates and charges for public utilities, and in doing so, to consider, among other things, whether the rules, regulations and practices of the utility are fair and reasonable. The Company is unaware of any material facts in dispute in this regard. This is a Petition representing an initial request to the Commission, which is the affected agency located at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399.

BACKGROUND

6. Historically, extensions to serve customers have been recovered directly from the customer for whom the extension is made if the cost of such extension exceeds a certain cost/benefit calculation known as the Maximum Allowable Construction Cost (“MACC”), which is set forth in Rule 25-7.054(3), Florida Administrative Code. Under the Rule, the cost to extend service is free if it does not exceed the MACC. If the cost of the extension exceeds the MACC, then the Rule contemplates that the utility will require that the customer pay a non-interest bearing advance to cover the differential between the MACC and the project costs, which is referred to as the “Contribution In Aid of Construction” or CIAC.

7. In 1995, to promote economic development and to provide a more practical tool to expand service to unserved/underserved areas, FCG put forward an alternative approach that it believed would facilitate extensions that would have otherwise been in doubt were traditional CIAC required. At that time, FCG proposed: (1) that it be allowed to adjust its calculation of the MACC to six times the annual margin revenues to be derived from the facilities; and (2) that it be allowed to implement an alternative program that could be used to facilitate certain extensions that might not otherwise be made if the traditional CIAC were applied. The Commission approved FCG’s modified MACC calculation and AEP by Order No. PSC-95-0506-FOF-GU, issued April 24, 1995, in Docket No. 950206-GU.¹

8. As set forth in FCG’s tariff, an extension is eligible for the AEP if: (1) the extension is designed to serve a discrete geographic area; and (2) FCG reasonably forecasts that Margin Revenues plus the AEP surcharge will be sufficient to recover the costs of the extension over a

¹ The Commission has approved similar programs for other Local Distribution Companies in the following dockets: Florida Division of Chesapeake Utilities Corporation (Dockets Nos. 950523-GU and 060675-GU); West Florida Natural Gas (Docket No. 950953-GU); Florida Public Utilities (Docket No. 941291-GU); St. Joe Natural Gas (Docket No. 070592-GU); and Peoples Gas System (Docket No. 070688-GU).

10-year period, which is referred to in the tariff as the “Amortization Period.”² Under the AEP, recovery of qualifying extension costs in excess of the MACC is accomplished through a per therm surcharge calculated by dividing (1) the amount of additional revenues required in excess of the Company’s tariffed rates by (2) the volume of gas reasonably forecast to be sold or transported to customers within the geographic area over the Amortization Period. The additional revenue is contemplated to include the additional costs above the MACC plus a reasonable return. The amounts collected under the AEP are used to amortize the costs of the project that exceed the MACC. If the amounts collected under the AEP recover the costs of the project before the expiration of the Amortization Period, the AEP is terminated. In addition, any amounts collected in excess of the amount necessary to fully recover the differential between the MACC and the extension project costs are promptly credited to customers’ accounts.³

9. The AEP also includes a true-up mechanism that takes place at the earlier of (1) the third anniversary of the date when the project facilities are placed in service; or (2) the date on which 80% of the originally forecast load is connected. At the earlier of either date, the tariff contemplates that FCG will reassess the amount of additional revenues necessary to recover the excess cost of the facilities and recalculate the AEP surcharge. The resulting revised AEP surcharge is then applied for the remainder of the Amortization Period. The tariff further contemplates that the Amortization Period can be extended upon approval of the Commission.

10. While the AEP has not been frequently utilized by FCG, in recent years it has proven very helpful in facilitating successful projects to extend natural gas service to customers that would otherwise have not been served. In nearly every instance, the projections that have served as the basis for calculating the AEP surcharge have proven reliable and recovery of costs is on

² Florida City Gas, First Revised Sheet No. 16.

³ Florida City Gas FPSC Natural Gas Tariff Volume No. 8, First Revised Sheet No. 16 and Original Sheet No. 17.

track for recovery within the Amortization Period with relatively minimal adjustment at the true-up point.

GLADES AEP PROJECT

11. There has, however, been one project, referred to as the Glades project, that has not developed as anticipated and thus, presents the Company with a challenge. Specifically, in 2012, FCG constructed an extension from its East-West pipeline to serve a large customer's facility ("Target Customer") located in Hendry County, Florida. The project was largely designed to serve this one very large customer, but it was anticipated that, over time, the extension would also serve several other customers.

12. The extension cost projections exceeded FCG's MACC, which, as noted above, is set at six (6) times the annual margin revenues to be derived from the facilities. As such, FCG would have had to collect a CIAC from USSC in order to cover the cost of the facilities that exceeded the MACC. FCG determined, however, that the extension was also eligible for the Company's AEP.

13. Calculated in accordance with FCG's tariff, the initial per therm surcharge was calculated \$0.241/therm. This was based upon a projected facilities cost of \$13,500,000, and a projected MACC of \$5,140,748, thus leaving remaining facilities costs of \$8,359,252 to be recovered through the AEP. The calculation also took into account projected annual volumes of [REDACTED] therms beginning in year two, and continuing through the remainder of the Amortization Period. When the facilities were actually placed into service, the booked investment was \$12,700,187 and the MACC was estimated to be \$5,958,718; thus, the investment to be recovered via the AEP surcharge was \$6,741,469.

14. As of August 2015, the facilities investment associated with the Glades project had grown to \$17,766,616, while the volume delivered to the Target Customer's facility and other customers served by the Glades Expansion for the 12 months ended August 2015 was [REDACTED] therms. The resulting margin revenue was \$ [REDACTED].

15. In accordance with the tariff, the AEP is scheduled to be recalculated prior to the end of the third year, which is October 31, 2015. Based on the volumes and revenue for the 12 months ended August 2015, as well as the current level of investment, the revised MACC is \$4,958,799, which results in \$12,807,817 to be recovered through the AEP. As of October 31, 2015, it is projected that only \$403,556 of that amount will have been recovered. Thus, in order to recover the remaining investment, the recalculated AEP surcharge would be \$0.515/therm, which would be applied beginning November 1, 2015 through October 31, 2022.

16. Two main factors have contributed to the significant change in the remaining amount to be recovered through the AEP: (1) the customers on the pipeline extension- namely, the Target Customer - have not used natural gas in the amounts initially projected; and (2) there were actual project cost increases that exceeded the initial project estimates. With regard to the project cost increases, these were related primarily to unanticipated environmental issues.

17. As for the lower customer usage volumes, the most significant reason has been the outbreak of citrus canker, which lowered production, and therefore gas usage, at the Target Customer's facility. While the disease has abated, new trees will not begin producing fruit for at least another 2 years. Once the trees begin producing, though, it is anticipated that the customer's usage will also begin to increase. The timing and degree of the increase is, however, unclear.

18. While recalculating and applying the significantly higher AEP surcharge would be consistent with FCG's tariff, the Company is sensitive to the issues faced by its customers in this area.⁴ The challenges for this particular AEP extension have been unique and are not consistent with the success of the AEP in other areas. Therefore, in view of these unique challenges and the potential mitigating effects of increased usage in the near future, FCG asks that the Commission allow it to deviate from its AEP tariff requirements in this limited instance in order to defer recalculation of the AEP surcharge for an additional two-year period until October 31, 2017.

19. Allowing the Company to defer recalculation of the AEP surcharge will provide additional time for usage volumes to increase, as well as for potential new customers to come on line. If these potential mitigating factors do, in fact, come to fruition, the recalculated AEP rate may reflect a much less significant increase.

20. Based on current usage and remaining project costs, it is, however, clear that there will be an increase when the surcharge is recalculated, even with the extension of the recalculation period. As such, FCG asks that it be allowed to implement the additional mitigating step of extending the Amortization Period for an additional two years. Extending the Amortization Period will have the effect of further reducing the recalculated AEP surcharge by spreading the remaining amount to be collected over a slightly longer period of time.

21. To be clear, deferring recalculation of the AEP surcharge will have no impact on FCG's general body of ratepayers, nor will extending the Amortization Period. Neither extension requested herein will result in a rate change. As with all of the AEP's in effect for FCG, costs not recovered at the end of the Amortization Period are the responsibility of the Company.

⁴ The extension also serves another facility owned by the Target Customer.

22. In addition, the Company has reached out to the Target Customer impacted by this request and is authorized to represent that the customer does not oppose FCG's request.

WHEREFORE, Florida City Gas hereby respectfully requests that: (1) the Commission approve the Company's proposal to vary from its published tariff in this limited instance to extend the true up contemplated at Original Sheet No. 17 of the Florida City Gas tariff by two years for the Area Extension Plan applicable to the Glades project, as described herein; (2) allow the Company to also extend the Amortization Period contemplated at Original Sheet No. 16 by two years; and (3) allow the October 31, 2015 recalculation date to be tolled pending a decision by the Commission on FCG's request herein.

Respectfully submitted this 27th day of October, 2015, by:



Beth Keating
Florida Bar #0022756
Gunster Law Firm
215 South Monroe Street
Suite 601
Tallahassee, FL 32301

Attorneys for Florida City Gas