BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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| --- | --- |
| In re: Petition for approval of 2016 true-up, projected 2017 true-up, and 2018 revenue requirements and surcharges associated with cast iron/bare steel pipe replacement rider, by Peoples Gas System. | DOCKET NO. 20170192-GUORDER NO. PSC-2017-0433-TRF-GUISSUED: November 14, 2017 |

The following Commissioners participated in the disposition of this matter:

JULIE I. BROWN, Chairman

ART GRAHAM

RONALD A. BRISÉ

DONALD J. POLMANN

GARY F. CLARK

ORDER APPROVING CI/BSR RIDER 2018 SURCHARGE

BY THE COMMISSION:

 On September 1, 2017, Peoples Gas System (Peoples or company) filed a petition for approval of its final 2016 true-up, projected 2017 true-up, and 2018 revenue requirements and surcharges associated with the cast iron/bare steel replacement rider (CI/BSR rider or rider). The rider was originally approved in Order No. PSC-12-0476-TRF-GU (2012 Order) to recover the cost of accelerating the replacement of cast iron and bare steel distribution pipes through a surcharge on customers’ bills.[[1]](#footnote-1) Peoples’ current surcharges were approved in Order No. PSC-16-0524-TRF-GU.[[2]](#footnote-2) In the 2012 Order, the Commission found that “[r]eplacement of these types of pipelines is in the public interest to improve the safety of Florida’s natural gas infrastructure, and reduce the possibility of loss of life and destruction of property should an incident occur.”

 We approved a comprehensive settlement agreement between Peoples and the Office of Public Counsel (OPC) in Order No. PSC-17-0066-AS-GU.[[3]](#footnote-3) The settlement agreement addressed the company’s 2016 depreciation study, cost recovery associated with Peoples’ manufactured gas plant-related environmental liability, and the reduction of the bottom of Peoples’ authorized earning range. In addition, the settlement agreement added problematic plastic pipe (PPP) installed in the company’s distribution system to eligible replacements under the rider. PPP was manufactured before 1983 and has significant safety concerns. In certain areas, the PPP is interspersed with, or connected to, the cast iron/bare steel pipe that is being replaced under the rider. As provided for in the settlement agreement, PPP replacements are included in the calculation of the 2018 rider surcharges.

 In its petition, Peoples waived the 60-day suspension deadline pursuant to Section 366.06(3), Florida Statutes (F.S.). Peoples filed its response to staff’s first data request on September 27, 2017. On October 18, 2017, Peoples filed a revised response to staff’s data request No. 1. OPC intervened in this docket on October 4, 2017, which was acknowledged by Order No. PSC-2017-0393-PCO-GU, issued October 17, 2017. The proposed tariff page is contained in Attachment B. We have jurisdiction over this matter pursuant to Sections 366.03, 366.04, 366.05, and 366.06, F.S.

DECISION

 The rider surcharges have been in effect since January 2013. In 2017, Peoples’ cast iron and bare steel replacement activity has been occurring in Ocala, Sarasota, Jacksonville, Eustis, Orlando, St. Petersburg, Miami, and Tampa, with a larger concentration of replacements in the Tampa and St. Petersburg areas. PPP replacement activity started in May 2017 in Orlando, Lakeland, and Daytona. The original projected completion date for the CI/BSR replacement program was 2022 for mains and services. Peoples now expects to complete the replacement activity for mains in 2021 and services in 2022. Replacement of PPP is expected to continue until 2028.

 Peoples continues to use a risk-based prioritization to determine the replacement order, which is primarily identified by the Distribution Integrity Management Program (DIMP). Other factors considered include leak incident rates, the pressure under which a pipeline is operating, areas of significant construction, and the pipeline’s age. In its response to staff’s data request, Peoples characterized its replacement approach as very proactive in removing all pipes identified by the Pipeline Hazardous Materials and Safety Administration (PHMSA) as being of concern. Peoples explained that it plans to secure additional contractors so that the replacement of cast iron and bare steel, as well as PPP, can be accelerated. According to Peoples, an accelerated replacement program is likely to result in better accessibility to contractors and supplies.

 Attachment A contains tables which display the replacement progress and forecasts for CI/BSR (Table 1) and for PPP (Table 2). In addition, Peoples provided a third table which consolidates actual and projected CI/BSR and PPP miles replaced, investment, and revenue requirement for each year of the replacement program, both actual and forecast.

 True-ups

 Peoples’ calculations for the 2018 revenue requirement and surcharges include a final true-up for 2016, an actual/estimated true-up for 2017, and projected costs for 2018. Pursuant to the 2012 order, the capital expenditures for 2016 through 2018 exclude the first $1 million of facility replacements each year, and are thus excluded from recovery. Peoples has included depreciation expense savings as discussed in the 2012 order; however, Peoples stated that it has not identified any operations and maintenance savings.

 Final True-up for 2016

 Peoples stated that the revenues collected for 2016 were $4,703,679 compared to a revenue requirement of $4,901,227, resulting in an under-recovery of $197,548. Adding the 2015 under-recovery of $98,762, the 2016 under-recovery of $197,548, and interest of $5,188 associated with any over- and under-recoveries, the resulting preliminary under-recovery is $291,122. Order No. PSC-16-0205-AS-GU required Peoples to include a one-time credit of $2,000,000 to customers subject to the rider, resulting in an over-recovery of $1,708,878 for the final 2016 true-up.[[4]](#footnote-4)

 Actual/Estimated 2017 True-up

 Peoples provided actual revenues for January through July and forecast revenues for August through December of 2017, totaling $4,750,300, compared to an actual/estimated revenue requirement of $6,942,022, resulting in an under-recovery of $2,191,722. Adding the 2016 over-recovery of $1,708,878, the 2017 under-recovery of $2,191,722, and interest of $6,924, the resulting total 2017 true-up is an under-recovery of $475,919.

 Projected 2018 Costs

 Peoples projects investment or capital expenditures of $35,675,000 for the replacement of cast iron/bare steel infrastructure and PPP in 2018. As shown in Table 3 of Attachment A, this consists of the CI/BSR investment of $22,850,000 and the PPP investment of $12,825,000. This represents an increase of approximately $16.4 million from the 2017 actual/estimated investment ($19,246,093) and an increase of approximately $22.3 million from final 2016 expenditures ($13,331,026). The return on investment, depreciation expense (less savings), and property tax expense associated with that investment are $10,174,749. After adding the total 2017 under-recovery of $475,919, the total 2018 revenue requirement is $10,650,669. Table 1 displays the 2018 revenue requirement calculation.

Table 1

2018 Revenue Requirement Calculation

|  |  |
| --- | --- |
| 2018 Projected Replacements | $35,675,000 |
| Return on Investment | $7,277,347 |
| Depreciation Expense (less savings) | $1,806,515 |
| Property Tax Expense | $1,090,887 |
| 2018 Revenue Requirement | $10,174,749 |
| Plus 2017 Under-recovery | $475,919 |
| Total 2018 Revenue Requirement | $10,650,669 |

 Source: Exhibit C, page 1, of the Petition

Proposed Surcharges

 As established in the 2012 order, the total 2018 revenue requirement is allocated to rate classes using the same methodology that was used for the allocation of mains and services in the cost of service study used in Peoples’ most recent rate case. After calculating the percentage of total plant costs attributed to each rate class, the respective percentages were multiplied by the 2018 revenue requirement resulting in the revenue requirement by rate class. Dividing each rate class’s revenue requirement by projected therm sales provides the rider surcharge for each rate class.

 The proposed 2018 rider surcharge for residential customers is $0.05285 per therm (compared to the current surcharge of $0.02309 per therm). The monthly bill impact is $1.06 for bills rendered for meter readings taken on and after January 1, 2018, for a residential customer who uses 20 therms. The proposed tariff page is provided in Attachment B.

 We find that the calculation of the 2018 rider revenue requirement and the proposed rider surcharge for each rate class is reasonable and accurate. Therefore, we hereby approve Peoples’ proposed 2018 rider surcharge as stated on Attachment B for each rate class commencing with bills rendered for meter readings taken on and after January 1, 2018.

 Based on the foregoing, it is

 ORDERED by the Florida Public Service Commission that Peoples Gas System’s cast iron/bare steel pipe replacement rider surcharges as stated on Attachment B, incorporated herein by reference, are hereby approved, effective for each rate class commencing with bills rendered for meter readings taken on and after January 1, 2018. It is further

 ORDERED that if a protest is filed within 21 days of the issuance of this order, the tariff shall remain in effect, with any revenues held subject to refund pending resolution of the protest.

It is further

 ORDERED that if no timely protest is filed, this docket shall be closed upon the issuance of a Consummating Order.

 By ORDER of the Florida Public Service Commission this 14th day of November, 2017.

|  |  |
| --- | --- |
|  | /s/ Hong Wang |
|  | HONG WANGChief Deputy Commission Clerk |

Florida Public Service Commission

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

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NOTICE OF FURTHER PROCEEDINGS

 The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, 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 or judicial review 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 Commission's decision on this tariff is interim in nature and will become final, unless a person whose substantial interests are affected by the proposed action files 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 December 5, 2017.

 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 docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

Attachment A

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Table 1

Peoples’ CI/BSR Replacement Program Progress

|  |  |  |
| --- | --- | --- |
| Year | **Main Replacements** | **Service Replacements** |
| Replaced Cast Iron (miles) | ReplacedBare Steel (miles) | RemainingCast Iron at Year End (miles) | Remaining Bare Steel at YearEnd(miles) | Total Miles Remaining of CI/BS Mains | Replaced Number of Bare Steel Services | Total Number of Remaining Bare Steel Services |
| 2012 |  |  | 100 | 354 | 454 |  | 14978 |
| 2013 | 13 | 38 | 87 | 316 | 403 | 907 | 14071 |
| 2014 | 2 | 18 | 85 | 298 | 383 | 7964 | 6107 |
| 2015 | 26 | 60 | 59 | 238 | 297 | 1019 | 5088 |
| 2016 | 15 | 35 | 44 | 203 | 247 | 1050 | 6963\*\* |
| 2017 (projected) | 15 | 34 | 29 | 183\* | 212\* | 1078 | 5885 |
| 2018 | 10 | 80 | 19 | 103 | 122 | 1200 | 4685 |
| 2019 | 10 | 60 | 9 | 43 | 52 | 1200 | 3485 |
| 2020 | 9 | 31 | 0 | 12 | 12 | 1200 | 2285 |
| 2021 | 0 | 12 | 0 | 0 | 0 | 1200 | 1085 |
| 2022 | 0 | 0 | 0 | 0 | 0 | 1085 | 0 |

\*Additional Bare Steel Mains identified in 2017 - Broward - 12 miles, Orlando - 1 mile and Jacksonville - 1 mile.

\*\* In 2016, Peoples upgraded its asset classification system and changed from CIS to GIS. During this change additional bare and unprotected steel services lines were identified in Peoples operating system. This change resulted in a new total number remaining of 6963.

Attachment A

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Table 2

Peoples’ PPP Replacement Program Progress

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **PPP (miles)** | **Total Remaining PPP Mains (miles)** | **Replaced Number of****PPP Services** | **Total Number of Remaining PPP Services\*** |
| 2016 | 0 | 551 | 0 | - |
| 2017 | 23 | 528 | 1800 | - |
| 2018 | 55 | 473 | 3600 | - |
| 2019 | 50 | 423 | Not yet Determined\*\* |  - |
| 2020 | 50 | 373 | Not yet Determined\*\* | - |
| 2021 | 50 | 323 | Not yet Determined\*\* | - |
| 2022 | 50 | 273 | Not yet Determined\*\* | - |
| 2023 | 50 | 223 | Not yet Determined\*\* | - |
| 2024 | 50 | 173 | Not yet Determined\*\* | - |
| 2025 | 50 | 123 | Not yet Determined\*\* | - |
| 2026 | 50 | 73 | Not yet Determined\*\* | - |
| 2027 | 50 | 23 | Not yet Determined\*\* | - |
| 2028 | 23 | 0 | Not yet Determined\*\* | - |

\* Peoples Gas is in the process of determining the total number of PPP service lines.

\*\* This will be determined during the replacement year.

Attachment A

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Table 3

Peoples’ CI/BSR & PPP Investment and Revenue Requirement



Attachment B



1. Order No. PSC-12-0476-TRF-GU, issued September 18, 2012, in Docket No. 110320-GU, In re: Petition for approval of Cast Iron/Bare Steel Pipe Replacement Rider (Rider CI/BSR), by Peoples Gas System. [↑](#footnote-ref-1)
2. Order No. PSC-16-0524-TRF-GU, issued November 21, 2016, in Docket No. 160201-GU, In re: Petition for approval of 2015 true-up, projected 2016 true-up and 2017 revenue requirements and surcharges associated with cast iron/bare steel pipe replacement rider, by Peoples Gas System. [↑](#footnote-ref-2)
3. Order No. PSC-17-0066-AS-GU, issued February 28, 2017, in Docket No. 160159-GU,In re: Petition for approval of settlement agreement pertaining to Peoples Gas System’s 2016 depreciation study, environmental reserve account, problematic plastic pipe replacement, and authorized ROE. [↑](#footnote-ref-3)
4. Order No. PSC-16-0205-AS-GU, issued May 10, 2016, in Docket No. 150259-GU, In re: Initiation of show cause proceedings against Peoples Gas System for apparent violations of Sections 368.01 – 05, F.S., and Chapter 25-12, Florida Administrative Code (F.A.C.). [↑](#footnote-ref-4)