

Writer's E-Mail Address: bkeating@gunster.com

February 20, 2018

HAND DELIVERY

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

RECEIVED-FPSC
2018 FEB 20 PM 4:28
COMMISSION
CLERK

REDACTED

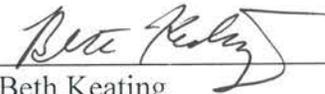
Re: [New Filing]-- Petition for approval of Area Extension Plan Rate Extension Agreement with United States Sugar Corporation, by Florida City Gas.

Dear Ms. Stauffer:

Enclosed for filing, please find the original and 7 copies of Florida City Gas's Petition for Approval of Area Extension Plan Extension Agreement with United States Sugar Corporation. Under separate request for confidential classification, the Company is also provided highlighted copies of certain portions of the enclosed Petition and the attached Agreement.

Thank you for your assistance in connection with this filing. If you have any questions whatsoever, please do not hesitate to let me know.

Sincerely,



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

COM _____
AFD 1 redacted
APA _____
ECO 5 redacted
ENG 1 redacted
GCL _____
IDM _____
CLK _____

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for approval of Area Extension
Plan Rate Extension Agreement with United
States Sugar Corporation, by Florida City Gas

Docket No.
Filed: February 20, 2018

**PETITION FOR APPROVAL OF
AREA EXTENSION PROGRAM ("AEP") RATE
EXTENSION AGREEMENT**

Florida City Gas ("FCG" or "Company"), by and through its undersigned attorneys, hereby requests, pursuant to Sections 366.04, 366.05 and 366.06, Florida Statutes, and in accordance with Rules 25-9.034, Florida Administrative Code, and 28-106.201, Florida Administrative Code, that the Florida Public Service Commission ("Commission") approve a Rate Extension Agreement between the Company and United States Sugar Corporation ("U.S. Sugar") regarding the AEP surcharge applicable to the Glades project. In support of this request, FCG states:

1. The name and address of the petitioner are:

Florida City Gas
4045 N.W. 97th Avenue
Doral, FL 33178-2300

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

Blake O'Farrow, Director, Regulatory
Affairs
Southern Company Gas
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. FCG has a

substantial interest in proceedings established to address this Rate Extension Agreement, as it desires to maintain U.S. Sugar as a customer on its system. The terms and conditions of the Rate Extension Agreement will enable FCG to do so, if approved by the Commission.

4. The Commission has broad jurisdiction, including jurisdiction to grant the relief requested herein, under Sections 366.04, 366.05 and 366.06, 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.

I. BACKGROUND

5. 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.

6. 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, called AEP, 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

7. 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 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 term 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

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).

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

MACC and the extension project costs are promptly credited to customers' accounts or customers are given refunds.³

8. 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.

9. While historically the AEP was not used frequently by FCG, in recent years it has proven helpful in facilitating successful projects to extend natural gas service to customers that would otherwise have not been served.

II. GLADES AEP PROJECT

10. As the Commission is aware, there has, however, been one project, referred to as the Glades AEP Project, which has not developed as originally anticipated and has presented the Company with some challenges. These challenges were recognized in the Commission's approval of the Company's 2015 request for a delay of the three-year true-up and a two-year extension of the amortization period for the Glades AEP Project.⁴

11. In accordance with the Extension Order, FCG would have been required to apply the true-up calculation by the end of 2017. However, the Company determined that the recalculated AEP surcharge would still be significantly higher than the existing surcharge, in spite of the previously noted extension. As before, the significant difference would be an undue burden to

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

⁴ Order No. PSC-16-0066-PAA-GU, issued February 15, 2016, in Docket No. 150232-GU ("Extension Order").

the customers participating in the Glades AEP Project and would likely present a competitive barrier to other customers coming on the line, even assuming that new customer volumes might ultimately make it possible for the AEP surcharge to be terminated earlier than otherwise possible. Recalculating and applying the significantly higher AEP surcharge would be consistent with FCG's tariff and the Extension Order, but the Company continues to be sensitive to the issues faced by its customers in this area. The challenges for this particular AEP extension have been unique and significant. Moreover, the benefits of maintaining the existing large customers served by the Glades AEP Project on FCG's system, particularly U.S. Sugar's large facility, prompted the Company to investigate additional avenues to mitigate the surcharge impact. As the Commission has recognized in prior cases for other LDCs:

Having industrial customers on the system greatly benefits all users, particularly the residential customers. Customers benefit because large load users are able to absorb a greater portion of the fixed cost necessary to provide the service; as a result, rates are lower, especially for small load users. Conversely, losing industrial customers who have alternative fuel sources or viable bypass options would pose a greater burden on all ratepayers, and could result in higher rates.

Order No. PSC-10-0029-PAA-GU, issued January 14, 2010, in Docket No. 20090125-GU. The Rate Extension Agreement will also provide a continuing opportunity for additional customers to connect to the Glades AEP Project; therefore facilitating economic development, in this area, and potentially enabling faster recovery of the remainder to the investment in this project as a result of additional gas volumes.

12. After numerous discussions with U.S. Sugar to better understand the impact the recalculated rate would have on their business, as well as other customers taking service on this line, the Company and U.S. Sugar reached a mutually beneficial agreement that will further extend the AEP for all Glades customers, while also reducing the Company's risk of significant stranded investment.

13. The Rate Extension Agreement, which is attached and incorporated herein as Exhibit A, represents a reasonable approach addressing the challenges of the Glades AEP Project.⁵

14. Under the Rate Extension Agreement, the Glades AEP surcharge will be set at \$0.301 per therm for all customers instead of the recalculated rate of \$0.629 per therm. FCG emphasizes that this amount [REDACTED]

[REDACTED] The new AEP surcharge will reduce recovery on this AEP by more than \$5 million.

15. The reset surcharge will be extended through November 2027 for all Glades customers on the Glades AEP Project, which represents an additional 3-year extension of the AEP surcharge.

17. Prior to the expiration of the extension, the surcharge will be recalculated - in November 2020 and November 2022 - to capture changes in annual consumption. Thereafter, U.S. Sugar will be able to seek an additional recalculation of the AEP surcharge upon demonstration of a 6% increase in annual natural gas consumption by U.S. Sugar and its subsidiaries and affiliates.

18. Under the Rate Extension Agreement, U.S. Sugar has committed that its Southern Gardens Citrus facility will remain on FCG's system until FCG has fully recovered 87.13% of \$16,491,199 contribution in aid of construction (*the total amount, which includes amounts already paid*) associated with the Glades AEP Project, or it will pay the outstanding balance.

19. Other U.S. Sugar subsidiaries and affiliates served by the Glades AEP Project will commit to remain on the system as long as natural gas service remains an economically viable option. If any subsidiary determines that natural gas service with FCG is no longer economically

⁵ FCG notes that while the Rate Extension Agreement is executed, the parties to the agreement have included Section 7.0 thereof, which contemplates that Commission approval is necessary for operation of the contract. Moreover, while not styled as an FGS Agreement, due to the timing and potentially significant economic impact to the customers on this AEP, the Company has endeavored to treat this with the urgency consistent with an FGS Agreement, which are executed prior to filing, consistent with FCG Original Tariff Sheet No. 48.

viable, it will be required to provide documentation to that effect, along with 60-days' notice of termination.

20. In addition, the Rate Extension Agreement contemplates early termination by U.S. Sugar, and its subsidiaries and affiliates, upon payment of the remaining amount of its portion of the contribution in aid of construction. The U.S. Sugar affiliates' percent obligation is 87.13% of the total amount.

21. Finally, the Rate Extension Agreement recognizes that the validity of the agreement is contingent upon Commission approval.

22. The Rate Extension Agreement represents a fair and reasonable solution that minimizes unexpected financial hardship to the customer because it avoids a significant jump in the AEP, while further extending the amortization period for this large customer for whom the project was primarily designed. It also allows the Company to recover a reasonable amount of its investment in the Glades AEP Project. It will also provide additional time for new customers to connect to the Glades AEP Project, which could ultimately reduce the pay-back period for the project and enable the Company to terminate the surcharge earlier for all customers on the Glades AEP Project.

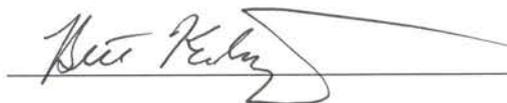
23. FCG has reached out to all of the other customers on the Glades AEP regarding the extension of the AEP at the defined rate. Of the 38 customers on the project, FCG was not able to reach a manager for two customers, but left FCG contact information with the business. Of the other 36 with whom FCG communicated, all indicated that they understood the basis for the increase in the AEP rate and were accepting of the extension of the AEP amortization period. Several customers expressed appreciation for the Company's efforts to keep the AEP rate as low as possible.

24. FCG further emphasizes that the Rate Extension Agreement will have no adverse impact on FCG's general body of ratepayers.

25. FCG submits that the terms and conditions of the Rate Extension Agreement are a fair and reasonable resolution of the ongoing challenges associated with the Glades project. The merits of the Rate Extension Agreement include: 1. mitigation of the impact of the AEP surcharge recalculation for customers on the Glades project, which reduces the immediate impacts associated with a significant rate hike and provides a level of certainty for customers' annual budgeting processes; 2. assurance that the customer for whom the project was primarily designed retains primary responsibility for repayment of the Company's investment to construct the project; 3. avoidance of significant stranded costs for the Company; and 4. protection of the Company's general body of rate payers against subsidization of the Glades AEP Project.

WHEREFORE, Florida City Gas hereby respectfully requests that the Commission approve the Rate Extension Agreement with U.S. Sugar, which is attached hereto as Exhibit A.

Respectfully submitted this 20th day of February, 2018, by:



Beth Keating, Esquire
Gunster Law Firm
215 South Monroe Street
Suite 601
Tallahassee, FL 32301
Attorneys for Florida City Gas

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been served upon the following by Electronic Mail this 20th day of February, 2018.

Jennifer Crawford Florida Public Service Commission 2540 Shumard Oak Boulevard Tallahassee, FL 32399-0850 jcrawfor@psc.state.fl.us	J.R. Kelly Office of Public Counsel c/o The Florida Legislature 111 W. Madison Street, Room 812 Tallahassee, FL 32399-1400 <u>Kelly.JR@leg.state.fl.us</u>
--	---

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

AREA EXTENSION PLAN RATE EXTENSION AGREEMENT

THIS RATE EXTENSION AGREEMENT (“Agreement”) is entered into by and between Pivotal Utility Holdings, Inc. d/b/a Florida City Gas, a natural gas local distribution company (“LDC”) and a subsidiary of Southern Company Gas, hereinafter referred to as (“FCG”), and United States Sugar Corporation (“USSC”), hereinafter referred to as (“Customer”) (jointly, “Parties”).

WITNESSETH:

WHEREAS, FCG operates facilities for the distribution of natural gas in the State of Florida; and

WHEREAS, Customer owns and operates a citrus processing facility at 1820 County Road 833, Clewiston, Florida (the “Plant”);

WHEREAS, FCG constructed its Glades pipeline to serve Customer and currently provides natural gas service to Customer, as well as other entities, via the Glades pipeline; and

WHEREAS, when the Glades pipeline was placed into service, the booked investment exceeded the Maximum Allowable Construction Cost (“MACC”), resulting in a contribution in aid of construction to be recovered consistent with FCG’s Florida Public Service Commission (“FPSC”) tariff; and

WHEREAS, the cost of the installation of the Glades pipeline is \$17,766,616, which results in the amount to be recovered from the Customer and other entities served by the Glades pipeline being \$13,159,111, plus carrying a cost of \$3,332,088, for a total of \$16,491,199 (such total, the “Contribution”);

WHEREAS, the Parties acknowledge that the Contribution may vary depending upon consumption of natural gas by customers on the Glades pipeline; and

WHEREAS, recovery of the Contribution has been addressed by application of FCG’s tariffed Area Extension Plan (“AEP”), which provides for calculation of a surcharge amount to be applied over a 10-year period to recover FCG’s capital investment to provide natural gas service to customers to a discrete geographic area, which area, in this instance, is referred to as the “Glades Project”; and

WHEREAS, FCG’s tariff provides that the AEP surcharge may only be recalculated, if at all, at Year 3 of the amortization period based upon updated costs and therm usage; and

WHEREAS, in 2015, FCG petitioned the FPSC for approval, and was allowed, to defer the recalculation of the AEP charge for a period of two years and to extend the project amortization period from 10 years to 12 years through November 2024 (“Amortization Period”), because the

RATE EXTENSION AGREEMENT

Page | 2

AEP surcharge for Customer and others in the Glades Project was projected to increase from \$0.241 per therm to \$0.629 per therm; and

WHEREAS, the extension of the AEP recalculation ended October 31, 2017, and as such, the recalculated, higher AEP surcharge would be assessed to Customer and others served by the Glades pipeline with the December 2017 bill; and

WHEREAS, an increase in AEP charge would have significant negative consequences to Customer and others in the Glades Project as acknowledged in Order No. PSC-2016-0066-PAA-GU; and

WHEREAS, Customer's operation has significant economic consequences for Clewiston and the surrounding areas; and

WHEREAS, the FPSC has recognized the benefits to the general body of ratepayers of retaining large customers on LDC systems; and

WHEREAS, retention of Customer as contemplated in this Agreement will have no adverse impacts to FCG's ratepayers nor will it put the ratepayers at increased risk;

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements herein contained, and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, and intending to be bound hereby, the Parties do therefore agree as follows:

1.0 Surcharge Amount. Effective January 31, 2018, ("Effective Date"), the AEP charge for the Glades Project will be set at \$0.301 per therm for all customers, which

consistent with the model contained in Exhibit A as attached hereto and incorporated herein by reference.

2.0 Continuation of AEP Surcharge. This Agreement shall remain in effect from the Effective Date through the end of November 2027. At the end of the 12-year Amortization Period, Customer and its affiliates, including, but not limited to the Plant, which are being served by the Glades pipeline, will continue to be assessed the \$0.301 per therm AEP charge per Exhibit A for the remainder of the Term of this Agreement, except as otherwise contemplated in Section 4.0 below.

3.0 Release of Non-Affiliates. The Parties agree and acknowledge that, at the end of the 12-year Amortization Period, the AEP charge will be eliminated for all other customers served by the Glades pipeline that are not otherwise affiliated with USSC, in accordance with FCG's tariff and the FPSC's Order No. PSC-2016-0066-PAA-GU.

4.0 Recalculation of AEP Charge. The AEP charge will be recalculated in November 2020 and November 2022 to capture changes in annual consumption only. Each recalculation [REDACTED] consistent with FCG's AEP tariff. Subsequent to the recalculation in 2022 through the end of the Term of this Agreement, Customer may request one additional recalculation of the AEP, which shall be implemented by FCG upon demonstration by Customer of a 6% overall increase in natural gas consumption by Customer from the FCG system occurring during the period subsequent to the year 9 recalculation (November 2022) and the date of the request for the additional recalculation.

5.0 Service Commitment.

5.1 Southern Gardens. Customer commits that Plant will either maintain service with FCG for, at a minimum, the period of time necessary for FCG to fully recover the Contribution or, consistent with Exhibit A, Customer will pay the then outstanding balance for AEP investments to serve their facilities, excluding the ROE, within 45 days of termination of service by Customer.

5.2 Affiliates and Subsidiaries. Customer shall cause all other USSC affiliates and subsidiaries served by the Glades pipeline to maintain natural gas service with FCG as long as natural gas service is an economically viable option. In the event that Customer determines that natural gas is no longer an economically viable option for the USSC affiliates and subsidiaries, Customer shall provide FCG with reasonable and verifiable documentation supporting Customer's conclusion that natural gas service is no longer an economically viable option for any or all of the USSC affiliates and subsidiaries and shall provide no less than 60 days' notice of intent to suspend or terminate service. Consistent with Section 5.1 above, this Section 5.2 shall not apply to Plant.

5.3 Early Termination of Obligation. Customer may terminate its obligations hereunder prior to the end of the Term by submitting, in full, payment for the remainder of the amount of its obligation hereunder, which is 87.13% of the Contribution. The Parties recognize and agree that the Contribution will change as payments are made consistent with this Agreement and FCG's tariff, and if natural gas consumption on the Glades pipeline changes.

6.0 Definitions: For purposes of this Agreement, "economically viable" shall be construed as meaning that the sum total cost of utilizing natural gas a fuel source is equal to, or less than, the sum total cost of utilizing another fuel source, including the cost of any new or revised equipment installations necessary to utilize a fuel source other than natural gas.

7.0 Governmental Authorizations; Compliance with Law. This Agreement shall be subject to all valid applicable state, local and federal laws, orders, directives, rules and regulations of any governmental body, agency or official having jurisdiction over this

RATE EXTENSION AGREEMENT

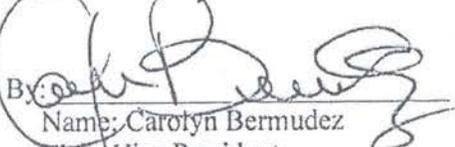
Agreement and the provision of natural gas service hereunder. FCG and Customer shall comply at all times with all applicable federal, state, municipal, and other laws, ordinances and regulations. FCG and Customer shall proceed with diligence to file any necessary applications with any governmental authorities for any authorizations necessary to carry out its obligations under this Agreement. In the event this Agreement or any provisions herein shall be found contrary to or in conflict with any applicable law, order, directive, rule or regulation, the latter shall be deemed to control, but nothing in this Agreement shall prevent either party from contesting the validity of any such law, order, directive, rule, or regulation, nor shall anything in this Agreement be construed to require either party to waive its respective rights to assert the lack of jurisdiction of any governmental agency, other than the FPSC, over this Agreement or any part thereof. As used herein, "Governmental Authority" shall mean any United States federal, state, local, municipal or other government; any governmental, regulatory or administrative agency, court, commission or other authority lawfully exercising or entitled to exercise any administrative, executive judicial, legislative, police, regulatory or taxing authority or power; and any court or governmental tribunal.

8.0 Applicable Law and Venue. This Agreement and any dispute arising hereunder shall be governed by and interpreted in accordance with the laws of the State of Florida. The venue for any action, at law or in equity, commenced by either party against the other and arising out of or in connection with this Agreement shall be before the FPSC or in a court of the State of Florida otherwise having jurisdiction.

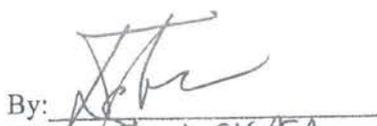
9.0 Counterparts. This Agreement may be executed in counterparts, all of which taken together shall constitute one and the same instrument and each of which shall be deemed an original instrument as against any party who has signed it.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed by their duly authorized officers or representatives effective as of the date first written above.

COMPANY
Pivotal Utility Holdings, Inc.
d/b/a Florida City Gas

By: 
Name: Carolyn Bermudez
Title: Vice President

CUSTOMER
United States Sugar Corporation

By: 
Name: DAN CASPER
Title: VICE PRESIDENT - CTR & S

(To be attested by the corporate secretary if not signed by an officer of the company)

Attested By: _____
Title: _____
Date: _____

Attested By: _____
Title: _____
Date: _____

Exhibit A

[Attach agreed upon AEP Scenario Analysis]

