

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 18, 2018

**TO:** Office of Commission Clerk (Stauffer)

**FROM:** Division of Economics (Merryday) *HM*  
 Division of Accounting and Finance (D. Buys, Cicchetti) *DB*  
 Office of the General Counsel (Davis) *ALM*

**RE:** Docket No. 20180163-GU – Joint petition for approval of GRIP cost recovery factors, by Florida Public Utilities Company, Florida Public Utilities Company-Fort Meade, and Florida Division of Chesapeake Utilities Corporation.

**AGENDA:** 10/30/18 – Regular Agenda – Tariff Filing – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Administrative

**CRITICAL DATES:** 11/5/2018 (60-Day Suspension Date)

**SPECIAL INSTRUCTIONS:** None

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COMMISSION CLERK

## Case Background

On September 4, 2018, Florida Public Utilities Company (FPUC), Florida Public Utilities Company-Fort Meade (Fort Meade), and Florida Division of Chesapeake Utilities Corporation (Chesapeake), collectively the companies, filed a joint petition for approval of their gas reliability infrastructure program (GRIP or program) cost recovery factors for the period January through December 2019. The GRIP for FPUC and Chesapeake was first approved in Order No. PSC-12-0490-TRF-GU (2012 order) to recover the cost of accelerating the replacement of cast iron and bare steel distribution mains and services, including a return on investment, through a surcharge on customers' bills.<sup>1</sup> Fort Meade's GRIP was originally approved in Order No. PSC-

<sup>1</sup> Order No. PSC-12-0490-TRF-GU, issued September 24, 2012, in Docket No. 120036-GU, *In re: Joint petition for approval of Gas Reliability Infrastructure Program (GRIP) by Florida Public Utilities Company and the Florida Division of Chesapeake Utilities Corporation.*

Docket No. 20180163-GU

Date: October 18, 2018

15-0578-TRF-GU, and allowed Fort Meade to file its annual petition for GRIP factors concurrently with FPUC and Chesapeake.<sup>2</sup> The current GRIP charges for January through December 2018 were approved in Order No. PSC-2017-0437-TRF-GU.<sup>3</sup>

On September 28, 2018, the companies filed responses to staff's first data request and on October 8, 2018, the companies filed responses to staff's second data request. The Office of Public Counsel intervened in this docket on September 14, 2018, which was acknowledged by Order No. PSC-2018-0502-PCO-GU, issued October 18, 2018. The proposed tariff sheets are contained in Attachment B (FPUC), Attachment C (Chesapeake), and Attachment D (Fort Meade). The Commission has jurisdiction over this matter pursuant to Sections 366.03, 366.04, 366.05, and 366.06, Florida Statutes.

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<sup>2</sup> Order No. PSC-15-0578-TRF-GU, issued December 21, 2015, in Docket No. 150191-GU, *In re: Joint petition for approval to implement gas reliability infrastructure program (GRIP) for Florida Public Utilities Company-Fort Meade and for approval of GRIP cost recovery factors by Florida Public Utilities Company, Florida Public Utilities Company-Fort Meade and the Florida Division of Chesapeake Utilities Corporation.*

<sup>3</sup> Order No. PSC-17-0437-TRF-GU, issued November 16, 2017, in Docket No. 20170190-GU, *In re: Joint petition for approval of gas reliability infrastructure program (GRIP) cost recovery factors by Florida Public Utilities Company, Florida Public Utilities Company-Fort Meade, and Florida Division of Chesapeake Utilities Corporation.*

## Discussion of Issues

**Issue 1:** Should the Commission approve FPUC's, Chesapeake's, and Fort Meade's proposed GRIP surcharges for the period January through December 2019?

**Recommendation:** Yes, the Commission should approve FPUC's, Chesapeake's, and Fort Meade's proposed GRIP surcharges for the period January through December 2019. (Merryday)

**Staff Analysis:** The GRIP surcharges have been in place since January 2013 for FPUC and Chesapeake, while Fort Meade's surcharges were first implemented in January 2017. In response to staff's data requests, the companies stated that replacement projects in Winter Haven, Eagle Lake, Lake Wales, West Palm Beach, and Palm Beach were completed in 2018 and additional replacement projects in Winter Haven, Bartow, West Palm Beach, Lake Worth, Haines City, and Fort Meade were projected to continue into 2019. Attachment A provides an update of mains and services replaced and replacement forecasts. The companies stated that they prioritize the potential replacement projects focusing on areas of high consequence and areas more susceptible to corrosion.

The Commission's 2012 order states that FPUC and Chesapeake agreed to report any operations and maintenance and depreciation expense savings in their annual petitions for the GRIP surcharge. In response to staff's second data request, the companies stated that no depreciation or operations and maintenance expense savings were included as a reduction in expenses. The companies further stated that they had determined that if there were any depreciation expense savings, they would be offset by the change in asset life caused by the increased cost of removal.

The impacts of the Tax Cuts and Jobs Act of 2017 on the companies' 2018 GRIP calculations are currently being considered in separate dockets that are scheduled to go to hearing November 27-30, 2018. Specifically, in Docket No. 20180051-GU, FPUC proposed to treat the \$1,040,141 in 2018 tax savings as an over-recovery in the 2019 GRIP projection. In Docket No. 20180054-GU, Chesapeake proposed to treat the \$324,362 in 2018 tax savings as an over-recovery for the 2019 GRIP projection. In Docket No. 20180053-GU, Fort Meade proposed to retain the \$2,376 of 2018 tax savings. In response to staff's second data request, the companies suggested that the GRIP factors should be adjusted after the Commission makes a final decision in those tax dockets. The 2019 GRIP calculations include the lower federal tax rate.

### FPUC's True-ups by Year

FPUC's calculation for the 2019 GRIP revenue requirement and surcharges include a final true-up for 2017, an actual/estimated true-up for 2018, and projected costs for 2019. FPUC was authorized to recover \$747,727 of annual GRIP expenses in base rates; therefore, the \$747,727 is excluded from the GRIP surcharge calculation.

#### **Final True-up for 2017**

FPUC stated that the revenues collected through the GRIP surcharges for 2017 were \$13,957,004, compared to a revenue requirement of \$10,278,434, resulting in an over-recovery of \$3,678,570. The 2016 under-recovery of \$1,456,443, the 2017 over-recovery of \$3,678,570, and interest of \$9,137 associated with any over- and under-recoveries results in a final 2017 true-up is an over-recovery of \$2,231,264.

**Actual/Estimated 2018 True-ups**

FPUC provided actual revenues for January through July 2018 and estimated revenues for August through December 2018, totaling \$10,141,296, compared to an actual/estimated revenue requirement for 2018 of \$11,000,516, resulting in an under-recovery of \$859,220. The 2017 over-recovery of \$2,231,264, the 2018 under-recovery of \$859,220, and interest of \$41,848 results in a total 2018 over-recovery of \$1,413,891.

**Projected 2019 Costs**

FPUC expects capital expenditures of \$12,000,000 for the replacement of cast iron/bare steel infrastructure in 2019. This compares with final 2017 expenditures of \$7,208,720 and actual/estimated 2018 expenditures of \$6,133,092. The return on investment (which includes federal income taxes, regulatory assessment fees, and bad debt), depreciation expense, and property tax and customer notification expense associated with that investment are \$11,414,481. Subtracting the revenue requirement for bare steel replacement included in base rates results in a 2019 revenue requirement of \$10,666,754. After subtracting the total 2018 over-recovery of \$1,413,891, the 2019 revenue requirement is \$9,252,863. Table 1-1 shows FPUC's 2019 revenue requirement calculation.

**Table 1-1  
 FPUC 2019 Revenue Requirement Calculation**

2019 Projected Expenditures	\$12,000,000
Return on Investment	\$7,063,378
Depreciation Expense	2,589,547
Property Tax and Customer Notice Expense	1,761,557
2019 Revenue Requirement	\$11,414,481
Less Revenue Requirement in Base Rates	-747,727
2019 GRIP Revenue Requirement	\$10,666,754
Less 2018 Over-recovery	-1,413,891
2019 Total Revenue Requirement	\$9,252,863

Source: Wight testimony page 5 of 5, Schedule C-2 pages 4-5 of 15

**Chesapeake's True-ups by Year**

Chesapeake's calculation for the 2019 GRIP revenue requirement and surcharges include a final true-up for 2017, an actual/estimated true-up for 2018, and projected costs for 2019. Chesapeake does not have a replacement recovery amount embedded in base rates.

**Final True-up for 2017**

Chesapeake stated that the revenues collected for 2017 were \$2,919,064, compared to a revenue requirement of \$3,073,570, resulting in an under-recovery of \$154,506. The 2016 under-recovery of \$9,679, 2017 under-recovery of \$154,506, and \$12 for interest associated with any over- and under-recoveries results in a final 2017 under-recovery of \$164,174.

**Actual/Estimated 2018 True-up**

Chesapeake provided actual GRIP revenues for January through July 2018 and estimated revenues for August through December 2018, totaling \$3,495,194, compared to an

actual/estimated revenue requirement of \$3,630,319, resulting in an under-recovery of \$135,126. The 2017 under-recovery of \$164,174, 2018 under-recovery of \$135,126, and interest of \$2,526 associated with any over- and under-recoveries results in a total 2018 under-recovery of \$301,825.

**Projected 2019 Costs**

Chesapeake projects capital expenditures of \$3,000,000 for the replacement of cast iron/bare steel infrastructure in 2019. This compares with final 2017 expenditures of \$3,628,451 and actual/estimated 2018 expenditures of \$6,799,478. The return on investment, depreciation expense, and property tax and customer notification expense to be recovered in 2019 totals \$3,868,130. After adding the total 2018 under-recovery of \$301,825, the total 2019 revenue requirement is \$4,169,955. Table 1-2 shows Chesapeake’s 2019 revenue requirement calculation.

**Table 1-2  
 Chesapeake 2019 Revenue Requirement Calculation**

2019 Projected Expenditures	\$3,000,000
Return on Investment	\$2,353,222
Depreciation Expense	890,826
Property Tax and Customer Notice Expense	<u>624,082</u>
2019 Revenue Requirement	\$3,868,130
Plus 2018 Under-recovery	<u>301,825</u>
2019 Total Revenue Requirement	\$4,169,955

Source: Wight Testimony Schedule C-2 and D-1

**Fort Meade’s True-ups by Year**

Fort Meade started its replacement program in 2016 and first implemented GRIP surcharges in January 2017. Unlike FPUC and Chesapeake, only bare steel services (and no mains) require replacement in Fort Meade. Fort Meade’s replacement program was originally scheduled to be completed in 2018. However, the companies explained that as a result of delays in contractor availability and permitting the replacement program will conclude in 2019.

**Final True-up for 2017**

Fort Meade stated that the revenues collected for 2017 were \$32,852, compared to a revenue requirement of \$16,822, resulting in an over-recovery of \$16,031. Adding the 2016 under-recovery of \$2,582, the 2017 over-recovery of \$16,031, and \$80 for interest associated with any over- and under-recoveries, the final 2017 over-recovery is \$13,528.

**Actual/Estimated 2018 True-up**

Fort Meade provided actual GRIP revenues for January through July 2018 and estimated revenues for August through December 2018 totaling \$7,414, compared to an actual/estimated revenue requirement of \$27,205, resulting in an under-recovery of \$19,792. Adding the 2017 over-recovery of \$13,528, the 2018 under-recovery of \$19,792, and interest of \$85 associated with any over- and under-recoveries, the resulting total 2018 true-up is an under-recovery of \$6,178.

### **Projected 2019 Costs**

Fort Meade projects capital expenditures of \$20,000 for the replacement of cast iron/bare steel infrastructure in 2019. This compares with 2017 final expenditures of \$117,860 and actual/estimated 2018 expenditures of \$68,079. The return on investment, depreciation expense, and property tax expense to be recovered in 2019 totals \$29,579. After adding the 2018 under-recovery of \$6,178, the total 2019 revenue requirement is \$35,757. Table 1-3 shows Fort Meade's 2019 revenue requirement calculation.

**Table 1-3  
Fort Meade 2019 Revenue Requirement Calculation**

2019 Projected Expenditures	\$20,000
Return on Investment	\$17,699
Depreciation Expense	6,924
Property Tax Expense	4,956
2019 Revenue Requirement	\$29,579
Plus 2018 Under-recovery	6,178
2019 Total Revenue Requirement	\$ 35,757

Source: Wight Testimony Schedules C-1 and D-1

### **Proposed Surcharges for FPUC, Chesapeake, and Fort Meade**

As established in the 2012 order approving the GRIP program, the total 2019 revenue requirement is allocated to the rate classes using the same methodology used for the allocation of mains and services in the cost of service study used in the companies' most recent rate case. The respective percentages were multiplied by the 2019 revenue requirements and divided by each rate class' projected therm sales to provide the GRIP surcharge for each rate class.

The proposed 2019 GRIP surcharge for FPUC's residential customers on the RS schedule is \$0.21356 per therm (compared to the current surcharge of \$0.24395 per therm). The monthly bill impact is \$4.27 for a residential customer using 20 therms per month. The proposed FPUC tariff page is Attachment B.

The proposed 2019 GRIP surcharge for Chesapeake's residential customers on the FTS-1 schedule is \$0.13593 per therm (compared to the current surcharge of \$0.11838). The monthly bill impact is \$2.72 for a residential customer using 20 therms per month. The proposed Chesapeake tariff pages are contained in Attachment C.

The proposed 2019 GRIP surcharge for Fort Meade's residential customers on the RS schedule is \$0.29382 per therm (compared to the current surcharge of \$0.08198). The monthly bill impact is \$5.88 for a residential customer using 20 therms per month. The proposed Fort Meade tariff pages are contained in Attachment D.

**Conclusion**

Staff believes the calculation of the 2019 GRIP surcharge revenue requirement and the proposed GRIP surcharges for FPUC, Chesapeake, and Fort Meade are reasonable and accurate. Staff recommends approval of FPUC's, Chesapeake's, and Fort Meade's proposed GRIP surcharges for the period January through December 2019.

**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. (Davis)

**Staff Analysis:** 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.



**FPUC, Chesapeake, and Fort Meade Pipe Replacement Programs Progress**

Table 1										
FPUC Pipe Replacement Program Progress										
Mains (Miles)						Number of Services				
	Replaced	Replaced	Remaining	Remaining	Total	Replaced	Replaced	Remaining	Remaining	Total
Year	Cast Iron	Bare Steel	Cast Iron at Year-End	Bare Steel at Year-End	Remaining	Cast Iron	Bare Steel	Cast Iron at Year-End	Bare Steel at Year-End	Remaining
41091			0.9	197.1	198			0	7980	7980
2012		6	0.9	191.1	192	91		0	7889	7889
2013	0.6	26.4	0.3	164.7	165	2071		0	5818	5818
2014		38	0.3	126.7	127	1275		0	4543	4543
2015		30	0.3	96.7	97	605		0	3938	3938
2016		22.5	0.3	74.2	74.5	555		0	3383	3383
2017		10.3	0.3	63.9	64.2	335		0	3048	3048
2018		9	0.3	54.9	55.2	200		0	2848	2848
2019	0.3	14	0	40.9	40.9	730		0	2118	2118
2020		14	0	26.9	26.9	730		0	1388	1388
2021		14	0	12.9	12.9	730		0	658	658
2022		12.9	0	0	0	658		0	0	0

  

Table 2										
Chesapeake Pipe Replacement Program Progress										
Mains (Miles)						Number of Services				
	Replaced	Replaced	Remaining	Remaining	Total	Replaced	Replaced	Remaining	Remaining	Total
Year	Cast Iron	Bare Steel	Cast Iron at Year-End	Bare Steel at Year-End	Remaining	Cast Iron	Bare Steel	Cast Iron at Year-End	Bare Steel at Year-End	Remaining
41091			0	152	152			0	762	762
2012		5	0	147	147	34		0	728	728
2013		3	0	144	144	139		0	589	589
2014		19	0	125	125	47		0	542	542
2015		34	0	91	91	284		0	258	258
2016		25.1	0	65.9	65.9	-81		0	339	339
2017		22.8	0	43.1	43.1	18		0	321	321
2018		26	0	17.1	17.1	100		0	221	221
2019		6	0	11.1	11.1	75		0	146	146
2020		6	0	5.1	5.1	75		0	71	71
2021		5.1	0	8.88178E-15	8.882E-15	71		0	0	0
2022		0	0	8.88178E-15	8.882E-15	0		0	0	0

\*\* A total of 111 YTD bare steel services were replaced in 2016. Plus a correction to increase total services remaining by 192 (4th Qtr of 2016)

  

Table 3										
Fort Meade Pipe Replacement Program Progress										
Mains (Miles)						Number of Services				
	Replaced	Replaced	Remaining	Remaining	Total	Replaced	Replaced	Remaining	Remaining	Total
Year	Cast Iron	Steel	Cast Iron at Year-End	Steel at Year-End	Remaining	Cast Iron	Steel	Cast Iron at Year-End	Steel at Year-End	Remaining
42370			0	0	0			0	250	250
2016		0	0	0	0		29	0	221	221
2017		0	0	0	0		111	0	110	110
2018		0	0	0	0		40	0	70	70
2019		0	0	0	0		70	0	0	0

Florida Public Utilities Company  
 F.P.S.C. Gas Tariff  
 Third Revised Volume No. 1

~~Thirteenth~~<sup>Twelfth</sup> Revised Sheet No. 35.4  
 Cancels ~~Twelfth~~<sup>Eleventh</sup> Revised Sheet No. 35.4

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*BILLING ADJUSTMENTS*

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(Continued from Sheet No. 35.3)

Gas Reliability Infrastructure Program (GRIP)

Applicability

The bill for gas or transportation service supplied to a Customer in any Billing Period shall be adjusted as follows:

The GRIP factors for the period from the first billing cycle for January 2018~~9~~ through the last billing cycle for December 2019~~8~~ are as follows:

<u>Rate Class</u>	<u>Rates Per Therm</u>
Rate Schedule RS	<del>\$0.24395</del> <sup>\$0.21356</sup>
Schedule GS-1	<del>\$0.16442</del> <sup>\$0.13672</sup>
Rate Schedule GS-2	<del>\$0.16442</del> <sup>\$0.13672</sup>
Rate Schedule GSTS-1	<del>\$0.16442</del> <sup>\$0.13672</sup>
Rate Schedule GSTS-2	<del>\$0.16442</del> <sup>\$0.13672</sup>
Rate Schedule LVS	<del>\$0.09644</del> <sup>\$0.08606</sup>
Schedule LVTS	<del>\$0.09644</del> <sup>\$0.08606</sup>
Schedule IS	<del>\$0.06494</del> <sup>\$0.05830</sup>
Schedule ITS	<del>\$0.06494</del> <sup>\$0.05830</sup>
Schedule GLS	<del>\$0.37921</del> <sup>\$0.37469</sup>
Rate Schedule GLSTS	<del>\$0.37921</del> <sup>\$0.37469</sup>
Rate Schedule NGV	<del>\$0.16442</del> <sup>\$0.13672</sup>
Rate Schedule NGVTS	<del>\$0.16442</del> <sup>\$0.13672</sup>

Issued by: Jeffrey Householder, President

Effective: JAN-01-2018



Florida Division of Chesapeake Utilities Corporation ~~Sixth~~ Seventh Revised Sheet No. 105.2  
 Original Volume No. 4 Cancels ~~Sixth~~ Seventh Revised Sheet No. 105.2

*RATE SCHEDULES*  
*MONTHLY RATE ADJUSTMENTS*

Rate Schedule MRA  
 (Continued from Sheet No. 105.1)

7. GAS INFRASTRUCTURE REPLACEMENT PROGRAM (GRIP) (Experimental):

Applicability:

All Customers, assigned to a TTS Shipper, receiving Transportation Service from the Company and are assigned to or have selected rate schedules FTS-A (Exp), FTS-B (Exp), FTS-1 (Exp), FTS-2 (Exp), FTS-2.1 (Exp), FTS-3 (Exp), and FTS-3.1 (Exp).

The Firm Transportation Charge for Transportation Service to each applicable rate classification shall be adjusted by the following recovery factors. The recovery factors for all meters read for the period January 1, 2018~~9~~ through December 31, 2018~~9~~ for each rate classification are as follows:

Consumer Rate Schedule	Rate per bill
FTS-A (Exp)	\$ <del>3,394.19</del>
FTS-B (Exp)	\$ <del>4,882.22</del>
FTS-1 (Exp)	\$ <del>4,842.04</del>
FTS-2 (Exp)	\$ <del>7,378.55</del>
FTS-2.1 (Exp)	\$ <del>43,8215.90</del>
FTS-3 (Exp)	\$ <del>47,4819.96</del>
FTS-3.1 (Exp)	\$ <del>37,5943.17</del>

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(Continued to Sheet No. 105.3)

Issued by: Michael P. McMasters, President  
 Chesapeake Utilities Corporation

Effective: JAN-01-2018

Florida Public Utilities Company-Fort Meade  
 F.P.S.C. Gas Tariff  
 Original Volume No. 1

Second ~~First~~ Revised Sheet No. 64  
 Cancels ~~First~~ Original Sheet No. 64

BILLING ADJUSTMENTS

Gas Reliability Infrastructure Program (GRIP)

Applicability

The bill for gas or transportation service supplied to a Customer in any Billing Period shall be adjusted as follows:

The GRIP factors for the period from the first billing cycle for January 2012 through the last billing cycle for December 2018 are as follows:

<u>Rate Class</u>	<u>Rates Per Therm</u>
Rate Schedule RS	<del>\$0.08198</del> \$0.29382
Rate Schedule GS-1	<del>\$0.02325</del> \$0.08883
Rate Schedule GS-2	<del>\$0.02325</del> \$0.08883
Rate Schedule GSTS-1	<del>\$0.02325</del> \$0.08883
Rate Schedule GSTS-2	<del>\$0.02325</del> \$0.08883
Rate Schedule LVS	\$0.00000
Rate Schedule LVTS	\$0.00000
Rate Schedule IS	\$0.00000
Rate Schedule ITS	\$0.00000
Rate Schedule GLS	\$0.00000
Rate Schedule GLSTS	\$0.00000
Rate Schedule NGV	\$0.00000
Rate Schedule NGVTS	\$0.00000

Issued by: Jeffrey Householder, President

Effective: JAN-01-2018