

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: June 26, 2019

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Accounting and Finance (Richards, D. Buys, Cicchetti) *CRB DRB MC CUB*
Office of the General Counsel (Schrader) *KS JSC ALM*

RE: Docket No. 20190091-GU – Petition for authority to accrue AFUDC, by Peoples Gas System.

AGENDA: 07/09/19 – Regular Agenda – Proposed Agency Action - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

Peoples Gas System (Peoples Gas or Company) is a natural gas local distribution company providing sales and transportation delivery of natural gas through much of the state of Florida. On April 12, 2019, Peoples Gas filed a petition for authority to accrue an Allowance for Funds Used During Construction (AFUDC) in order to develop three expansion projects totaling \$136 million. The Company subsequently filed an amended petition on May 16, 2019, which included the appropriate schedules.

The Commission has jurisdiction over this matter pursuant to Sections 350.115, 350.127(2), 366.05(1), and 366.06(1), Florida Statutes.

Discussion of Issues

Issue 1: Should the Commission authorize Peoples Gas to accrue an Allowance for Funds Used During Construction (AFUDC)?

Recommendation: Yes. The Commission should authorize Peoples Gas to accrue AFUDC. (Richards)

Staff Analysis: In accordance with Rule 25-7.0141, Florida Administrative Code (F.A.C.), Peoples Gas has requested that the Commission allow the Company to accrue AFUDC to develop three expansion projects estimated to cost \$136 million in total. Peoples Gas currently is not authorized to accrue AFUDC and does not have a Commission-approved AFUDC cost rate. Prior to 1995, Rule 25-7.0141, F.A.C., set forth comprehensive eligibility requirements and a methodology regarding AFUDC for gas utilities. In 1995, this rule was amended to state simply that “a utility shall not accrue allowance for funds used during construction without prior Commission approval.”

While the rule regarding AFUDC for natural gas companies does not specify eligibility requirements and methodology, Commission rules regarding AFUDC for electric and water and wastewater utilities do provide such eligibility requirements and methodology.

Rule 25-6.0141(1)(a), F.A.C., (Electric AFUDC Rule) applies to electric utilities, and provides that the threshold requirements for projects to be eligible to accrue AFUDC include the following:

- The projects involve gross additions to plant in excess of 0.5 percent of the sum of the total balance in Account 101 – Utility Plant in Service, and Account 106 – Completed Construction not Classified, at the time the project commence, and
 - Are expected to be completed in excess of one year after commencement of construction, or
 - Were originally expected to be completed in one year or less and are suspended for six months or more, or are not ready for service after one year.

Rule 25-30.116(1)(a), F.A.C., (Water and Wastewater AFUDC Rule) applies to water and wastewater (WAW) utilities and provides that the threshold requirements for projects to be eligible to accrue AFUDC include the following:

- Projects that involve gross additions to plant in excess of \$5,000 and
 - Are expected to be completed in excess of sixty days after commencement of construction or
 - Were originally expected to be completed in sixty days or less but are not ready for service after sixty days.

The Electric and WAW AFUDC Rules would not be controlling on the natural gas industry; however, staff believes these rules can still provide instructive guidance in considering Peoples Gas’s request here.

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Exhibit C submitted with the Company's petition demonstrates that each proposed project individually exceeds 0.5 percent of the sum of the balances in Gas Plant in Service (Account 101) and Gas Completed Construction not Classified (Account 106); and construction on each project is expected to take in excess of one year to complete, with each project beginning in 2019. The total project cost of \$136 million is approximately 8 percent of Account 101 and Account 106 as of January 31, 2019.

The Company stated that the Commission's approval of its request to accrue AFUDC on the large capital projects, and subsequently future large projects would ensure consistency in regulatory treatment provided to the Florida electric utilities and the water and wastewater utilities.

Staff believes the Company's request to accrue AFUDC is reasonable and appropriate and recommends that the Commission authorize Peoples Gas to accrue AFUDC. Further, if one were to take guidance from the eligibility requirements and methodology used to calculate the AFUDC for Florida electric utilities and Florida water and wastewater utilities, staff believes that the request would be consistent with those requirements and methodologies.

Issue 2: Should the Commission approve Peoples Gas's requested AFUDC rate of 5.97 percent?

Recommendation: Yes. The appropriate AFUDC rate for Peoples Gas is 5.97 percent based on a 13-month average capital structure for the period ended December 31, 2018. (Richards)

Staff Analysis: Peoples Gas requested an AFUDC rate of 5.97 percent based on a 13-month average capital structure for the period ended December 31, 2018. Peoples Gas has used the same formulaic approach as the electric industry to determine the appropriate AFUDC rate.

Similarly to the electric industry, Peoples Gas used the midpoint of the last allowed return on common equity, the most recent 13-month average cost of short-term debt and customer deposits and a zero cost rate for deferred taxes and all investment tax credits. The cost of long-term debt was based on end of period cost. The annual percentage rate was calculated to two decimal places.

In support of the requested AFUDC rate of 5.97 percent, Peoples Gas provided its calculations and capital structure in Schedules A and B attached to its request. Staff reviewed the schedules and determined that the proposed rate was calculated correctly. Peoples Gas used the midpoint return on equity of 10.75 percent, which was approved by Order No. PSC-2009-0411-FOF-GU.¹

Based on its review, staff believes the AFUDC rate of 5.97 percent based on a 13-month average capital structure for the period ended December 31, 2018, is appropriate and recommends Commission approval.

¹Order No. PSC-2009-0411-FOF-GU, issued June 9, 2009, in Docket No. 20080318-GU, *In re: Petition for rate increase by Peoples Gas System.*

Issue 3: What is the appropriate monthly compounding rate to achieve the requested 5.97 percent annual AFUDC rate?

Recommendation: The appropriate monthly compounding rate to maintain an annual rate of 5.97 percent is 0.484385 percent. (Richards)

Staff Analysis: Peoples Gas requested a monthly compounding rate of 0.484385 percent to achieve an annual AFUDC rate of 5.97 percent. In support of the requested monthly compounding rate of 0.484385 percent, the Company provided its calculations in Schedule C attached to the amended request. The methodology used to calculate the monthly compounding rate is consistent with the methodology used by the Florida electric utilities. Staff reviewed the Company's calculations and determined they are correct. Therefore, staff recommends that the Commission approve a monthly AFUDC rate of 0.484385 percent.

Issue 4: Should the Commission approve Peoples Gas' requested effective date of January 1, 2019, for implementing the AFUDC rate?

Recommendation: Yes. The AFUDC rate should be effective as of January 1, 2019. (Richards)

Staff Analysis: Peoples Gas's proposed AFUDC rate was calculated using a 13-month average capital structure for the period ended December 31, 2018. Peoples Gas requests the new AFUDC rate be effective the month following the end of the 12-month period used to establish that rate as is the practice for the Florida electric and water and wastewater utilities.

The Company's requested effective date of January 1, 2019, does not precede the period used to calculate the rate, and therefore the effective date should be approved. Accordingly, staff recommends an effective date as of January 1, 2019.

Issue 5: Should this docket be closed?

Recommendation: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of issuance of the order, this docket should be closed upon the issuance of a consummating order. (Schrader)

Staff Analysis: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, this docket should be closed upon the issuance of a consummating order.