

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-**

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**DATE:** November 17, 2020

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

**FROM:** Division of Economics (Ward, Coston) *JGH*  
Office of the General Counsel (Osborn, Crawford) *JSC*

**RE:** Docket No. 20200206-GU – Petition for approval of 2019 true-up, projected 2020 true-up, and 2021 revenue requirements and surcharges associated with cast iron/bare steel pipe replacement rider, by Peoples Gas System.

**AGENDA:** 12/01/20 – Regular Agenda – Tariff Filing – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Administrative

**CRITICAL DATES:** 04/01/21 (8-Month Effective Date)

**SPECIAL INSTRUCTIONS:** None

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### Case Background

On September 1, 2020, Peoples Gas System (PGS) filed a petition for approval of its final 2019 true-up, projected 2020 true-up, and 2021 revenue requirement 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 pipes through a surcharge on customers' bills.<sup>1</sup> PGS's current surcharges were approved in Order No. PSC-2019-0549-TRF-GU.<sup>2</sup> In the 2012 order, the Commission found that "replacement of these types of pipelines is in the public interest to

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<sup>1</sup> Order No. PSC-12-0476-TRF-GU, issued September 18, 2012, in Docket No. 20110320-GU, *In re: Petition for approval of Cast Iron/Bare Steel Pipe Replacement Rider (Rider CI/BSR), by Peoples Gas System.*

<sup>2</sup> Order No. PSC-2019-0549-TRF-GU, issued December 30, 2019, in Docket No. 20190171-GU, *In re: Petition for approval of 2018 true-up, projected 2019 true-up; and 2020 revenue requirements and surcharges associated with cast iron/bare steel pipe replacement rider.*

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."

In Order No. PSC-17-0066-AS-GU, the Commission approved a comprehensive settlement agreement between PGS and the Office of Public Counsel (OPC).<sup>3</sup> The settlement agreement, in part, 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 2021 rider surcharges.

On June 8, 2020, PGS filed a petition for a base rate increase in Docket No. 20200051-GU. As part of the rate case, PGS requested to start billing the interruptible service rate classes (SIS, IS, and ISLV) the CI/BSR Rider surcharges effective January 1, 2021. Currently, interruptible service customers are not paying a CI/BSR surcharge. After discussion with staff, PGS decided to remove the request with regards to the interruptible service rate classes from Docket No. 20200051-GU and request consideration in the instant docket.

On October 22, 2020, PGS filed a Joint Motion for Approval of Settlement Agreement in the rate case docket.<sup>4</sup> Included in the Settlement Agreement is a provision to move \$23.6 million of the 2021 CI/BSR revenue requirement related to PGS's CI/BSR investments made through December 31, 2020 (\$200.7 million) from recovery through the CI/BSR surcharges to recovery through base rates effective January 1, 2021. The instant petition reflects this provision of the Settlement Agreement and excludes the \$23.6 million from the calculation of the 2021 CI/BSR surcharges.

In its petition, PGS waived the 60-day file-and-suspend provision of Section 366.06(3), Florida Statutes (F.S.). The Commission has jurisdiction over this matter pursuant to Sections 366.03, 366.04, 366.05, and 366.06, F.S.

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<sup>3</sup> Order No. PSC-17-0066-AS-GU, issued February 28, 2017, in Docket No. 20160159-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.*

<sup>4</sup> Document No. 11470-2020, in Docket No. 20200051-GU. A Commission hearing is scheduled for November 19, 2020, to consider a settlement in this docket.

## Discussion of Issues

**Issue 1:** Should the Commission approve PGS's request to apply the CI/BSR surcharge to the interruptible service rate classes?

**Recommendation:** Yes, the Commission should approve PGS's request to apply the CI/BSR surcharge to the interruptible service rate classes effective January 1, 2021. This ensures that all customers are contributing towards the CI/BSR replacement costs. (Ward)

**Staff Analysis:** The CI/BSR Rider charges have been in effect since January 2013. In PGS's original petition, the utility excluded its interruptible service customers from the CI/BSR Rider surcharge. Interruptible service customers include the following rate classes: Small Interruptible Service (SIS), Interruptible Service (IS), and Interruptible Service – Large Volume (ISLV). In response to staff's first data request, PGS stated that at the time of the original petition, a majority of interruptible service customers were directly connected to an interstate pipeline and did not use a large portion of PGS's distribution system.

After further consideration, the utility believes that all customers benefit from the replacement of aging infrastructure, which allows the utility to maintain a safe, reliable system. Therefore, the utility believes that it is "fair and reasonable for customers in these rate classes to contribute a proportional cost of the program."<sup>5</sup> The proposed 2021 factors for these rate classes are included in Tariff Sheet No. 7.806 (Attachment B).

In Exhibit D of its petition, PGS provided CI/BSR factor calculations for all rate classes with and without the interruptible rate classes. The non-interruptible rate classes benefit from PGS's proposal by receiving a minor reduction in their CI/BSR factor. Staff notes that since the allocation of the CI/BSR costs to the rate classes is based on the percent of total plant allocated to the rate classes in PGS's last rate case, the interruptible service classes only receive a small percent allocation of the total CI/BSR costs.<sup>6</sup> Based on the average therm usage for interruptible customers provided by PGS in its 2020 rate case filing, staff calculated the monthly bill impact of the proposed CI/BSR surcharges for an SIS customer to be \$117, for an IS customer to be \$182, and for an ISLV customer to be \$50.<sup>7</sup>

### Conclusion

Staff has reviewed PGS's filings and supporting documentation and believes that interruptible service customers benefit from the replacement of the utility's aging infrastructure under this rider. Therefore, the Commission should approve PGS's request to apply the CI/BSR surcharge to the interruptible service rate classes effective January 1, 2021. This ensures that all customers are contributing towards the CI/BSR replacement costs.

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<sup>5</sup> PGS's response to Staff's First Data Request, Question 5.

<sup>6</sup> The SIS rate class is allocated 2.47 percent, the IS class 1.97 percent, and the ISLV rate class 0.04 percent of the total CI/BSR costs.

<sup>7</sup> Under current rates, without fuel, the average monthly bill is \$10,450 for an SIS, \$27,851 for an IS customer, and \$48,000 for an ISLV customer.

**Issue 2:** Should the Commission approve PGS's proposed CI/BSR Rider surcharges for the period January through December 2021?

**Recommendation:** Yes, the Commission should approve PGS's proposed CI/BSR Rider surcharges for the period January through December 2021. (Ward)

**Staff Analysis:** The CI/BSR Rider charges have been in effect since January 2013. Rider PPP charges have been in effect since 2017. In 2020, PGS's cast iron and bare steel replacement activity focused in the areas of Miami, Tampa, St. Petersburg, Orlando, Jacksonville, Eustis, Daytona, and Ocala. In 2021, PGS states it will focus on replacement projects in Miami, Tampa, St. Petersburg, Orlando, Jacksonville, Avon Park, Daytona, and Ocala. The projected completion date for the CI/BSR replacement program is 2022 for mains and services. The replacement of PPP is expected to continue until 2028.

Attachment A to this recommendation contains tables which display the replacement progress and forecasts for CI/BSR (Table 2) and for PPP (Table 3). Additionally, PGS provided Table 1 which consolidates the actual and projected CI/BSR and PPP miles replaced investment for each year of the program and the corresponding revenue requirements.

### **True-ups by Year**

PGS's calculation for the 2021 revenue requirement and surcharges includes a final true-up for 2019, an actual/estimated true-up for 2020, and projected costs for 2021. Pursuant to the 2012 order, the capital expenditures for 2017 through 2019 exclude the first \$1 million of facility replacements each year because that amount is included in rate base. PGS has included depreciation expense savings as discussed in the 2012 order; however, the utility has not identified any operations and maintenance savings.<sup>8</sup>

#### ***Final True-up for 2019***

Exhibit A of the petition shows that the revenues collected for 2019 were \$10,398,531 compared to a revenue requirement of \$13,781,390, resulting in an under-recovery of \$3,382,859. The final 2018 over-recovery of \$15,885, 2019 under-recovery of \$3,382,859, and interest of \$15,576 associated with any over- and under-recoveries results in a final 2019 under-recovery of \$3,382,549.

#### ***Actual/Estimated 2020 True-up***

In Exhibit B of the petition, PGS provided actual revenues for January through July and forecast revenues for August through December of 2020, totaling \$18,660,466, compared to an actual/estimated revenue requirement of \$19,287,435, resulting in an under-recovery of \$626,969. The final 2019 under-recovery of \$3,382,549, 2020 under-recovery of \$626,969, and interest of \$14,824 associated with any over- and under-recoveries results in a total 2020 under-recovery of \$4,024,341.

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<sup>8</sup> Order No. PSC-12-0476-TRF-GU, issued September 18, 2012, required PGS to identify and report any O&M and depreciation expense savings in its annual petitions for recovery of the CI/BSR Rider surcharge.

**Projected 2021 Costs**

Exhibit C of the petition shows PGS projects investment or capital expenditures of \$35,475,247 for the replacement of cast iron/bare steel infrastructure and PPP in 2021. As shown in Table 1 of Attachment A of the recommendation, this consists of the CI/BSR infrastructure investment of \$16,171,113 and the PPP investment of \$19,304,134. The return on investment (which includes federal income taxes, regulatory assessment fees, and bad debt), depreciation expense (less savings), and property tax expense associated with that investment is \$1,427,069. After adding the total 2020 under-recovery of \$4,024,341, the total 2021 revenue requirement is \$5,451,411. Table 2-1 displays the 2021 revenue requirement calculation.

**Table 2-1  
 2021 Revenue Requirement**

2021 Projected Expenditures	\$35,475,247
Return on Investment	\$1,295,164
Depreciation Expense (less savings)	170,926
Property Tax Expense	(39,021 <sup>9</sup> )
2021 Revenue Requirement	\$1,427,069
Plus 2020 Under-recovery	4,024,341
Total 2021 Requirement	\$5,451,411

Source: Page 1 of 3 in Exhibit C in petition (Docket No. 20200206-GU).

**Proposed Surcharges**

As established in the 2012 order, the total 2021 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 PGS's most recent rate case. After calculating the percentage of total plant costs attributed to each rate class, the respective percentages were multiplied by the 2021 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. In the instant petition, PGS has requested to alter the allocation methodology to include interruptible service customers in the CI/BSR surcharge.

If the Commission approves Issue 1, the proposed 2021 rider surcharge for residential customers would be \$.02188 per therm (compared to the current surcharge of \$.09203). The 2021 monthly bill impact will be \$.44 for a residential customer who uses 20 therms. The reduction in the surcharges is the result of a Settlement Agreement filed in the rate case docket, as discussed in the case background, which moves \$23.6 million of the 2021 revenue requirement to recovery through base rates effective January 1, 2021. The proposed Tariff Sheet No. 7.806 is Attachment B to this recommendation.

<sup>9</sup> As a result of the proposed transfer of the current CI/BSR assets into base rates in Docket No. 20200051-GU, the CI/CBR Rider will receive an offsetting property tax credit in 2021.

**Conclusion**

Staff reviewed PGS's filings and supporting documentation and believes that the calculations are consistent with the methodology approved in the 2012 order and are reasonable and accurate. Therefore, staff recommends approval of PGS's proposed 2021 CI/BSR Rider surcharges to be effective for the period January through December 2021.

**Issue 3:** Should this docket be closed?

**Recommendation:** Yes. If Issues 1 and 2 are approved and a protest is filed within 21 days of the issuance of the order, the tariff 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. (Osborn, Crawford)

**Staff Analysis:** If Issues 1 and 2 are approved and a protest is filed within 21 days of the issuance of the order, the tariff 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.

**Table 1**  
**PGS's' CI/BSR Replacement Program Progress**

	<b>CI/BS Miles Replaced</b>	<b>PPP Miles Replaced</b>	<b>CI/BS Investment \$</b>	<b>PPP Investment \$</b>	<b>CI/BS Revenue Requirement \$</b>	<b>PPP Revenue Requirement \$</b>
2017	51		17,588,366	2,915,802	6,868,302	74,021
2018	62	56	27,035,678	15,890,424	8,510,823	848,201
2019	52	42	35,821,371	17,425,589	11,075,229	2,706,161
2020	51	50	33,672,240	12,523,353	14,872,709	4,414,726
2021	30	50	16,171,113	19,304,134	1,206,157	220,912
2022	5	50	3,306,701	18,282,717	2,643,484	2,506,862
2023		50	0	18,739,785	2,864,957	4,636,325
2024		50		19,208,280	2,830,125	6,783,015
2025		50		19,688,487	2,788,208	8,954,706
2026		45		18,327,034	2,746,064	11,070,133
2027		45		18,616,695	2,703,903	13,083,051
2028		28		13,452,047	2,661,753	14,831,134

Source: Response to staff's first data request.

**Table 2**  
**PGS's CI/BSR Replacement Progress**

Year	Main Replacements					Service Replacements	
	Replaced Cast Iron (miles)	Replaced Bare Steel (miles)	Remaining Cast Iron at Year End (miles)	Remaining Bare Steel at Year End (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		14,978
2013	13	38	87	316	403	907	14,071
2014	2	18	85	298	383	7,964	6,107
2015	26	60	59	238	297	1,019	5,088
2016	15	35	44	203	247	1,050	6,963
2017	15	36	29	178	207	1,135	4,279
2018	10	52	18	126	144	1,970	2,309
2019	8	44	10	76	86	649	1,660
2020	4	47	6	29	35	1,000	660
2021	5	25	1	4	5	660	0
2022	1	4	0	0	0	0	0

Source: Response to staff's first data request.

**Table 3**  
**PGS's 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	**	509	1,396	26,841
2018	56	461	3,941	24,741
2019	42	418	2,349	20,420
2020	50	368	Not yet Determined	-
2021	50	318	Not yet Determined	-
2022	50	268	Not yet Determined	-
2023	50	218	Not yet Determined	-
2024	50	168	Not yet Determined	-
2025	50	118	Not yet Determined	-
2026	45	73	Not yet Determined	-
2027	45	28	Not yet Determined	-
2028	28	0	Not yet Determined	-

Source: Response to staff's first data request.

Peoples Gas System  
 a Division of Tampa Electric Company  
 Original Volume No. 3

~~Ninth-Tenth~~ Revised Sheet No. 7.806  
 Cancels ~~Eighth-Ninth~~ Revised Sheet No. 7.806

**CAST IRON/BARE STEEL REPLACEMENT RIDER  
 RIDER CI/BSR**

The monthly bill for Gas Service in any Billing Period shall be increased by the CI/BSR Surcharge determined in accordance with this Rider. CI/BSR Surcharges approved by the Commission for bills rendered for meter readings taken on or after January 1, ~~2020~~2021, are as follows with respect to Customers receiving Gas Service under the following rate schedules:

<u>Rate Schedule</u>	<u>CI/BSR Surcharge</u>
Residential/Residential Standby Generator /	
Residential Gas Heat Pump Service	\$ 0.0218800203 per therm
Small General Service	\$ 0.0170606508 per therm
General Service – 1/ Commercial Standby Generator Service /	
Commercial Gas Heat Pump Service	\$ 0.0087203264 per therm
General Service – 2	\$ 0.0084003048 per therm
General Service – 3	\$ 0.0075602648 per therm
General Service – 4	\$ 0.0048904790 per therm
General Service – 5	\$ 0.0020500007 per therm
Commercial Street Lighting	\$ 0.0141404634 per therm
Natural Gas Vehicle Service	\$ 0.0201107622 per therm
Wholesale	\$ 0.0064104424 per therm
<u>Small Interruptible Service</u>	<u>\$0.00081 per therm</u>
<u>Interruptible Service</u>	<u>\$0.00022 per therm</u>
<u>Interruptible Service – Large Volume</u>	<u>\$0.00001 per therm</u>

The CI/BSR Surcharges set forth above shall remain in effect until changed pursuant to an order of the Commission.

CI/BSR Surcharges shall be determined in accordance with the provisions of this Rider set forth below.

**Definitions**

For purposes of this Rider:

“Eligible Replacements” means the following Company plant investments that (i) do not increase revenues by directly connecting new customers to the plant asset, (ii) are in service and used and useful in providing utility service and (iii) were not included in the Company’s rate base for purposes of determining the Company’s base rates in its most recent general base rate proceeding:

Mains and service lines, as replacements for existing materials recognized/identified by the Pipeline Safety and Hazardous Materials Administration as being obsolete and that present a potential safety threat to operations and the general public, including cast iron, wrought iron, bare steel, and specific polyethylene/plastic facilities, and regulators and other pipeline system components the installation of which is required as a consequence of the replacement of the aforesaid facilities.

“CI/BSR Revenues” means the revenues produced through CI/BSR Surcharges, exclusive of revenues from all other rates and charges.

Issued By: T. J. Szelistowski, President  
 Issued On: ~~November 12, 2019~~

Effective: ~~January 1, 2020~~