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October 23, 2017

BY E-PORTAL

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

Re: DOCKET NO. 20170179-GU - Petition for rate increase and approval of depreciation study by Florida City Gas.

Dear Ms. Stauffer:

Attached, for electronic filing, please find the testimony and exhibits of Florida City Gas's witness Matthew Kim. (Document 3 of 14)

Sincerely,

Beth Keating
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ATTACHMENTS

cc:// PSC (20 Hard copies)

Office of Public Counsel (Kelly)

Before the Florida Public Service Commission

Docket No. 20170179-GU: Petition for rate increase by Florida City Gas.

Prepared Direct Testimony of Matthew Kim

Date of Filing: October 23, 2017

Q. Please state your name and business address.

A. My name is Matthew Kim. My business address is Ten Peachtree Place, Atlanta, GA 30309.

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Q. By whom are you employed?

A. I am employed by Southern Company Gas as Vice President and Utilities Controller.

Q. What are your responsibilities as Vice President and Utilities Controller at Southern Company Gas?

A. At Southern Company Gas, I have responsibility for the accounting functions over the gas distribution operations. I first undertook these responsibilities in October 2015 with the former AGL Resources Inc. ("AGLR"), and retained the role when the Company was acquired by The Southern Company ("Southern") and became Southern Company Gas.

Q. Please describe your educational background and professional experience.

A. I graduated with a Bachelor of Science degree in Business Administration with a major in Accounting from Georgetown University in Washington, DC, in 1998. I am a Certified Public Accountant, licensed in the District of Columbia. I have nearly 20 years of experience in different areas of accounting, particularly in the power and utilities industry. Prior to joining Southern Company Gas (then AGLR) in 2015, I was vice president and controller at Chesapeake Utilities Corporation, a diversified energy company engaged in natural gas, electric, and propane businesses, from 2009 to 2015, and vice president and assistant corporate controller at The Carlyle Group, a global private equity firm, from 2005 to 2009. I also held various positions in the audit and assurance group of PricewaterhouseCoopers LLP and Arthur Andersen LLP. Prior to leaving public accounting in 2005, I was a Senior Manager with PricewaterhouseCoopers LLC.

Q. Are you sponsoring any exhibits in this case?

A. Yes, I am sponsoring the following exhibits:

- Exhibit MK-1 – Acquisition Net Savings to Florida City Gas;
- Exhibit MK-2 – AGL Services Agreement; and
- Exhibit MK-3 – Storm-related Costs

Q. What is the purpose of your testimony?

A. My testimony will address the following topics:

- The permanence of the cost savings associated with the acquisition adjustment approved by the Florida Public Service Commission ("FPSC") in Order No. PSC-07-0913-PAA-GU, issued in Docket No. 20060657-GU and why Florida City Gas ("FCG" or "Company") should retain the acquisition adjustment consistent with the FPSC's five-factor test;

- The status of the regulatory asset established in 2008 pursuant to the FPSC Order No. PSC-08-0616-PAA-GU to record charges incurred by the Company due to union decertification;
- FCG's request to establish a storm damage reserve; and
- Shared services provided by AGL Services Company (AGSC), an affiliated service company, and the allocation of the associated costs.

I. <u>Background – Acquisition Adjustment</u>

Q. What is the acquisition adjustment to which you refer?

A. In the aforementioned Order, the FPSC allowed FCG to record the $21,656,835 purchase price premium associated with AGLR's acquisition of FCG's parent at the time, NUI Corporation, as a positive acquisition adjustment to be amortized over a 30-year period beginning November 2004. The FPSC also allowed transaction and transition costs of $1,615,449 and $1,991,998, respectively, to be recorded as a regulatory asset and amortized over a five-year period beginning November 2004.

Q. What is the "five-factor" test to which you refer?

A. The five-factor test is, as I understand it, the analysis historically used by the FPSC to determine whether a company should be allowed to record a positive acquisition adjustment. The factors comprising the test are: (1) increased quality of service; (2) lower operating costs; (3) increased ability to attract capital for improvements; (4) lower overall cost of capital; and (5) more professional and experienced managerial, financial, technical and operational resources.

Q. In its Order approving FCG's request to record a positive acquisition adjustment, did the FPSC determine that FCG met each of the five factors of the test?

A. Yes. FCG was able to demonstrate reduced operating costs, as well as the ability to attract capital for improvements and to do so at better rates. While the FPSC determined there was neither an increase nor a decline in customer service, FCG was able to demonstrate a reduction in customer complaint call volume, as well as a reduced percentage of abandoned calls. FCG was also able to demonstrate that it would be able to utilize the resources and expertise of AGLR, now Southern Company Gas, and leverage the synergies produced by the acquisition to reduce costs and deploy more advanced technologies, which would ultimately result in efficiency gains for FCG's work processes. The FPSC also considered evidence that the total savings associated with the acquisition exceeded $5 million.

Q. Did the FPSC allow the Company to record the acquisition adjustment on a permanent basis?

A. No. While the FPSC approved the acquisition adjustment, it did so on a provisional basis, stating specifically in Order No. PSC-07-0913-PAA-GU that the amount and the permanence of the cost savings would be subject to review in future rate proceedings, and requiring FCG to file its earnings surveillance reports both with and without the acquisition adjustment reflected therein.

Q. Was there an immediate impact on customer rates at the time the FPSC allowed the Company to record the acquisition adjustment?

A. No, there has been no impact on customer rates. The Company did not request a rate increase at that time, nor did the FPSC's Order provide for a change in FCG's rates.

Q. Did FCG also make additional commitments in Docket No. 20060657-GU?

A. Yes. FCG committed to a 5-year "stay-out" provision pursuant to which it committed not to seek a base rate increase for at least five years beginning on October 23, 2007. In fact, this is the first rate proceeding filed since the FPSC approved the acquisition adjustment; as such, FCG ultimately "stayed out" a full 10 years after the approval.

II. <u>Cost Savings</u>

Q. Does FCG continue to experience cost savings consistent with the savings demonstrated in Docket No. 20060657-GU?

A. Yes. Consistent with cost savings presented in Docket No. 20060657-GU, FCG currently experiences cost savings in Operations and Maintenance ("O&M") expenses. As shown in Exhibit MK-1, $9.1 million of the O&M expense savings are comprised mostly of $5.7 million in lower charges received from AGSC for shared service functions and $2.2 million in reduced other operating expenses such as facilities, fleet, and insurance.

I will describe the O&M expense savings in more detail later in my testimony.

Q. How have you calculated the savings you have identified?

A. I compared O&M expenses for the 12-months ended September 2004, which was the 12-month period immediately prior to the acquisition, to O&M expenses for the 12-months ended December 2016, which is the historic test year in this rate case. The O&M expense information for the 12-months ended September 2004 used in this analysis is the same information used in Docket No. 20060657-GU to ensure consistency in benchmark expense level. This information was adjusted for increases associated with customers and average CPI to determine the equivalent value in 2016 dollars to compare to O&M expenses in 2016.

Q. What are the key factors that have contributed to the Company's savings with regard to O&M expense?

A. The largest portion of the O&M savings is from lower allocated charges, compared to the charges FCG previously received from NUI affiliates for shared services functions, which make up $5.7 million of the $9.1 million O&M savings. Today, these allocated charges represent the costs charged by AGSC for shared services provided by AGSC or by other affiliates through AGSC to FCG. By utilizing existing resources and best practices of Southern Company Gas, FCG benefitted from higher quality service at lower cost in several areas after the acquisition. The most notable areas of savings are customer service, credit and collection, accounting and finance, and legal. As discussed in Docket No. 20060657-GU, the customer call center was centralized in Atlanta in March 2005 and the existing call center in Hialeah was subsequently closed. Centralizing the call center allowed the Company to leverage best practices already put in place by Southern Company Gas while producing a significant reduction in costs by not having to maintain a separate call center. Expenses associated with customer services, credit and collection were $2.0 million in the 12-months ended September 2004, which translates to $2.7 million in 2016 dollars after adjusting for customer growth and CPI. Expenses associated with the same activities allocated to FCG were reduced to $1.3 million in 2016. I will discuss later in my testimony the improved quality of customer service despite lower costs allocated to FCG. For accounting and finance, which include costs associated with accounting, financial reporting, treasury and internal audit functions, and legal costs, these costs were reduced by $4.1 million as a result of being part of a much larger operator of natural gas distribution utilities, which allowed FCG to reduce costs through economies of scale without diminishing quality of service. I will also discuss improved managerial and financial resources later in my testimony.

Q. What is the other key area in which the Company has experienced O&M savings as a result of the acquisition by AGLR?

A. Also contributing to O&M savings are lower costs associated with facilities, fleet, and insurance, which make up $1.9 million of the $2.2 million O&M savings shown as other operating expense in Exhibit MK-1. Through centralization of facilities and reduced headcounts as a result of various automation and productivity improvement initiatives after the acquisition, FCG was able to lower the costs associated with facilities and fleet. Lower claims and premiums related to general liability and other insurance, which reflect the benefits of combining policies and operational improvements, contributed to the insurance savings.

Q. Have these cost savings resulted in any decline in service to FCG's customers?

A. No, to the contrary. Centralizing various service functions, such as the call center, and deploying best practices to improve productivity and automate certain processes, improved the quality of service to FCG's customers.

Q: Are there any areas in which FCG did not see a cost savings as the result of the acquisition?

A. As a result of various efficiency measures and automations, which are further discussed in the testimony of FCG witness Emeka Igwilo, FCG was able to reduce its headcount after the AGLR acquisition. However, Exhibit MK-1 shows that labor and benefits costs have remained largely unchanged since the acquisition as a result of adjustments to compensation and benefit rates and structures by FCG that brought them to market but exceeded the typical CPI. The first of such adjustments occurred in 2008 when FCG's unionized employees voted to decertify from the Teamsters' Union. The second adjustment occurred in connection with the work force progression review to align the resource needs with employee skill sets. Also, the total compensation of FCG employees today includes incentive compensation to be consistent with how utilities and general industry compensate their employees, which was not the case prior to the acquisition by AGLR. FCG witness James Garvie provides greater details of FCG's current compensation and benefits structure.

Q. Did FCG incur any costs associated with the activities and changes necessary to fully leverage the synergies associated with the acquisition?

A. The FPSC approved $1,991,998 of transition cost as a regulatory asset to be amortized over a five-year period beginning in November 2004.

Q. Please explain to what degree, if any, these costs offset the synergy savings produced by the acquisition.

A. Since the transition cost has been fully amortized at this point, it no longer offsets the synergy savings produced by the acquisition.

Q. Did the FPSC approve any other regulatory asset related to the acquisition by AGLR?

A. In addition to the $1,991,998 transition cost mentioned earlier, the FPSC also approved FCG to create a net regulatory asset in the amount of $1,365,897 to recognize and offset the accelerated treatment for pension costs that FCG had to record and amortize over 13.3 years beginning in November 2004. This regulatory asset will be fully amortized by February 2018 with all but approximately $27,000 of this amount having been amortized prior to 2018, the projected test year of this proceeding. As such, this regulatory asset has only minimal impact on the synergy savings produced by the acquisition.

Q. Does this indicate that the cost savings are less than those projected in Docket No. 200605657-GU?

A. No, our current analysis shows an increase in savings. In Docket No. 200605657-GU, the Company identified the total savings of $5 million due to the acquisition. In our current analysis, we identified more than $9 million in savings due to the acquisition. Higher than originally projected savings achieved by FCG is one of the reasons that allowed FCG not only to fulfill its commitment to "stay out" for five years after the FPSC's approval of the acquisition adjustment, but also allowed FCG to delay a base rate case for a full 10 years from the date of the FPSC's decision.

III. <u>Other Factors Related to Acquisition Adjustment</u>

A. <u>Quality of Service</u>

Q. Has the Company experienced an increased quality of service for its customers?

A. Yes. The testimony of FCG witness Emeka Igwilo provides greater details of FCG's quality of service, but I will address some of the areas that were specifically mentioned in Docket No. 200605657-GU to highlight the continued, if not further improved, quality of service in these areas since the FPSC's approval.

- Number of customer calls decreased significantly to 131,370 in 2016 from 729,957 in 2004, as a result of installation of automated meter reading devices and implementation of online account tools.
- Abandoned calls decreased significantly to 2% of the customer calls in 2016 from 23% of the customer calls in 2004.
- Number of customer complaints decreased to 17 in 2016 from 134 in 2004.
- Average leak response time in 2016 was 30.4 minutes, compared to 33.5 to 39.1 minutes during the period from May 2005 to December 2005.
- FCG continues to maintain close to 1,000 third-party payment locations all across its service territory.

Q. What are some of the advancements made by the Company that have improved customer service?

A. Since the acquisition, the Company has deployed and continues to utilize technology advancements and best practices to provide clean, safe, reliable, affordable natural gas service to its customers. Instituting monthly meter reading using automated meter reading devices and centralizing the customer call centers to leverage best practices, including recording all calls and providing feedback to call center representatives to improve the quality of our responses to customer calls, have made a significant impact to customer satisfaction, as evidenced by a large reduction in customer calls and complaints. Automation in customer orders and field force deployment, and the use of Geographic Information

System mapping and mobility tracking, have enabled the Company to reduce its response time to leak calls. These are just a couple of the examples, and FCG witness Emeka Igwilo provides more detail in his testimony.

B. Capital and Cost of Capital

Q. Have FCG and its customers benefitted from an enhanced ability to attract capital for utility projects at better rates?

A. Yes. Prior to the acquisition by AGLR, Moody's had assigned NUI and NUI Utilities, which were the entities financing FCG, non-investment grade credit ratings of Caa1 and B1, respectively. These ratings reflect speculative grade. Due to its inability to obtain long-term financing under reasonable terms, NUI had to rely on short-term debt, which hindered its ability to finance necessary projects for FCG. NUI's reliance on short-term debt was evidenced by 15.51 percent of short-term debt to total capitalization ratio for the 13-months ended August 2004, which further increased to 34.78 percent as of September 2004. In contrast, Southern Company Gas and its financing subsidiary, Southern Company Gas Capital Corporation, which now finance FCG, currently have the ratings of A- from Standard & Poor, Baa1 from Moody's and BBB+ from Fitch, which are all investment grade. After the acquisition, Southern Company Gas refinanced the high cost short-term debt held by NUI Utilities with long-term debt at lower rates and also refinanced two series of long-term debts held by NUI Utilities that had interest rates of 6.35 percent and 6.4 percent with variable rate debt with interest rates of 3.63 percent and 3.82 percent at the time. Since the acquisition, Southern Company Gas continues to issue long-term debt at competitive interest rates, which demonstrates its ability to attract capital at reasonable rates to finance necessary capital projects for all of its operations, including FCG. These financing activities after the acquisition have provided FCG with stability in overall capitalization and lower cost of capital.

Q. How does the short-term debt rate for Southern Company Gas compare to NUI Utilities?

A. During 2016, the average interest rate on short-term debt held by Southern Company Gas was 1.89 percent. Using the average rates of LIBOR in December 2016, this approximates LIBOR plus 0.91 percent. In comparison, short-term debt held by NUI Utilities prior to the acquisition had LIBOR plus 4.83 percent.

Q. Has this produced benefits for FCG's customers?

A. Yes. Since the acquisition in 2004, FCG invested in capital infrastructure to expand its service to new areas and strengthen its distribution system to continue to provide safe and reliable service that customers need and expect. Its ability to attract capital necessary to finance these projects at reasonable rates, along with cost savings previously discussed in my testimony, enabled FCG not to increase its rates for more than 10 years despite the significant investments made over that time.

Q. Would these benefits have been experienced by FCG and its customers in the absence of the acquisition by AGLR?

A. No. NUI's inability to attract capital at reasonable rates would have prohibited FCG from making investments necessary to grow, achieve operational efficiency, and maintain a safe and reliable distribution system. FCG's customers continue to benefit from better access to capital and lower cost of capital as a result of the acquisition by AGLR as FCG continues to finance through Southern Company Gas today.

C. <u>Managerial, Financial, Technical and Operational Resources</u>

Q. How has FCG continued to benefit from the managerial, financial, technical, and operational resources available to it previously through AGLR and now Southern Company Gas?

A. Southern Company Gas is one of the country's largest operators of natural gas distribution utilities serving 4.6 million customers and operating more than 150,000 miles of pipeline infrastructure in seven different states. The regulated natural gas utility businesses make up the majority of Southern Company Gas' earnings and capital expenditures. Through its seven utilities, Southern Company Gas is experienced in serving both mild and cold climates, and also in serving both urban and rural areas. As a leader in our industry, Southern Company Gas is focused on various industry issues, such as safety and reliability improvement through pipeline replacement, and environmental matters including reduction in greenhouse gases, and sustainability. Southern Company Gas has unregulated commercial businesses that complement its utility businesses, such as transmission pipelines and storage through various ownership, as well as expertise in liquefied natural gas ("LNG") as an owner and operator of seven LNG facilities, mostly in the southeastern part of the United States. In addition to being a leader in our industry, Southern Company Gas is also a community leader in every major city in which it operates through various community involvement.

Q. How has this experience and professionalism translated into benefits for FCG's customers?

A. FCG's customers have benefitted from Southern Company Gas' vast experience in operating natural gas utilities through deployment of technology and process advancements, centralization of various functions, and application of best practices. The cost savings and increased quality of service explained earlier in my testimony are direct benefits from Southern Company Gas' management applying its experience and professionalism to the day-to-day operation of FCG after the acquisition.

IV. Acquisition by the Southern Company

Q. Has the acquisition of AGLR by Southern had any adverse impact on the cost savings and other benefits recognized by the FPSC when it allowed FCG to record the allocated portion of the purchase price premium as an acquisition adjustment?

A. No. Southern's acquisition of Southern Company Gas has not had any adverse impact on savings and other benefits. Although it has only been six months since the acquisition, the 2016 O&M expenses used in the analysis of the savings supporting the earlier acquisition adjustment by AGLR, as set forth in my Exhibit MK-1, already includes any costs allocated to FCG from Southern.

Q. Is FCG seeking an acquisition adjustment in this proceeding or any other regulatory accounting treatment associated with the acquisition by Southern Company of AGLR?

A. No. FCG is not seeking an acquisition adjustment or recovery of any costs associated with the Southern acquisition in this proceeding. None of the purchase premium and transaction/transition costs from the Southern acquisition have been allocated to or recorded in FCG.

V. <u>Revenue Impact</u>

Q. What is the remaining, unamortized amount of the acquisition adjustment included in this proceeding?

A. Based on the 13-month average balance, FCG had $11.8 million of unamortized acquisition adjustment in 2018, which is included in the Company's rate base in this proceeding.

Q. What is the impact on FCG's requested revenue requirement that is associated with the acquisition adjustment?

A. Revenue requirement associated with the acquisition adjustment included in this filing is $1.8 million, which is comprised of $1.1 million in revenue requirement associated with a return on the unamortized acquisition adjustment included in rate base and $0.7 million of annual amortization.

Q. What is the net savings?

A. As shown in Exhibit MK-1, the net savings is $7.3 million. Total savings of $9.1 million exceeds $1.8 million of revenue requirement the Company is seeking to recover in this proceeding.

Q. Do you anticipate the savings you identified to continue in the Company's projected test year?

A. Yes. Based on the nature and factors contributing to the savings identified in Exhibit MK-1 and discussed in my testimony, I anticipate the savings to continue at a similar level in 2018, which is the Company's projected test year.

Q. Should the FPSC allow FCG to retain the acquisition adjustment?

A. Yes. Consistent with Order No. PSC-07-0913-PAA-GU, the Company continues to experience cost savings, as demonstrated in Exhibit MK-1, consistent with and exceeding its projections in Docket No. 20060657-GU. As such, FCG should be allowed to retain the adjustment.

VI. <u>Regulatory Asset Related to Union Decertification in 2008</u>

Q. What is the regulatory asset related to the 2008 union decertification to which you refer?

A. In the FPSC Order PSC-08-0616-PAA-GU, the FPSC approved FCG's request to create a regulatory asset to record charges incurred due to union decertification by FCG union employees. In accordance with this Order, FCG recorded $1,781,145 of costs related to the union decertification as a regulatory asset and began to amortize that cost over 15 years. Included in the 2018 projected test year are $118,743 of amortization expenses and $554,134 of unamortized regulatory balance, using the 13-month average, related to this regulatory asset.

Q. How did FCG determine the amount to include in this regulatory asset?

A. The initial amount deferred as a regulatory asset was based on the amount required to pay Central States, Southeast and Southwest Areas Pension Fund for withdrawal liability pursuant to the requirements of the Employee Retirement Income Security Act of 1974. This payment was made as a result of union decertification by FCG employees. Prior to the union decertification, these employees participated in the union-sponsored pension plan, which was not fully funded. As a result of the union decertification, these employees ceased to participate in the union-sponsored pension plan and began to participate in the Company-sponsored pension plan. Since the union-sponsored pension plan was not fully funded at the time of their withdrawal, FCG was required to pay the withdrawal liability, which was to fully fund the union-sponsored pension plan for the benefits associated with the FCG employees who voted to decertify the union. This payment was a one-time charge incurred by the Company associated with union decertification by FCG employees, and therefore, deferral of such cost is consistent with the FPSC Order.

VII. Storm Damage Reserve

Q. Please explain FCG's proposal to establish a storm damage reserve in this proceeding.

A. A storm damage reserve is a well-established concept with the FPSC that allows electric utilities and other natural gas utilities to recover costs associated with storms evenly over a long period. Costs associated with storms are typically large, unusual, and unpredictable to any particular year. Hurricane Irma is a good example. FCG incurred approximately $287,000 to prepare for, and respond to, damages associated with Hurricane Irma. Without a storm reserve, FCG would have to expense that amount in 2017 without rate recovery for such unpredictable costs. In this proceeding, FCG is requesting authority to establish a storm reserve and has included $100,000 annually in its O&M expense projection for the 2018 projected test year to begin establishing the reserve.

Q. Is FCG's proposal similar to other storm reserve mechanisms the FPSC has previously approved?

A. Yes. The mechanism proposed by FCG is in line with the mechanism already in place for two other Florida natural gas utilities – Peoples Gas and Florida Public Utilities Company.

Q. How did FCG determine the appropriate amount of the reserve to seek authority to recover and establish?

A. The annual amount of $100,000 is a conservative number was determined based on the average storm-related costs in the past five years. FCG looked at its historical books and records and identified storm-related costs associated with two named hurricanes – Hurricane Matthew in 2016 and Hurricane Irma in 2017 – that impacted FCG's service territory in the past five years. FCG incurred approximately $513,000 of costs associated with these two hurricanes. These costs represent only the incremental costs incurred as a result of the storms, such as overtime, contractors used specifically for hurricane-related efforts, payroll and travel costs from non-FCG employees assisting in hurricane-related efforts, and fleet expenses. These costs did not include any base payroll costs related to FCG employees.

Due to the inherently unpredictable nature of storm costs, an average cost in the past five years was determined to be a reasonable amount with which to establish the new storm damage reserve. The methodology for determining the accrual amount is consistent with that used by Peoples Gas in Docket No. 080318-GU, which I understand the FPSC accepted in that proceeding. I also understand that in that proceeding, the FPSC excluded certain expenses and recalculated Peoples Gas' proposed accrual as a lesser amount. In recognition of the FPSC's concerns identified in that prior proceeding, I am providing an additional exhibit with my testimony, Exhibit MK-3, which provides a detailed breakdown of the expenses supporting FCG's requested accrual amount.

Q. Would there be a cap on the storm damage reserve in the event FCG does not actually incur the level of storm-related costs in the future?

A. FCG is not proposing a cap. Instead, similar to the FPSC's approval of a storm reserve for Peoples Gas, FCG proposes that a target for the storm damage reserve be set at $1 million. In the event storms or other significant disasters do not occur in the future and the storm damage reserve continues to increase to reach $1 million, FCG would propose that the storm reserve accrual be revisited by the FPSC at that time to determine if FCG should stop accruing the annual expense requested in this rate proceeding until additional storm-related costs are incurred and applied against the reserve to decrease the balance to less than $1 million.

Q. Why has FCG determined that now is the time to seek approval of a storm reserve?

A. Storm costs are difficult to predict but can have a significant impact on financial well-being of FCG if FCG does not have an opportunity to recover them. Although FCG was fortunate to avoid major damages from Hurricanes Matthew and Irma, these storms affecting FCG's service territory within 12 months of each other had a negative financial impact on FCG without a proper recovery mechanism. Establishing an adequate storm damage reserve significantly reduces the regulatory uncertainty for FCG with regard to the financial impact of storms and will help the Company avoid seeking future rate relief solely for recovery of significant storm-related costs. In the long-term, this benefits our customers in that they are not subject to multiple rate increases.

VIII. Shared Services Provided By AGSC

Q. What is the business purpose and role of AGSC?

A. Southern Company Gas uses a shared services approach to centralize certain service functions and provides services to its subsidiaries and affiliates. AGSC is the service company within Southern Company Gas that provides services to its seven regulated utilities, including FCG, and other non-regulated businesses. AGSC has created a specific service level agreement to define and govern the provision of its services to these entities. Exhibit MK-2 is the copy of such agreement between AGSC and FCG.

Q. What is the rationale for providing shared services from a service company?

A. Given the number of subsidiaries and common activities required to be performed by many of these subsidiaries, there are clear economies of scale and scope to be achieved by providing certain services on a shared, centralized basis across each of these subsidiaries. This approach also allows the centralized group in the service company to focus on building expertise in providing that service and maximizing the productivity in providing that service across multiple subsidiaries.

Q. What services are currently being performed by AGSC on behalf of FCG?

A. The service agreement in Exhibit MK-2 contains the list of agreed upon services to be received from AGSC. These services are necessary for governance, administration, and operation of FCG to serve its customers.

Q. Did FCG have the same service agreement in the last rate case?

A. No. FCG became a part of Southern Company Gas (formerly AGLR) through AGLR's acquisition of NUI and its operating companies, including FCG, in 2004. The service agreement between AGSC and FCG was executed after that acquisition and was subsequently amended in 2008.

Q. Has there been any change to the agreement since 2008?

A. No, there has not been any change to the agreement since 2008. However, since the acquisition of AGLR by Southern in July 2016, Southern Company Services, Inc. (SCS) has been providing certain shared services through AGSC. SCS is the service company within Southern that provides services to Southern's regulated utilities, now including Southern Company Gas, and its non-regulated businesses.

Q. What are the services that SCS provides through AGSC?

A. SCS has been performing certain services in the following areas: information systems and technology, financial services, internal auditing, legal services and risk management, employee services, external relations, marketing, and business support.

Q. Does SCS provide any services that overlap or duplicate the services already performed by AGSC?

A. No. Although some of SCS' services provided through AGSC may sound similar based on functional descriptions, SCS's services are performed either for different purposes or to meet different operational objectives than the services performed by AGSC. In other words, the services provided by SCS are complementary to the services provided by AGSC, rather than duplicative. For example, after Southern's acquisition, SCS began to provide cyber and information security to Southern Company Gas affiliates, including FCG, along with all of Southern's other subsidiaries, due to its expertise. AGSC no longer provides separate services related to cyber and information security. However, AGSC continues to handle other information services related issues like hardware and software maintenance and telecommunications. Another example is employee services. SCS provides executive guidance to talent acquisition and compensation/benefits to ensure consistency among all of Southern's subsidiaries, whereas AGSC continues to handle FCG-specific employee issues and provide employee relations issues, such as benefits administration and regulatory compliance. As you can see in these examples, there is role clarity between AGSC and SCS.

Q. How does AGSC determine the amount it charges to FCG for its service?

A. AGSC accumulates costs of providing shared services by service provider (department) and account. On a monthly basis, AGSC performs the cost assignment process, whereby different costs are assigned, charged and/or allocated to affiliated companies receiving these services. The amount charged to FCG by AGSC is the result of this monthly cost assignment process. Different cost assignment methods and their application to different services are described in the service agreement in Exhibit MK-2.

Q. Please further explain AGSC's cost assignment process.

A. There are three ways that costs are charged to an affiliated company – Direct Assignment, Direct Charge, or Allocation of Costs. When practical and feasible, AGSC directly assigns or charges costs to a particular company causing costs to be incurred when such costs can be directly identified and traced to that company. Direct assignment refers to labor and benefit costs that are assigned to specific companies and projects based on the way AGSC employees assign their time in the time sheet. Direct charge is the assignment of costs to companies based on ratios and/or rates utilizing other unit-based factors, such as employee count, vehicle count, or square footage. In those cases where it is not practical or feasible to directly charge or assign costs, or the service is general in nature, AGSC allocates costs using one or more allocation methods. The allocation methods can include: number of end-use customers, total assets, number of employees, call volume, operating expense, operating margin and composite ratio. AGSC periodically updates the ratios used for allocation methods to ensure they are current and fair.

Q. How does AGSC charge for services SCS provides through AGSC?

A. To the extent SCS provides services through AGSC, which benefits FCG, AGSC directly charges, directly assigns, or allocates such costs to FCG in the same manner it does for any other similar costs.

Q. When SCS provides services to FCG through AGSC, does SCS bill AGSC for those services?

A. Yes. Each month SCS invoices AGSC for its cost of providing those services. SCS does not charge AGSC for profit or fees related to its services.

Q. When SCS provides services to FCG through AGSC, does AGSC apply any additional fees or costs before passing the costs on to FCG?

A. No. When SCS provides services to FCG through AGSC, AGSC simply charges FCG for the SCS billing based on the same cost assignment process as its own cost. AGSC does not include any additional fees or costs.

Q. Does AGSC apply the consistent allocation methodology to all of other affiliated companies within Southern Company Gas?

A. Yes. AGSC applies the consistent cost assignment process to all of the companies to which it provides services.

Q. Does this conclude your testimony?

A. Yes.

Florida Public Service commission
Docket No. 20170179-GU
FLORIDA CITY GAS
Witness: Matthew Kim
Exhibit No. MK-1

Florida City Gas
Acquisition Net Savings to Florida City Gas

Line No.		A Actual 12 Months Ended December 2016	B Actual 12 Months Ended September 2004	C Reclassification of Customer Service Expenses to Allocation	D Reclassified 12 Months Ended September 2004	E Inflation & Growth Compound Multiplier	F F=D*E Adjusted 12 Months Ended September 2004	G G=F-A Difference	H Less Capitalized Cost	I I=G+H Total Savings
1	Labor	7,447,164	7,688,023	(1,973,874)	5,714,149	1.3591	7,766,100	318,936		318,936
2	Benefits	2,315,038	2,273,725	(471,414)	1,802,311	1.3591	2,449,521	134,483		134,483
3	Outside services	1,844,355	2,160,045	(225,501)	1,934,544	1.3591	2,629,239	784,884		784,884
4	Allocations	8,144,025	6,347,641	3,812,150	10,159,791	1.3591	13,808,172	5,664,147		5,664,147
5	Capitalized cost	(2,238,724)	(49,586)	-	(49,586)	1.3591	(67,392)	2,171,332	(2,171,332)	-
6	Other operating expense	3,414,010	5,265,916	(1,141,361)	4,124,555	1.3591	5,605,683	2,191,673		2,191,673
7	Total operations and maintenance expenses	20,925,868	23,685,764	-	23,685,764		32,191,323	11,265,455	(2,171,332)	9,094,123

Line No.		B
8	Acquisition adjustment	21,656,835
9	Accumulated amortization	(9,865,892)
10	Net acquisition adjustment	11,790,943
11	Weighted average cost of capital (after-tax)	5.55%
12	Return on acquisition adjustment (operating	654,397
13	income requirement)	
14	Gross-up factor	1.6432
15	Revenue requirement for return	1,075,305
16	Amortization of acquisition adjustment	721,895
17	Total revenue requirement	1,797,200
18	Total savings	9,094,123
19	Total revenue requirement	1,797,200
20	Net savings	7,296,923

Florida Public Service commission
Docket No. 20170179-GU
FLORIDA CITY GAS
Witness: Matthew Kim
Exhibit No. MK-1

Per FERC Form

Operations expense	42,632,479	2016 FERC Form page 8 line 4
Maintenance expense	1,600,237	2016 FERC Form page 8 line 5
	44,232,716	
Less: Gas cost	(18,563,889)	MFR C-2
Less: Conservation	(5,329,977)	MFR C-2
Add: AGSC depreciation in 403	500,010	2016 FERC Form page 16, note 3
Less: Pension regulatory asset amortization in 926	(118,744)	2016 FERC Form page 19 line 5 of account 182.3 detail
Less: Deferred piping amortization in 912/909	(153,397)	2016 FERC Form page 19 line 2 of account 182.3 detail
	20,566,719	
	20,925,868	
	(359,149)	

AGL SERVICES AGREEMENT

This AGL Services Agreement (the "Agreement") is entered into as of the 9th day of July, 2008 by and between Pivotal Utility Holdings, Inc. d/b/a Florida City Gas Company, a New Jersey corporation (the "Company"), and AGL Services Company, a Georgia company, ("AGSC").

WHEREAS, each of the Company and AGSC is an associate company of AGL Resources Inc. ("AGLR");

WHEREAS, AGSC has been formed for the purpose of providing administrative, management and other services to associate companies; and

WHEREAS, the Company believes that it is in the interest of the Company to provide for an arrangement whereby the Company may, from time to time and at the option of the Company, agree to purchase certain administrative, management and other services from AGSC;

NOW, THEREFORE, in consideration of the mutual covenants contained herein and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, hereby agree as follows:

I. SERVICES OFFERED. Exhibit I hereto lists and describes all of the services that are available from AGSC. AGSC hereby offers to supply those services to Company and to other associate companies. Such services are and will be provided to the Company only at the request of the Company.

II. SERVICES SELECTED.

A. Initial Selection of Services. Exhibit II lists the services each Company hereby agrees to receive from AGSC.

B. Annual Selection of Services. AGSC shall send an annual service proposal form to the Company on or about October 1st listing services proposed for the next fiscal year. By November 30th, the Company shall notify AGSC of the services it has elected to receive during the next fiscal year.

III. PERSONNEL. AGSC will provide services by utilizing the services of such executives, accountants, financial advisers, technical advisers, attorneys, engineers and other persons as have the necessary qualifications.

If necessary, AGSC, after consultation with the Company, may also arrange for the services of affiliated or unaffiliated experts, consultants, attorneys and others in connection with the performance of any of the services supplied under this Agreement. AGSC also may serve as administrative agent, arranging and monitoring services provided by third parties to Company, whether such services are billed directly to Company or through AGSC.

IV. COMPENSATION AND ALLOCATION. As and to the extent required by law, AGSC will provide such services at cost. The attached Exhibit I contains AGSC's Policies and Procedures Manual which describes the rules for determining and allocating costs for AGSC.

V. BILLING. Bills will be rendered on or about the 15th of each month covering amounts due for the month calculated using the actual expenses incurred to the extent possible during the previous month. Any amount remaining unpaid after thirty days following receipt of the bill shall bear interest thereon from the date of the bill at an annual rate of 2% above the interest rate on 30 day commercial paper as listed on the last working day of that month in the Wall Street Journal.

VI. TERMINATION AND MODIFICATION.

A. Modification of Services. The Company may modify its selection of services at any time during the fiscal year by giving AGSC written notice sixty (60) days in advance for the additional services it wishes to receive, and/or the services it no longer wishes to receive, from AGSC.

B. Modification of Other Terms and Conditions. No other amendment, change or modification of this Agreement shall be valid, unless made in writing and signed by all parties hereto.

C. Termination of this Agreement. The Company may terminate this Agreement with AGSC by providing sixty (60) days advance written notice of such termination to AGSC. AGSC may terminate this Agreement as to the Company by providing sixty (60) days advance written notice of such termination to the Company.

This Agreement shall be subject to the approval of any state commission or other state regulatory body whose approval is, by the laws of said state, a legal prerequisite to the execution and delivery or the performance of this Agreement.

VII. NOTICE. Where written notice is required by this Agreement, said notice shall be deemed given when mailed by United States registered or certified mail, postage prepaid, return receipt requested, addressed as follows:

a. To Florida City Gas Company
933/955 East 25th Street
Hileah, FL 33013
Attention: Jay Sutton
Facsimile: 305-835-6491

b. To AGL Services Company
Ten Peachtree Place
Atlanta, GA 30309
Attention: Paul R. Shlanta, Executive Vice President, General Counsel and Chief Ethics and Compliance Officer
Facsimile: (404) 584-3237

VIII. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of Georgia, without regard to their respective conflict of law provisions.

IX. ENTIRE AGREEMENT. This Agreement, together with its exhibits, constitutes the entire understanding and agreement of the parties with respect to its subject matter, and effective upon the execution of this Agreement by the respective parties hereof and thereto, any and all prior agreements, understandings or representations with respect to this subject matter are hereby terminated and cancelled in their entirety and of no further force or effect.

X. WAIVER. No waiver by any party hereto of a breach of any provision of this Agreement shall constitute a waiver of any preceding or succeeding breach of the same or any other provision hereof.

XI. ASSIGNMENT. This Agreement shall inure to the benefit of and shall be binding upon the parties and their respective successors and assigns. No assignment of this Agreement or any party's rights, interests or obligations hereunder may be made without the other party's consent, which shall not be unreasonably withheld, delayed or conditioned.

XII. SEVERABILITY. If any provision or provisions of this Agreement shall be held to be invalid, illegal, or unenforceable, the validity, legality, and enforceability of the remaining provisions shall in no way be affected or impaired thereby.

XIII. EFFECTIVE DATE. This Agreement is effective as of January 1, 2006.

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed as of the date first above mentioned.

By Florida City Gas Company:

By AGL Services Company:

EXHIBIT I. POLICIES AND PROCEDURES MANUAL

Cost Accumulation and Assignment. Allocation Methods, and Description of Services Offered by AGL Services Company.

This document sets forth the methodologies used to accumulate the costs of services performed by AGL Services Company ("AGSC") and to charge, assign or allocate such costs to other subsidiaries and business units within the AGL Resources Inc. ("AGLR") system. The subsidiaries and business units of AGLR are referred to as the "AGLR System Companies".

Cost of Services Performed

AGSC maintains an accounting system that enables costs to be identified by "Account Codes" which include Cost Center, Account Number, Capital Project or O&M Project. The primary inputs to the accounting system are payroll records for AGSC's employees, accounts payable transactions and journal entries.

To the extent practicable, costs of services are directly charged to the appropriate AGLR System Companies and the applicable Account Codes. AGSC uses a Project Costing work order system to directly charge costs related to specifically created O&M projects to one or more AGLR System Companies as defined by the project owner. Additionally, AGSC uses standard rates and drivers to direct charge costs to AGLR System Companies.

AGLR also uses the Project Costing work order system to directly assign payroll costs and related benefits based on a unique business unit identifier for all AGLR System Companies. Other operational costs can also be direct assigned to AGLR System Companies by utilizing the unique business unit identifier.

The full cost of providing services also includes certain indirect costs such as departmental overheads, administrative and general costs, and taxes. These indirect costs are associated with the services performed by AGSC that are not directly charged or assigned to one or more AGLR System Companies. These indirect costs are distributed or allocated to one or more AGLR System Companies. Causal relationships between the services provided and the allocation factors are identified and utilized as the basis for selecting the appropriate allocation driver for distributed and allocated costs.

Cost Assignment and Allocation

AGSC's costs will be directly charged, assigned, distributed or allocated to AGLR System Companies in the manner described below:

1. Direct Charge: Costs accumulated in specific O&M projects will be directly charged to one or more AGLR System Companies as defined by the project owner. Costs will also be directly charged to AGLR System Companies using

methods determined on a case-by-case basis consistent with the nature of the work performed and/or based on the utilization of one of the standard rates and drivers described below.

A. Number of Stores Issues Ratio - A ratio based on the actual withdrawals from materials and supplies inventory. This ratio will be updated at regular intervals, at least annually, based on actual withdrawals from materials and supplies inventory using the most recent data reasonably available.

B. Rate Per Square Foot - This rate may be used by Business Support-Facilities Management and is based on the estimated or actual costs to maintain and support the common facilities used by AGLR System Companies. This rate will be updated at regular intervals, at least annually, using the most recent data reasonably available. This rate will be applied to the actual square footage used by the applicable AGLR System Companies. The actual square footage will be updated at regular intervals, at least annually, using the most recent data reasonably available.

C. Rate Per Vehicle - This rate may be used by Business Support-Fleet Services and is based on the estimated or actual costs to maintain and support fleet vehicles used by AGLR System Companies. This rate will be updated at regular intervals, at least annually, using the most recent data reasonably available. This rate will be applied to the actual number of vehicles used by the applicable AGLR System Company. The actual number of vehicles will be updated at regular intervals, at least annually, using the most recent data reasonably available.

D. Rate Per Computer - This rate may be used by Information Systems and is based on the estimated costs of personal computers and peripheral equipment. This rate will be updated at regular intervals, at least annually, using the most recent data reasonably available. This rate will be applied to the actual number of personal computers and peripheral equipment for the applicable AGLR System Company. The actual number of personal computers and peripheral equipment will be determined at regular intervals, at least annually, using the most recent data reasonably available.

E. Rate Per Employee - This rate may be used by Information Systems and is based on a cost per hour to maintain electronic data processing and telecommunications systems in the AGLR System Companies. This rate will be updated at regular intervals, at least annually, using the most recent data reasonably available.

F. Direct Charge Payroll Ratio - This ratio may be used to direct charge costs related to administration of benefits, at-risk compensation plans, etc. In addition, this ratio may be used to direct charge benefit costs such as health, pension, retirement, etc. when such benefits are not recorded directly on books of AGLR System Companies. This ratio will be based on the relative percentage of a participating AGLR System Company department's payroll costs to total AGLR System payroll costs. This ratio will be determined at regular intervals, at least annually, using the most recent data reasonably available.

2. Direct Assigned: Costs accumulated in Account Codes for services specifically performed for one or more AGLR System Companies will be assigned utilizing the unique business unit identifier for all operational costs including payroll expenses. Benefit related expenses will be direct assigned among and charged to such AGLR System Companies using methods determined on a case- by-case basis consistent with the nature of the work performed and/or based on one of the distribution or allocation methods described below.

   A. Direct Assign Payroll Ratio - This ratio is based on the total payroll costs a department incurs on behalf of an AGLR System Company as tracked in an unique business unit identifier and/or O&M project. This ratio will be determined monthly based on time recorded on time sheets by AGSC employees and the AGSC employees' effective salary rates.

3. Distributed and Allocated: Costs accumulated in Account Codes for services of a general nature which are applicable to all AGLR System Companies or to a class or classes of AGLR System Companies will be allocated among or charged to such AGLR System Companies by application of one or more of the allocation methods described below.

<u>Distribution and Allocation Methods</u>

The following methods will be applied, as indicated in the Description of Services section that follows, to distribute or allocate any remaining costs that are not directly charged or directly assigned using the allocation methodologies described above:

A. Number of End-Use Customers Ratio - A ratio based on the number of end-use customers for AGLR natural gas affiliates. This ratio will be updated at regular intervals, at least annually, using the most recent data reasonably available.

B. Total Assets Ratio - A ratio based on the total assets less intercompany receivables and intercompany notes. This ratio will be updated at regular intervals, at least annually, using the most recent data reasonably available.

C. Number of Employees Ratio - A ratio based on the number of employees benefiting from the performance of a service. Additionally, for the parent or holding company of AGLR, the number of employees are those officers common to the parent and AGSC. This ratio will be updated at regular intervals, at least annually, using the most recent data reasonably available.

D. Call/Phone Volume Ratio - A ratio based on the monthly call volume incurred on behalf of the AGLR System Companies and may be adjusted for any known and reasonably quantifiable events, or at such time as may be required due to significant changes.

E. Operating Expense Ratio- A ratio based on total operating expense. This ratio will be updated at regular intervals, at least annually, using the most recent data reasonably available.

F. Operating Margin Ratio - A ratio based on operating margin defined as revenue less cost of goods. Additionally, for the parent or holding company of AGLR, operating margin consists of dividends for the AGLR System Company subsidiaries. This ratio will be updated at regular intervals, at least annually, using the most recent data reasonably available.

G. Composite Ratio - This ratio is an average of the above four ratios of: Number of Employees, Total Assets, Operating Expenses and Operating Margin. This ratio will be updated at regular intervals, at least annually, using the most recent data reasonably available.

Description of Services

A description of each of the services performed by AGSC, which may be modified from time to time, is presented below. As discussed above, where identifiable, costs will be directly charged or assigned to AGLR System Companies. For costs accumulated in Account Codes which are for services of a general nature that cannot be directly charged or assigned, the method or methods of allocation are also set forth. Substitution or changes may be made in the methods of allocation hereinafter specified, as may be appropriate, and will be provided to state regulatory agencies and to each affected AGLR System Company.

1. Rates and Regulatory.

AGSC assists the AGLR System Companies in the analysis of their rate structures and in the formulation of rate policies and advises and assists AGLR System Companies in proceedings before regulatory bodies involving the rates and operations of AGLR System Companies and of other competitors where such rates and operations directly or indirectly affect the AGLR System Companies. AGSC also assists AGLR System Companies by analyzing Pipeline Safety, Environmental and Safety Regulations; writing the appropriate procedures to assist the system companies to stay in compliance with those regulations; providing internal reviews to assure operational, environmental and safety compliance; assisting in work with state and federal pipeline safety regulators and managing leak survey, pipeline integrity, locate and right of way contractors. Any remaining costs not directly charged or assigned will be distributed using the Number of End-Use Customers Ratio.

2. Internal Auditing.

AGSC performs periodic reviews of operational, compliance, financial and information system processes for AGLR System Companies. Any remaining costs not directly charged or assigned will be allocated using the Composite Ratio.

3. Strategic Planning.

AGSC advises and assists AGLR System Companies with the preparation of strategic business plans and corporate strategies. Any remaining costs not direct charged or assigned will be allocated using the Composite Ratio.

4. External Relations.

AGSC maintains relationships with government policy makers, conducts lobbying activities and provides community relations support. Any remaining costs not directly charged or assigned will be allocated using the Composite Ratio.

5. Gas Supply, Capacity Planning and Capacity Management.

AGSC provides gas control, scheduling, capacity planning and monitoring services. AGSC manages a centralized gas control center which provides natural gas delivery for natural gas distribution affiliates. AGSC also provides scheduling functions between the natural gas distribution affiliates and the pipelines for their daily supply. AGSC provides capacity planning services for each natural gas distribution affiliate including identifying present and future gas requirements to meet the needs of each natural gas distribution affiliate. AGSC provides monitoring of natural gas storage facilities and telecommunications networks.

AGSC also coordinates the management of gas supply for natural gas distribution affiliates who offer retail services and coordinates gas transmission and storage services for all natural gas distribution affiliates to ensure the most efficient use of services and to capture economies of scale as a larger purchaser in the market. Individually, natural gas distribution affiliates may, however, remain as the contract party under any agreement. Any remaining costs not directly charged or assigned will be distributed using the Number of End-Use Customers Ratio.

6. Legal Services and Risk Management.

AGSC provides various legal services and general legal oversight. In addition, AGSC provides insurance, claims, security, environmental and safety related services and performs corporate secretarial functions. Any remaining costs not directly charged or assigned will be allocated using the Composite Ratio.

7. Marketing.

AGSC assists AGLR System Companies by providing analysis, implementation and maintenance of line extension policies, by providing analysis of tariff rates in response to customer needs and by developing marketing strategies and programs. Any remaining costs not directly charged or assigned will be distributed using the Number of End-Use Customers Ratio.

8. Financial Services.

AGSC provides various services to AGLR System Companies including corporate tax, treasury, corporate accounting and reporting, general ledger maintenance and all accounting recordkeeping, processing certain accounts such as accounts payable, cash management, and others as may be deemed necessary, including hedging policy and oversight, financial planning and regulatory support (for all natural gas distribution affiliates and other AGLR System Companies that interact with regulators or regulated companies). Each AGLR System Company may also maintain its own corporate and accounting group and engage AGSC to provide advice and assistance on accounting matters, including the development of accounting practices, procedures and controls, the preparation and analysis of financial reports and the filing of financial reports with regulatory bodies, on a system-wide basis. Any remaining costs not directly charged or assigned will be allocated using the Composite Ratio.

9. Information Systems.

AGSC provides the AGLR System Companies with production support of web, mainframe and distributed computing applications, servers and networks. Also, provides deskside asset management, disaster recovery, data network, application security and voice communications services. Any remaining costs not directly charged or assigned will be allocated using the Composite Ratio to affiliates receiving these services.

10. Executive.

AGSC utilizes the executive staff of AGLR in order to assist the AGLR System Companies in formulating and executing general plans and policies, including operations, issuances of securities, appointment of executive personnel, budgets and financing plans, expansion of services, acquisitions and dispositions of property, public relationships and other related matters. Any remaining costs not directly charged or assigned will be allocated using the Composite Ratio.

11. Investor Relations.

AGSC maintains relationships with the financial community and provides shareholder services for the benefit of AGLR System Companies. Any remaining costs not directly charged or assigned will be allocated using the Composite Ratio.

12. Customer Services.

AGSC assists AGLR System Companies by providing billing, mailing, remittance processing, call center and customer communication services for customers; by providing credit and collections support and analysis; by providing support for response to customer complaints and by providing customer service surveys to improve service and efficiency. Any remaining costs, except for AGSC call center department costs, not directly charged or assigned will be distributed using the Number of End-Use Customers Ratio to affiliates receiving these services. Any remaining costs related to the AGSC call center will be distributed using the Call/Phone Volume Ratio defined for customer services representatives and management support staff.

13. Employee Services.

AGSC assists AGLR System Companies in developing employee relations policies and programs, and training personnel in a coordinated manner throughout the AGLR System Companies. Each AGLR System Company may maintain a human resources group to handle the individualized application of policies and programs. AGSC also provides payroll services, management of the employee benefit plans and employee communications. Any remaining costs not directly charged or assigned will be distributed using the Number of Employees Ratio.

14. Engineering.

AGSC provides engineering services for the AGLR System Companies. These services include design of infrastructure expansion and improvements, system analysis and modeling, GIS mapping and updates and maintenance and general engineering expertise. AGSC may also provide certain services for non-regulated subsidiaries. Any remaining costs not directly charged or assigned will be distributed using the Number of End-Use Customers Ratio.

15. Business Support.

i. Purchasing.

AGSC provides procurement services to AGLR System Companies. Any remaining costs not directly charged or assigned will be allocated using the Composite Ratio to affiliates receiving these services.

ii. Facilities Management.

AGSC provides facilities management services for offices owned or leased by AGLR System Companies. Any remaining costs not directly charged or assigned will be allocated using the Composite Ratio to affiliates receiving these services.

iii. Fleet.

AGSC provides fleet management services for vehicles owned or leased by AGLR System Companies. Any remaining costs not directly charged or assigned will be allocated using the Composite Ratio to affiliates receiving these services.

vi. Other

AGSC provides other services to AGLR System Companies such as records management, media and visual services and business process innovation. Any remaining costs not directly charged or assigned will be allocated using the Composite Ratio to affiliates receiving these services.

16. Other.

AGSC provides other services, such as business development, as identified in this document or requested by the AGLR System Companies. Any remaining costs not directly charged or assigned will be allocated using the Composite Ratio.

EXHIBIT II

AGREED UPON SERVICES TO BE RECEIVED FROM AGL SERVICES COMPANY

	SERVICES	YES	NO
1.	Rates and Regulator	X	
2.	Internal Auditing	X	
3.	Strategic Planning		X
4.	External Relations	X	
5.	Gas Supply and Capacity Management	X	
6.	Legal Services and Risk Management	X	
7.	Marketing	X	
8.	Financial Services	X	
9.	Information Systems and Technology	X	
10.	Executive	X	
11.	Investor Relations	X	
12.	Customer Services	X	
13.	Employee Services	X	
14.	Engineering	X	
15.	Business Support	X	
	i. Purchasing	X	
	ii. Facilities Management	X	
	iii.Fleet	X	
	iv. Other	X	
	– Corporate Communications	X	
	– Corporate Compliance	X	
16.	Other	X	

Florida City Gas
Storm-related Costs

	Hurricane Matthew	Hurricane Irma	Total
Overtime payroll	45,944	33,778	79,722
Payroll charged by affiliated utilities assisting FCG	37,020	-	37,020
Travel and expense through P-Card			
Hotel	40,639	11,042	51,681
Meals	5,044	27,795	32,839
Other	8,433	4,691	13,124
Travel and expense from affiliated utilities assisting FCG	47,989	-	47,989
LNG expense	17,450	-	17,450
Contractor expense	-	106,469	106,469
Fleet expense	14,845	80,000	94,845
Materials	6,625	10,101	16,726
Other miscellaneous	1,276	13,404	14,680
Total storm-related costs	225,265	287,280	512,545