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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 of Florida City Gas's witness Carolyn Bermudez. (Document 12 of 14)

Sincerely,

A handwritten signature in blue ink that reads "Beth Keating".

Beth Keating
Gunster, Yoakley & Stewart, P.A.
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MEK

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 Carolyn Bermudez

Date of Filing: October 23, 2017

6 Q. Please state your name and business address.

7 A. My name is Carolyn Bermudez. My business address is 4045 NW 97th
8 Avenue, Doral, Florida 33178.

9

10 Q. By whom are you employed and what is your position?

11 A. I am employed by Southern Company Gas as Vice President of
12 Operations and General Manager of Florida City Gas ("FCG" or
13 "Company"), which is the position I have held since 2014.

14

OVERVIEW

16 Q. What are your responsibilities in your role as Vice President and General
17 Manager?

18 A. I am the highest ranking Southern Company Gas officer on the ground in
19 Florida. As such, I am responsible for the day-to-day operations of our
20 natural gas utility, which include safety, compliance, operations excellence
21 and financial performance for FCG. Ultimately, it is my responsibility to
22 ensure that FCG meets our commitment to deliver clean, safe, reliable,
23 affordable natural gas to our customers, neighbors and communities.

24

1 Q. Please describe your educational background and professional
2 experience.

3 A. I received a Bachelor's degree in Business in 1986 from South Carolina
4 State University. Upon graduation, I started my career in the natural gas
5 industry with City Gas of Florida in Miami, the predecessor of FCG, as an
6 accountant in the Accounts Receivable department. Over the years I
7 advanced within the Company and gained new responsibilities. Beginning
8 in 1993, I was promoted to plant accountant and then in 1996, moved into
9 the role of senior accountant. In 2000, I was made an accountant
10 supervisor, and then in 2002, became an accountant manager. In 2004, I
11 was moved into the role of manager of business operations. In 2010, I
12 was promoted to regional director. I was then named FCG's vice
13 president of operations and general manager in February 2014.

14

15 Q. Have you filed testimony before the Florida Public Service Commission
16 ("FPSC") in prior cases?

17 A. Yes, I have filed testimony in several cases before the FPSC over the
18 years, including the FPSC's Natural Gas Conservation Cost Recovery
19 proceedings from 2007 through 2011, as well as in Docket No. 20090539-
20 GU.

21

22 Q. Are you sponsoring any exhibits in this case?

23 A. No.

24

25 Q. What is the purpose of your direct testimony?

1 A. The purpose of my testimony is to provide the Commission with a detailed
2 overview of FCG, its challenges and opportunities, and its proposed plan
3 to address these challenges and opportunities through various initiatives
4 as set forth in this rate case. I also provide a synopsis of the direct
5 testimonies of other Company witnesses. First, I provide an overview of
6 FCG's operations and service territory and the history of acquisitions that
7 have proven to be a positive impact on FCG. Next, I address the
8 Company's customer service-focused business objectives and discuss the
9 Company's efforts to improve its internal operations, modernize its natural
10 gas distribution infrastructure, and enhance our customers' experience. I
11 highlight the various tariff changes and rate schedule changes proposed
12 by the Company. I provide an overview of the Company's rate request and
13 explain why the proposed rate request is reasonable and necessary. I
14 also provide an overview of critical issues the Company is preparing to
15 address, including the limited availability of pipeline capacity to our service
16 territory, our aging workforce, and the need to have a storm damage
17 reserve. I highlight how the Company has effectively managed costs for
18 nearly 14 years, thereby avoiding the need to file a rate case while
19 providing safe and reliable service to our customers.

20
21 Q. Please provide an overview of FCG's case and the testimony that will be
22 presented by the Company's other witnesses.

23 A. Our witnesses include employees of FCG, as well as officers of The
24 Southern Company and Southern Company Gas. We have also engaged
25 outside consultants to address specific areas where a particular expertise

1 is required. Through witness testimony and exhibits, FCG will
2 demonstrate that we provide clean, safe, reliable, affordable natural gas
3 service to our customers, that costs for providing such service are
4 reasonable and prudently incurred, and that without rate relief, FCG's
5 earnings will fall well below a reasonable level, which will impair FCG's
6 ability to maintain the high-level operations our customers deserve and
7 have come to expect. Accordingly, our proposed rate increase and
8 correlating rates are fair, just, and reasonable.

9 In addition to my testimony, FCG will provide the following witnesses in
10 support of our case:

11

12 • James Vander Weide is president at Financial Strategy Associates. He
13 provides an independent appraisal of FCG's cost of equity, which allows
14 FCG to attract capital on reasonable terms, and maintain its financial
15 integrity.

16

17 • Matthew Kim is vice president and controller of Utilities at Southern
18 Company Gas. He provides information supporting the permanence of the
19 cost savings associated with the acquisition adjustment approved by the
20 FPSC in Order No. PSC-07-0913-PAA-GU, issued in Docket No.
21 20060657-GU, as well as the need for a storm reserve. He also
22 addresses how costs are allocated to FCG by the shared services
23 companies.

24

25

- 1 • James Garvie is vice president of Total Rewards & Corporate Human
2 Resources at Southern Company Services. His testimony outlines Florida
3 City Gas's customer-based fundamental beliefs on compensation and
4 benefits, and describes the design and competitiveness of FCG's total
5 compensation and benefits programs.
- 6
- 7 • Dan Nikolic is manager of Rates for Southern Operations at Southern
8 Company Gas. He provides support for the specific methods employed in
9 developing the forecasts of sales, services and revenues and the Class Cost
10 of Service study and rate design.
- 11
- 12 • Mike Morley is managing director of Regulatory Accounting & Reporting
13 and Strategic Planning at Southern Company Gas. He provides the
14 financial and accounting data to support the Company's proposed annual
15 revenue requirement; an explanation of the Company's decision to use a
16 projected 2018 test year for ratemaking purposes; the capital structure
17 and cost of capital; the determination of rate base; and the assessment of
18 the parent debt adjustment to FCG's income tax expense in determining
19 revenue requirement. He will also testify to the reconciliation of the SAFE
20 Program rider.
- 21
- 22 • Dane Watson is managing partner at Alliance Consulting Group. He
23 provides the recent depreciation study conducted for FCG's gas
24 depreciable assets based on actual historical data, forecasted plant and

1 reserve balances, and the recommended depreciation rates for the
2 Company's assets.

3

4 • Emeka Igwilo is managing director of Resource Management at Southern
5 Company Gas. He provides an overview of improvements and corporate
6 commitment to the development of our people, processes and technology
7 across three major groups/organizations that interact most directly with
8 our customers in the areas of Customer Care, Resource Management and
9 Field Operations.

10

11 • Ron Muller is the manager of Construction at FCG. He discusses FCG's
12 capital expenditures for 2005 through 2017.

13

14 • Steve Wassell is vice president of Storage & Peaking Operations at
15 Southern Company Gas. He explains what liquefied natural gas ("LNG")
16 facilities are needed to address the capacity challenges at FCG.

17

18 • Greg Becker is director of Capacity Planning at Southern Company Gas.
19 He outlines the benefits of the incremental gas supply capabilities that the
20 company is attempting to acquire, which includes an LNG solution. He
21 also discusses a tariff proposal that addresses issues associated with
22 transportation service on the FCG system.

23

24 • David Meiselman, is managing director, Rate Design and Tariff
25 Administration at Southern Company Gas. He provides detail regarding

1 certain tariff revisions and new tariff provisions FCG is proposing in this
2 rate case.

3

4 Q. Please provide an overview of Florida City Gas and identify its core
5 values.

6 A. FCG is the second largest natural gas utility in Florida. It serves
7 approximately 108,000 residential, commercial, and industrial customers
8 in Miami-Dade, Broward, Brevard, Indian River, Palm Beach, Hendry,
9 Indian River and St. Lucie Counties. The Company originally was known
10 as Dade Gas, and was incorporated on April 2, 1949, in Hialeah, Florida,
11 as a propane distributor using underground pipelines. Starting in the late
12 1950's, Dade Gas acquired a number of liquid propane (LP) gas
13 companies in Dade and Broward counties. In 1959, the Company formed
14 City Gas Company of Florida and began converting its underground
15 propane distribution system to natural gas, which was accessed through
16 Florida Gas Transmission Company's interstate pipeline system. With the
17 conversion of the underground pipeline systems from LP to natural gas,
18 the Company became regulated by the FPSC. In 1964, City Gas
19 Company of Florida listed its common stock on the American Stock
20 Exchange. In 1965, City Gas expanded natural gas into Brevard County
21 to support the development of America's space program.

22 In July 1988, NUI Corporation, headquartered in New Jersey acquired the
23 company and owned it for 16 years until AGL Resources Inc. ("AGLR")
24 acquired the Company in 2004 and changed the name to Florida City Gas.
25 In 2011, AGLR acquired Nicor Gas, making AGLR the largest natural gas-

1 only distribution company in the United States by customer count. On July
2 1, 2015, AGLR became a wholly-owned subsidiary of The Southern
3 Company (also referred to herein as “Southern”), and AGLR was renamed
4 Southern Company Gas. With the acquisition of AGLR, Southern now has
5 11 electric and natural gas utilities with operations in nine states.
6 Our core values align well with those of our new corporate parent. Our
7 customers are at the center of all we do, and nothing is more important
8 than their safety. We recognize that our customers rely upon us for their
9 energy needs, so we communicate clearly, openly and honestly with them
10 to earn their unquestionable trust. We listen to understand our customers
11 and constantly look for new ways to improve our business to save money
12 for our customers. We work to protect and preserve the environment and
13 serve our communities to build strong and lasting relationships with our
14 customers. We promote an inclusive workforce that reflects the customers
15 we serve, and we hire the most talented energy professionals to ensure
16 that our customers receive the most responsive, reliable service possible.
17

18 **II.**

ACQUISITIONS

19 Q. Have you had a base rate case since the acquisition by AGLR in 2004 or
20 Southern Company in 2016?

21 A. No. This is the first rate case FCG has filed since 2003, which was a year
22 before the acquisition by AGLR in November 2004. Final rates from that
23 request were effective February 2004. Since that time, FCG has
24 effectively managed costs while maintaining clean, safe, reliable,
25 affordable service to customers without a rate increase.

1

2 Q. Did the Company experience significant savings and synergies as a result
3 of the AGLR-NUI acquisition?

4

5 A. Yes. As explained in more detail by Company witness Kim, AGLR's
6 acquisition of NUI resulted in significant synergies and savings to
7 customers. With the AGL Shared Services model, which continues to be
8 contained within the Southern Company Gas subsidiary, AGL Services
9 Company, FCG obtains benefits from management and expertise in
10 centralized resources that include a variety of administrative and
11 construction, engineering and technical support areas held by AGLR, now
12 Southern Company Gas. FCG is able to leverage the synergies produced
13 by the NUI acquisition to reduce costs and deploy more advanced
14 technologies, which results in efficiency gains for FCG's work processes.

15

16 Q. Can you provide examples of the Southern Company Gas resources and
17 expertise used to benefit customers, employees, and the communities in
18 which the company serves?

19

20 A. Southern Company Gas and its utility subsidiaries continue to be industry
21 leaders in efficiency and prudent cost management without compromising
22 the safety, reliability and quality of the service provided to its customers.
23 We are committed to respecting, rewarding and retaining the most
24 talented energy professionals in an environment that values diversity and
25 inclusion, so that our customers receive the most responsive, reliable
service possible. The vast experience gained in operating natural gas
utilities in multiple states has allowed Southern Company Gas to develop

1 a number of best practices and metrics with regard to operations,
2 customer engagement, productivity improvements, safety, and reliability.

3 Management at FCG has been able to tap into that expertise and employ
4 these best-practice techniques and processes to enhance the operation of
5 the FCG system.

6 Additionally, Southern Company Gas is a community leader in every city
7 in which it, or its subsidiaries, operate, including in the cities where FCG
8 serves. Our executives lead by example. Many, if not all, serve on
9 boards or actively participate in volunteer activities of major community,
10 civic or charitable organizations. Our employees volunteer their time to
11 serve on commissions that support state and city governments. We
12 actively work on economic development in every state where we operate
13 and actively engage with government, business, and community leaders
14 on workforce development. Even further, the Company makes significant
15 donations to non-profit organizations, and sponsors community events
16 each year to advance opportunities for citizens in our communities.

17

18 Q. Has the more recent acquisition of Southern Company Gas by Southern
19 had a positive impact on Florida City Gas?

20 A. Yes. Southern is an industry leader offering a full portfolio of energy
21 resources, and the addition of Southern Company Gas' network of natural
22 gas assets and businesses provides a broader, more robust platform for
23 long-term success. This strategic combination was about more than
24 diversifying and expanding a business enterprise. It was about providing

1 efficient and effective energy solutions to power our communities' future
2 and finding new ways to further enhance our service to customers.
3 For customers, this combination provides for the further reinforcement of
4 the Company's customer-focused business model. For communities, a
5 combined utility system will provide additional "tools in the toolkit" to meet
6 customers' energy needs, over time, by improving and expanding current
7 and future energy infrastructure development. For investors, the
8 combination of Southern and AGLR creates a unique platform that is well-
9 positioned to compete for growth across the energy value chain, which
10 benefits our customers and communities through a stronger, financially
11 sustainable utility company. A healthy utility company is a job creator,
12 community leader and a company that provides clean, safe, reliable,
13 affordable service.

14

15 Q. Please elaborate further on some of the benefits.

16 A. Being acquired by and having the support from a company like Southern,
17 which has a corporate philosophy that "the customer is at the center of
18 everything we do," is of tremendous value to FCG as we work to continue
19 to enhance the customer experience. The most significant benefit of
20 being acquired by Southern is the preservation of the Shared Services
21 model that AGLR introduced to FCG when it acquired the Company in
22 2004. The Shared Services model allows companies to take advantage of
23 economies of scale while continuing to improve services to its
24 customers. This model creates a cost structure for each of the companies
25 within the Southern Company Gas system that is lower than if each

1 system company were to provide individual services on its own, and it has
2 worked extremely well for FCG and its customers as lower costs mean
3 lower rates. The Southern Company Gas Shared Services model is
4 discussed in more detail in the testimony of witness Kim.

5 Additionally, all of Southern Company Gas, including Florida City Gas,
6 benefits greatly from Southern's investment in, and attention to, cyber-
7 security, especially as it relates to the area of security monitoring. Cyber-
8 security has become one of the most critical business and customer
9 threats in our society. The Southern Company is a leader in the industry
10 and the business community at large with its demonstrated commitment to
11 ensuring that our systems and customers are protected from cyber
12 threats. Southern has a 24/7/365 Security Operations Center ("SOC")
13 staffed with experts in the areas of threat identification and forensic
14 analysis. Southern Company Gas has invested in security technology that
15 aligns with Southern's standards and allows full integration into the SOC
16 monitoring and incident response processes.

17 At The Southern Company, the expectation is that cyber-security is
18 everyone's responsibility. Southern has an internal website dedicated to
19 educating employees about cybersecurity and how to practice cyber
20 safety every day with the goal of protecting ourselves, our families and our
21 organization while making the most of today's technology.

22 Moreover, Southern has stayed true to its discussions with this
23 Commission and other stakeholders by allowing FCG to manage its
24 operations without a change in management structure. Indeed, while
25 Southern certainly supports FCG's operations from a management

1 perspective, it has trusted FCG to conduct its business as it did pre-
2 acquisition, ensuring that FCG remains a Florida-run company that is
3 sensitive to the dynamics unique to our state in the provision of natural
4 gas service. Southern has also enhanced benefits for FCG employees by
5 adding maternity leave and pension benefits for all Southern Company
6 Gas employees. Such added benefits will help recruitment and retention
7 efforts in addressing turnover associated with an aging workforce as FCG
8 continues to meet the growing demand of its services and provide safe
9 and reliable natural gas service.

10

11

12 **III. FOCUS ON CUSTOMER SERVICE**

13 Q. Is the Company planning to take steps to further improve its service to
14 customers?

15 A. Yes. First and foremost, we hold ourselves accountable to our customers.
16 That accountability starts with a commitment to listen to and learn from our
17 customers so that we fully understand their energy needs and can better
18 assist them in determining how FCG can effectively and efficiently meet
19 those needs. FCG is committed to increasing customer engagement,
20 retention, and growth by making investments to ensure it is easy to do
21 business with us. To accomplish this, there are several technology
22 projects scheduled for 2018 and beyond that will improve the security of
23 our systems, enhance functionality, and automation of work orders, as
24 well as improve the customer on-boarding process. We will also provide
25 flexible appointment windows, develop a long-term training strategy, and

1 expand payment options. Witness Igwilo will share additional information
2 about these initiatives in his testimony.

3

4 Q. Does FCG's cooperation and relationship with its customer differ from that
5 of other utilities?

6 A. In many ways, yes. As a natural gas utility, FCG is uniquely situated in
7 that our service requires that we be in direct contact with our customers on
8 a more frequent basis than other types of utilities. Unlike other utilities,
9 natural gas utilities must enter the customer's home to initiate service by
10 making two physical visits to the premise to turn the service off and on
11 during outages. This requires the customer to be at home when the
12 employee returns to restore service. Because our employees must enter
13 the customer's home, this makes the initiation of gas service more
14 challenging and emphasizes the need for effective communication and
15 trust with our customers.

16

17 **IV. TARIFF CHANGES**

18 Q. Is the Company proposing any revisions to the tariff section regarding
19 deposits to guarantee payment of bills and metering?

20 A. Yes. As witness Meiselman will discuss in his testimony, the Company
21 has updated the tariff language addressing customer deposits to maintain
22 consistency with Section 366.05(1)(c), Florida Statutes.

23

24 Q. Is the Company proposing any revisions to its Service Charges?

1 A. Yes. Witness Nikolich will discuss the revisions to the following Service
2 Charges:

- 3 • The Connect Charge and Reconnection Charge
4 • A Failed Trip Charge
5 • A Returned Check Charge
6 • A Temporary Turn Off Charge
7 • The addition of after-hours charges

8 The proposed revisions to the service charges are self-explanatory. The
9 revised charges will help reduce upward rate pressure on our general
10 body of customers, and assess charges to only to those customers who
11 are causing the costs by specific request or action.

12

13

14 Q. Is the Company proposing any revisions to the Extension of Facilities
15 section?

16 A. Yes. The Company proposes revisions to the Extension of Facilities
17 section to include a new Economic Development Gas Services rate
18 schedule (“EDGS”) for qualifying economic development projects that
19 provide significant economic development or environmental benefits within
20 the State of Florida.

21 Additionally, a few enhancements to the Area Extension Program (“AEP”)
22 are proposed in order to improve the administration and cost recovery
23 process for the program.

24 The proposed changes to the Extension of Facilities section are expected
25 to benefit all customers by encouraging and increasing economic sales

1 growth. Adding economic sales is expected to reduce upward rate
2 pressure on all customers. Simply stated, it benefits the general body of
3 customers when we can spread the costs over a larger customer base.
4 Witness Meiselman will go into additional detail about these tariff
5 proposals in his testimony.

6

7 Q. Are there any other substantive revisions to the Rules and Regulations
8 being proposed by the Company?

9 A. Yes. The Transportation – Special Conditions section has been revised.
10 The reason for these revisions are described in more detail in witness
11 Becker's testimony. In addition, witness Meiselman provides detail about
12 the tariff proposal.

13

14 **V. RATE SCHEDULES AND RIDERS**

15 Q. Are there any substantive revisions to the Rate Schedules being proposed
16 by FCG?

17 A. Yes. The Company is proposing several revisions to the rate schedules.
18 The revisions are described thoroughly in witness Nikolich's testimony.

19

20 Q. Please describe any substantive revisions to the Riders being proposed
21 by FCG.

22 A. As witness Meiselman will discuss in further detail, the Company proposes
23 to eliminate the LED and AFD riders. These riders are no longer needed,
24 and the change helps simplify the Company's rate schedules and riders.

1 The Company also proposes to set the charges in the SAFE rider to zero,
2 consistent with moving the current SAFE investments to rate base. The
3 SAFE investments are covered in greater detail in witness Muller's
4 testimony, while the transfer of the assets to rate base and the resulting
5 reset of the surcharge are covered in more detail in witness Morley's
6 testimony.

7

8

9 Q. Are there any other revisions to the Rules and Regulations in the tariff that
10 are proposed by FCG?

11 A. Yes. There are a number of other minor changes necessary to maintain
12 an accurate, up-to-date tariff document. Witness Meiselman will discuss
13 these in his testimony.

14

15 **VI. Need for Rate Relief**

16 Q. Why is it imperative that FCG receive rate relief at this time?

17 A. FCG has made every effort to delay this request for as long as possible.
18 Our business is capital intensive and requires large long-term investments
19 to provide safe and reliable service to our customers. Timely and
20 sufficient revenues are critical at this juncture to afford us an opportunity to
21 earn a fair rate of return, thereby affording us the ability to attract capital to
22 use for these large capital investments. We can no longer delay the
23 request for rate relief.

24

1 Q. What are the key drivers of FCG's request for a base rate increase at this
2 time?

3 A. Generally, there are three main drivers, described in detail below.

4

5 1. The primary driver for a base rate increase is the more than \$284 million
6 increase in capital spend by FCG over the past 13 years. A significant
7 portion of these investments is tied to increased safety regulations
8 imposed by federal agencies, such as the Pipeline and Hazardous
9 Materials Safety Administration ("PHMSA"). New regulation changes
10 made by PHMSA pertaining to natural gas distribution and transmission
11 facility integrity management plans, as well as, the recent curb valve
12 changes, have contributed to the capital investment increases. Coupled
13 with the increase in capital spend are the increases in depreciation
14 expense resulting from the additional 455 miles of mains installed over this
15 period of time. As a result, the Company has exhausted its ability to find
16 significant additional cost-saving measures that would enable it to further
17 delay a request for an increase without impacting compliance, safety, and
18 service to customers.

19

20 2. The Company is faced with the challenge of ensuring that enough
21 capacity is held to serve all customers during peak demand times while
22 also allowing for continued system expansion. This is particularly critical
23 for customers on the southern end of our system where customer demand
24 for natural gas service is higher but capacity is more constrained. As such,
25 the Company has devised a strategy around LNG to provide back-up gas

1 supply during emergencies and peak periods, as necessary. This
2 significant and necessary capital project has been another important factor
3 in our decision to pursue a rate increase.

4

5 3. The Company is facing increased costs associated with the development
6 and training of a new workforce. Like other companies in the utility
7 industry, the Company has an aging workforce and a pending skills and
8 knowledge gap. Unless the Company is able to implement prudent, but
9 proactive, strategies to engage and train new employees in the near term,
10 the Company's ability to provide safe and efficient service will begin to
11 suffer as employees retire without proper succession planning. To
12 accomplish this, the Company would like to implement a high school and
13 college intern program to target diverse students interested in STEM
14 careers.

15

16 Q. What are some of the actions the Company has taken to control costs and
17 defer the need for this rate case?

18 A. As the demand for energy continues to grow, our customers deserve
19 natural gas they can depend on at just and reasonable rates. To maintain
20 a high level of service to our customers while keeping rates at a
21 reasonable level, FCG has undertaken every effort to avoid seeking a
22 base rate increase, as outlined below:

23

24 1. The Company deployed a customer-focused strategy to improve the
25 quality of billing data, provide a superior customer experience, and

1 leverage technology solutions to increase the Company's ability to adapt
2 to changing regulations and customer demands. Additionally, the
3 Company has seen improvements in all operational and customer quality
4 metrics over this period of time. There were improvements in average leak
5 response time, order completion, customer complaints and overall safety
6 performance.

7

8 2. The Company has implemented numerous cost savings measures,
9 including the centralization of corporate functions like accounting, finance,
10 customer service and human resources. These measures have reduced
11 the number of operational employees since the acquisition by AGLR, now
12 Southern Company Gas. Consequently, since 2005, FCG has seen a
13 reduction of more than \$2 million in O&M expenses.

14

15 3. The Company was able to take advantage of the stronger financial
16 posture of AGLR, and now the Southern Company, in order to refinance
17 debt at lower interest rates, resulting in access to less expensive capital.

18

19 Q. What is the specific rate relief that FCG is requesting in its filing?

20 A. Using a projected test year ending December 31, 2018, the Company
21 requires a rate increase of \$19.3 million. Of that amount, \$3.5 million is
22 associated with moving the Company's current SAFE investments into
23 rate base and resetting the SAFE surcharge to \$0, as contemplated by
24 Order No. PSC-15-0390-TRF-GU. The additional \$15.8 million is

1 necessary to allow FCG to earn a fair return on our investment and a
2 recommended return on equity of 11.25.

3

4 Q. What is FCG's projected return on equity for the test year if relief is not
5 granted?

6 A. The return on equity for the projected test year will be 2.95 percent if relief
7 is not granted.

8

9 Q. Is FCG requesting interim rate relief?

10 A. Yes. Using the Commission's methodology, we have calculated that the
11 Company needs interim relief in the amount of \$4,893,061 based on a
12 historical test year ending December 31, 2016. Our calculation of the
13 interim and permanent revenue requirements is addressed in witness
14 Morley's testimony.

15

16 **VII. NOTABLE CHALLENGES AND OPPORTUNITIES**

17 A. Aging Workforce

18 Q. Are there workforce issues being addressed in this rate case proceeding?

19 A. Yes. Like many others in the energy sector, FCG is facing a technical
20 skills gap as our aging workforce prepare to exit the business. We work in
21 a very technical industry that requires extensive classroom and on-the-job
22 training to meet federal operator qualifications to perform any tasks. It
23 takes about five years for a new employee to be qualified and certified to
24 perform customer-generated work or respond to natural gas emergencies.

25

1 Q. Please explain how FCG is addressing its Aging Workforce issue?

2 A. Our employees are the most important resource the Company has to meet
3 our obligations to provide safe and reliable natural gas service. The
4 percentage of FCG employees nearing retirement age is growing: a fact
5 that is not unique to the utility industry. The average age of our overall
6 workforce is 45 and the average age for field technicians is 44. Currently
7 20% of our workforce is retirement eligible and that number will be 36% in
8 three years. These numbers do not include employee attrition of 5%. FCG
9 must be positioned to meet its future operational needs with the next
10 generation of employees who are well trained and ready to meet customer
11 needs. Accordingly, the Company has formulated strategies for recruiting
12 and developing the next generation of talent including the partnership with
13 Miami-Dade Schools on an adult technical training program. We have also
14 partnered with community agencies in Brevard County around natural gas
15 education and recruiting.

16

17 Additionally, FCG has established two employee career development
18 programs to help it reinforce its workforce. One program initiated this year
19 is an apprentice-type program that creates a talent pipeline by helping
20 employees develop the necessary skills to take on additional or higher-
21 level responsibility. Employees that are ready to go through certain
22 technical certification programs are paired with a subject matter expert in
23 the field to make sure they get hands on, on-the-ground training to
24 prepare for the certification process. To ensure that FCG has enough
25 people resources to cover work while the apprentice employees are

1 training, the company has also developed an “apprentice pool”—a group of
2 employees who have been trained to step into the work of those who are
3 preparing for their certifications. The plan is to hire additional people
4 resources for the pool in 2018. This allows FCG to have increased
5 numbers of certified employees while making sure that the transfer of work
6 to the apprentice pool is seamless.

7

8 The second program is the Career Development Process (“CDP”), which
9 was initiated in 2012 and has continued to be enhanced. The CDP
10 program is designed to help field operations employees manage their
11 career experience as well as support the needs of the business. The goal
12 of CDP is for employees to be aware of their personal goals while also
13 understanding FCG’s business objectives—essentially helping the
14 Company connect employees’ career growth with the delivery of safe,
15 reliable service to our customers. The CDP program defines clear
16 objectives regarding the work involved and skills required to advance to
17 the various job functions in the field operations area. There is clear
18 documentation of job classifications, pay ranges and job duties to help
19 employees know exactly what it takes to progress in their careers. This
20 benefits the employees and the Company by helping us retain a skilled
21 workforce that has a line of sight on how to grow as the Company grows.

22

23

24

25

1 B. Capacity Resources

2 Q. Looking forward, are there key operational issues that the Company
3 needs to address in order to continue to be able to provide safe and
4 reliable service to its customers?

5 A. Yes. Currently, FCG does not hold enough capacity to serve all Sales and
6 Essential Use customers on its distribution system, although it holds
7 sufficient capacity to meet the needs of its existing Sales customers. As
8 witness Becker will explain, capacity on Florida Gas Transmission's
9 interstate pipeline is limited and the remaining capacity is very expensive.
10 As for the other interstate pipelines serving Florida, the difficulty of building
11 out to interconnect with those pipelines, as well as the cost of capacity on
12 those pipelines, eliminates the other pipelines as economical options.
13 There is currently no cost-effective way to get capacity to the markets we
14 serve. With the rising cost of pipeline projects, new pipeline capacity has
15 become uneconomical compared to the average price in our existing
16 portfolio. This increase does not include the pipeline cost required to get
17 the gas to our customer base. As a result of this, we are very concerned
18 about future growth and the transition of transportation customers back to
19 the utility for the purchase of their commodity.

20 Q. If the Company does not take additional steps to address this issue, what
21 will be the impact of these high capacity costs?

22 A. Florida City Gas serves more than 108,000 customers and over 90% of
23 our customers are residential. These are the customers who use natural
24 gas primarily for water heating and cooking. The impact of the higher

1 pipeline capacity and the required infrastructure will be detrimental to
2 these customers, causing monthly bills to more than triple.

3

4 Q. Does this filing reflect steps the Company is taking to address these
5 issues?

6 A. Yes. As discussed in greater detail by witnesses Becker and Wassell,
7 FCG is constructing an LNG facility that is projected to be completed in
8 late 2018 or early 2019.

9

10 Q. How did FCG determine that the LNG project was the best alternative to
11 address its capacity needs?

12 A. Every customer deserves to be able to access safe and reliable natural
13 gas that is priced at a fair and reasonable rate. For the customers of
14 FCG, the only option currently available that meets that need and that is
15 cost effective is the construction by FCG of an LNG facility. By adding
16 LNG to our energy portfolio, we can continue to grow our business and
17 effectively respond to the peaking needs of our customers more cost
18 effectively.

19 Q. How will LNG help solve the capacity issues FCG has?

20 A. LNG will be used as extra capacity to serve customers at the most
21 southern portion of our system during times of high demand. This allows
22 us to continue to grow our business and expand further south with a plan
23 to meet the capacity needs of our customers during peak demand. The
24 benefit of using LNG for this purpose is the cost of gas is incurred only

1 when used, as opposed to pipeline capacity, which is a monthly charge
2 usually contracted for 30 years.

3

4 Q. Has the Company taken other steps to improve reliability and customer
5 service for its customers?

6 A. Yes. FCG has invested significant capital to improve the safety and
7 reliability of our system. However, the FCG pipeline system has
8 expanded through acquisitions of other facilities and organic growth.
9 Because of that, much of the system is not interconnected to provide a
10 two-way feed, which means FCG's ability to reroute pipeline supply to an
11 area suffering an outage is extremely limited.

12

13 Q. Do you have examples of this?

14 A. Yes. Our limitation to provide service to an area with an emergency
15 outage became more evident in Port St. Lucie on Mother's Day, May 5,
16 2015. On that day, a driver traveling at a high rate of speed, lost control of
17 her vehicle and went airborne over a 6-foot fence. The van struck FCG's
18 regulator station, which was behind the fence, as well as FGT's bypass
19 line that was next to the regulator station, causing significant damage to
20 both facilities. As the FPSC is aware, this resulted in a disruption of
21 service impacting approximately 6,000 customers. Given the magnitude of
22 this mass outage, FCG had to deploy personnel and obtain gas supply
23 resources from other jurisdictions to execute an elaborate restoration of
24 service strategy. As an aside, FCG implemented a very detailed

1 communications plan to ensure that our customers, the FPSC, and other
2 stakeholders were kept informed about the status of service restoration.
3 FCG also engaged resources from neighboring utilities and from other
4 AGLR utilities under the mutual aid program to help with the restoration.
5 Critical to FCG's ability to respond quickly was our ability to secure
6 compressed natural gas and LNG tanker resources to help accelerate
7 restoration of services to vendors that supported hospitals and nursing
8 homes. As a result of our quick response and engagement of available
9 resources, FCG was able to fully restore service to all customers within a
10 week.

11 While Port St. Lucie was undoubtedly an extraordinary event, FCG
12 believes that, as a prudent operator, it must continue to find ways to
13 mitigate the impact of such events. In the years since the Port St. Lucie
14 event, FCG has invested in several pressure improvement projects to
15 increase the pressure on our system, increase the capacity on the system,
16 and create the ability to reroute gas to prevent mass outages similar to the
17 Port St. Lucie Mother's Day event.

20 VIII. ECONOMIC DEVELOPMENT

21 Q. Does FCG play a role in the economic recovery and development of the
22 communities you serve?

23 A. Yes, FCG has spent more than \$35 million annually in capital investments
24 in the last two years and is projected to spend at similar levels in 2017 and
25 2018. This level of spend represents jobs for hundreds of company and

1 contractor employees. FCG has a diverse workforce that reflects the
2 customers we serve and an inclusive and supportive environment so our
3 people are able to achieve their personal and professional goals. We are
4 committed to respecting, rewarding, and retaining the most talented
5 energy professionals, so that our customers receive the most responsive,
6 reliable service possible. We have partnered with many charitable
7 organizations to invest funds and hours of volunteer time to improve the
8 communities we are privileged to serve. From providing meals to seniors,
9 building homes or mentoring under privileged kids, we work hard to
10 improve the communities where we work and live.

11

12 **IX. STORM RESERVE**

13 Q. Is FCG also proposing that it be allowed to establish a storm reserve?

14 A. Yes. As set forth in more detail in the testimony of Witness Kim, FCG is
15 proposing that it be allowed to establish a storm reserve with a target of
16 \$1,000,000 and an annual accrual of \$100,000 reflected in our expenses.
17 Consistent with the methodology and rationale supporting the existing
18 storm reserves of other Florida natural gas utilities, FCG seeks to
19 establish a reserve that will better enable us to respond to the impacts of
20 significant weather events on our system without the time, expense, and
21 regulatory uncertainty of pursuing a base rate proceeding every time
22 storms inflict significant damage to FCG's system. Recent experience, as
23 well as historical data, demonstrates that a storm reserve would put us in
24 a better position financially to address storm damages.

25

1 **X. SUMMARY**

2 Q. Please summarize your testimony.

3 A. At Florida City Gas, our core values begin with safety. Our highest priority
4 is ensuring the safety of every family we serve. We want our employees to
5 be in a safe work environment, thereby creating a work environment that
6 is productive and customer-centric. Our customers are at the center of
7 everything we do. Therefore, we intend to do all things possible to
8 maintain clean, safe, reliable, affordable natural gas service at just and
9 reasonable rates. We cannot achieve our customer-focused business
10 objectives without our employees and our investors. We have an
11 obligation to continue staffing our business with qualified and experienced
12 personnel dedicated to fulfilling our mission of service to our customers.

13 Since 2004 we have invested more than \$284 million dollars on the
14 modernization of our systems to ensure we are compliant with changing
15 state and federal regulations and providing safe, reliable and affordable
16 natural gas service to our customers.

17 In addition to addressing our capacity constraints, the construction of an
18 LNG facility is the most cost effective solution that allows us to meet the
19 peak demands of our existing customers and allows us to continue to
20 grow and expand our business.

21 Lastly, we are not able to defer our request for this increase in base
22 revenues. Under our current rates, FCG's earned return on equity will be
23 well below our allowed return. Without rate relief, FCG's ability to continue
24 to make necessary investments is jeopardized. This rate relief will allow
25 FCG to continue to provide clean, safe, reliable, affordable natural gas

1 service to all of our customers. Keeping FCG financially healthy by
2 granting the requested increases in retail revenues is in the best interest
3 of our customers.

4

5 Q. Does that conclude your testimony?

6 A. Yes.