

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: November 30, 2017

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Economics (Draper, Doherty, Guffey)
Division of Accounting and Finance (Mouring, D. Buys)
Office of the General Counsel (Trierweiler, Cuello, Janjic)

EJD *AD* *CRB* *PR* *MC* *ALM* *3/2* *7*

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

AGENDA: 12/12/17 – Regular Agenda – Decision on Interim Rates – Participation is at the Discretion of the Commission

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Polmann

CRITICAL DATES: 12/22/17 (60-Day Suspension Date)
06/23/18 (8-Month Effective Date)

SPECIAL INSTRUCTIONS: None

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COMMISSION CLERK

Case Background

On October 23, 2017, Florida City Gas (FCG or Company) filed a petition seeking Commission approval of a rate increase, depreciation study, and a request for interim rate relief. FCG is a natural gas local distribution company providing sales and transportation of natural gas, and is a public utility subject to the Commission’s regulatory jurisdiction under Chapter 366.02, Florida Statutes (F.S.). As a subsidiary of Southern Company, FCG currently serves approximately 108,000 residential, commercial, and industrial natural gas customers in Miami-Dade, Brevard, St. Lucie, Palm Beach, Hendry, Broward, and Indian River counties. FCG requested an increase of \$19.3 million in additional annual revenues. Of that amount, \$3.5 million is associated with moving the Company’s current investment in a Commission-approved backyard mains and service relocation program, which is being recovered through a separate surcharge on customers’ bills, into rate base. The remaining \$15.8 million, according to FCG, is necessary for the utility

to earn a fair return on their investment and a requested return on equity of 11.25 percent. The Company based its request on a 13-month average rate base of \$299.3 million for the projected test year ending December 31, 2018. The requested overall rate of return is 6.32 percent based on an 11.25 percent return on equity.

The Company requested in its original MFRs an interim increase of \$4,871,932. FCG calculated the interim increase based on a 13-month average rate base of \$209,312,678 at 5.84 percent cost of capital using a 10.25 percent return on equity. The interim test year is the period ended December 31, 2016.

On November 17, 2017, FCG filed a revised MFR Schedule F-10 to correct certain errors. On November 27, 2017, FCG filed an amended MFR Schedule F to reflect a corrected interim increase request of \$4,893,061 based on a cost of capital of 5.85 percent. This is staff's recommendation to suspend the proposed final rates and charges and to address the requested interim rate relief as revised on November 17, 2017 and on November 27, 2017.

FCG's last rate case was in 2003.¹ Pursuant to Section 366.06(4), F.S., FCG requested to proceed in 2003 under the rules governing Proposed Agency Action (PAA). The Commission approved a jurisdictional rate base of \$119,897,447 and an annual operating revenue increase of \$6,699,655 for the projected test year ended September 30, 2004. The allowed rate of return was found to be 7.36 percent for the test year using an 11.25 percent return on equity.

Pursuant to Sections 366.06(2) and (3), F.S., FCG requested to proceed this rate case using the Commission's hearing process. Accordingly, in compliance with Section 366.06(2), F.S., an administrative hearing has been scheduled for this matter from March 26 - 30, 2018. The Commission has jurisdiction over this request under Sections 366.06 and 366.071, F.S.

¹ Order No. PSC-04-0128-PAA-GU, issued February 9, 2004, in Docket No. 030569-GU, *In re: Application for rate increase by City Gas Company of Florida*.

Discussion of Issues

Issue 1: Should the request for a permanent increase in rates and charges be suspended for FCG?

Recommendation: Yes. Staff recommends that the requested permanent increase in rates and charges be suspended for FCG. (Draper, Doherty, Guffey)

Staff Analysis: Staff recommends that the requested permanent increase in rates and charges be suspended for FCG to allow staff time to complete its review of the Company's MFRs.

Pursuant to Section 366.06(3), F.S., the Commission may withhold consent to the operation of all or any portion of a new rate schedule, delivering to the utility requesting such a change, a reason, or written statement of a good cause for doing so with 60 days. Staff believes that the reason stated above is a good cause consistent with the requirement of Section 366.06(3), F.S.

Issue 2: Is FCG's proposed interim rate base of \$209,312,678 appropriate?

Recommendation: Yes. The appropriate interim rate base for FCG is \$209,312,678. (Mouring)

Staff Analysis: In its filing, the Company proposed an interim test year 13-month average rate base of \$209,312,678 for the period ended December 31, 2016. Staff has reviewed the rate base adjustments made in the current interim filing for consistency with the Commission-approved adjustments in the Company's last rate case proceeding as well as other applicable dockets.² Based on staff's review, it appears that FCG has made the applicable and appropriate adjustments that are consistent with prior Commission Orders. Staff's recommendation of whether FCG is entitled to the proposed interim increase is discussed in Issue 6. If it is determined that interim relief should be granted to FCG in this case, staff agrees that \$209,312,678 is the appropriate amount of rate base for the for the historical base year ended December 31, 2016. The calculation is shown on Attachment A to the recommendation.

² *Id.*, and PSC-07-0913-PAA-GU, issued November 13, 2007, in Docket No. 060657-GU, *In re: Petition for approval of acquisition adjustment and recognition of regulatory asset to reflect purchase of Florida City Gas by AGL Resources, Inc.*, and PSC-16-0517-TRF-GU, issued November 21, 2016, in Docket No. 160198-GU, *In re: Petition for approval of safety, access, and facility enhancement program (SAFE) true-up and associated cost recovery factors, by Florida City Gas.*

Issue 3: Is FCG's proposed interim return on equity of 10.25 percent and overall cost of capital of 5.85 percent reasonable for the purpose of determining interim rates?

Recommendation: Yes. FCG's proposed return on equity of 10.25 percent and overall cost of capital of 5.85 percent are reasonable for purposes of determining interim rates. (Mouring)

Staff Analysis: For purposes of its corrected interim rate request, FCG used an overall cost of capital of 5.85 percent based on a return on equity (ROE) of 10.25 percent and the capital structure for the historical base year ended December 31, 2016. Pursuant to Section 366.071(2)(a), F.S., the appropriate ROE for purposes of determining an interim rate increase is the minimum of the Company's currently authorized ROE range. Staff believes that both the ROE and the adjustments recognized in the capital structure are consistent with Company's last rate case proceeding as well as other applicable dockets.³

Staff agrees that the capital structure for the historical base year ended December 31, 2016, and an ROE of 10.25 percent results in an overall cost of capital of 5.85 percent. Attachment B details the calculation of the Company's overall cost of capital.

³ *Id.*

Issue 4: Is FCG's proposed interim test year net operating income of \$9,221,584 appropriate?

Recommendation: Yes. The appropriate historical base year ended December 31, 2016 net operating income for FCG is \$9,221,584. (Mouring)

Staff Analysis: The proposed historical base year net operating income of \$9,221,584 is the twelve month amount for the historical base year ended December 31, 2016. Staff has reviewed the net operating income adjustments made in the current interim filing for consistency with the Commission approved adjustments in the Company's last rate case proceeding as well as other applicable dockets.⁴ Based on staff's review, it appears that FCG has made the applicable and appropriate adjustments that are consistent with the prior Commission Orders. Staff's recommendation of whether FCG is entitled to the proposed interim increase is discussed in Issue 6. If it is determined that interim relief should be granted to FCG in this case, staff agrees that \$9,221,584 is the appropriate amount of net operating income for the historical base year ended December 31, 2016. The calculation is shown on Attachment A.

⁴ *Id.*

Issue 5: Is FCG's proposed interim net operating income multiplier of 1.6185 appropriate?

Recommendation: Yes. FCG's proposed interim net operating income multiplier of 1.6185 is appropriate. (Mouring)

Staff Analysis: On revised MFR Schedule F-6, the Company calculated an interim net operating income multiplier of 1.6185 using a 34 percent federal income tax rate and a 5.5 percent state income tax rate. Additionally, the Company applied a 0.500 percent factor for regulatory assessment fees and a 0.4382 percent factor for bad debt expense. Staff has reviewed the Company's calculation of the interim net operating income multiplier and is not proposing any adjustments. Therefore, staff recommends that 1.6185 is the appropriate interim net operating income multiplier. The calculation is shown below.

**Table 5-1
Florida City Gas - Interim Net Operating Income Multiplier**

<u>Description</u>	
Revenue Requirement	100.0000%
Regulatory Assessment Fee	-0.5000%
Bad Debt Rate	<u>-0.4382%</u>
Net Before Income Tax	99.0618%
State Income Tax @ 5.5%	-5.4484%
Federal Income Tax @ 34%	<u>-31.8286%</u>
Revenue Expansion Factor	<u><u>61.7848%</u></u>
NOI Multiplier (100/61.7848)	<u>1.6185</u>

Source: Revised MFR Schedule F-6

Issue 6: Should FCG's requested interim revenue increase of \$4,893,061 be granted?

Recommendation: Yes. FCG's requested interim revenue increase of \$4,893,061 should be granted. (Mouring)

Staff Analysis: FCG requested a revised interim rate relief of \$4,893,061 for the historical base period ended December 31, 2016. This would allow the Company an opportunity to earn an overall rate of return of 5.85 percent and the minimum of the range of return on equity of 10.25 percent. After a determination of the permanent rate increase has been made, the interim rate increase will be reviewed to determine if any portion should be refunded to the ratepayers.

The calculation of the \$4,893,061 of interim rate relief is shown below.

**Table 6-1
 Florida City Gas - Interim Revenue Increase**

<u>Description</u>	
Jurisdictional Adjusted Rate Base	\$ 209,312,678
Overall Rate of Return Requested	<u>5.85%</u>
Jurisdictional Net Operating Income Requested	\$ 12,244,792
Jurisdictional Adjusted Net Operating Income	<u>\$ 9,221,584</u>
Revenue Deficiency	\$ 3,023,208
Net Operating Income Multiplier	<u>1.6185</u>
Interim Revenue Increase	<u><u>\$ 4,893,061</u></u>

Source: Revised MFR Schedule F-7

Issue 7: How should the interim revenue increase for FCG be distributed among the rate classes?

Recommendation: Any interim revenue increase authorized should be applied evenly across the board to all rate classes based on their base rate revenues, as required by Rule 25-7.040, Florida Administrative Code, (F.A.C.), and should be collected on a cents-per-therm basis. The interim rates should be made effective for all meter readings made on or after thirty days from the date of the Commission vote and decision herein. The Company should provide pursuant to Rule 25-22.0406(8), F.A.C., notice to customers of the revised rates with the first bill containing the new rates. The Company should file tariff sheets reflecting the Commission approved interim rates. (Draper, Doherty, Guffey)

Staff Analysis: Attachment C to the recommendation shows the allocation of the \$4,893,061 interim increase and the resulting cents-per-therm increases to be applied to the rate classes. The increases were calculated using the methodology contained in Rule 25-7.040, F.A.C., which requires that any increase be applied evenly across the board to all rate classes based on their base rate revenues. Attachment D shows the resulting interim per therm distribution charges for all rate classes.

FCG included revenues from its approved safety, access, and facility enhancement program (SAFE) program to calculate the base rate revenues for each rate class. The SAFE program was approved in Order No. PSC-16-0517-TRF-GU as a surcharge.⁵ Rule 25-7.040, F.A.C., specifically states that revenues from the cost of gas should be excluded in the calculation of the interim increase for each rate class, but is silent on surcharges such as the SAFE surcharge. Staff notes that including or excluding the SAFE revenues does not affected the total interim increase, however, it has a minimal impact on the dollar increase and resulting interim rates for each rate class. Since FCG proposed to move the current investment in the SAFE program into rate base, staff agrees with FCG that including the SAFE revenues in the interim calculation is appropriate in this instance.

The interim rates should be made effective for all meter readings made on or after thirty days from the date of the Commission vote and decision herein. The Company should provide pursuant to Rule 25-22.0406(8), F.A.C., notice to customers of the revised rates with the first bill containing the new rates and a copy of the customer notice should be submitted to Commission staff for approval prior to its use. The Company should file tariff sheets reflecting the Commission approved interim rates.

⁵ PSC-16-0517-TRF-GU, issued November 21, 2016, in Docket No. 160198-GU, *In re: Petition for approval of safety, access, and facility enhancement program (SAFE) true-up and associated cost recovery factors, by Florida City Gas.*

Issue 8: What is the appropriate security to guarantee the amount subject to refund?

Recommendation: The appropriate security to guarantee the funds collected subject to refund is a corporate undertaking. (D. Buys, Mouring)

Staff Analysis: FCG has requested that all funds collected subject to refund be secured by a corporate undertaking. The criteria for a corporate undertaking include sufficient liquidity, ownership equity, profitability, and interest coverage to guarantee any potential refund. Staff reviewed FCG's 2014, 2015 and 2016 financial statements filed with the Company's Application for Authority to Issue Debt Security in 2016 and 2017 filed with the Commission to determine if FCG can support a corporate undertaking for its potential refund obligation. Based on an estimated six-month collection period of interim rates for FCG, staff has determined the maximum amount of revenues that may need to be protected is \$2,452,256. Staff's analysis shows FCG has negative working capital and an unfavorable current ratio. However, FCG's ownership equity, profitability (net income), and interest coverage are sufficient to guarantee any potential refund of the requested interim revenue increase. For all three years, FCG's working capital has been negative and the current ratio has been less than one. However, FCG's equity ratio was 48 percent in 2014 and 2015, and 49 percent in 2016, indicating adequate equity ownership. The Company's interest coverage ratio has declined from 7.83 in 2014 to 4.53 in 2016, indicating that its earnings before interest and tax expense is currently 4.5 times greater than its interest expense. FCG's net income has been on average fourteen times greater than the requested corporate undertaking amount, indicating good profitability. In addition, FCG participates in Southern Company Gas's Utility Money Pool and is authorized by the Commission to make short-term borrowings not to exceed \$250 million.

Staff believes FCG has adequate financial resources to support a corporate undertaking in the amount requested. Based on this analysis, staff recommends that a corporate undertaking in the amount of \$2,452,256 is acceptable. The preferred limit of the corporate undertaking amount is \$8,751,917. This brief financial analysis is only appropriate for deciding if the Company can support a corporate undertaking in the amount requested and should not be considered a finding regarding staff's position on other issues in this proceeding.

Docket No. 20170179-GU

Date: November 30, 2017

Issue 9: Should this docket be closed?

Recommendation: No. This docket should remain open to process the revenue increase request of the Company. (Trierweiler)

Staff Analysis: This docket should remain open pending the Commission's final resolution of the Company's requested rate increase.

Florida City Gas
 Docket No. 20170179-GU
 Interim Rate Base and Net Operating Income
 December 31, 2016

	Adjusted Base Year Per Company	Adjustments	Interest Synchronization	Adjusted Base Year Per Staff
<u>Rate Base</u>				
Plant in Service	348,619,750	-		348,619,750
Accumulated Depreciation	(167,595,854)	-		(167,595,854)
Net Plant in Service	181,023,896	-		181,023,896
Acquisition Adjustment	21,656,835	-		21,656,835
Accum. Amort. Acquisition	(8,422,103)	-		(8,422,103)
Construction Work In Progress	19,729,410	-		19,729,410
Net Utility Plant	213,988,038	-		213,988,038
Working Capital Allowance	(4,675,360)	-		(4,675,360)
Total Rate Base	209,312,678	-		209,312,678
<u>Income Statement</u>				
Operating Revenue	50,316,465	-		50,316,465
Operating Expenses:				
Operation & Maintenance	20,261,429	-		20,261,429
Depreciation & Amortization	14,898,337	-		14,898,337
Taxes Other Than Income	2,707,715	-		2,707,715
Income Taxes - Current	413,903	-		413,903
Income Taxes - Deferred	2,813,496	-		2,813,496
Total Operating Expenses	41,094,881	-		41,094,881
Net Operating Income	9,221,584	-		9,221,584
 Overall Rate of Return	 4.41%			 4.41%

Florida City Gas
 Docket No. 20170179-GU
 Interim Base Year
 December 31, 2016

Capital Component	Jurisdictional		Cost Rate	Weighted Cost Rate
	Capital Structure	Ratio		
Long Term Debt	\$73,857,708	35.29%	4.75%	1.68%
Short Term Debt	13,071,944	6.25%	1.89%	0.12%
Preferred Stock	-	0.00%	0.00%	0.00%
Common Equity	81,589,680	38.98%	10.25%	4.00%
Customer Deposits	3,901,581	1.86%	2.73%	0.05%
Deferred Income Taxes	36,891,759	17.63%	0.00%	0.00%
Investment Tax Credits	6	0.00%	0.00%	0.00%
Total	<u>\$209,312,678</u>	<u>100.00%</u>		<u>5.85%</u>

FLORIDA CITY GAS
 ALLOCATION OF INTERIM RATE INCREASE
 DOCKET NO. 20170179-GU

(1) RATE CODE	PRESENT BASE RATE REVENUE					INTERIM INCREASE			
	(2) BILLS	(3) THERM SALES	(4) CUSTOMER CHARGE	(5) ENERGY CHARGE	(6) SAFE	(7) TOTAL BASE REVENUE	(8) \$ INCREASE	(9) % INCREASE	(8) / (3) * 100 INCREASE IN CENTS PER THERM
GS-1	328,138	2,274,617	\$2,625,104	\$1,278,631	\$231,813	\$4,135,548	\$421,666	10.20%	18.538
GS-100	604,822	7,691,925	\$5,745,809	\$4,018,877	\$427,281	\$10,191,967	\$1,039,188	10.20%	13.510
GS-220	271,242	5,715,039	\$2,983,662	\$2,830,716	\$191,283	\$6,005,661	\$612,346	10.20%	10.715
GS-600	15,895	1,173,620	\$190,740	\$512,438	\$11,200	\$714,378	\$72,839	10.20%	6.206
GS-1.2K	36,059	10,344,031	\$540,885	\$3,280,609	\$25,426	\$3,846,920	\$392,237	10.20%	3.792
GS-6K	28,807	25,735,468	\$864,210	\$7,073,908	\$37,474	\$7,975,592	\$813,203	10.20%	3.160
GL	2,373	14,854	\$0	\$8,843	0	\$8,843	\$902	10.20%	6.070
GS-25K	3,880	10,518,645	\$310,400	\$2,905,039	\$5,052	\$3,220,491	\$328,366	10.20%	3.122
GS-60K	854	7,753,377	\$128,100	\$2,130,395	\$1,114	\$2,259,609	\$230,393	10.20%	2.972
GS-120K	507	8,079,386	\$126,750	\$1,610,247	\$517	\$1,737,514	\$177,159	10.20%	2.193
GS-250K	555	23,876,304	\$166,500	\$4,681,307	\$607	\$4,848,414	\$494,351	10.20%	2.070
GS-1,250K	98	20,598,129	\$49,000	\$2,995,329	\$66	\$3,044,395	\$310,411	10.20%	1.507
TOTAL	<u>1,293,230</u>	<u>123,775,395</u>	<u>\$13,731,160</u>	<u>\$33,326,339</u>	<u>\$931,833</u>	<u>\$47,989,332</u>	<u>\$4,893,061</u>	<u>10.20%</u>	

FLORIDA CITY GAS
 PRESENT AND INTERIM RATES
 DOCKET NO. 20170179-GU

RATE CODE	RATE SCHEDULE	PRESENT RATE	INTERIM INCREASE	INTERIM RATE
GS-1	<u>GENERAL SERVICE - 1</u>			
	CUSTOMER CHARGE	\$8.00	N/A	\$8.00
	DISTRIBUTION CHARGE (cents/therm)	56.213	18.538	74.751
GS-100	<u>GENERAL SERVICE - 100</u>			
	CUSTOMER CHARGE	\$9.50	N/A	\$9.50
	DISTRIBUTION CHARGE (cents/therm)	52.248	13.510	65.758
GS-220	<u>GENERAL SERVICE - 220</u>			
	CUSTOMER CHARGE	\$11.00	N/A	\$11.00
	DISTRIBUTION CHARGE (cents/therm)	49.531	10.715	60.246
GS-600	<u>GENERAL SERVICE - 600</u>			
	CUSTOMER CHARGE	\$12.00	N/A	\$12.00
	DISTRIBUTION CHARGE (cents/therm)	43.663	6.206	49.869
GS-1.2K	<u>GENERAL SERVICE - 1.2K</u>			
	CUSTOMER CHARGE	\$15.00	N/A	\$15.00
	DISTRIBUTION CHARGE (cents/therm)	31.715	3.792	35.507
GS-6K	<u>GENERAL SERVICE - 6K</u>			
	CUSTOMER CHARGE	\$30.00	N/A	\$30.00
	DISTRIBUTION CHARGE (cents/therm)	27.487	3.160	30.647
GL	<u>GAS LIGHTING</u>			
	CUSTOMER CHARGE	\$0	N/A	\$0
	DISTRIBUTION CHARGE (cents/therm)	59.535	6.070	65.605
GS-25K	<u>GENERAL SERVICE - 25K</u>			
	CUSTOMER CHARGE	\$80.00	N/A	\$80.00
	DISTRIBUTION CHARGE (cents/therm)	27.618	3.122	30.740
GS-60K	<u>GENERAL SERVICE - 60K</u>			
	CUSTOMER CHARGE	\$150.00	N/A	\$150.00
	DISTRIBUTION CHARGE (cents/therm)	27.477	2.972	30.449
GS-120K	<u>GENERAL SERVICE - 120K</u>			
	CUSTOMER CHARGE	\$250.00	N/A	\$250.00
	DISTRIBUTION CHARGE (cents/therm)	18.084	2.193	20.277
	DEMAND CHARGE (per demand charge quantity)	\$0.289	N/A	\$0.289
GS-250K	<u>GENERAL SERVICE - 250K</u>			
	CUSTOMER CHARGE	\$300.00	N/A	\$300.00
	DISTRIBUTION CHARGE (cents/therm)	17.191	2.070	19.261
	DEMAND CHARGE (per demand charge quantity)	\$0.289	N/A	\$0.289
GS-1,250K	<u>GENERAL SERVICE - 1.250K</u>			
	CUSTOMER CHARGE	\$500.00	N/A	\$500.00
	DISTRIBUTION CHARGE (cents/therm)	12.225	1.507	13.732
	DEMAND CHARGE (per demand charge quantity)	\$0.289	N/A	\$0.289