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March 5, 2018

E-Portal

Ms. Carlotta Stauffer, 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, please find the Prehearing Statement of Florida City Gas for the referenced docket. As always, please don't hesitate to let me know if you have any questions. Thank you for your assistance with this filing.

Kind regards,

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cc:/ (Service List)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for rate increase by Florida City Gas.	DOCKET NO. 20170179-GU DATED: March 5, 2018

FLORIDA CITY GAS COMPANY'S
PREHEARING STATEMENT

Pursuant to the requirements of the Order on Procedure, Order No. PSC-2017-0427-PCO-GU, as revised by Order No. PSC-2017-0461-PCO-GU, Florida City Gas ("FCG" or "Company") hereby submits its Prehearing Statement.

A. Known Witnesses

FCG intends to offer the following testimony:

Witness (Direct)	**Subject Matter**	**Issues #**
Carolyn Bermudez	Overview of FCG and Rate Case Request	Issues 1, 4, 6, 7, 19, 38, 39, 41, 42, 44, 49, 57, 66, 67, 69, 70, 73
Matthew Kim	Permanence of Cost Savings Associated with PSC-approved Acquisition Adjustment; 2008 Regulatory Asset; Storm Damage Reserve; and Shared Services	Issues 19, 22, 40, 42, 43, 49
Ron Muller	Capital Investments between 2005-1017; Capital Expenditure Budget Process; and MFR I-4	Issues 14, 16
Emeka Igwilo	Training, Technology and Process Improvements Impacting Customer Care, Resource Management, and Field Operations; MFRs	Issues 7, 65
Daniel Nikolich	Sales, Service, and Revenue Forecasting and Methodology; Class Cost of Service Study; Rate Design and MFRs	Issues 2, 3, 5, 33, 34, 35, 58, 59, 60, 61, 62, 63, 64, 65,
Michael Morley	Need for Rate Case; Revenue Requirement; Rate Base and Operating Income; Capital Structure and Cost of	Issues 1, 12, 13, 14, 16, 17, 18, 20, 21, 23, 24, 25,

	Capital; SAFE Accounting Treatment; Parent Debt Adjustment; Interim Rates; and various MFRs	26, 27, 28, 29, 31, 32, 36, 37, 38, 39, 40, 41, 44, 45, 46, 47, 48, 49, 50, 51, 52, 53, 54, 55, 56, 57, 64, 73, 74
Dane Watson	Depreciation	Issues 8, 9, 10, 11
James Vander Weide	Cost of Equity	Issues 28, 29, 30, 32
David Meiselman	Miscellaneous Tariff Changes; MFR E-9	Issues 66, 67, 68, 69, 70, 71, 72, 73
Gregory Becker	Capacity Requirements; Capacity Allocation Proposal; LNG Capacity; and Additional Interstate Pipeline Capacity	Issues 4, 5, 6, 68
Stephen Wassell[1]	Specifics and Benefits of Proposed LNG Facility	Issues 6, 15
James Garvie	Compensation and Benefits	Issues 39, 41
Witness (Rebuttal)	**Subject Matter**	**Issues #**
James Garvie	Compensation and Benefits	Issues 39, 41
Dane Watson	Depreciation	Issue 9
Matthew Kim	Storm Damage Reserve Accrual and Target; Pension Regulatory Asset	Issues 40, 42, 43
Daniel Nikolich	Allocation Methodology; Allocation of LNG facility costs; SAFE surcharge recovery	Issues 58, 59, 64
Michael Morley	Impact of Tax Cuts and Jobs Act; Revenue Expansion Factor; Refund of Interim Rates; SAFE accounting; capitalized incentive compensation; depreciation rate timing impact	Issue 13, 14, 28, 29, 37, 39, 41, 48, 52, 57, 74
James Vander Weide	Cost of Equity	Issues 28, 29, 30

[1] Portions Confidential.

Stephen Wassell[2]	Contingency; LNG options	Issue 6
Gregory Becker	FCG System and Capacity Requirements; Available Capacity; and Capacity Options	Issues 4, 5, 6
Terry Deason	Policy Considerations Associated with Pipeline and LNG Capacity Proposals; Employee Compensation/Long-term Incentive	Issues 4 and 39
Carolyn Bermudez	Need for LNG Facility To Support Service for Sales and Transportation; Need for Capacity to Uphold Service Obligations; Need for Employees	Issues 4, 6, 38

B. <u>Known Exhibits</u>

Florida City Gas intends to sponsor the following exhibits:

Witness	**Proffered by**	**Exhibit #**	**Description**
Direct			
Matthew Kim	FCG	MK-1[3]	Acquisition Net Savings
		MK-2	AGL Services Agreement
		MK-3[4]	Storm-related Costs
Daniel J. Nikolich	FCG	DJN-1	CV
		DJN-2	Base +1 Rates and Revenues
		DJN-3	Projected Rates and Revenues for Test Year Under Existing

[2] Portions Confidential
[3] As corrected on February 5, 2018.
[4] As corrected on February 5, 2018.

Witness	Proffered by	Exhibit #	Description
			Structure
		DJN-4	Rates and Revenues for Projected Test Year under Proposed Structure
		DJN-5	Heating Degree Day Patterns
		DJN-6	Annual Usage Comparison
		DJN-7	Demand Charge Quantities
		DJN-8	Non-Linear Demand and Cubic Spline Method
		DJN-9	Allocation of Interim
		DJN-10	Average Meter and Service Costs per Class
Daniel J. Nikolich	FCG	DJN-11	Revenue Deficiency by Class
		DJN-12	Bypass Analysis
		DJN-13	Customer Charge Comparison
		DJN-14	Calculation of Proposed Rates (confidential)
Dane A. Watson	FCG	DAW-1	Experience/CV
		DAW-2	FCG Depreciation Study
		DAW-3	Comparison of Annual Depreciation Accrual Expense
Gregory Becker	FCG	GB-1	FCG System Map
		GB-2	Comparison of

Witness	Proffered by	Exhibit #	Description
			Capacity Options to LNG (confidential)
		GB-3	Load vs. Supply Summary
Michael J. Morley	FCG	MJM-1	List of MFR Schedules sponsored by Witness Morley
James Vander Weide	FCG	JVW-1	Schedules Supporting Dr. Vander Weide's Testimony (composite)
		JVW-2	Appendices to Dr. Vander Weide's Testimony (composite)
Multiple FCG Witnesses	FCG		Minimum Filing Requirements (MFR) Schedules A, B, C, D, E, F, G, H[5], and I[6]
Witness (Rebuttal)			
Michael J. Morley	FCG	MJM-2	Revised MFR Schedules G-3, page 2; G-4, and G-5
James Garvie	FCG	JMG-1	Competitive Review of FCG's Pay Programs
Dane Watson	FCG	DAW-4	Depreciation Study Comparisons
		DAW-5	Affidavit of William Adams/Performance Pipe

[5] MFR H-1 contains confidential information; identical to DJN-14 and DJN-17.
[6] Schedules A, E, G, and H corrected to reflect federal tax changes on February 26, 2018; Schedule I corrected on November 17, 2017; Schedule F corrected on November 27, 2017.

Witness	**Proffered by**	**Exhibit #**	**Description**
		DAW-6	Computation of Depreciation Accrual Rates using OPC Witness Garrett's Parameters
James Vander Weide	FCG	JVW-3	Estimates of Long-Term GDP Growth
Terry Deason	FCG	TD-1	Biographical Information
Gregory Becker	FCG	GB-4	FCG System Map
		GB-5	FCG System + FGT
		GB-6	FCG System + Interstate Pipelines
		GB-7	January 2018 Capacity Releases
		GB-8	Index of Customers
		GB-9	Operational Capacity by Delivery Meter
Gregory Becker	FCG	GB-10 (confidential)	Curtailment Examples
Stephen Wassell	FCG	SLW-1	Comparison of Pipeline Construction Costs
Daniel J. Nikolich	FCG	DJN-15	FCG System Design by Rate Class
		DJN-16	FCG Minimum Size Study and Development of CCOS Cost Allocators
		DJN-17 (confidential)	MFR H-1 Revised for Tax Reform and Applying FEA's Proposed Allocation Methodology

Witness	Proffered by	Exhibit #	Description
		DJN-18	MFR H-2 Revised for Tax Reform and Applying FEA's Proposed Allocation Methodology
		DJN-19	MFR H-3 Revised for Tax Reform and Applying FEA's Proposed Allocation Methodology
		DJN-20	Rate Design Impact Summary for Tax Reform and Applying FEA's Proposed Allocation Methodology
		DJN-21	Comparison of Company's Proposed to Current Rates (MFR E2) Revised for Tax Law Changes

C. <u>Basic Position</u>

FCG's current rates and charges are no longer sufficient to allow the Company a reasonable opportunity to earn a fair rate of return for the projected test year January 2018 through December 2018 and beyond. It has been nearly 14 years since FCG filed its last request for a rate adjustment. FCG has made every effort to delay this request for as long as possible. As a natural gas utility, the Company is, however, required to make significant, long-term capital investments to provide safe and reliable service to its customers. At this juncture, the Company has reached a point where it must request for rate relief so that it can continue to provide safe and reliable service to its customers.

Initially, the Company filed this case requesting an increase in rates and charges of $19.3 million, which included $3.5 million in SAFE revenues to be transferred from the current surcharge into base rates. With the enactment of the Tax Cuts and Jobs Act (G.L.c 164, § 94) ("Act"), the Company has revised its MFRs to pass the tax benefits associated with that Act on to its customers. With those revisions, the Company is now requesting an annual increase in rates and charges sufficient to produce $15,816,429 in additional annual revenues, which, again, contemplates reducing the current SAFE surcharge to $0. The Company is also proposing that the Commission accept its Depreciation Study filed in this proceeding, as well as the proposed depreciation rates recommended therein, which will produce significant savings in depreciation expense going forward to the benefit of FCG's customers. The proposed effective date for these depreciation rates is consistent with the Commission's rules, and the Company has properly accounted for this within its minimum filing requirement schedules ("MFRs"). The Company has properly addressed known changes within its MFRs, and none of the intervenor testimony filed in this proceeding supports any further changes to the rate relief requested. As such, the Company asks that the Commission grant the requested revenue increase as necessary to enable the Company to continue to provide safe, reliable service to its customers, while also allowing the Company to appropriately recover its costs to serve and an adequate return on its investment, consistent with both federal and Florida law.

The majority of the Company's need for an increase is associated with its capital spend. Much of that increase in capital expenditures is associated with the investments necessary to ensure continued compliance with Pipeline and Hazardous Materials Safety Administration ("PHMSA") regulatory changes pertaining to natural gas distribution and transmission facility integrity management plans, as well as, the recent curb valve changes, have contributed to the capital investment increases. Coupled with the increase in capital spend are the increases in depreciation expense resulting from the additional 455 miles of mains installed since its last rate case.

The Company is also faced with the challenge of ensuring that it holds enough capacity to ensure reliable service to its customers during peak demand times, while also allowing for continued system expansion. This is particularly critical for customers on the southern end of FCG's system where customer demand for natural gas service is higher, but capacity is more constrained. As such, the Company is proposing the construction of an liquefied natural gas ("LNG") facility to provide back-up gas supply during emergencies and peak periods, as necessary. This significant and necessary capital project has been another important factor in FCG's decision to pursue a rate increase, and is necessary to ensure that the Company has sufficient capacity available to ensure its system integrity and reliable service to both sales and transportation customers, including, but not limited to, critical need facilities, such as hospitals and nursing homes, that rely upon FCG's natural gas as emergency back-up energy supply.

In addition, the Company is faced with increased costs associated with the development and training of a new workforce. Like other companies in the utility industry, the Company has an aging workforce and a pending skills and knowledge gap. The average age of FCG's overall workforce is 45 and the average age for field technicians is 44. Currently 20% of the Company's workforce is retirement eligible and that number will be 36% in three years. These numbers do not include employee attrition of 5%. FCG must be positioned to meet its future operational needs with the next generation of employees who are well trained and ready to meet customer needs.

FCG is also proposing that it be allowed to establish a storm reserve with a target of $1,000,000 and an annual accrual of $100,000 reflected in its expenses. Consistent with the methodology and rationale supporting the existing storm reserves of other Florida natural gas utilities, FCG seeks to establish a reserve that will better enable it to respond to the impacts of significant weather events on our system without the time, expense, and regulatory uncertainty of pursuing a base rate proceeding every time storms inflict significant damage to FCG's system. Recent experience, as well as historical data, demonstrates that a storm reserve would put us in a better position financially to address storm damages.

Under its current rates, FCG's earned return on equity will be well below its allowed return. The Company's average rate base for the test year period is projected to be $303,216,950. Without the requested rate increase, the jurisdictional net operating income for the Company in the same period is projected to be $10,823,447. The projected rate of return is, consequently, projected to be 3.57 percent, while the return on common equity is projected to be 3.97 percent in the test year. As such, FCG asks that the Commission approve the requested increase to allow the Company an overall rate of return of 6.57 percent, including a mid-point ROE of 11.25 percent.

Furthermore, without the requested increase, FCG's ability to continue to make necessary investments to continue to provide safe and reliable service to the approximately 108,000 residential, commercial and industrial natural gas customers in Florida's Miami-Dade, Brevard, St. Lucie, Palm Beach, Glades, Hendry, Broward, and Indian River counties will be in jeopardy.

Thus, for these reasons, as well as others detailed in the testimony and exhibits of FCG's witnesses in this proceeding, FCG respectfully requests an increase in rates and charges that will produce an overall annual revenue increase of $15,816,429.

D. – F. Issues

Florida City Gas' position on the issues identified are as follows:

TEST PERIOD AND FORECASTING

ISSUE 1: Is FCG's projected test period of the twelve months ending December 31, 2018, appropriate?

FCG: Yes. The 12-month period ending December 31, 2018, as reflected in FCG's MFRs, is the most appropriate test period, because it is representative of FCG's future operations. FCG is not aware of any dispute identified by any intervenor regarding the Company's proposed projected test year. (Morley, Bermudez)

ISSUE 2: Are FCG's forecasts of customer and therms by rate class for the projected test year ending December 31, 2018 appropriate? If not, what adjustments should be made?

FCG: Yes. FCG's forecasts of customer and therm sales by rate class are based upon reliable methods utilized by the Company, and accepted by the Commission, in prior rate cases for FCG. (Nikolich)

ISSUE 3: Are FCG's estimated revenues from sales of gas by rate class at present rates for the projected test year appropriate? If not, what adjustments should be made?

FCG: Yes. FCG applied the Company's present rates to the forecast billing determinants, which produced the estimated gas sales revenues for the 2018 projected test year. (Nikolich)

CAPACITY NEEDS

ISSUE 4: Should FCG have firm transportation capacity available to any or all transportation customers?

FCG: Yes. As a regulated natural gas utility, FCG is obligated to provide safe and reliable service to all of its customers, to take all reasonable efforts to minimize disruptions, and to make every reasonable effort necessary to maintain adequate gas pressure. As such, FCG must take steps to ensure that adequate capacity is available for all customers on its system so that it can continue to provide service to its customers at a level consistent with the standards set forth in the Rules of the Florida Public Service Commission. In this proceeding, FCG has described the following three-pronged approach to ensure that the capacity needs of both its sales and transportation service customers are supported: 1) the purchase of additional interstate pipeline firm capacity; 2) implementation of a new requirement that shippers on its system take (and pay for) an allocated amount of FCG's interstate firm capacity that coincides with the FCG transportation customers each shipper serves; and 3) construction of an LNG facility to provide back-up, "peaking," capacity to the most capacity-constrained portion of FCG's system. Through approval and implementation of this plan, FCG will ensure that sufficient firm transportation capacity is available to maintain its system integrity and reliable service to its customers. (Becker, Bermudez, Deason)

ISSUE 5: Are FCG's forecasts of design day load, by division, for sales and transportation customers appropriate? If not, what adjustments should be made?

FCG: Yes. FCG's forecasts are based on reliable methods that produce accurate results and have been relied upon by FCG in prior rate case proceedings. (Nikolich, Becker)

ISSUE 6: Are FCG's proposed measures to add firm capacity, including additional firm transportation service from FGT and construction and operation of an LNG facility, to its system reasonable?

FCG: Yes. Taking into account FCG's system operational requirements, its duty to provide safe and reliable service to its customers, the physical inability to limit gas to any subcategory of customers during periods of forecasted peak demand, as well as all other relevant factors, including, but not limited to, cost, FCG's system design and location, and feasibility of options available, FCG's proposed measures to acquire additional firm capacity from FGT and to construct and operate an LNG facility, are a prudent and reasonable approach to ensure FCG maintains its ability to provide safe and reliable service for its customers at fair and reasonable rates. (Becker, Wassell, Bermudez)

QUALITY OF SERVICE

ISSUE 7: Is the quality of service provided by FCG adequate?

FCG: Yes. FCG provides a high quality of service as indicated by its low complaint levels, which reflect a dramatic 88% reduction in customer complaint levels from 2004. Moreover, the Company exceeds industry standards in several customer service performance metrics. (Igwilo, Bermudez)

DEPRECIATION STUDY

ISSUE 8: Should the Commission establish an annual depreciation rate applicable to FCG's liquefied natural gas storage assets?

FCG: Yes. (Watson)

ISSUE 9: What are the appropriate depreciation parameters (remaining life, net salvage percentage, and reserve percentage) and resulting depreciation rates for each distribution and general plant account?

FCG: The appropriate depreciation parameters and rate components are set forth in the depreciation study submitted as Exhibit DAW-2 to the direct testimony of Dane Watson on behalf of the Company. The depreciation study was performed by the firm that employs Mr. Watson, Alliance Consulting Group, which is an independent, third-party consultant that regularly provides depreciation analyses for utilities. The depreciation study will produce a significant reduction in depreciation expense, which will inure to the benefit of FCG's ratepayers. (Watson)

ISSUE 10: Based on the application of the depreciation parameters that the Commission has deemed appropriate to FCG's data, and a comparison of the theoretical reserves to the book reserves, what, if any, are the resulting imbalances?

FCG: The comparison of book to theoretical reserve results in a total difference of $11.5 million, which is comprised of a positive $12.8 million for the Distribution function and a negative $1.3 million for the General function. (Watson)

ISSUE 11: What, if any, corrective depreciation reserve measures should be taken with respect to any imbalances identified in Issue 10?

FCG: The use of the proposed remaining life technique adds a self-correcting mechanism, which account for any differences between theoretical and book depreciation reserve over the remaining life of each account (group). No additional corrective measures are proposed, with exception of the General Plant accounts (391, 393, 394, 395, 397, and 398) where Vintage Group Amortization is being implemented. For Vintage Group Amortization accounts, the reserve difference (true up) is proposed to be amortized over a five (5) year period. (Watson)

ISSUE 12: What, if any, are the appropriate capital recovery schedules?

FCG: There are none. FCG has proposed no capital recovery schedules in this proceeding. (Morley)

ISSUE 13: What should be the implementation date for revised depreciation rates, capital recovery schedules, and amortization schedules?

FCG: The effective date of new depreciation rates should coincide with the effective date of new base rates established in this docket. (Morley)

RATE BASE

ISSUE 14: What is the appropriate amount of plant and accumulated depreciation to include in the projected test year for FCG's SAFE program?

FCG: The appropriate amount to include is $3,509,729, which will be offset by resetting the SAFE surcharge to 0$. (Morley, Muller)

ISSUE 15: What is the appropriate amount for plant in service for FCG's proposed LNG facility?

FCG: The appropriate amount for plant in service for FCG's proposed LNG facility is $58 million. (Wassell)

ISSUE 16: What is the appropriate level of plant in service for the projected test year?

FCG: The appropriate amount of Plant in Service for FCG's 2018 projected test year is $429,446,193. (Muller, Morley)

ISSUE 17: Has FCG made the appropriate adjustments to Common Plant Allocated and Accumulated Depreciation – Common Plant Allocated, to reflect corporate plant allocated to FCG from AGL Services Company (AGSC)?

FCG: Yes. Consistent with the Commission's findings in the Company's last rate case, FCG has made the appropriate adjustments to common plant allocations. (Morley)

ISSUE 18: Has FCG made the appropriate adjustments to remove all non-utility activities from Plant in Service, Accumulated Depreciation, and Working Capital?

FCG: Yes, as reflected in the Company's MFRs, non-utility activities have been excluded from the identified categories, as appropriate. (Morley)

ISSUE 19: Should any adjustments be made to the amounts included in the projected test year for acquisition adjustment and accumulated amortization of acquisition adjustment?

FCG: No. The acquisition of FCG by AGL Resources, now Southern Company Gas, continues to produce significant savings, as well as other benefits, as contemplated by the Commission in Docket No. 20060657-GU. Therefore, no adjustment should be made. (Kim, Bermudez)

ISSUE 20: What is the appropriate level of CWIP to include in the projected test year?

FCG: The appropriate amount related to CWIP that should be included in rate base is $30,962,948. (Morley)

ISSUE 21: What is the appropriate level of Gas Plant Accumulated Depreciation and Amortization for the projected test year?

FCG: The appropriate level is $177,918,948 on an average adjusted basis. (Morley)

ISSUE 22: Should an adjustment be made to the GCUA Regulatory Asset (offset of accelerated pension costs) authorized by Order No. PSC-07-0913-PAA-GU?

FCG: No. The GCUA has now been fully amortized as of the end of February 2018, in accordance with the schedule approved by Order No. PSC-07-0913-PAA-GU. Inclusion of the remaining, unamortized amount of $27,375 in the Company's test year appropriately recognizes a known cost in the test year that was previously contemplated by the Commission. (Kim)

ISSUE 23: Have under recoveries and over recoveries related to the Purchased Gas Adjustment, Energy Conservation Cost Recovery, and Area Expansion Plan been appropriately reflected in the Working Capital Allowance?

FCG: Amounts associated with the PGA and ECCR Clauses are projected to be over-recoveries. As such, the Company has retained these amounts in working capital as a reduction to rate base.

The Company's AEP is projected to be an under-recovery and has, therefore, been removed from working capital as an adjustment. (Morley)

ISSUE 24: What is the appropriate level of working capital for the projected test year?

FCG: The appropriate level of working capital to be included in the projected test year is $5,048,873. (Morley)

ISSUE 25: What is the appropriate level of rate base for the projected test year?

FCG: The appropriate amount is $303,216,950. (Morley)

COST OF CAPITAL

ISSUE 26: What is the appropriate amount of accumulated deferred taxes to include in the projected test year capital structure?

FCG: The appropriate amount of accumulated deferred taxes for inclusion in the test year capital structure is $45,161,542. (Morley)

ISSUE 27: What is the appropriate amount and cost rate of the unamortized investment tax credits to include in the capital structure?

FCG: The appropriate amount and cost rate of unamortized investment tax credits to be included in the Company's capital structure is $0. (Morley)

ISSUE 28: What is the appropriate amount and cost rate for short-term debt to include in the projected test year capital structure?

FCG: The appropriate cost rate for short-term debt for the 2018 projected test year is 2.64%. The appropriate amount for inclusion is $14,707,069. (Morley, Vander Weide)

ISSUE 29: What is the appropriate amount and cost rate for long-term debt to include in the projected test year capital structure?

FCG: The appropriate cost rate for long-term debt for the 2018 projected test year is 4.69%. The appropriate amount for inclusion is $114,428,752. (Morley, Vander Weide)

ISSUE 30: What is the appropriate authorized return on equity (ROE) to use in establishing FCG's projected test year revenue requirement?

FCG: The appropriate ROE to use in establishing FCG's revenue requirement is 11.25%, which is derived by applying recognized cost of equity methods to comparable natural gas utilities to arrive at an ROE of 10.3, which is then adjusted conservatively to account for the higher financial risk associated with FCG's capital structure as compared to the proxy companies. (Vander Weide)

ISSUE 31: Has FCG made the appropriate adjustments to remove all non-utility investments from the common equity balance?

FCG: Yes. (Morley)

ISSUE 32: What is the appropriate weighted average cost of capital to use in establishing FCG's projected test year revenue requirement?

FCG: The appropriate weighted average cost of capital is 6.57%. (Morley, Vander Weide)

NET OPERATING INCOME

ISSUE 33: Has FCG properly removed Purchased Gas Adjustment and Energy Conservation Cost Recovery Revenues, Expenses, and Taxes-Other from the projected test year?

FCG: Yes. FCG has made the appropriate test year adjustments to remove the revenues, expenses, and taxes associated with the PGA and the ECCR clauses. (Nikolich)

ISSUE 34: What is the appropriate amount of miscellaneous revenues?

FCG: The appropriate amount of Miscellaneous Revenues for the projected test year is $3,164,078. (Nikolich)

ISSUE 35: Is FCG's projected Total Operating Revenues for the projected test year appropriate (fallout issue)?

FCG: The projected Total Operating Revenues for FCG for the projected test year are $53,847,331. (Nikolich)

ISSUE 36: Has FCG made the appropriate adjustments to remove all non-utility activities from operation expenses, including depreciation and amortization expense?

FCG: Yes, FCG has made the appropriate adjustments to its operations expenses. (Morley)

ISSUE 37: Should an adjustment be made to Uncollectible Accounts and for Bad Debt in the Revenue Expansion Factor?

FCG: No. The Company appropriately used a three-year average net bad debt write-off to revenues ratio in computing its proposed bad debt rate in the revenue expansion factor. The Company did modify the Revenue Expansion Factor to recognize tax reform, as reflected in the revised MFRs filed on February 26, 2018. (Morley)

ISSUE 38: Should an adjustment be made to the number of employees in the projected test year?

FCG: No. The Company has included the appropriate and necessary number of employee positions in its filing. No adjustment should be made. (Morley, Bermudez)

ISSUE 39: What is the appropriate amount of salaries and benefits to include in the projected test year?

FCG: The appropriate amount of salaries and benefits to include in the projected test year is $14,329,625, as reflected in MFR G-2, not including $2,013,919 of employee benefits addressed in Issue 41 below. (Morley, Bermudez, Garvie, Deason)

ISSUE 40: Should an adjustment be made to the amortization of the GCUA Regulatory Asset (offset of accelerated pension costs) authorized by Order No. PSC-07-0913-PAA-GU?

FCG: No. (Kim, Morley)

ISSUE 41: What is the appropriate amount of pensions and post-retirement benefits expense to include in the projected test year?

FCG: The appropriate amount of pensions and benefits to be included in the projected test year is $2,013,919. (Garvie, Morley, Bermudez)

ISSUE 42: Should the Commission allow FCG to establish a storm damage reserve?

FCG: Yes, the Commission should allow FCG to establish a storm damage reserve. A storm reserve is a prudent approach to addressing potential storm costs and is a mechanism commonly employed by Florida utilities. (Kim, Bermudez)

ISSUE 43: What is the appropriate annual storm damage accrual?

FCG: The appropriate accrual amount is $100,000, which is a conservative number based on the average storm-related costs in the past five years. (Kim)

ISSUE 44: Is a Parent Debt Adjustment pursuant to Rule 25-14.004, Florida Administrative Code, appropriate, and if so, what is the appropriate amount?

FCG: A parent-debt adjustment is not appropriate for FCG, because only two of the three factors in provided in Rule 25-14.004, Florida Administrative Code, are met. FCG is using the consolidated capital structure of its parent company, Southern Company Gas, as the basis for FCG's capital structure. (Morley, Bermudez)

ISSUE 45: Should an adjustment be made to Regulatory Commission Expense, for Rate Case Expense for the projected test year and what is the appropriate amortization period?

FCG: No. The Company has appropriately included in its projected test year the appropriate amount of $300,000 in annual expense for the amortization of $1.2 million in rate case costs over a four-year amortization period. (Morley)

ISSUE 46: What is the appropriate amount of projected test year O&M expenses?

FCG: The appropriate amount of O&M expense to be included in the projected test year is $22,903,906. (Morley)

ISSUE 47: Has FCG made the appropriate adjustments to Common Plant Allocated Depreciation and Amortization Expense to reflect corporate plant allocated to FCG from AGL Services Company (AGSC)?
FCG: Yes, FCG has made the appropriate adjustments as reflected on MFR g-2, p. 26. (Morley)

ISSUE 48: What is the appropriate amount of depreciation expense to include in the projected test year for FCG's SAFE program?
FCG: The appropriate amount of depreciation expense associated with the SAFE program is $811,741. (Morley)

ISSUE 49: Should any adjustments be made to the amounts included in the projected test year for amortization expense associated with the acquisition adjustment?
FCG: No. The amortization expense associated with the acquisition adjustment is correct and should not be adjusted, because the Company continues to benefit from savings associated with the acquisition adjustment consistent with those contemplated by the Commission in approving the acquisition adjustment. (Kim, Bermudez, Morley)

ISSUE 50: What is the appropriate amount of Depreciation and Amortization Expense for the projected test year?
FCG: The appropriate amount of Amortization and Depreciation Expense to be included in the projected test year is $16,591,718. (Morley, Watson)

ISSUE 51: What is the appropriate amount of projected test year Taxes Other than Income?
FCG: The appropriate amount of Taxes Other than Income taxes for inclusion in the projected test year is $2,900,349, of which $239,300 is associated with SAFE. (Morley).

ISSUE 52: What adjustments, if any, need to be made to the projected test year for the Tax Cuts and Jobs Act (G.L.C.164, §94) signed into law on December 22, 2017, with an effective date of January 1, 2018?

FCG: The appropriate adjustment should be reflected in MFR Schedules A, E, H, and G, as noted in the revised MFRs filed on February 26, 2018, and previously provided in response to discovery from the Office of Public Counsel. (Morley)

ISSUE 53: What is the appropriate amount of projected test year Income Tax Expense (fall-out issue)?

FCG: The appropriate Income Tax Expense for inclusion in the projected test year is $627,911. (Morley)

ISSUE 54: What is the appropriate amount of Total Operation Expenses for the projected test year?

FCG: The total operation expense is $43,023,884. (Morley)

ISSUE 55: What is the appropriate amount of Net Operating Income for the projected test year?

FCG: The appropriate calculation of the Company's NOI is $10,823,447. (Morley)

REVENUE REQUIREMENTS

ISSUE 56: What are the appropriate revenue expansion factor and the appropriate net operating income multiplier, including the appropriate elements and rates for FCG?

FCG: The appropriate revenue expansion factor, adjusted for tax reform, is 73.9546 and the NOI multiplier is 1.3522 . (Morley)

ISSUE 57: What is the appropriate annual operating revenue increase for the projected test year?

FCG: The appropriate annual revenue increase is $12,306,700, to which the $3,509,729, in SAFE revenues should be added, for a total annual revenue increase of $15,816,429. (Morley, Bermudez)

COST OF SERVICE AND RATE DESIGN

ISSUE 58: Is FCG's proposed cost of service study appropriate?

FCG: Yes, FCG's cost of service study is appropriate and consistent with the methodologies utilized by the Company in prior rate cases. The Company's study also follows the presentation format contained in the H Schedules of the prescribed MFR forms. Adjustments were made to appropriately recognize that the model allocates a disproportionate share of capacity costs to the large-volume customer classes. These adjustments are based on market considerations, such as certain customers' ability to effectively bypass FCG's distribution system for a cost significantly lower than it otherwise would be based upon allocations within the cost study. Each of the market-based rate adjustments was accomplished through a reallocation of cost in the Direct and Special Cost section of MFR Schedule H-2. (Nikolich)

ISSUE 59: What is the appropriate class revenue allocation?

FCG: The appropriate class revenue allocation is peak and average. (Nikolich)

ISSUE 60: Should FCG's proposal to replace its existing volumetric rate classes with three new residential and six new commercial rate classes be approved?

FCG: Yes. The Company is proposing these changes to simplify its rate structure by, first, re-establishing the distinction between residential and commercial/ industrial customers. And second, to reduce the number of rate classes into larger volumetric buckets based upon the size and types of meters needed to serve each grouping. These changes should serve to reduce cross-subsidization between customers, allow rates to more closely follow cost causation, and present customers with a simpler and more easily understood rate categories. Over the almost 14 years these rate classifications have been in effect, FCG has found that the average size of meters and services and the associated cost varies significantly between residential and commercials customers. These differences seem to arise from the variations in end use applications between residential and commercial users. The proposed separate residential and commercial rate classes will thus provide fairer rates that more closely track cost causation. Further, the Company has not been able to achieve cost savings by combining residential and commercial customers of similar volume due to the fact that they must be tracked separately to meet the taxation requirements of state and local governments. Therefore, re-establishing the distinction between residential and commercial/ industrial customers is appropriate. (Nikolich)

ISSUE 61: What are the appropriate customer charges?

FCG: The appropriate customer charges are as follows:

RS-1	$12.00
RS-100	$15.00
RS-600	$20.00
GS-1	$25.00
GS-6k	$35.00
GS-25k	$150.00
GS-120k	$300.00
GS-1250k	$500.00
GS-11M	$1,000.00
GS-25M	$2,000.00
NGV	$25.00
Contract	(Set by Contract)
TPS	$400.00

(Nikolich)

ISSUE 62: What are the appropriate per therm distribution charges?

FCG: The appropriate per therm distribution charges are as follows:

	Cents Per Therm
RS-1	357.9305
RS-100	169.5842
RS-600	46.4099
GS-1	18.1094
GS-6k	5.2174
GS-25k	0.7644
GS-120k	3.1784
GS-1250k	18.6693
GS-11M	8.0000

GS-25M	4.0000
Gas Lighting	40.00
NGV	18.1094
Contract	(Set by Contract)

(Nikolich)

ISSUE 63: What are the appropriate demand charges?

FCG: The appropriate demand charges are as follows:

GS-120k	$5.75
GS-1250k	$5.75
GS-11M	$5.75
GS-25M	$5.75
TPS	$6.05

(Nikolich)

ISSUE 64: What are the appropriate safety, access, and facility enhancement (SAFE) surcharges?

FCG: The appropriate SAFE surcharge, upon implementation of new base rates from this proceeding, is $0. (Nikolich, Morley)

ISSUE 65: What are the appropriate miscellaneous service charges (connect charges, reconnection charges, returned check charges, change of account, bill collection in lieu of disconnection, temporary disconnection of service, and failed trip charge)?

FCG: The appropriate miscellaneous charges are as follows:

Connection Charge Residential	$80
(Outside normal business hours)	$100
Connection Charge - Non-residential	$150
(Outside normal business hours)	$200
Reconnection Charge Residential	$40
(Outside normal business hours)	$80
Reconnection Charge - Non-residential	$50
(Outside normal business hours)	$100

Failed Trip Charge	$20
Late Payment Charge	$5.00 or 1.5%
Change of account	$20.00
Bill collection in lieu of disconnection	$25.00
(outside of normal business hours)	$32.00
Meter read outside normal schedule	$15.00
(outside of normal business hours)	$22.00
Temporary Disconnect	$35.00
(outside normal business hours)	$45.00
Returned Check	$25 (Check $50 or below) $30 (Check value is $51 - $300) $40 (Check value greater than $300) Or 5 percent of the face amount

(Nikolich, Igwilo, Meiselman)

ISSUE 66: Is FCG's proposed revision to its customer deposit tariff appropriate?

FCG: Yes, the proposed tariff revision is consistent with the revisions to Section 366.05(1)(c), Florida Statutes, which describe the specific calculation of deposits for existing accounts and new service.

(Meiselman, Bermudez)

ISSUE 67: Is FCG's proposed revision to its right to suspend or discontinue service to a customer tariff appropriate?

FCG: Yes. The Company should be allowed to suspend or discontinue service if the Company has reasonable evidence that there is, or may be, a danger from the Customer or any occupant and/or invitee of the Customer's Premises to Company personnel or agents who might be called to said Premises in the course of their duties with the Company, including but not limited to any direct or implied threats against the Company or its personnel or agents from said Customer or occupant and/or invitee. (Meiselman, Bermudez)

ISSUE 68: Should FCG's proposed revisions to its Transportation – Special Conditions tariff regarding the allocation and release of interstate capacity be approved?

FCG: Yes. The Commission should approve the Company's revisions to the Transportation – Special Conditions section, which reflect a process for allocating and releasing interstate pipeline capacity to Third Party Suppliers. Additionally, it has been revised to clarify the service for

former Transportation customers who become Sales customers. The proposed changes to the Transportation – Special Conditions section appropriately assign costs to the parties responsible for the costs incurred.
(Meiselman, Becker)

ISSUE 69: Should FCG's new Economic Development Gas Service (EDGS) tariff be approved?
FCG: Yes. The proposed EDGS tariff would create significant economic or environmental benefits for the state. EDGS gives qualifying customers an annual reduction to the normal tariff rate for four years and has a take-or-pay requirement on the contracted volumes. To be eligible for service under this rate schedule, a new customer must flow a minimum of 1,000 Dth annually, and an existing customer would have to add an incremental 1,000 Dth to their existing load. (Meiselman, Bermudez)

ISSUE 70: Should FCG's proposal to revise the Area Expansion Program be approved?
FCG: Yes. The proposed revisions to the Area Expansion Program revisions change the current process of one reassessment at the third anniversary of the project to include reassessments of the AEP rates in years three, five, seven and nine of the ten year program. This will prevent spikes in AEP rates and allow for gradual adjustments over time, if needed. (Meiselman, Bermudez)

ISSUE 71: If FCG's proposal to eliminate the Flexible Gas Service (FGS) tariff be approved?
FCG: Yes. No customers are on this tariffed service and thus, no customers will be impacted.
(Meiselman)

ISSUE 72: Should FCG's definition of incremental cost contained in the Contract Demand Service (KDS) and Load Enhancement Service (LES) tariffs be approved?
FCG: Yes. (Meiselman)

ISSUE 73: What is the appropriate effective date for FCG's revised rates and charges?

FCG: The appropriate effective date for new rates approved in this proceeding is August 1, 2018.

(Bermudez, Morley)

OTHER ISSUES

ISSUE 74: Should any portion of the interim increase granted by Order No. PSC-2018-0011-PCO-GU be refunded to customers?

FCG: No. The Company's interim rates, and interim revenue requirement, do not exceed the final rates and revenue requirement that should be approved. (Morley)

ISSUE 75: Should FCG be required to file, within 90 days after the date of the final order in this docket, a description of all entries or adjustments to its annual report, rate of return reports, and books and records which will be required as a result of the Commission□s findings in this rate case?

FCG: Yes.

ISSUE 76: Should this docket be closed?

FCG: Yes.

G. Stipulated Issues

Florida City Gas is not a party to any stipulations at this time, although it believes that it should be possible to reach a stipulation on many of the above issues as many issues were not addressed or contested by the FEA or OPC.

H. Pending Motions

None at this time.

I. <u>Pending Confidentiality Requests</u>

FCG filed Requests for Confidential Classification and/or Motions for Protective Order on the following dates, which remain outstanding as of this filing:

- FCG's Request for Confidential Classification of Exhibit DJN-14 of direct testimony of Daniel J. Nikolich and Exhibit GB- 2 of direct testimony of Gregory Becker, filed October 23, 2017.
- FCG's Supplemental motion for temporary protective order of Exhibits DJN-14 and GB-2, filed October 26, 2017.
- FCG's Request for Confidential Classification and Motion for Protective Order for certain portions of responses to Citizens' ("OPC") revised 1st set of interrogatories filed November 29, 2017.
- FCG's Request for Confidential Classification and Motion for Protective Order for certain portions of responses to OPC's 3rd requests for production 52, 67, 76, 78, 80, and 86; and OPC's 4th request for production 98 and response to interrogatory No. 123 filed December 13, 2017.
- FCG's Request for Confidential Classification and Motion for Protective Order for certain portions of responses to OPC's 6th requests for production and certain information in response to OPC's 6th set of interrogatories (No. 157a) filed January 8, 2018.
- FCG's Request for Confidential Classification and Motion for Protective Order for two attachments produced in response to OPC's 7th request for production (No. 135) filed January 9, 2018.
- FCG's Amended and Supplemental Request for Confidential Classification and Motion for Protective Order for certain portions of Exhibit DJN-14 to direct testimony of Daniel J. Nikolich, MFR H-1, and certain portions of direct testimony and Exhibit GB-2 to the direct testimony of Gregory Becker filed January 11, 2018.
- FCG's Request for Confidential Classification and Motion for Protective Order for certain information in response to staff's 5th set of interrogatories, No. 61, filed January 16, 2018.

- FCG's Request for Confidential Classification and Motion for Protective Order for certain highlighted information identified in the direct testimonies of OPC witnesses David E. Dismukes and Marshall W. Willis filed February 2, 2018.
- FCG's Request for Confidential Classification and Motion for Protective Order for certain portions of Revised Exhibit DJN-14 to direct testimony of Daniel J. Nikolich filed February 2, 2018.
- FCG's Request for Confidential Classification and Motion for Protective Order for certain portions of its response to staff interrogatories Nos. 114 and 115, as well as information in the attachment provided with Company's response to interrogatory No. 110 filed February 12, 2018.
- FCG's Request for Confidential Classification and Motion for Protective Order for certain portions of its responses to OPC's 9th set of interrogatories (No.184) and 10th requests for production (No. 147) filed February 13, 2018.
- FCG's Request for Confidential Classification and Motion for Protective Order for certain portions of rebuttal testimony of witness Stephen Wassell, Exhibit DJN-17 to witness Daniel Nikolich's rebuttal testimony, and Exhibit GB-10 to witness Greg Becker's rebuttal testimony filed February 16, 2018.
- FCG's Request for Confidential Classification and Motion for Protective Order for certain portions information contained in responses to staff interrogatory No. 133 filed February 22, 2018.
- FCG's Request for Confidential Classification and Motion for Protective Order for certain highlighted information on revised MFR Schedule H-1 filed February 26, 2018.

J. <u>Compliance With Order on Procedure</u>

Florida City Gas believes that this Prehearing Statement fully complies with the requirements of the Order Establishing Procedure.

K. <u>Objections to Witness Qualifications</u>

Florida City Gas reserves the right to challenge the qualifications of any expert witness consistent with the Order Establishing Procedure for this proceeding.

RESPECTFULLY SUBMITTED this 5th day of March, 2018.

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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing filing has been served by Electronic Mail this 5th day of March, 2018, upon the following:

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