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October 3, 2022

VIA ELECTRONIC FILING

Mr. Adam J. Teitzman
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: Docket No. 20220069-GU
Florida City Gas – Rebuttal Testimony of Mark Campbell

Dear Mr. Teitzman:

Enclosed for filing on behalf of Florida City Gas ("FCG") in the above-referenced docket is the **Rebuttal Testimony of FCG witness Mark Campbell**, together with Exhibits MC-7 through MC-10.

A copy of this filing is being served in accordance with the attached certificate of service. If you or your staff have any question regarding this filing, please contact me at (561) 691-7144.

Respectfully submitted,

Christopher T. Wright
Authorized House Counsel No. 1007055

Enclosures

Cc: Ken Hoffman

CERTIFICATE OF SERVICE
20220069-GU

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by electronic mail this 3rd day of October 2022 to the following parties:

Walter Trierweiler, Esquire Matthew Jones, Esquire Florida Public Service Commission 2540 Shumard Oak Boulevard Tallahassee, FL 32399 wtrierwe@psc.state.fl.us majones@psc.state.fl.us ***For Commission Staff***	Office of Public Counsel c/o The Florida Legislature 111 West Madison Street, Room 812 Tallahassee, FL 32399-1400 Gentry.richard@leg.state.fl.us wessling.mary@leg.state.fl.us ***For Office of Public Counsel***
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s/ Christopher T. Wright
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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 20220069-GU

FLORIDA CITY GAS

REBUTTAL TESTIMONY OF

MARK CAMPBELL

Topics: **Four-Year Rate Plan, Reserve Surplus Amortization Mechanism, Projected Rate Base, Directors and Officers Liability Expense, Parent Debt Adjustment, and Capital Structure**

Filed: October 3, 2022

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Mark Campbell. My business address is Florida Power & Light Company, 700 Universe Boulevard, Juno Beach, Florida 33408.

Q. Did you previously submit direct testimony?

A. Yes. On May 31, 2022, I submitted written direct testimony on behalf of Pivotal Utility Holdings, Inc. d/b/a Florida City Gas ("FCG" or the "Company"), together with Exhibits MC-1 through MC-5.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to certain claims and recommendations in the testimonies of Office of Public Counsel ("OPC") witnesses Schultz and Garrett and Federal Executive Agencies ("FEA") witness Collins (hereinafter, collectively referred to as "Intervenor Witnesses" unless otherwise noted).

First, I will respond to the Intervenor Witnesses' opposition to FCG's proposed four-year rate plan. The Intervenor Witnesses attack the essential components of FCG's proposed four-year rate plan, including the Reserve Surplus Amortization Mechanism ("RSAM"). Apparently, the Intervenor Witnesses are opposed to providing customers with rate stability, a lower revenue requirement, and avoided future rate case expenses.

Second, I will respond to the Intervenor Witnesses' opposition to the proposed RSAM. Intervenor Witnesses seem to be most opposed to the RSAM, which is one of the core elements of the four-year rate plan. Most of the opposition stems from unsupported speculation that the RSAM guarantees earnings at the high end of the authorized return on equity ("ROE") range. The Intervenor Witnesses ignore the fact that FCG has demonstrated that its continued investments for the benefit of its customers in 2024 through 2026 increase the revenue requirements in those years and, without RSAM, FCG is projected to fall below its proposed authorized ROE range and would need to file a rate case in 2024 to support a base rate increase in 2025. The RSAM, along with the other essential components of the four-year rate plan, is necessary to manage the revenue deficiency and the numerous uncertainties and risks over the period of FCG's four-year rate plan.

Third, I will respond to OPC witness Schultz's proposed adjustments to the projected 2023 Test Year rate base. OPC witness Schultz recommends adjustments to cash working capital ("CWC") and plant in service thereby reducing the proposed 2023 Test Year rate base by utilizing historical amounts and incorrect data within his analysis. As further explained below, OPC witness Schultz's proposed adjustments to the 2023 Test Year rate base are inappropriate and should be rejected.

Fourth, I will address OPC witness Schultz's recommendation that FCG's Directors and Officers Liability ("DOL") expense should be disallowed and recovered from shareholders. As explained below, this insurance is a prudent cost to attract and retain skilled leadership and is part of conducting business for a large corporation and should be included as part of FCG's cost of service.

Fifth, I will respond to OPC witness Schultz's Parent Debt Adjustment to FCG's income tax expense. OPC witness Schultz ignores the fact that FCG is financed by FPL's total pool of funds and specific third-party debt is not issued on behalf of FCG.

Finally, I will respond to the capital structure and weighted average cost of capital recommendations by OPC witness Garrett and FEA witness Walters. For the reasons explained below, as well as those more thoroughly explained in the rebuttal testimony of FCG witness Nelson, the Intervenors' capital structure and cost of capital recommendations are not appropriate and should be rejected.

Q. Are you sponsoring any exhibits with your rebuttal testimony?

A. Yes. I am sponsoring the following exhibits with my rebuttal testimony:

- Exhibit MC-7 – 2024 to 2026 Revenue Requirements;
- Exhibit MC-8 – Excerpts from the Florida Public Service Commission Staff Supreme Court Brief in Case Nos. SC21-1761 and SC22-12;
- Exhibit MC-9 – FCG's Responses to Staff Request for Production of Documents No. 11 and Interrogatories No. 64, 65, 71, and 73; and
- Exhibit MC-10 – Florida Public Service Commission 2021 Regulatory Plan.

II. GENERAL OBSERVATIONS AND RESPONSES

Q. Before responding to the Intervenor Witnesses' specific adjustments and assertions, do you have any general observations about their recommendations?

A. Yes. The Intervenor Witnesses recommend numerous adjustments to FCG's proposed base rate increase, which are not appropriate and should be rejected for the reasons explained in FCG's rebuttal testimonies. However, before addressing these individual adjustments, I think it is appropriate to put the Intervenors' recommendations into perspective.

The 2018 Settlement authorized an ROE range of 9.19 percent to 11.19 percent. As detailed in FCG's direct testimonies and exhibits, the Company's earnings surveillance reports ("ESRs") and 2022 forecasted ESR filed with the Commission demonstrate that FCG <u>has continually earned and expects to earn below its authorized ROE range each year since its last general rate case</u>. Further, based on the Company's projected 2023 financial forecast, FCG projects that its <u>earned ROE will be significantly below the bottom of the current authorized ROE range in 2023 without base rate relief</u>.

The 2018 Settlement also authorized an additional $3.8 million base revenue increase when the Liquefied Natural Gas ("LNG") Facility goes into service, which is projected to occur in March 2023 as explained by FCG witness Howard. Additionally, pursuant to Commission Order No. PSC-2015-0390-TRF-GU in Docket No. 20150116-GU, FCG transferred the current $5.7 million of Safety, Access, and Facility Enhancement ("SAFE") revenue requirements from clause to base rates in the 2023 Test Year. The additional $3.8 million base revenue increase associated with the LNG Facility and the transfer of the $5.7 million of SAFE program revenue requirements are both included in FCG's proposed total base revenue increase as explained by FCG witness Fuentes. Notably, the Intervenor Witnesses do not dispute these previously approved amounts in their respective testimonies.

Despite these unrefuted facts, OPC proposes a total base revenue increase of no more than $4,805,981 based on its witnesses various recommended adjustments.[1] FCG's 2022 forecasted ESR projects the 2022 ROE to be 5.70 percent and its most recently issued June 2022 ESR shows actual earned ROE through June 2022 of 7.07 percent. OPC's proposed base revenue increase would not even bring FCG to the bottom end of its current authorized ROE range in the current year, let alone the bottom of the proposed 2023 ROE range. This is a nonsensical result given that FCG has continually earned and expects to earn below its current authorized ROE range each year since its last general rate case.

OPC's proposed adjustments, if adopted, would clearly violate the well-established and undisputed regulatory principle that FCG is entitled to a fair opportunity to earn a reasonable rate of return. For these reasons, as well as those more fully explained in FCG's rebuttal testimonies, OPC's recommended base revenue increase, based on its witnesses various recommended adjustments, must be rejected.

Q. Do you have any additional observations regarding the Intervenor Witnesses' recommended adjustments?

A. Yes. The vast majority of OPC witness Schultz's recommended rate base and net operating income adjustments are based on historical averages and balances. Although FCG could have elected to file a base rate case using a historic test year, it elected to file its proposed base revenue increase using a projected 2023 Test Year consistent with Commission-accepted practice. FCG selected a forecasted test year in order to properly

[1] See direct testimony of OPC witness Schultz, p. 5, line 16-18.

capture the additional investments it plans to make on behalf of customers, which provides the most accurate view of revenues as compared with the Company's cost to serve during the initial period new rates would be placed into effect. OPC witness Schultz largely ignores the 2023 Test Year forecast and, instead, seeks to limit FCG's claims to historical averages and balances. In essence, OPC witness Schultz improperly attempts to convert this proceeding into a historic test year rate case. Although historical averages and balances may be helpful in evaluating the reasonableness of a forecast, it should not and does not displace the use of a forecasted test year as suggested by OPC witness Schultz. In their rebuttal testimonies, the FCG witnesses will further address OPC witness Schultz's proposed adjustments to projected rate base and net operating income and explain why such adjustments are not appropriate and should be rejected.

Additionally, as FCG witness Nelson points out in her rebuttal testimony, the Intervenor Witnesses' reduction to the proposed ROE and equity ratio are based on inaccurate and flawed analysis. The ROEs proposed by the Intervenors would, in all cases, reduce FCG's ROE well below its current approved ROE. OPC witness Garrett even goes so far as to state that regulatory commissions, including this Commission, have been consistently and substantially incorrect in assessing and approving ROEs for decades. FCG witness Nelson's rebuttal testimony demonstrates that the Intervenor Witnesses' conclusions are erroneous, without merit, and should be rejected.

III. FOUR-YEAR RATE PLAN

Q. Do the Intervenor Witnesses agree that FCG should implement a four-year rate plan?

A. No. The Intervenor Witnesses' testimonies attack all the essential components of FCG's proposed four-year rate plan, including the outright rejection of the RSAM, which equates to a rejection of the four-year plan. As explained in FCG's direct case, FCG's proposed four-year rate plan will provide significant and unrefuted customer benefits, including: rate stability and certainty; no additional general base rate increases through at least the end of 2026; customer savings of nearly $10.8 million over the term of the four-year rate plan due to the RSAM-adjusted depreciation rates; avoiding repetitive and costly rate proceedings saving customers an additional approximately $2.0 million in rate case expense in 2024; enabling the Company to continue to meet the natural gas needs of existing and new customers; and continuing to provide safe, reliable, and high-quality customer service. Apparently, the Intervenors do not want FCG to provide these benefits to customers and, instead, prefer higher base rates and more frequent and costly base rate proceedings.

Q. Has the Commission previously approved multi-year rate plans?

A. Yes. The Commission has granted numerous multi-year rate plans and stay-outs to utilities under its jurisdiction over the past two decades and the results have been extremely beneficial to those customers.

Q. If the Commission does not approve the proposed RSAM, including the RSAM depreciation parameters and corresponding Reserve Amount, what does this mean for the proposed four-year rate plan?

A. Very simply, FCG would not be able to commit to its four-year rate plan. If the Commission declines to approve the RSAM or any other element of FCG's four-year rate plan, FCG has requested, in the alternative, that the Commission approve rates and charges sufficient to provide an incremental base rate increase of $21.5 million[2] (total increase of $31.3 million including the revenues associated with SAFE and LNG) effective February 1, 2023, which is $2.7 million higher than the annual revenue requirements under FCG's four-year rate plan.

Even if this single 2023 base rate increase (without RSAM) was approved in full and without any adjustments, FCG projects a cumulative revenue deficiency of $7.7 million, which would be in excess of a 200 basis points reduction of ROE by 2025.[3] Thus, without the RSAM, FCG projects that it will fall at or below the bottom of its proposed authorized ROE range and would need to file an additional rate case in 2024 to support a base rate increase in 2025, which would require an additional approximately $2.0 million in estimated rate case expenses – just two years out from this current case.

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[2] Including the adjustments and corrections reflected in Exhibit LF-12 attached to the rebuttal testimony of FCG witness Fuentes.

[3] See also Staff's Fifth Set of Interrogatories Nos. 64 and 71 and Staff's Fifth Request for Production of Documents No. 11, which are provided in Exhibit MC-9.

Q. Please provide a general illustration of the relative difference in revenue requirements that customers are likely to experience between the Company's proposed four-year rate plan and an outcome where RSAM is not approved.

A. Based on the revenue requirements of the Company's four-year rate plan (2023 as filed and an estimate of 2024 to 2026 as reflected on Exhibit MC-7), below is a summary of the impact on customers if the four-year rate plan is not approved:

- Base rates would be approximately $2.7 million higher each of the four years due to the non-RSAM depreciation rates, or cumulatively about $10.8 million;
- A base rate increase of approximately $7.7 million is estimated to be required in 2025, or cumulatively approximately $15.4 million additional cash revenues for 2025 and 2026; and
- Base rates would include a four-year amortization of approximately $2.0 million of additional rate case expenses incurred in 2024, or cumulatively approximately $1 million of additional base revenues in 2025 and 2026.

Overall, the net cumulative increase in cash paid by customers over the period 2023-2026 if the four-year rate plan is not approved would be approximately $27 million.

Additionally, customers would be accepting the risks and costs associated with the impact of higher inflation and interest rates. Conversely, the four-year rate plan puts the burden on FCG to appropriately manage through such risks and uncertainties over the four-year period. Again, FCG's four-year rate plan, enabled by the RSAM, delivers bill certainty, reduces risk, and significantly lower rates for customers over the 2023-2026 period, and potentially beyond 2026.

Q. What types of uncertainties and risks will the Company need to manage?

A. While the Intervenor Witnesses are keen to explain how recent interest rate policy caused by record inflation levels affect equity valuation, they fail to consider the rising costs associated with just doing business in today's environment. As previously stated in my direct testimony, the Company's projections did <u>not</u> contemplate the nearly double- digit inflation or the corresponding large interest rate increases recently announced at the Federal Open Market Committee ("FOMC").[4] As a result, FCG has already experienced and projects to continue to experience tremendous pressures on operating budgets, including capital projects in the form of higher costs and increased cost of debt. These are significant events that occurred only a few months after the Company's base rate filing and highlight the potential risks and uncertainties the Company has committed to assume and manage as part of the four-year rate plan. To be able to assume this uncertainty and provide the significant benefits of rate stability and predictability to its customers, FCG requests approval of all the elements outlined in the four-year rate plan and described in my direct testimony.

Q. Does the approval of FCG's four-year rate plan in any way diminish the Commission's jurisdictional authority to regulate FCG's rates, earnings levels, or quality of service?

A. Absolutely not. While FCG's proposed four-year rate plan represents a commitment by the Company, it in no way diminishes the oversight and regulatory authority of the Commission. In fact, the Commission's oversight and regulatory authority during the proposed four-year rate plan would be no different than it was during the four-year

[4] The FOMC is a committee that conducts monetary policy for the United States central bank.

minimum term of the 2018 Settlement in FCG's last base rate case. As a primary example of this, FCG will continue to file the required ESRs on a quarterly basis. Through these reports the Commission will ensure that FCG is earning within the terms of the approved plan and can initiate an earnings investigation when appropriate, including the review of capital plant additions and/or retirements and non-clause O&M expenses. This process has efficiently and effectively served to protect customers during multi-year rate plans and stay-outs, and it will serve the same function during the term of the four-year rate plan being proposed in this proceeding.

Further, the Commission and parties will continue to review and examine the reasonableness and prudency of capital plant additions, retirements, and non-clause O&M expenses incurred beyond the forecasted 2023 Test Year (2024-2026). Indeed, the reasonableness and prudence of these post-Test Year costs would be reviewed and examined in the next applicable base rate proceeding in the ordinary course. Thus, in the next rate case, the Commission and parties would have the same level of review of the 2024-2026 costs as they currently do for the 2019-2022 costs in this case (*i.e.*, the cost incurred after the 2018 Test Year used in FCG's last base rate case). FCG notes that this is entirely consistent with the review and examination of post-Test Year costs that has been and will be applied to the multi-year rate plans with a nearly identical RSAM approved for Florida Power & Light Company (*see, e.g.*, Docket Nos. 20210015-EI and 20160021-EI).[5]

[5] See also FCG's responses to Staff's Fifth Set of Interrogatories No. 65, which is provided in Exhibit MC-9.

IV. <u>RESERVE SURPLUS AMORTIZATION MECHANISM (RSAM)</u>

Q. Please summarize your reaction to the Intervenors' opposition to the RSAM.

A. In general, the Intervenor Witnesses dismiss the significant customer value of FCG's four-year rate plan enabled by FCG's proposed RSAM and other core components. OPC witness Schultz and FEA witness Collins largely make unsubstantiated claims that the RSAM is only a mechanism that guarantees FCG will earn at the top of its ROE range, while ignoring the fact that the RSAM is a non-cash mechanism that will provide rate stability for FCG's customers and avoid the potential for $27 million in incremental base rate increases through at least the end of 2026. Additionally, the Intervenor Witnesses completely disregard the fact that the Company is able to utilize the RSAM to manage typical day-to-day fluctuations associated with running a utility business, while also having to absorb higher costs that are most certainly going to present themselves as a result of record inflation and rising interest rates as previously explained. Moreover, Exhibit MC-7, which provides information produced with FCG's response to discovery, clearly demonstrates that the $25 million of requested RSAM is only sufficient to allow FCG to earn at the proposed midpoint ROE, excluding any impacts from risks and uncertainties described in my testimony above. I submit that this is hardly the guaranteed return at the top of the ROE range as speculated by the Intervenor Witnesses.

Q. FEA witness Collins claims the proposed RSAM should be rejected because such a mechanism does not incent the Company to manage its costs efficiently to the benefit of both its shareholder and customers. Do you agree with this claim?

A. No. Exhibit MC-7 demonstrates that the RSAM will only allow FCG the opportunity to earn at its proposed midpoint ROE of 10.75 percent, and does not include additional inflationary and interest rate costs as well as other risks outlined in my testimony above. Based on these risks, the Company would need to identify and generate cost savings initiatives and smart investments to drive productivity improvements just to get to the midpoint ROE – let alone the top end of the ROE range as the Intervenors in this case seem to think is all but guaranteed.

Q. OPC witness Schultz asserts that if the RSAM is approved it should only be used to bring FCG to the bottom of the ROE range. Do you agree with this assertion?

A. No. OPC witness Schultz's alternative RSAM proposal, if adopted, would provide no incentive for the Company to identify and implement new and innovative measures to drive productivity and generate costs savings. I also note that no such limitation has been required for similar RSAM mechanisms adopted for other utilities, such as FPL in Docket Nos. 20210015-EI and 20160021-EI or Peoples Gas System ("PGS") in Docket No. 20200051-GU. OPC witness Schultz has failed to articulate a single reason why his limitation is appropriate for only FCG in this case.[6]

[6] I also note that FEA witness Collins seems to think the RSAM does not incentivize the Company to manage costs, while OPC witness Schultz apparently thinks FCG should not be incentivized for finding cost savings that benefit FCG's customers.

Q. OPC Witness Schultz argues that the Commission may lack authority to create RSAM. Do you agree the Commission lacks authority to approve an RSAM?

A. No. While I am not a lawyer, the Intervenors in this case have agreed to and the Commission has approved similar RSAM-type mechanisms within numerous base rate proceedings, including:

- Docket No. 20210015-EI (OPC and FEA agreed to an identical RSAM mechanism);
- Docket No. 20200051-GU (OPC agreed to a similar RSAM-type mechanism);
- Docket No. 20160021-EI (OPC agreed with and FEA did not oppose a similar RSAM mechanism); and
- Docket No. 20120015-EI (FEA agreed to a similar RSAM mechanism).

In addition, Commission Staff recently filed a brief with the Florida Supreme Court in Case Nos. SC21-1761 and SC22-12, that stated the Commission's consideration and approval of an RSAM is within the Commission's statutory authority to set just, fair, and reasonable rates. The Commission Staff's Supreme Court brief also describes the RSAM as an accounting mechanism, which represents a subject matter area the Commission routinely considers and decides in the ratemaking process and is, thus, within the Commission's power to consider. A copy of the relevant portions of Commission Staff's Supreme Court brief is provided in Exhibit MC-8.

Additionally, OPC witness Schultz's claim that the Commission has never established an RSAM mechanism for a gas company that resembles anything like what FCG proposes in this case is simply not true and is irrelevant. First, the establishment of an

RSAM through a depreciation reserve imbalance is not specific to the type of utility (*i.e.*, gas vs. electric) so narrowing his comparison to a gas company is irrelevant. Also, he falsely claims that PGS's mechanism is much different than the RSAM. The, PGS mechanism approved in Docket No, 20200051-GU, and agreed to by OPC, allows PGS to reverse $34 million of non-cash accumulated depreciation through 2023, of which $10 million has been reversed through June 2022. While not identical to the RSAM proposed in this case, the PGS mechanism represents a very similar reversal of non-cash accumulated depreciation over a specified time-period.

Nonetheless, OPC witness Schultz claims FCG's non-cash RSAM and PGS's non-cash mechanism are vastly different because, according to him, FCG's mechanism will be used to earn at the top of the ROE range. Again, this is simply false as explained above and in Exhibit MC-7. Further, I note that there is no limitation in the PGS non-cash mechanism approved in Docket No. 20200051-GU that in any way prevents PGS from using the non-cash mechanism from earning at the top of its authorized ROE range.

Q. Does FCG's proposed RSAM create intergenerational inequities?

A. Absolutely not. Because amortization of the depreciation reserve surplus may only be made prospectively as no correction can be made to the accounts of prior customers, it is unavoidable that there will be some difference in treatment among generations should depreciation parameters change during an asset's life. However, this in no way suggests any unfair or inequitable treatment of those customers. Given that FCG's assets span vintages with in-service dates at least as far back as the 1960s, a depreciation reserve surplus is not the result of an over-collection from current customers.

As a theoretical estimate at the current point in time, based on current depreciation assumptions, the depreciation reserve surplus is very different from the deferred incremental variations in items like fuel costs that are recovered from, or refunded to, ratepayers through a fuel adjustment clause mechanism. For such fuel overcollections, the fuel has been consumed and its cost can be fully reconciled and addressed. For assets in service, the service life is still uncertain, and no permanent reconciliation and disposition is possible.

For these reasons, there is no customer refund obligation associated with a depreciation reserve surplus. If there is a depreciation reserve surplus, we would expect that current and future customers will pay less in depreciation expense than prior customers did for the use of the same asset, regardless of the time-period over which the surplus is amortized (whether or not FCG's RSAM proposal is approved). FCG further addressed the issues of intergenerational inequities in its response to Staff's Fifth Set of Interrogatories No. 73, which is attached to my rebuttal testimony as Exhibit MC-9.

Q. Do the Intervenor Witnesses make any other statements that are speculative and unsupported that you would like to address?

A. Yes. OPC witness Schultz claims non-cash earnings through an RSAM would somehow create current period increased dividend payments to shareholders. This claim is unsupported and incorrect as dividends are a function of cash earnings, and clearly a shareholder would not accept RSAM as a dividend payment because it is a non-cash mechanism.

OPC witness Schultz speculates that excessive depreciation reserve surplus creation may well be a predicate to establishing larger reserve amounts over the years. This is purely speculative and irrelevant to the instant case and will be decided in future rate proceedings based on the actual facts and circumstances at that point in time.

OPC witness Schultz suggests that an excess depreciation reserve should be set up as a regulatory liability and returned directly to customers over a period of four years. I agree that the depreciation reserve surplus should be returned to customers, which is exactly what FCG is proposing in this case through the RSAM. The RSAM will be utilized for at least the four-year rate plan period to avoid costly rate cases and provide rate stability to FCG's customers. However, instead of establishing a regulatory liability as proposed by OPC witness Schultz, FCG proposes to continue to maintain the depreciation reserve surplus as a component of its depreciation reserve. In essence, what OPC witness Schultz is suggesting is very much in-line with the proposed RSAM over the four-year rate plan and would result in the same ratemaking treatment.

Finally, FEA witness Collins claims adjusting depreciation expense can increase rate base by distorting the accurate measurement of net plant value resulting in customers likely paying more return over a longer period of time. I disagree with this statement as FEA witness Collins assumes the depreciation parameters are somehow inaccurate.

As explained in the direct testimony of FCG witness Fuentes, the RSAM-adjusted depreciation rates are, with the exception of the LNG Facility, based on the depreciation parameters (*i.e.*, lives and net salvage) reflected for similar assets in the recent PGS base rate case settlement agreement approved by Commission Order No. PSC-2020-0485-FOF-GU in Docket No. 20200051-GU. With the exception of the LNG Facility, the natural gas assets and facilities on the FCG and PGS systems are similar and, therefore, the PGS depreciation parameters represent a reasonable alternative to those contained in FCG's 2022 Depreciation Study. Additionally, the RSAM-adjusted depreciation rates are generally within the range of alternative depreciation parameters typically proposed by other parties in litigating depreciation studies before the Commission.[7] I further note that, as shown in Exhibit MC-9 (FCG response to Staff's Fifth Set of Interrogatories No. 73), the depreciation lives that OPC witness Garrett proposed for Florida Public Utilities Company in the rate case pending in Docket No. 20220067-GU are generally in line with the depreciation lives used in FCG's proposed RSAM-adjusted depreciation rates.

Q. What are your conclusions regarding the Intervenor Witnesses' arguments against FCG's proposed RSAM?

A. The Intervenor Witnesses' opposition to FCG's proposed RSAM is primarily based on unsupported and speculative assumptions and accusations as to how the RSAM will be utilized. This zero-sum thinking completely ignores that RSAM will enable a multi-year rate agreement that will keep customer rates low and stable, avoid multiple rate

[7] In fact, an outside, independent depreciation expert in Docket No. 20220067-GU also recently used service lives of other Florida gas utilities to develop the recommended estimates. *See* Rebuttal Testimony of Patricia Lee in Docket No. 20220067-GU, which is available at: http://www.floridapsc.com/library/filings/2022/07372-2022/07372-2022.pdf.

increases, and allow FCG to focus on cost savings initiatives and investments, while assuming and managing potential risks and uncertainties over the four-year rate plan as described above. These efforts will undoubtedly enable FCG to focus on continuing and improving its ability to provide safe and reliable service, while identifying operational efficiencies and savings.

V. <u>PROJECTED RATE BASE</u>

Q. Please summarize OPC witness Schultz's adjustments to FCG's rate base projected for the 2023 Test Year.

A. OPC witness Schultz proposes the following unsupported adjustments that, if adopted, would collectively reduce FCG's projected rate base by $32,387,362 as referenced in his Exhibit HWS-2, Page 5 of 28:

(1) The removal of the net utility plant acquisition adjustment related to Southern Company Gas's acquisition of AGL Resources, Inc. from NUI Corporation in 2016, which should be rejected for the reasons explained in the rebuttal testimony of FCG witness Fuentes.

(2) Reduce LNG Facility net plant costs due to the loss of the original site and related delays, which should be rejected for the reasons explained in the rebuttal testimony of FCG witness Howard.

(3) Removal of the Advanced Metering Infrastructure ("AMI") Pilot costs because it is only a pilot program, which should be rejected for the reasons explained in the rebuttal testimony of FCG witness Howard.

(4) Revision to proposed depreciation rates increasing FCG's non-RSAM rate base, further providing evidence that the Intervenor Witnesses refuse to recognize the benefits of the four-year rate plan, including RSAM, which I address throughout my rebuttal testimony. This proposed depreciation rate adjustment is further addressed in the rebuttal testimony of FCG witness Allis.

(5) A reduction of CWC on the basis of historical balances and flawed analysis, which should be rejected for the reasons I explain below.

(6) A general reduction of FCG's projected 2023 Test Year plant in-service based on historical averages, which should be rejected for the reasons I explain below and in the rebuttal testimony of FCG witness Howard.

(7) Reduction in rate base associated with his recommended adjustment to FCG's rate case expense, which should be rejected for the reasons explained in the rebuttal testimony of FCG witness Fuentes.

Q. Do you agree with OPC witness Schultz's assertion that CWC is inflated based on actual 2021 CWC?

A. No. OPC witness Schultz ignores the forecasted CWC and, instead, limited his evaluation to the historical CWC balances. As explained above, this case is based on a forecasted test year and not an historical test year. FCG evaluated major components of working capital on an account-by-account basis, applying well-established forecasting methodologies as explained in my direct testimony and outlined in Exhibits MC-2 through MC-4. Notably, the Intervenors did not directly challenge or oppose these forecasting methodologies.

Utilizing a historical balance in a forecast period is not prudent in preparing a forecast, rather a comparison to historical balances in a particular account can be useful in assessing reasonableness of the current forecast. As such, the following provides explanations for the primary drivers of the CWC increases specifically pointed out by OPC witness Schultz:

Cash – The Company targets a cash balance of $5 million in projected periods. The primary purpose of this target is to provide the Company with enough cash on hand to conduct day to day operations. However, at the time FCG became a wholly-owned subsidiary of FPL, it was determined that establishing and maintaining a dedicated commercial paper program for FCG would be cost prohibitive. Therefore, FCG requests funds as needed for working capital from FPL on an ongoing basis, which establishes the minimum cash balance target.

Accounts Receivable – FCG projects accounts receivable using the 2021 historical average days sales outstanding (DSO) and applies this ratio to projected revenues. The projected revenues include the proposed incremental revenue request in this filing of approximately $18.9 million, as adjusted in Exhibit LF-11 provided with the rebuttal testimony of FCG witness Fuentes, and projected growth in revenues from overall demand. Revenues are increasing, hence the reason for the increase in the projected accounts receivable balance.

Stored Fuel – The Company projects its test year stored fuel balance using a monthly targeted stored fuel requirement. The main drivers of the increase in the stored fuel balance from 2021 are related to projected higher natural gas prices. I note that the gas curve used for the 2023 Test Year is significantly lower than the current projected gas price curve due to the various recent economic conditions significantly driving up prices. If the updated gas price curve were applied to the projected 2023 Test Year, it would result in an even higher stored fuel balance projection – again, one of the many risks FCG will need to manage through over the four-year rate plan period. Additionally, as explained in the direct and rebuttal testimonies of FCG witness Howard, the LNG Facility is expected to be placed in service in March 2023. As such, the Company included the expected initial fill value for the LNG Facility in the 2023 stored fuel balance.

Miscellaneous Deferred Debits – The most significant portion of this balance is associated with FCG's pension asset. FCG is allocated its portion of the NextEra Energy, Inc. Employee Pension Plan ("Plan") based on pensionable earnings of FCG as a percentage of total pensionable earnings in the Plan. The Plan's pension asset has grown as a result of prudent investments, thereby generating income, which lowers current period operating expense and has the effect of resulting in a higher pension asset. Further details surrounding the Plan and related pension asset were provided in response to discovery in FEA's Second Set of Interrogatories Nos. 11 and 12. Clearly, the increase in the miscellaneous deferred debit balance is based on prudent investments that result in lower operating costs and should be included in FCG's rate base.

Q. Do you agree with OPC witness Schultz's proposed method of using a three-year historical average as the forecasted amount to be used for the 2023 Test Year plant in-service?

A. No. Again, as explained above, this case is based on a projected test year, not a historical period test year and, as such, utilizing simple historical averages is not representative of a prudent forecast for a growing business. Also, upon reviewing OPC witness Schultz's analysis, it appears he inadvertently used incomparable data in historical periods, specifically Exhibit HWS-2, Schedule B-4, pages 9 to 10.

Q. Can you further elaborate on OPC witness Schultz's use of incomparable data?

A. Yes. For historical periods, OPC witness Schultz used the data provided in response to FEA's First Set of Interrogatories No. 4 for capital expenditures and OPC's First Set of Interrogatories Supplemental No. 87 for plant additions. In both responses, the data provided is retail base only and excludes data for all clause investment. OPC witness Schultz then compares the historical retail base capital expenditures and plant additions to the projected period amounts included in MFR Schedule G-1, pages 23 and 26 for capital expenditures; and MFR Schedule G-1, pages 5, 7, 24, 25, 27, and 28 for plant additions. The flaw with this approach is that the projected MFR schedules utilized in OPC witness Schultz's analysis are presented as company per book, which includes <u>both</u> base rate and clause investment, while the historical periods OPC witness Schultz used <u>only</u> include base rate investments. This approach is a classic "apples to oranges" comparison. As such, any analysis provided by OPC witness Schultz's utilizing these amounts and any corresponding calculations where it is relied upon are incorrect and should be rejected.

Q. Do you have additional concerns with OPC witness Schultz's analysis?

A. Yes. OPC witness Schultz prepared three different analysis within Exhibit HWS-2, Schedule B-4, utilizing historical information as a means for supporting a downward adjustment to the projected 2023 Test Year plant in-service balance. However, in all three cases, the information utilized by OPC witness Schultz is incorrect and not appropriate for any type of analysis, let alone a proposed plant in-service balance for a test year forecast. Tables 1 through 4 below provide corrections to the analyses used by OPC witness Schultz to support his incorrect adjustment to plant in-service of ($9,637,988) and related Accumulated Depreciation Adjustment $460,884:

Table 1

Correction to Rebuttal Exhibit HWS-2 Schedule B4 pg.1 of 2 - Capital Additions

Line No	Year	Exhibit HWS - 2 Page 9 of 28 Net of LNG Amount per Company	Correcting Adjustments	Corrected Capital Expenditures
	Capital Expenditures			
1	2019	$ 37,081,475	$ 10,893,057	$ 47,974,532
2	2020	$ 33,606,381	$ 13,756,458	$ 47,362,839
3	2021	$ 22,166,976	$ 12,788,509	$ 34,955,485
4	2022	$ 50,965,926	$ -	$ 50,965,926
5	2023	$ 52,494,513	$ -	$ 52,494,513
7	**Actual 3 Year Average**	**$ 30,951,611**	**$ 12,479,341**	**$ 43,430,952**

Based on Table 1 above, OPC witness Schultz incorrectly presented the average capital expenditures over the past 3 years from 2019 to 2021, resulting in an understatement of the average capital expenditures of $12,479,341.

Table 2
<u>Correction to Rebuttal Exhibit HWS-2 Schedule B4 pg. 1 of 2 – Plant Additions</u>

Exhibit HWS - 2
Page 9 of 28

Line No.	Year	Net Additions	Correcting Adjustments	Corrected Net Additions
	Plant Additions			
1	2019	$ 39,582,170	$ 4,335,301	$ 43,917,471
2	2020	$ 43,018,892	$ 11,187,475	$ 54,206,367
3	2021	$ 8,181,974	$ 19,798,607	$ 27,980,581
4	**Actual 3 Year Average**	**$ 30,261,012**	**$ 11,773,794**	**$ 42,034,806**
5	2022	$ 39,899,000	$ -	$ 39,899,000
6	2023	$ 116,602,971	$ -	$ 116,602,971
7	LNG 2023	$ (68,000,000)	$ -	$ (68,000,000)
8	2023 excluding LNG	$ 48,602,971	$ -	$ 48,602,971

Based on Table 2 above, OPC witness Schultz incorrectly calculated the average net plant additions over the past 3 years from 2019 to 2021, resulting in an understatement of the average plant additions of $11,773,794.

Table 3

Correction to Rebuttal Exhibit HWS-2 Schedule B4 pg. 2 of 2 – Plant In-Service

Line No.	Year	Exhibit HWS - 2 Page 10 of 28 Projected Amount per Company	Exhibit HWS - 2 Page 10 of 28 Actual Amount per Company	Exhibit HWS - 2 Page 10 of 28 Plant Difference	Correcting Adjustments	Plant In Service Balance per Company - CORRECTED	Plant Difference per Company - CORRECTED
	Plant in Service	(A)	(B)	(C)		(B) - Corrected	(C) - Corrected
1	December 31, 2021	$ 533,362,897	$ 533,362,897			$ 533,362,897	
2	January	$ 535,227,786	$ 501,222,435	$ (34,005,351)	$ 34,379,756	$ 535,602,191	$ 374,405
3	February	$ 537,479,224	$ 503,232,956	$ (34,246,268)	$ 35,482,406	$ 538,715,362	$ 1,236,138
4	March	$ 540,181,920	$ 504,808,800	$ (35,373,120)	$ 36,796,414	$ 541,605,214	$ 1,423,294
5	April	$ 543,190,062	$ 505,765,774	$ (37,424,288)	$ 37,160,469	$ 542,926,243	$ (263,819)
6	May	$ 546,426,804	$ 507,514,975	$ (38,911,829)	$ 37,666,198	$ 545,181,173	$ (1,245,631)
7	June	$ 549,900,449	$ 508,137,282	$ (41,763,167)	$ 37,996,379	$ 546,133,661	$ (3,766,788)
8	**6 Month Average**	**$ 542,067,708**	**$ 505,113,704**	**$ (36,954,004)**	**$ 36,580,270**	**$ 541,693,974**	**$ (373,733)**

Based on Table 3 above, OPC witness Schultz has again incorrectly understated the actual plant additions during 2022 on a six-month average by $36,580,270, essentially the entire difference he claims.

Table 4

Correction to Rebuttal Exhibit HWS-2 Schedule B4 pg. 2 of 2 – Conclusion

			LNG	Exhibit HWS-2 Page 2 of 2 Net Additions	Corrected Net Additions
1	2023 Plant Additions	$ 116,602,971	$ 68,000,000	$ 48,602,971	$ 48,602,971
2	2022 Plant Additions	$ 39,899,000		$ 39,899,000	$ 39,899,000
3	Three Year Average			$ 30,261,012	$ 42,034,806
4	**Recommended Plant in Service Adjustment**			**$ (9,637,988)**	**$ 2,135,806**

Based on Table 4 above, even using OPC witness Schultz's erroneous recommendation to limit the amount of projected test year plant in-service to historical average balances, when the corrected information is used it results in an increase to plant in-service of

$2,135,806 as compared to the reduction of ($9,637,988) incorrectly proposed by OPC witness Schultz. However, as I've stated earlier in my rebuttal testimony, utilizing historical balances should only be used as a means of analyzing the reasonableness of a prudently prepared forecast. Based on the corrected information provided in Tables 1 through 4 and as further explained by FCG witness Howard, the forecasted plant in-service balance is prudent and necessary for FCG to continue providing safe and reliable natural gas service to its new and existing customers.

VI. <u>DIRECTORS AND OFFICERS LIABILITY EXPENSE</u>

Q. Please summarize OPC witness Schultz's adjustment to FCG's DOL Insurance expense.

A. On pages 44 and 45 of his testimony, OPC witness Schultz recommends that the entire DOL Insurance expense be excluded from base rates because, according to him, it only benefits shareholders and does not provide a benefit to customers.

Q. Do you agree with OPC witness Schultz assertion that DOL insurance provides no benefit to customers?

A. No. DOL insurance is an essential and prudent cost to attract and retain skilled leadership, and is appropriately included in the Company's determination of revenue requirements in this case. DOL insurance is a necessary part of conducting business for a large corporation. In light of the growing risk of exposures related to corporate governance, it would be impossible to attract and retain experienced directors and officers without the protections offered by the DOL program.

Q. Should the Commission include FCG's requested expense for DOL insurance in its revenue requirement calculation?

A. Yes. Having skilled and talented leadership is critical to FCG's ability to deliver an outstanding value proposition for our customers. DOL insurance directly benefits customers and is a necessary and reasonable expense for FCG to provide service to its customers.

VII. PARENT DEBT ADJUSTMENT

Q. Please explain the income tax adjustment that OPC witness Schultz is recommending related to the effect on parent debt.

A. As stated on page 50, lines 13 through 15 of his testimony, OPC witness Schultz recommends a reduction to FCG's forecasted income tax expense of $359,109 in order to reflect the Parent Debt Adjustment he claims is required under Rule 25-14.004, F.A.C. OPC witness Schultz also claims that the initial investment of FPL in FCG contains a portion of the debt that is embedded in FPL's capital structure and FCG has failed to rebut the presumption in Rule 25-14.004(3), F.A.C., that "a parent's investment in any subsidiary…shall be considered to have been made in the same ratios as exist in the parent's overall capital structure."

Q. Please describe your understanding as to the purpose of Rule 25-14.004.

A. In essence, Rule 25-14.004, F.A.C., imputes the tax benefit of debt issued by a utility's parent company to the utility subsidiary based on the assumption that the parent company invested the proceeds of its debt issuances in the regulated subsidiary's equity in direct proportion to the debt in the parent company's capital structure.

Q. Do you agree with OPC witness Schultz that an adjustment is required in this proceeding?

A. No, I do not. In fact, Commission Staff also seem to believe that this adjustment should no longer be required. In Attachment B to the Commission's 2021 Regulatory Plan, which is provided as Exhibit MC-10, there is an indication that the Commission intends to "repeal Rule 25-14.004, F.A.C., Effect of Parent Debt on Federal Corporate Income Tax, as obsolete."

Q. Please explain why an adjustment to income tax expense related to the impact of parent debt is not needed.

A. Rule 25-14.004, F.A.C., is based on the premise that debt at the parent level supports a portion of the parent's equity investment in the subsidiary, which is not the case for FCG. OPC witness Schultz incorrectly claims the initial investment FPL made to acquire FCG contains a portion of debt. Upon the July 29, 2018 acquisition by FPL, there was no significant change in FCG's total per book capital structure value as inherited from Southern Company Gas[8] and the initial investment and resulting goodwill to acquire FCG is maintained at its parent company, FPL, as a non-utility investment. Additionally, FPL has continued to maintain FCG's historical capital structure inherited from Southern Company Gas, and FCG's operations are funded by FPL as I describe further in my rebuttal testimony below.

In addition, FCG has paid more dividends than contributions received to and from FPL,

[8] Upon acquisition on July 29, 2018 FCG was temporarily funded through equity until its Application for authority to issue debt securities was approved in Docket No. 20180166-GU, Order No. PSC-2018-0550-FOF-GU (F.P.S.C. Nov. 19, 2018).

respectively, since it became a subsidiary of FPL. This fact is not refuted by OPC witness Schultz.

Lastly, as I explained in my direct testimony and as evidenced by the annual Securities Applications filed with and approved by the Commission, FCG receives all of its financing from FPL's pool of funds. This pool of funds is available based on FPL's capital structure, which as currently approved by the Commission, represents a much higher equity ratio than FCG. Given this fact, a Parent Debt Adjustment is not applicable in this case as the parent company, FPL, holds a lower percentage of debt in its capital structure than FCG, and therefore no additional interest expense tax benefit exists at the parent company level.

VIII. <u>CAPITAL STRUCTURE AND WEIGHTED AVERAGE COST OF CAPITAL</u>

Q. Please summarize the capital structures proposed in this proceeding.

A. As explained in my direct testimony, as well as that of FCG witness Nelson, FCG has proposed a 2023 Test Year financing capital structure equal to the capital structure of FCG's parent company, FPL, which consists of 59.6 percent common equity and 40.4 percent debt over investor sources. On pages 79 and 80 of his testimony, OPC witness Garrett proposes a capital structure with 48.7 percent equity and 51.2 percent debt over investor sources. Finally, FEA witness Walters proposes a capital structure with 50 percent equity and debt over investor sources. Both Intervenor Witnesses assert that there is no merit in FCG adopting the capital structure of its parent, FPL.

Q. Do you agree with the Intervenor Witnesses that there is no merit to the assertion that FCG should utilize its parent company's equity ratio?

A. No. FCG leverages FPL's current capital structure for all of its financing needs, which provides a significant benefit to FCG's customers in obtaining significantly lower-cost debt than FCG could otherwise obtain on its own. Additionally, utilizing the parent company equity ratio is consistent with prior Commission practice where the utility does not hold or issue its own debt, and is consistent with the capital structure proposed in FCG's last base rate case. FCG witness Nelson further addresses FCG's capital structure and explains why Intervenor Witnesses' capital structure proposals should be rejected.

Q. On page 70, lines 13 to 16 of his testimony, OPC witness Garrett asserts that utilities can increase revenue requirements by increasing its weighted average cost of capital ("WACC") and a commission must ensure the utility is operating at its lowest reasonable WACC. Do you have a response?

A. Yes. First, a utility's WACC is not simply a lowest cost proposition, but rather a product of the overall capital structure and overall cost rates for each individual capital component. I believe a utility's WACC should be:

1. Reflective of market conditions, regulatory precedent, and regulatory requirements;
2. Provide the opportunity to recover all prudently incurred costs of servicing reasonable and low-cost debt; and
3. Provide a fair and reasonable return for equity investors thereby allowing FCG to continue meeting the natural gas needs of existing and new

customers while continuing to provide safe, reliable, and high-quality natural gas service.

FCG's proposed WACC meets the criteria set forth above, including leveraging its parent company's strong balance sheet and exceptional credit rating to obtain the lowest debt rates possible, therefore lowering the overall cost to FCG customers.

Q. Does this conclude your rebuttal testimony?

A. Yes.

High-Level 2024 to 2026 Revenue Requirements (WITH RSAM)
($ Thousands)

Line	Description	2023	2024	2025	2026	Reference
	FPSC Adjusted Rate Base					
1	Average Depreciation Rate[1]		2.44%	2.44%	2.44%	Exhibit LF-5(B), Page 10
2	Annual Depreciation & Amortization	$ 17,317	$ 18,337	$ 19,298	$ 20,280	MFR Schedule G-2 (with RSAM), Page 1
3	**FPSC Adjusted Rate Base**	**$ 489,002**	**$ 512,477**	**$ 532,578**	**$ 552,548**	MFR Schedule G-1 (with RSAM), Page 1
4	**FPSC Adjusted Rate Base - Incremental Growth**		**$ 23,474**	**$ 20,102**	**$ 19,970**	
5	Pre-Tax Weighted Average Cost of Capital (WACC)		9.01%	9.01%	9.01%	MFR Schedule G-3 (with RSAM), Page 2
6	Property Tax Rate		1.80%	1.80%	1.80%	Exhibit MC-4, Page 3
7	**Revenue Requirement Multiple**		**10.81%**	**10.81%**	**10.81%**	
8	**Revenue Requirement - Capital Initiatives**		**$ 3,558**	**$ 3,135**	**$ 3,141**	
9	**Operating Expenses**					
10	FPSC Adjusted O&M Expense	$ 25,981				MFR Schedule G-2 (with RSAM), Page 1
11	**FPSC Adjusted O&M Expense - Incremental**		**$ 417**	**$ 600**	**$ 500**	
12	**Total Revenue Requirements - Incremental**		**$ 3,975**	**$ 3,735**	**$ 3,641**	
13	Annual Surplus		$ 3,975	$ 7,710	$ 11,351	
14	Surplus - Rate Base Impact		$ 215	$ 632	$ 1,030	
15	Total Annual Surplus		$ 4,190	$ 8,342	$ 12,381	
16	**Total Cumulative Surplus [2]**		**$ 4,190**	**$ 12,531**	**$ 24,913**	

[1] Based on the RSAM-adjusted depreciation rates proposed by FPL witness Fuentes

[2] Assumes approval of the Company's requested base revenue increase in 2023 at 10.75% midpoint return on equity

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IN THE SUPREME COURT OF FLORIDA

FLORIDIANS AGAINST INCREASED RATES, INC., Appellant,	Consolidated Cases Case Nos.: SC21-1761 SC22-12
v.	
GARY F. CLARK, ETC., ET AL., Appellee(s). _____________________________ /	L.T. Case Nos.: PSC-2021-0446-S-EI and PSC-2021-0446A-S-EI
FLORIDA RISING, INC., ET AL., Appellant(s),	
v.	
GARY F. CLARK, ETC., ET AL., Appellee(s). _____________________________ /	

ANSWER BRIEF OF APPELLEE
THE FLORIDA PUBLIC SERVICE COMMISSION

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mechanisms contained in the 2021 Settlement (Florida Rising Br. 50-56). Both FAIR's and Florida Rising's arguments are meritless.

The Commission has the exclusive authority to set rates for public utilities, such as FPL. *See* §§ 366.02, 366.04, 366.041, 366.05, 366.06, Fla. Stat. Contrary to FAIR's and Florida Rising's assertions (FAIR Br. 27-41; Florida Rising Br. 50-56), the Commission's consideration and approval of the RSAM, the CITAP, and the other regulatory rate recovery mechanisms in the 2021 Settlement is within the Commission's statutory authority to set just, fair, and reasonable rates. *See* §§ 366.05(1)(a), 366.06(2); *see also Citizens of State v. Pub. Serv. Comm'n*, 425 So. 2d 534, 540 (Fla. 1982).

The regulation of public utilities, such as FPL, is "an exercise of the police power of the state for the protection of the public welfare…." § 366.01, Fla. Stat. For this reason, the Legislature stated that all the provisions of chapter 366, Florida Statutes, "shall be liberally construed for the accomplishment of that purpose." *Id.* "This Court has consistently recognized the broad legislative grant of authority which [chapter 366] confer[s] and the considerable license the Commission enjoys as a result of this delegation." *Citizens of State*, 425 So. 2d at 540.

"A statutory grant of power or right carries with it by implication everything necessary to carry out the power or right and make it effectual and complete." *Deltona Corp. v. Florida Public Service Commission*, 220 So. 2d 905, 907 (Fla. 1969). While the regulatory rate recovery mechanisms contained in the 2021 Settlement are not specifically mentioned in chapter 366, Florida Statutes, an accounting mechanism, which the RSAM is, and the recovery of federal taxes through rates, are quintessentially the types of things the Commission routinely considers and decides in the ratemaking process and are, thus, within the Commission's power to consider and approve. *See id.*

The Court, in *Citizens of State v. Florida Public Service Commission* (*Citizens I*), 146 So. 3d 1143 (Fla. 2014), affirmed a Commission Final Order approving FPL's 2012 settlement agreement that included an asset optimization incentive program, as well as an accounting mechanism similar to the RSAM. Moreover, this Court has considered and upheld a number of previous Commission decisions approving settlement agreements containing other mechanisms that are not explicitly mentioned in chapter 366, Florida Statutes. *See Citizens I,* 146 So. 3d 1143 (affirming a Commission finding that the asset optimization incentive program and generation base rate adjustment ("GBRA") incentive mechanisms were in the public interest); *Sierra Club*, 243 So. 3d 903, 905 (affirming Commission final order approving settlement containing SoBRA mechanism); *Fla. Indus. Power Users Grp. v. Brown*, 273 So. 3d 926, 929 (Fla. 2019) (upholding Commission's approval of settlement incorporating SoBRA cost recovery mechanism). Thus, the Court has recognized the Commission's inherent ratemaking authority under chapter 366 to consider and approve these types of mechanisms in settlement agreements.

The Commission has broad authority to adjust rates at any time – even when a utility is earning within its authorized rate of return – in order to ensure that rates are reasonable, provided the adjusted rates are based on competent, substantial evidence in the record. *Gulf Power Company v. Wilson*, 597 So. 2d 270, 273 (Fla. 1992) (citing *United Tel. Co. of Fla. v. Mann*, 403 So. 2d 962, 967-968 (Fla. 1981)) ("We find that the Commission's adjustment of [utility's] rate of return within the fair rate of return range falls within those powers expressly granted by statutes or by necessary implication.") (citing *City of Cape Coral v. GAC Utilities Inc. of Fla.*, 281 So. 2d 493 (Fla. 1973). Under well-settled law, a utility is entitled to earn within a reasonable rate of return range, and the Commission is statutorily obligated to set rates to provide revenues to ensure a utility does so. *United Telephone Company of Fla. v. Mayo*, 345 So. 2d 648 (Fla. 1977). Thus, contrary to FAIR's assertions, the Commission is not limited to implementing a rate increase only when a utility is earning less than its authorized rate of return.

Both FAIR and Florida Rising call into question the Commission's authority to approve the regulatory rate recovery mechanisms on the basis that they "preapprove" rates. (Florida Rising Br. 51, 55-56; FAIR Br. 41-45) However, Florida Administrative Code Rule 25-6.0425, which implements section 366.076(2), Florida Statutes, specifically allows the Commission in a full revenue requirement proceeding to "approve incremental adjustments in rates for periods subsequent to the initial period in which new rates will be in effect." Thus, the plain language of the rule allows the Commission to approve a rate that will be implemented on a later date as part of a base rate proceeding. This being an approval of a settlement agreement on a petition to change base rates, the Commission continues to have this same authority in the matter at hand.

The Commission's authority under chapter 366 to determine and fix just, fair, and reasonable rates, coupled with section 120.57(4), Florida Statutes, which authorizes the Commission to informally dispose of any proceeding by settlement, concomitantly gives the Commission the authority to approve the RSAM, CITAP, and the other mechanisms in the 2021 Settlement.

1. Approval of the RSAM, as Part of the 2021 Settlement as a Whole, is Consistent with the Commission's Prior Practice and Case Law.

The RSAM is an accounting mechanism used by FPL to respond to changes in its underlying revenues and expenses in order to maintain an adjusted ROE within the range authorized by the Commission. (R. 8004, 8025, 34381, 35374, 70032) FAIR and Florida Rising take issue with the fact that the RSAM has the potential to keep FPL *at the top* of its authorized ROE range. However, a utility is only considered to "over earn" under the law when it earns *beyond the top* of its ROE range, and the record shows that the RSAM does not produce this result. (R. 8031); *see also Mann*, 403 So. 2d at 967 ("By establishing a rate of return range in addition to establishing a specific rate of return, the [C]ommission is acknowledging the economic reality that a company's rate of return will fluctuate in the course of a normal business cycle. Earnings in excess of the authorized rate of return could possibly be offset by lower earnings in later years. Thus the purpose of having a range is to give the [C]ommission some flexibility in deciding whether a public utility's rates should be changed.").

There is no statute specifically prohibiting the RSAM. The Commission has previously approved settlements in 2011, 2013, and 2016 that contain an accounting mechanism similar to the RSAM. (R. 2298); *In re: Petition for Increase in Rates by Fla. Power & Light Co.*, Order No. PSC-11-0089-S-EI, 2011 WL 344916 (Fla. P.S.C. Feb. 1, 2011); *In re: Petition for Increase in Rates by Fla. Power & Light Co.,* Order No. PSC-13-0023-S-EI, 2013 WL 209584 (Fla. P.S.C. Jan. 14, 2013); and *In re: Petition for Rate Increase by*

Florida Power & Light Company, Order No. PSC-16-0560-AS-EI, 2016 WL 7335779 (Fla. P.S.C. Dec. 15, 2016).

Moreover, in *Citizens I*, 146 So. 3d at 1143, the Court affirmed a Commission final order approving FPL's 2012 settlement agreement that included an accounting mechanism similar to the RSAM. In rejecting the argument that such a mechanism was not reasonable and would result in unfair rates, the Court looked to whether there was competent, substantial record evidence supporting the Commission's factual findings of reasonableness and whether the provision's inclusion in the settlement agreement as a whole was in the public interest. *Id.* at 1171. Notably, the Court accepted the Commission's statutory authority to approve a settlement agreement containing an accounting mechanism not explicitly mentioned in chapter 366, Florida Statutes.

Whether other state utility regulatory authorities or the Federal Energy Regulatory Commission (FERC) have approved mechanisms similar to the RSAM and the fact that the Commission has not approved such a mechanism for any other Florida public utility is a red herring. (FAIR Br. 31) The Commission's statutory authority is derived from chapter 366, not from other states' statutes or from FERC.

2. The Record Shows that Ratepayers Will Be Given an Opportunity For a Hearing Prior to the Implementation of the CITAP.

The Commission explained in the Final Order that, "[a]s has been done in the past, this [CITAP] procedure would require FPL to file a petition for approval of its proposed treatment of the tax impacts, thus giving a point of entry to fully litigate the issue," adding "[i]n essence, this [CITAP] provision simply sets the time limit for any requested adjustment.... Setting deadlines and procedures for regulatory action is clearly within our statutory authority to conduct administratively efficient administrative proceedings." (R. 5259)

The Commission determined that "FPL structured this rate case around the mechanisms and adjustments," including the CITAP, and made specific findings that "[t]hese mechanisms, working together, support the four-year stay-out provision which provides a stable rate climate for both residential and commercial customers, while giving FPL the financial ability to operate and

QUESTION:
Please refer to FPL Witness Mark Campbell's direct testimony, Line 22 on page 26 through Line 2 on page 27. Please provide any and all work papers via in an Excel file or other electronic spreadsheet file reflecting assumptions and calculations with all formulas intact that supports FCG's projection that it would fall at or below the bottom of its authorized ROE range and would need to file an additional rate case in 2024 to support a base rate increase in 2025 without the RSAM.

RESPONSE:
Please see Attachment 1 to Staff's 5th Set of Interrogatories No. 64. The attachment shows in line 15 that the incremental revenue requirement to achieve midpoint ROE in 2024 is approximately \$4 million and an incremental revenue requirement of approximately \$3.7 million in 2025, cumulatively \$7.7 million in 2025 (amounts exclude the use of RSAM). In Staff's 5th Set of Interrogatories No. 71 the calculation shows that approximately \$3.5 million of revenue requirements equates to 100bps of ROE. Based on this, FCG is projecting to fall slightly below the ROE range in 2024 and fall almost 200 basis points below the ROE range by 2025.

QUESTION:
Please refer to FCG Witness Mark Campbell's direct testimony pages 24-30, wherein he discusses FCG's proposed four-year rate plan and RSAM.

In an effort to develop the record evidence for the Commission to make an informed decision regarding FCG's proposed four-year rate plan, which covers from 2023 through 2026, please provide FCG's annual capital expenditure and non-clause O&M expense budget amounts from 2024 through 2026, as well as the estimated annual revenue requirement impacts associated with these annual budget amounts (including corresponding impacts to depreciation expense, taxes other than income, etc.).

RESPONSE:
Please see Attachment 1 to this response which provides all the amounts noted above and the associated revenue requirement impacts.

FCG projects incremental revenue requirements of $4.2 million, $8.3 million, and $12.4 million for 2024, 2025, and 2026, respectively, beyond the requested base rate increase for 2023, to earn at the proposed midpoint return on equity, or approximately $25 million in total. This estimate does not factor in the many uncertainties and risks, such as record high inflation and rising interest rates the Company will need to manage over the four-year period. Please also refer to FCG's response to OPC's Fifth Set of Interrogatories No. 156.

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Docket No. 20220069-GU
High-Level 2024 to 2026 Revenue Requirements

High-Level 2024 to 2026 Revenue Requirements (WITH RSAM)

($ Thousands)

Line	Description	2023	2024	2025	2026	Reference
	FPSC Adjusted Rate Base					
1	Capital Expenditures	$ 55,622	[redacted]	[redacted]	[redacted]	G-1, Page 26 OPCs 2nd Set, POD No. 39 (2024 - 2026 Support)
2	*Less:* Estimated SAFE Capital Expenditures[3]	$ 11,500	$ 11,500	$ 11,500	$ 11,500	OPCs 1st Set, POD No. 1. MFR G-2, Page 2 (with RSAM) File: "WP 8 - Company Adjustment - SAFE RSAM" Tab: "Total SAFE"
3	Adjusted Capital Expenditures	$ 44,122	[redacted]	[redacted]	[redacted]	
4	Average Depreciation Rate[1]		2.44%	2.44%	2.44%	Exhibit LF-5(B), Page 10
5	Annual Depreciation & Amortizatior	$ 17,317	$ 18,337	$ 19,298	$ 20,280	G-2 (with RSAM), Page 1
6	**FPSC Adjusted Rate Base**	**$ 489,002**	**$ 512,477**	**$ 532,578**	**$ 552,548**	G-1 (with RSAM), Page 1
7	**FPSC Adjusted Rate Base - Incremental Growth**		**$ 23,474**	**$ 20,102**	**$ 19,970**	
8	Pre-Tax Weighted Average Cost of Capital (WACC)		9.01%	9.01%	9.01%	G-3 (with RSAM), Page 2
9	Property Tax Rate		1.80%	1.80%	1.80%	Exhibit MC-4, Page 3
10	**Revenue Requirement Multiple**		**10.81%**	**10.81%**	**10.81%**	
11	**Revenue Requirement - Capital Initiatives**		**$ 3,558**	**$ 3,135**	**$ 3,141**	
12	**Operating Expenses**					
13	FPSC Adjusted O&M Expense[4]	$ 25,981	[redacted]	[redacted]	[redacted]	G-2 (with RSAM), Page 1 G-2 (with RSAM), Page 2 OPCs 2nd Set, POD No. 39. (2024 - 2026 Support)
14	**FPSC Adjusted O&M Expense - Incremental**		[redacted]	[redacted]	[redacted]	
15	**Total Revenue Requirements - Incremental**		**$ 3,975**	**$ 3,735**	**$ 3,641**	
16	Annual Surplus		$ 3,975	$ 7,710	$ 11,351	
17	Surplus - Rate Base Impact		$ 215	$ 632	$ 1,030	
18	Total Annual Surplus		$ 4,190	$ 8,342	$ 12,381	
19	**Total Cumulative Surplus**[2]		**$ 4,190**	**$ 12,531**	**$ 24,913**	

[1] Based on the RSAM-adjusted depreciation rates proposed by FPL witness Fuente:
[2] Assumes approval of the Company's requested base revenue increase in 2023 at 10.75% midpoint return on equit
[3] Reference provides support for 2023 Test Year. Projected periods 2024 to 2026 assumed to be equivalent to 2023 Test Year
[4] Includes rate case expense amortization of $497,779 per year in 2023 to 2026 which was not included in O&M per OPCs 2nd set, POD No. 3(

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FCG 004867
20220069-GU

Schedule G-1 (with RSAM) — Calculation of The Projected Test Year Rate Base —

Florida Public Service Commission

Company: Florida City Gas

Docket No.: 20220069-GU

Explanation: Provide a schedule calculating a 13-month average rate base for the historic base year, the historic base year plus one, and the projected test year.

Type of Data Shown:
Historic Base Year Data: 12/31/21
Historic Base YR + 1: 12/31/22
Projected Test Year: 12/31/23
Witness: Liz Fuentes

Line No.	Description	BASE YEAR 12/31/21 (Per Books)	Company Adjustments	Base Year Adjusted Average Yr.	BASE YR + 1 12/31/22 Average Year (A)	Projected Test Year Unadjusted Average Yr.	Projected Test Year Adjustments	Projected Test Year As Adjusted
	UTILITY PLANT							
1	PLANT IN SERVICE	$521,622,640	($30,083,403)	$491,539,237	$512,163,230	$659,463,015	($16,383,312)	$643,079,704
2	CONSTRUCTION WORK IN PROGRESS	27,602,674	(3,658,086)	23,944,588	54,946,018	30,868,480	(2,676,040)	28,192,440
3	ACQUISITION ADJUSTMENT	21,656,835	-	21,656,835	21,656,835	21,656,835	-	21,656,835
4	COMMON PLANT ALLOCATED	-	-	-	-	-	-	-
5	PLANT HELD FOR FUTURE USE	-	-	-	-	-	-	-
6	TOTAL	$570,882,149	($33,741,489)	$537,140,660	$588,766,083	$711,988,331	($19,059,352)	$692,928,979
	DEDUCTIONS							
7	ACCUM PROV-DEPR & AMORT	($199,051,908)	$781,287	($198,270,621)	($206,483,683)	($224,359,876)	$2,979,165	($221,380,711)
8	CUSTOMER ADVANCES FOR CONSTRUCTION	-	-	-	-	-	-	-
9	TOTAL DEDUCTIONS	($199,051,908)	$781,287	($198,270,621)	($206,483,683)	($224,359,876)	$2,979,165	($221,380,711)
10	PLANT NET	$371,830,241	($32,960,202)	$338,870,039	$382,282,400	$487,628,455	($16,080,187)	$471,548,268
	ALLOWANCE FOR WORKING CAPITAL							
11	BALANCE SHEET METHOD	$28,932,348	($15,212,528)	$13,719,820	$9,733,692	$19,889,261	($2,435,340)	$17,453,920
12	TOTAL RATE BASE	$400,762,589	($48,172,730)	$352,589,859	$392,016,092	$507,517,716	($18,515,527)	$489,002,189
13	NET OPERATING INCOME	$18,751,697	($1,646,275)	$17,105,422	$16,104,631	$16,762,125	($3,493,520)	$13,268,605
14	RATE OF RETURN	4.68%		4.85%		3.30%		2.71%

Note (A): Amounts in this column have been adjusted for Commission adjustments.

Supporting Schedules: B-2, G-1 p.4 (with RSAM), G-1 p. 5-8, G-1 p.15, G-2 p.1-3 (with RSAM), G-2, p.18, G-2 p.21, G-2 p.22, G-6 p.1-2

Recap Schedule:

Florida City Gas Company
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FCG 004868
20220069-GU

Schedule G-2 (with RSAM) — Calculation of The Projected Test Year - NOI - Summary —

Florida Public Service Commission

Company: Florida City Gas

Docket No.: 20220069-GU

Explanation: Provide the calculation of net operating income per books for the historic base year, the projected net operating income for the historic base year + 1, and the projected test year.

Type of Data Shown:
Historic Base Year Data: 12/31/21
Historic Base Year + 1: 12/31/22
Projected Test Year: 12/31/23
Witness: Liz Fuentes

Line No.		Historic Base Year Per Books	Company Adjustments	Historic Base Year Adjusted	Historic Base Year + 1 12/31/2022 Per Books	Projected Test Year 12/31/2023 (A)	Projected Test Year Adjustments	Projected Test Year As Adjusted
	OPERATING REVENUE:							
1	OPERATING REVENUES	$ 109,937,539	$ (46,078,882)	$ 63,858,657	$ 108,473,483	$ 116,217,297	$ (51,671,893)	$ 64,545,404
2	REVENUE RELIEF	-	-	-	-	-	-	-
3	CHANGE IN UNBILLED REVENUES	(663,178)	-	(663,178)	(43,328)	40,041	-	40,041
4	REVENUES DUE TO GROWTH (B)	-	-	-	-	-	-	-
5	TOTAL REVENUES	$ 109,274,361	$ (46,078,882)	$ 63,195,479	$ 108,430,155	$ 116,257,337	$ (51,671,893)	$ 64,585,444
	OPERATING EXPENSES:							
6	COST OF GAS	22,734,964	(23,456,285)	(721,321)	28,455,184	34,075,912	(34,075,912)	-
7	OPERATION & MAINTENANCE	31,733,501	(6,604,753)	25,128,748	32,510,968	32,720,885	(6,739,919)	25,980,967
8	DEPRECIATION & AMORTIZATION	23,053,124	(7,963,171)	15,089,953	17,797,836	20,276,958	(2,960,386)	17,316,572
9	GAINS/LOSSES FROM DISPOSITION OF UTILITY PLANT	(113,767)	-	(113,767)	-	-	-	-
10	TAXES OTHER THAN INCOME	9,054,448	(6,025,645)	3,028,803	8,080,740	9,740,548	(3,353,938)	6,386,610
11	TAXES OTHER THAN INCOME - GROWTH (B)	-	-	-	-	-	-	-
12	INCOME TAXES FEDERAL	3,152,920	(316,423)	2,836,497	1,600,644	1,116,394	(871,361)	245,033
13	INCOME TAXES - STATE	347,069	(66,330)	280,739	163,547	60,213	(241,496)	(181,283)
14	INCOME TAXES - GROWTH - FEDERAL (B)	-	-	-	-	-	-	-
15	INCOME TAXES - GROWTH - STATE (B)	-	-	-	-	-	-	-
16	INTEREST SYNCHRONIZATION	-	-	-	-	-	-	-
17	DEFERRED TAXES - FEDERAL	23,089	-	23,089	818,661	883,082	64,639	947,721
18	DEFERRED TAXES - STATE	537,316	-	537,316	674,689	621,219	-	621,219
19	INVESTMENT TAX CREDITS	-	-	-	-	-	-	-
20	TOTAL OPERATING EXPENSES	$ 90,522,664	$ (44,432,607)	$ 46,090,056	$ 90,102,269	$ 99,495,212	$ (48,178,373)	$ 51,316,839
21	OPERATING INCOME	$ 18,751,697	$ (1,646,275)	$ 17,105,422	$ 18,327,886	$ 16,762,125	$ (3,493,520)	$ 13,268,605

NOTE:
(A) In order to maintain a balanced capital structure reflecting FCG's proposed equity ratio on an adjusted basis for the 2023 Test Year, the forecasted amount of net operating income for the current case is slightly different between the "with" and "without" RSAM versions of this MFR.
(B) FCG does not identify revenues or operating expenses related to customer growth separate and apart from all other revenues. Therefore, the requested information is unavailable.

Supporting Schedules: G-2, p.2-3 (with RSAM), G-2, p.4, G-2, p.5 (with RSAM) 5, G-6 p.2-3 — Recap Schedules: A-1 (with RSAM), A-4 (with RSAM)

Schedule G-2 (with RSAM) | Net Operating Income Adjustments |

Florida Public Service Commission

Company: Florida City Gas

Docket No.: 20220069-GU

Explanation: Provide a schedule of proposed adjustments to the projected test year (from schedule G-2, page 1).

Type Of Data Shown:
Projected Test Year: 12/31/23
Witness: Liz Fuentes

Line No.	Adjustment Title		Adjustment Amount	Reason for Adjustment	Note
	OPERATING REVENUE				
1	PURCHASED GAS ADJUSTMENT (PGA)	$	(34,053,742)	TO REMOVE PGA COST RECOVERY CLAUSE REVENUES	
2	AREA EXTENSION PROGRAM (AEP)		(726,069)	TO REMOVE AEP REVENUES	
3	SAFETY, ACCESS, AND FACILITY ENHANCEMENT (SAFE) REVENUES		(6,736,302)	TO REMOVE SAFE COST RECOVERY CLAUSE REVENUES	
4	NATURAL GAS CONSERVATION COST RECOVERY CLAUSE		(6,997,154)	TO REMOVE NATURAL GAS CONSERVATION COST RECOVERY CLAUSE REVENUES	
5	FRANCHISE AND GROSS RECEIPTS REVENUES		(3,158,626)	TO REMOVE FRANCHISE AND GROSS RECEIPTS TAX REVENUES	
6	TOTAL REVENUE ADJUSTMEMTS	$	(51,671,893)		
	COST OF GAS				
7	GAS COSTS		(34,075,912)	TO REMOVE GAS COSTS RECOVERED THROUGH THE PGA COST RECOVERY CLAUSE	
8	TOTAL COST OF GAS ADJUSTMENTS		(34,075,912)		
	OPERATIONS & MAINTENANCE EXPENSE				
9	NATURAL GAS CONSERVATION COST RECOVERY CLAUSE EXPENSES	$	(6,901,558)	TO REMOVE EXPENSES RECOVERED THROUGH THE NATURAL GAS CONSERVATION COST RECOVERY CLAUSE	
10	RATE CASE EXPENSES		497,779	TO INCLUDE THE AMORTIZATION OF RATE CASE EXPENSES FOR THIS PROCEEDING, WHICH THE COMPANY IS REQUESTING OVER A FOUR YEAR PERIOD.	A
11	ECONOMIC DEVELOPMENT EXPENSES		(3,217)	TO REMOVE ECONOMIC DEVELOPMENT EXPENSES PER RULE NO. 25-7.042, RECOVERY OF ECONOMIC DEVELOPMENT EXPENSES	
12	INDUSTRY ASSOCIATION DUES		(25,000)	TO REMOVE INDUSTRY DUES ASSOCIATED WITH LOBBYING	
13	OUTSIDE SERVICES FOR CLAUSE DOCKETS		(57,294)	TO REMOVE COST RECOVERY CLAUSE DOCKET SUPPORT PROVIDED BY AFFILIATE AND EXTERNAL LEGAL FROM BASE RATES TO THE APPLICABLE COST RECOVERY CLAUSES.	A
14	REGULATORY COMMISSION EXPENSES		(250,629)	TO REMOVE REGULATORY ASSESSMENT FEES ASSOCIATED WITH VARIOUS ADJUSTMENTS REFLECTED ON THIS MFR.	
15	TOTAL O & M ADJUSTMENTS	$	(6,739,919)		
	DEPRECIATION EXPENSE				
16	AEP AMORTIZATION EXPENSE	$	(679,200)	TO REMOVE AEP AMORTIZATION EXPENSE	
17	SAFE CLAUSE DEPRECIATION EXPENSE		(1,273,253)	TO REMOVE DEPRECIATION EXPENSE RECOVERED THROUGH THE SAFE COST RECOVERY CLAUSE	
18	SAFE DEPRECIATION EXPENSE TRANSFER TO BASE		1,189,568	TO INCLUDE IN DEPRECIATION EXPENSE THE TRANSFER OF FORECASTED DEPRECIATION EXPENSE ASSOCIATED WITH ASSETS CURRENTLY BEING RECOVERED THROUGH THE SAFE COST RECOVERY CLAUSE TO BASE RATES PER ORDER NO. PSC-15-0390-TRF-GU, DOCKET NO. 150116-GU. ADJUSTMENT IS BASED ON ASSETS IN PLANT-IN-SERVICE AS OF DECEMBER 31, 2022	A
19	DEPRECIATION		(2,197,500)	TO DECREASE DEPRECIATION EXPENSE TO REFLECT THE IMPACT OF THE PROPOSED RSAM-ADJUSTED DEPRECIATION RATES ON THE 2023 TEST YEAR.	A
20	TOTAL DEPRECIATION EXPENSE ADJS	$	(2,960,386)		

NOTE (A): Represents a proposed Company Adjustment in this proceeding. Please refer to FCG witness Fuentes's testimony for further information

Supporting Schedules: G-6 p.2-3 | Recap Schedules: G-2 p.1 (with RSAM)

Schedule G-3 (with RSAM) — Calculation of the Projected Test Year - Cost of Capital

Florida Public Service Commission

Company: Florida City Gas

Docket No.: 20220069-GU

Explanation: Provide a schedule calculating a 13 month average cost of capital for the projected test year.

Type of Data Shown:
Projected Test Year: 12/31/23
Witness: Liz Fuentes, Mark Campbell

Line No.	Description	Per Books (1)	Adjustments: Specific	Adjustments: Prorata	Adjustments: Proration Adjustments (2)	Adjusted	Ratio	Cost Rate	Weighted Cost
1	COMMON EQUITY	$ 262,522,369	$ 0	$ (5,520,991)	$ 27,373	$ 257,028,751	52.56%	10.75%	5.65%
2	LONG TERM DEBT	165,323,588	(7,973,660)	(3,310,507)	16,653	154,056,074	31.50%	4.28%	1.35%
3	SHORT TERM DEBT	20,639,971	-	(434,235)	2,044	20,207,781	4.13%	1.78%	0.07%
4	CUSTOMER DEPOSITS	3,881,270	-	(81,637)	400	3,800,033	0.78%	2.64%	0.02%
5	DEFERRED TAXES	55,150,517	-	(1,194,497)	(46,471)	53,909,550	11.02%	0.00%	0.00%
6	TAX CREDIT	-	-	-	-	-	0.00%	0.00%	0.00%
7	TOTAL (1)	$ 507,517,716	$ (7,973,660)	$ (10,541,867)	$ (0)	$ 489,002,189	100.00%		7.09%

NOTES:
(1) IN ORDER TO MAINTAIN A BALANCED CAPITAL STRUCTURE REFLECTING FCG'S PROPOSED EQUITY RATIO ON AN ADJUSTED BASIS, THE FORECASTED AMOUNTS FOR CERTAIN ACCOUNTS ARE SLIGHTLY DIFFERENT BETWEEN THE "WITH" AND "WITHOUT" RSAM VERSIONS OF THIS MFR.
(2) THIS ADJUSTMENT IS REQUIRED TO PRORATE AMOUNTS INCLUDED IN FERC ACCOUNT 282 IN ORDER TO COMPLY WITH TREASURY REGULATIONS §1.167(1)-1(h)(6) WHEN CALCULATING RATES USING A PROJECTED TEST YEAR. DETAILS OF THE ADJUSTMENT ARE PROVIDED IN FCG WITNESS FUENTES'S DIRECT TESTIMONY.

	ADDED CALCULATION PRE-TAX WEIGHTED COST
COMMON EQUITY	7.57%
LONG TERM DEBT	1.35%
SHORT TERM DEBT	0.07%
CUSTOMER DEPOSITS	0.02%
DEFERRED TAXES	0.00%
TAX CREDIT	0.00%
	9.01%
After-Tax Rate	**0.74655**

Supporting Schedules: G-1 p.8, G-3 p.3-7, G-6 p.1

Recap Schedules: A-1 (with RSAM), A-5 (with RSAM)

Florida City Gas Company
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FCG 004871
20220069-GU

Schedule G-1 | Calculation of The Projected Test Year - Rate Base |

Florida Public Service Commission

Company: Florida City Gas

Docket No.: 20220069-GU

Explanation: Provide a detailed construction budget for the projected test year.

Type of Data Shown:
Projected Test Year: 12/31/2023
Witness: Mark Campbell, Kurt Howard

Line No.	Acct. No.	Description of Proposed Purchases and / or Construction Projects	Date of Proposed Purchase or Constr. (12/31/23)	Purchase Price or Construction Cost	Date of Related Retirement (12/31/23)	Retirement Amount of Related Retirement	Removal Costs of Related Retirement
1	303.02	CUSTOMIZED SOFTWARE - 12 YR	VARIOUS	$800,000	N/A	$0	$0
2	303.20	CUSTOMIZED SOFTWARE - 20 YR	VARIOUS	60,000	N/A	0	0
3	364	LNG PLANT	VARIOUS	3,127,701	N/A	0	0
4	375	STRUCTURES & IMPROVEMENT	VARIOUS	27,555	N/A	0	1,131
5	376.1	MAINS (STEEL)	VARIOUS	12,042,969	VARIOUS	436,109	481,429
6	376.2	MAINS (PLASTIC)	VARIOUS	17,789,628	VARIOUS	272,400	369,200
7	378	MEAS & REG STAT EQUP - GEN	VARIOUS	365,631	N/A	0	15,011
8	379	MEAS & REG STAT EQUP - CITY GATE	VARIOUS	2,722,007	VARIOUS	35,329	111,756
9	380.1	SERVICES (STEEL)	VARIOUS	264,077	VARIOUS	57,785	10,842
10	380.2	SERVICES (PLASTIC)	VARIOUS	9,654,732	VARIOUS	156,818	314,094
11	381	METERS	VARIOUS	5,495,694	VARIOUS	1,262,153	168,177
12	381.1	METERS - ERTs	VARIOUS	0	VARIOUS	199,621	0
13	382	METER INSTALLATIONS	VARIOUS	673,509	VARIOUS	207,692	17,251
14	382.1	METER INSTALLATIONS - ERTs	VARIOUS	0	VARIOUS	46,290	0
15	383	HOUSE REGULATORS	VARIOUS	739,025	VARIOUS	7,447	30,342
16	384	HOUSE REG - INSTALLATIONS	VARIOUS	258,765	N/A	0	10,624
17	385	INDUSTRIAL MEAS & REG STAT EQUP	VARIOUS	229,878	VARIOUS	489	9,438
18	387	OTHER EQUIPMENT	VARIOUS	271,699	VARIOUS	37,458	11,155
19	391.12	COMPUTER EQUIPMENT	VARIOUS	220,753	N/A	0	0
20	392.2	TRANSPORTATION - LIGHT TRUCKS	VARIOUS	878,592	N/A	0	0
21			TOTAL	$55,622,214		$2,719,590	$1,550,450

Supporting Schedules: G-1 p.27-28, G-6 p.1 | Recap Schedules: G-1 p.10

QUESTION:
Assuming FCG's proposed four-year rate plan were approved by the Commission, what would be the point of entry of the Commission or a party, if not in this instant docket, to review and/or examine the reasonableness and prudency of capital plant additions and/or retirements and non-clause O&M expenses in 2024 through 2026 with the same level of review and examination as the Commission and parties are amply afforded for the projected 2023 test year plant additions and/or retirements and non-clause O&M expenses?

RESPONSE:
While FCG's four-year rate proposal represents a commitment by the Company, it in no way diminishes the oversight and regulatory authority of the Commission in the ordinary course. In fact, the Commission's oversight and regulatory authority during the proposed four-year rate plan would be no different than it was during the four-year minimum term of the settlement agreement in FCG's last base rate case approved by Commission Order No. PSC-2018-0190-FOF-GU in Docket No. 20170179-GU. As a primary example of this, FCG will continue to file the required earnings surveillance reports ("ESRs") on a quarterly basis. Through these reports the Commission will ensure that FCG is earning within the terms of the approved plan and can initiate an earnings investigation when appropriate, including the review of capital plant additions and/or retirements and non-clause O&M expenses. This process has efficiently and effectively served to protect customers during multi-year rate plans and "stay outs," and it will serve the same function during the term of the four-year rate plan being proposed in this proceeding.

FCG's proposed base rate increase is based on a forecasted 2023 Test Year. FCG has not sought approval of any Subsequent Year Adjustments and is not seeking a pre-prudence review of costs beyond the 2023 Test Year as part of this proceeding. Rather, the reasonableness and prudence of costs incurred beyond the Test Year would be reviewed and examined in the next applicable base rate proceeding in the ordinary course. Thus, in the next rate case the Commission and parties would have the same level of review of the 2024-2026 costs as they currently do for the 2019-2022 costs in this case (*i.e.*, the cost incurred after the 2018 Test Year used in FCG's last base rate case). FCG notes that this is entirely consistent with the review and examination of post-Test Year costs that has been and will be applied to the multi-year rate plans with an identical RSAM approved for Florida Power & Light Company (*see, e.g.*, Docket Nos. 20210015-EI and 20160021-EI).

Florida City Gas
Docket No. 20220069-GU
Staff's Fifth Set of Interrogatories
Interrogatory No. 71

QUESTION:
Isn't the revenue requirement impact of 100 basis points on FCG's ROE roughly $2 million?

RESPONSE:
No. The revenue requirement impact of 100 basis points on FCG's ROE under the RSAM scenario for the 2023 Test Year is approximately $3.5 million. Please see calculation supporting this amount below:

$ 489,002,189	Schedule G-1 p.1 (with RSAM)
0.53%	100 Basis Points Change in WACC reflected on Schedule G-3 p.2 (with RSAM)
$ 2,570,288	Change in After-tax Equity Return
1.3527	NOI Multiplier reflected on Schedule G-4
$ 3,476,828	100 Basis Points Change in 2023 Test Year Revenue Requirements

Florida City Gas
Docket No: 20220069-GU
Staffs Fifth Set of Interrogatories
Interrogatory No: 73

QUESTION:
By adjusting the depreciation parameters for certain plant items beyond the service life parameters contained in FCG’s depreciation study via Company Witness Allis, please explain how such action does not: (a) harm customers potentially in future via theoretical reserve deficit if the adjusted depreciation parameters do not come to fruition or (b) raise the likelihood of increasing intergenerational inequities among present and future customers.

RESPONSE:
Service life estimates in any given depreciation study are, by their nature, estimates of what is expected to occur in the future based on information available at the time of the study. These estimates are, therefore, necessarily forecasts of what will occur over many decades and, as NARUC explains on page 189 of *Public Utility Depreciation Practices*, “[i]t should be noted that only after plant has lived its entire useful life will the true depreciation parameters become known.” One of the reasons for periodic depreciation studies is to update depreciation parameters to incorporate current information and refine life and net salvage estimates as appropriate based on information available at the time the studies are performed. Service life estimates often change each time a depreciation study is performed, which is one reason why this Commission requires utilities to periodically file depreciation studies. FCG’s service life estimates for its more significant plant accounts have consistently increased over the last few depreciation studies, irrespective of the service lives proposed in conjunction with the RSAM as shown below:

Account	**2014 Study – Approved**	**2018 Study - Proposed**	**2018 Study - Approved**	**2022 - FCG Allis Proposed**
376.1/376.2, Mains	42/40	55	55	65
378/379, M&R	30	30/35	30/35	35
380.1/380.2, Services	35/34	45	45/54	50

If depreciation parameters reflected in a depreciation study are revised in a subsequent study, or if future experience does not perfectly match current estimates, impacts to a future theoretical reserve deficit or surplus may only be made prospectively as no correction can be made to the accounts of prior customers. Therefore, it is unavoidable that differences in treatment among generations will exist if depreciation parameters are revised during an asset’s life or if the future does not perfectly match current forecasts of service life. However, for the reasons explained above, this does not suggest unfair or inequitable treatment of those customers. Service life parameters are estimates, and the future may very well be different from current estimates. Different parties can disagree in good faith on estimates of the future and, as long as these estimates are within a range of reasonableness they should not be considered to be inequitable merely because the future ends up being different from current estimates. As the quote from NARUC cited above recognizes, we will not know the actual service life parameters for many decades.

In comparison, a theoretical reserve deficit or surplus is very different from the deferred incremental variations in items such as fuel costs that are recovered from, or refunded to, ratepayers through a fuel adjustment clause mechanism. For such fuel overcollections, the fuel has been consumed and its cost can be fully reconciled and addressed. For assets in service, the service life is still uncertain, and no permanent reconciliation and disposition is possible.

In addition, as stated in FCG's response to subpart f(6) to Staff's Second Set of Interrogatories No. 18, FCG's RSAM proposal in this proceeding is similar to settlement agreements previously approved by the Commission in which alternative depreciation parameters are adopted within the context of other components of a case. There are also similarities to cases in which alternative depreciation parameters (i.e., those not recommended in a utility's depreciation study) were adopted by the Commission in fully litigated proceedings. FCG believes the parameters in its RSAM proposal in this proceeding are within a range of reasonableness for expectations of future service lives, especially in the context of the four-year rate proposal discussed by FCG witness Campbell. With the exception of the LNG Facility, the service lives in FCG's RSAM proposal are the same parameters used for similar assets from the Peoples Gas System's most recent base rate case settlement approved by the Commission in Order No. PSC-2020-0485-FOF-GU, Docket Nos. 20200051-GU, and are also generally in line to those proposed by OPC witness Garrett for largest plant accounts in both this docket and the FPUC rate case docket (Docket No. 20220067-GU) as shown below:

Account	**2022 - FCG RSAM Proposed**	**2022 - OPC Proposed (FCG Case)**	**2022 - OPC Proposed (FPUC Case)**
376.1/376.2, Mains	65/75	70	75/65
378/379, M&R	40/50	45	46/49
380.1/380.2, Services	52/55	55	57/60

FLORIDA PUBLIC SERVICE COMMISSION
ATTACHMENT B
2021 REGULATORY PLAN

LAWS NOT CREATING OR MODIFYING DUTIES OR AUTHORITY
SECTION 120.74(1)(b), F.S.

Laws	Intent of Rulemaking
Section 366.05, F.S.	To adopt Rule 25-6.04355, F.A.C., Effective Date of Approved Rates and Charges for Investor-Owned Electric Utilities, to address when a utility's approved rates and charges are effective and when the utility may begin applying approved rates and charges to a customer's bill for service rendered To adopt Rule 25-7.0405, F.A.C., Effective Date of Approved Rates and Charges for Investor-Owned Natural Gas Utilities., to address when a utility's approved rates and charges are effective and when the utility may begin applying approved rates and charges to a customer's bill for service rendered To repeal Rule 25-14.004, F.A.C., Effect of Parent Debt on Federal Corporate Income Tax, as obsolete To amend Rule 25-14.013, F.A.C., Accounting for Deferred Income Taxes Under SFAS 109, to remove references to obsolete accounting standards and replace references to obsolete standards with specific requirements To amend Rule 25-14.014, F.A.C., Accounting for Asset Retirement Obligations Under SFAS 143, to remove references to obsolete accounting standards
Section 366.06, F.S.	To amend Rule 25-6.0142, F.A.C., Uniform Retirement Units for Electric Utilities, to update the Code of Federal Regulations reference in subsection (1) and to include a link to the F.A.C. website for the List of Retirement Units that is incorporated by reference in subsection (3) To amend Rule 25-6.0435, F.A.C., Interim Rate Relief, to recognize alternative publications to obtain interest rates rather than sole reliance on the Wall Street Journal To adopt Rule 25-6.04355, F.A.C., Effective Date of Approved Rates and Charges for Investor-Owned Electric Utilities, to address when a utility's approved rates and charges are effective and when the utility may begin applying approved rates and charges to a customer's bill for service rendered To amend Rule 25-6.109, F.A.C., Refunds, to recognize alternative publications to obtain interest rates rather than sole reliance on the Wall Street Journal To amend Rule 25-7.040, F.A.C., Interim Rate Relief, to recognize alternative publications to obtain interest rates rather than sole reliance on the Wall Street Journal