

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for rate increase by Florida City
Gas.

DOCKET NO. 20220069-GU
ORDER NO. PSC-2022-0413-PHO-GU
ISSUED: December 8, 2022

PREHEARING ORDER

Pursuant to Notice and in accordance with Rule 28-106.209, Florida Administrative Code (F.A.C.), a Prehearing Conference was held on November 29, 2022, in Tallahassee, Florida, before Chairman Andrew Giles Fay, as Prehearing Officer.

APPEARANCES:

CHRISTOPHER T. WRIGHT and JOEL T. BAKER, ESQUIRES, Florida Power & Light Company, 700 Universe Boulevard, Juno Beach, FL 33408-0420
BETH KEATING, ESQUIRE, Gunster, Yoakley & Stewart, P.A., 215 South Monroe St., Suite 601, Tallahassee, FL 32301-1804
On behalf of Florida City Gas (FCG).

MARY A. WESSLING and CHARLES REHWINKEL, ESQUIRES; Office of Public Counsel, c/o The Florida Legislature, 111 West Madison Street, Room 812, Tallahassee, Florida 32399-1400
On behalf of the Citizens of the State of Florida (OPC).

MARCUS DUFFY, CAPT, USAF, HOLLY L. BUCHANAN, MAJOR, USAF, and THOMAS A. JERNIGAN, ESQUIRES, AF/JAOE-ULFSC, 139 Barnes Drive, Suite 1, Tyndall Air Force Base, FL 32403
On behalf of Federal Executive Agencies (FEA).

JON C. MOYLE, JR. and KAREN PUTNAL, ESQUIRE, Moyle Law Firm, P.A., 118 North Gadsden Street, Tallahassee, Florida 32312
On behalf of Florida Industrial Power Users Group (FIPUG).

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On behalf of the Florida Public Service Commission (Staff).

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Florida Public Service Commission General Counsel.

I. CASE BACKGROUND

On May 31, 2022, Florida City Gas (FCG or Company) filed a petition seeking the Florida Public Service Commission's (Commission) approval of a rate increase and associated depreciation rates. FCG, a subsidiary of Florida Power & Light Company, is a natural gas local distribution company providing sales and transportation of natural gas, and is a public utility subject to our regulatory jurisdiction under Section 366.02, Florida Statutes (F.S.). FCG currently serves approximately 116,000 residential, commercial, and industrial natural gas customers in Miami-Dade, Broward, St. Lucie, Indian River, Brevard, Palm Beach, Hendry, and Martin counties.

FCG initially requested an increase of \$29.0 million in additional annual revenues, but updated that figure in rebuttal to \$28.3 million. Of that amount, \$5.7 million is associated with the reclassification of FCG's Safety, Access, and Facility Enhancement program revenues from surcharge to base rates and \$3.8 million is related to the revenue requirements for the previously approved Liquefied Natural Gas Facility. Additionally, FCG initially stated that the remaining \$19.4 million is necessary, according to FCG, for the Company to earn a fair return on its investment and to adopt the requested reserve surplus amortization mechanism. In rebuttal, FCG updated this figure to \$18.8 million. FCG based its request on a 13-month average rate base of \$489 million for the projected test year ending December 31, 2023. The requested overall rate of return is 7.09 percent based on a mid-point of 10.75 percent return on equity.

FCG's last rate case was filed on October 23, 2017, and was resolved by our approval of a settlement agreement in 2018.¹ The Commission-approved settlement agreement allowed FCG to generate an additional \$11.5 million in revenues for the projected test year ending December 31, 2018. The settlement agreement also authorized a return on equity of 10.19 percent.

In compliance with Paragraphs 366.06(2), and (4) Florida Statutes (F.S.), an administrative hearing has been scheduled for these matters on December 12-16, 2022. FCG has withdrawn the objection to FIPUG's standing so no ruling was made. The Intervenors in this docket are the Office of Public Counsel (OPC), Federal Executive Agencies (FEA), and Florida Industrial Power Users Group (FIPUG). We have jurisdiction under Chapter 366, F.S.

¹ Order No. PSC-2018-0190-FOF-GU, issued April 20, 2018, in Docket No. 20170179-GU, *In re: Petition for rate increase by Florida City Gas.*

II. CONDUCT OF PROCEEDINGS

Pursuant to Rule 28-106.211, Florida Administrative Code (F.A.C.), this Prehearing Order is issued to prevent delay and to promote the just, speedy, and inexpensive determination of all aspects of this case.

III. JURISDICTION

This Commission is vested with jurisdiction over the subject matter by the provisions of Chapters 120 and 366, F.S. This hearing will be governed by said Chapters and Rules 28-106.211, 25-6, 25-22, and 28-106, F.A.C., as well as any other applicable provisions of law.

IV. PROCEDURE FOR HANDLING CONFIDENTIAL INFORMATION

Information for which proprietary confidential business information status is requested pursuant to Section 366.093, F.S., and Rule 25-22.006, F.A.C., shall be treated by the Commission as confidential. The information shall be exempt from Subsection 119.07(1), F.S., pending a formal ruling on such request by the Commission or pending return of the information to the person providing the information. If no determination of confidentiality has been made and the information has not been made a part of the evidentiary record in this proceeding, it shall be returned to the person providing the information. If a determination of confidentiality has been made and the information was not entered into the record of this proceeding, it shall be returned to the person providing the information within the time period set forth in Section 366.093, F.S. The Commission may determine that continued possession of the information is necessary for the Commission to conduct its business.

It is the policy of this Commission that all Commission hearings be open to the public at all times. The Commission also recognizes its obligation pursuant to Section 366.093, F.S., to protect proprietary confidential business information from disclosure outside the proceeding. Therefore, any party wishing to use any proprietary confidential business information, as that term is defined in Section 366.093, F.S., at the hearing shall adhere to the following:

- (1) When confidential information is used in the hearing that has not been filed as prefiled testimony or prefiled exhibits, parties must have copies for the Commissioners, necessary staff, and the court reporter, in red envelopes clearly marked with the nature of the contents and with the confidential information highlighted. Any party wishing to examine the confidential material that is not subject to an order granting confidentiality shall be provided a copy in the same fashion as provided to the Commissioners, subject to execution of any appropriate protective agreement with the owner of the material.

- (2) Counsel and witnesses are cautioned to avoid verbalizing confidential information in such a way that would compromise confidentiality. Therefore, confidential information should be presented by written exhibit when reasonably possible.

At the conclusion of that portion of the hearing that involves confidential information, all copies of confidential exhibits shall be returned to the proffering party. If a confidential exhibit has been admitted into evidence, the copy provided to the court reporter shall be retained in the Office of Commission Clerk's confidential files. If such material is admitted into the evidentiary record at hearing and is not otherwise subject to a request for confidential classification filed with the Commission, the source of the information must file a request for confidential classification of the information within 21 days of the conclusion of the hearing, as set forth in Rule 25-22.006(8)(b), F.A.C., if continued confidentiality of the information is to be maintained.

V. PREFILED TESTIMONY AND EXHIBITS; WITNESSES

Testimony of all witnesses to be sponsored by the parties (and Staff) has been prefiled and will be inserted into the record as though read after the witness has taken the stand and affirmed the correctness of the testimony and associated exhibits. All testimony remains subject to timely and appropriate objections. Upon insertion of a witness' testimony, exhibits appended thereto may be marked for identification. Each witness will have the opportunity to orally summarize his or her testimony at the time he or she takes the stand. Summaries of testimony shall be limited to five minutes.

Witnesses are reminded that, on cross-examination, responses to questions calling for a simple yes or no answer shall be so answered first, after which the witness may explain his or her answer. After all parties and Staff have had the opportunity to cross-examine the witness, the exhibit may be moved into the record. All other exhibits may be similarly identified and entered into the record at the appropriate time during the hearing.

The Commission frequently administers the testimonial oath to more than one witness at a time. Therefore, when a witness takes the stand to testify, the attorney calling the witness is directed to ask the witness to affirm whether he or she has been sworn.

The parties shall avoid duplicative or repetitious cross-examination. Further, friendly cross-examination will not be allowed. Cross-examination shall be limited to witnesses whose testimony is adverse to the party desiring to cross-examine. Any party conducting what appears to be a friendly cross-examination of a witness should be prepared to indicate why that witness's direct testimony is adverse to its interests.

VI. ORDER OF WITNESSES

The Parties have stipulated to the testimony and exhibits of Commission Staff Witness Angie Calhoun, FEA's Witness Collins, and FCG Witness Dubose. These witnesses have been excused and their testimony and exhibits are entered into the record as though read.

<u>Witness</u>	<u>Proffered By</u>	<u>Issues #</u>
<u>Direct</u>		
Kurt S. Howard	FCG	4, 11-13, 38, 41-45, 49, 69-71
Mark Campbell	FCG	1-3, 5-8, 12-13, 16-17, 20, 22-29, 35, 40, 44-46, 48-49, 52, 54-55, 67-68, 71
Ned W. Allis	FCG	5, 7-8
Jennifer E. Nelson	FCG	28-29
Liz Fuentes	FCG	5-9, 10, 13-27, 30-37, 39, 40, 47, 50-57, 67, 72
<i>Tara B. DuBose</i>	FCG	35, 58-66
Helmuth W. Schultz, III ²	OPC	1, 6, 11-13, 15, 17, 22-24, 31, 38-42, 45-55, 57, 67, 77
David J. Garrett	OPC	5-9, 24-29, 31, 51
Christopher C. Walters	FEA	28, 29, 31
<i>Brian C. Collins</i>	FEA	47, 58, 59, 67
<i>Angela L. Calhoun</i>	STAFF	4
<u>Rebuttal</u>		
Kurt S. Howard	FCG	4, 11-13, 38, 41, 42, 45, 71
Ned W. Allis	FCG	5, 7-8
Jennifer E. Nelson	FCG	28-29

² Participating by GoToMeeting.

<u>Witness</u>	<u>Proffered By</u>	<u>Issues #</u>
Liz Fuentes	FCG	13, 15, 17, 19, 22-27, 31, 35-36, 39, 47, 50, 53-55, 57
Kathleen Slattery	FCG	20, 38-40
<i>Tara B. DuBose</i>	FCG	58-59
Mark Campbell	FCG	6-8, 12-13, 22-23, 28, 46, 67, 71

VII. BASIC POSITIONS

FCG: FCG is seeking approval from the Commission of a four-year rate plan and associated depreciation rates that would enable FCG to avoid seeking a base rate increase until at least the end of 2026. FCG's proposed four-year rate plan will: provide customers with rate stability and certainty; save customers nearly \$10.8 million over the term of the four-year rate plan due to the implementation of Reserved Surplus Amortization Mechanism (RSAM)-adjusted depreciation rates; avoid repetitive and costly rate proceedings, saving customers an additional \$2.0 million in rate case expenses in 2024; enable the Company to continue to meet the natural gas needs of existing and new customers; allow the Company to continue to provide safe, reliable, and high-quality customer service; and provide FCG a reasonable opportunity to earn a fair rate of return on the Company's necessary capital investments.

At present, the Company's current rates and charges are not sufficient to allow FCG to earn a fair and reasonable rate of return, nor do they yield reasonable compensation for services provided, which FCG is entitled to under Section 366.06(3), Florida Statutes. The Company's December earnings surveillance reports and 2022 forecasted earnings surveillance report filed with the Commission demonstrate that FCG has continually earned and expects to earn below its authorized ROE range each year since its last general rate case. Further, based on the Company's projected 2023 financial forecast, FCG projects that its earned ROE will be significantly below the bottom of the current authorized ROE range in 2023 without rate relief.

Under the four-year proposal described below, FCG is requesting a single incremental base rate increase of \$18.8 million³ to be effective February 1, 2023. The incremental base rate increase is based on the difference between FCG's projected net operating income of \$13.8 million and FCG's required net operating income of \$34.7 million, multiplied by the revenue expansion factor of 1.3527,

³ As recalculated in the rebuttal testimony of FCG witness Fuentes and Exhibit LF-11.

less \$5.7 million for the required reclassification of the SAFE program revenues from clause to base rates, and less \$3.8 million for the previously approved LNG Facility. Absent rate relief in 2023, FCG's earned ROE is projected to be well below the bottom end of the ROE range.

FCG's Four-Year Rate Plan

FCG's proposed four-year rate plan would run from February 1, 2023 through at least the end of 2026, consisting of:

- (a) an increase in base rates and charges sufficient to generate a total base revenue increase of \$28.3 million⁴ based on a projected 2023 Test Year, which includes: (i) an incremental base rate revenue requirement of \$18.8 million,⁵ (ii) the revenue requirements for the previously approved LNG Facility,⁶ and (iii) the reclassification of the SAFE program revenues from clause to base rates;⁷
- (b) a 10.75% mid-point ROE and an equity ratio of 59.6% from investor sources for all regulatory purposes;
- (c) implementation of a RSAM, which is a critical and essential component of FCG's four-year rate plan;
- (d) approval of RSAM-adjusted depreciation rates, which is necessary to support the RSAM and decreases the incremental revenue requirement by \$2.7 million;
- (e) the continuation of the Storm Damage Reserve provision approved as part of FCG's 2018 Settlement Agreement, as modified to reflect the Commission's new storm rule for gas utilities;
- (f) a mechanism that will allow FCG to adjust base rates in the event tax laws change during or after the conclusion of this proceeding;
- (g) continuation and expansion of the existing SAFE program, which will allow FCG to further improve safe and reliable service to customers and the communities it serves; and

⁴ *Id.*

⁵ *Id.*

⁶ Order No. PSC-2018-0190-FOF-GU, Docket No. 20170179-GU (the "2018 Settlement").

⁷ Order No. PSC-15-0390-TRF-GU, Docket No. 150116-GU.

(h) implementation of a new limited AMI Pilot that will enable FCG to explore the potential for AMI meters to provide enhanced service to FCG's customers.

Return on Equity and Capital Structure

In its last base rate case, FCG requested an equity ratio based on the consolidated capital structure of its then parent company, Southern Company Gas, because FCG did not at that time issue or hold its own debt or equity and, instead, obtained all short- and long-term financing through Southern Company Gas. As part of the 2018 Settlement, FCG agreed to a capital structure with a 48% equity ratio for all regulatory purposes, and a deemed equity ratio of no greater than 49.1% for earnings surveillance reporting purposes.

On July 29, 2018, FCG became a wholly owned, direct subsidiary of Florida Power & Light Company ("FPL"). Starting in 2019, FCG received approval from the Commission to obtain all its short- and long-term financing needs through an intercompany loan with FPL. The interest rate on FCG's debt borrowings from FPL reflects FPL's weighted average borrowing costs, which is significantly lower than the interest rates FCG could otherwise obtain on its own. For these reasons, FCG is requesting a 2023 Test Year financial capital structure from investor sources consisting of 59.6% common equity and 40.4% debt, which is equal to the capital structure of FCG's direct parent FPL, for all regulatory purposes, including: cost recovery clauses and riders; earning surveillance reporting; the calculation of the revenue requirements for capital investments recovered through the SAFE program surcharge; and when applicable, the calculation of the Company's Allowance for Funds Used During Construction ("AFUDC") rate.

FCG's proposed regulatory capital structure would produce a total weighted average cost of capital ("WACC") of 7.09 percent in the 2023 Test Year. This overall WACC is reasonable and reflects the benefit to customers of FCG's financial strength, including the benefit FCG receives from its parent.

Reserve Surplus Amortization Mechanism

FCG proposes an RSAM that follows the same framework previously approved by this Commission. FCG will use the RSAM to respond to changes in its underlying revenues and expenses in order to maintain an FPSC Adjusted ROE within the authorized range over the course of the four-year rate plan. The record evidence in this case will demonstrate that the RSAM is only sufficient to allow FCG the opportunity to earn at its proposed midpoint ROE of 10.75 percent over the term of the four-year rate plan, which does not account for any inflationary

costs, interest rate costs, and other risks incurred or to be incurred since the time FCG filed its base rate petition.

FCG proposes a depreciation reserve amount of \$25 million be available for use in the RSAM until base rates are reset following FCG's next general base rate proceeding. Consistent with how the mechanism has been structured in prior cases, FCG would have discretion to record increases to expense (debits) or decreases to expense (credits), provided that FCG would be subject to certain limitations in the use and amortization of the amount to maintain earnings within the authorized ROE range.

Pursuant to Rule 25-7.0445 Depreciation, "F.A.C.", FCG prepared its 2022 Depreciation Study and calculated accruals resulting from the parameters identified in that Study. FCG also calculated alternative depreciation parameters that, while different from those presented in the Company's 2022 Depreciation Study, are reasonable for FCG's system and support the use of the RSAM. The alternative parameters were utilized to calculate RSAM-adjusted depreciation rates, which support the \$25 million Reserve Amount (referenced above), reduce the annual revenue requirements by approximately \$2.7 million and save customers nearly \$10.8 million over the four-year term of FCG's proposed plan. FCG requests approval of the RSAM-adjusted depreciation rates as part of its four-year rate plan.

Storm Damage Reserve

FCG proposes to continue to recover prudently incurred storm costs under the framework prescribed by the 2018 Settlement Agreement. FCG is proposing to continue an annual Storm Damage Reserve accrual of \$57,500 and a target reserve of \$800,000, which is supported by a FPSC required independent assessment of FCG's Storm Damage Self-Insurance Reserve. The only modification FCG is proposing is to calculate and recover the storm related costs consistent with the Commission's gas storm rule, Rule 25-7.0143 Use of Accumulated Provision Accounts 228.1, 228.2, and 228.4, F.A.C., which became effective June 28, 2021.

Potential Change in Tax Law

FCG requests that if a new tax law is passed during the pendency of or after this proceeding, the impact of tax reform be handled through subsequent base rate adjustments. Within 90 days of the enactment of the new tax law, FCG would submit the calculation of the required change in base rates to the Commission for review. If timing permits, FCG will submit a revised revenue requirement calculation for Commission consideration as part of FCG's base rate request. Otherwise, FCG will submit the calculation for Commission approval of a subsequent base rate adjustment. In no instance will FCG defer incremental

income tax expense for 2022 or request the tax-related base rate adjustment be implemented before February 1, 2023. Depending on the nature of any final tax law, any deficient or excess deferred income taxes that arise will be deferred as a regulatory asset or liability on the balance sheet and included within FCG's capital structure.

SAFE Program Expansion

The current SAFE program is set to expire in 2025 based on the originally identified 254.3 miles of mains and services to be relocated from rear property easements to the street front locations over the initial ten-years of the program. The Company is requesting approval to continue the SAFE program beyond its initial 2025 expiration date to include approximately 150 miles of additional mains and services that are currently located in rear property easements and eligible for replacement under the SAFE program. As the Commission has previously found, mains and services located in rear property easements present operational and safety concerns, including the age of the facilities, limitations on the Company's access to the facilities due to vegetation overgrowth, landscaping and construction in the easements, and potential gas theft or diversion and damages to the facilities.

The Company is also requesting approval to expand the SAFE program cost recovery mechanism to include the capital investments necessary for the expedited replacement of approximately 160 miles of early vintage polymer pipelines and mains (a/k/a "orange pipe"), which has been studied by United States Department of Transportation Pipeline and Hazardous Materials Safety Administration ("PHMSA") and shown through industry research to exhibit premature failure in the form of cracking. The Company will prioritize the replacement of this orange pipe based on age and highest risk.

FCG's proposed base rate increase does not include any costs or revenue requirements associated with its proposals to continue and expand the SAFE program. Rather, if these proposals are approved in this proceeding, FCG will update the SAFE program in its next applicable annual SAFE filing to reflect the continuation and expansion of the SAFE program as described above. As part of that annual SAFE filing, FCG will propose a new investment/construction schedule and term for the SAFE program. The reasonableness and prudence of the projected and actual costs incurred, as well as the associated bill impacts, will continue to be reviewed as part of FCG's annual SAFE filings.

AMI Pilot

FCG's proposed AMI Pilot is a four-year pilot to support the evaluation of system-wide deployment of AMI infrastructure in a future case. The purpose of the AMI Pilot is to test and gain information and data on the deployment, use,

benefits, and cost savings associated with AMI that includes two-way communications. The AMI Pilot will also test and gather data on corrosion resistance and life of new smart meters, as well as the ability of FCG's back-office information technology and billing systems to support and utilize the full potential of two-way communication smart meters.

The smart meters and AMI to be deployed under the AMI Pilot are similar to the AMI technology that is widely used by electric utilities, as well as a small number of other gas utilities across the nation. The AMI Pilot will allow for automated daily and hourly remote meter reads for the smart meters installed. The remote tracking of this data will allow for: (a) reduced costs associated with driving routes to read meters on monthly basis; (b) remote disconnection of meters; (c) remote leak and outage detection capabilities; (d) more accurate billing; and (e) enhanced customer access to individualized data and usage information.

The AMI Pilot will replace 5,000 residential meters in Brevard County. These meters will be replaced with new state-of-the-art two-way meters that are more resilient to corrosion, which will avoid costs of accelerated retirement and replacement. Thus, implementation of the AMI Pilot in Brevard County will allow FCG to test and gather data on the benefits associated with AMI, as well as the corrosion resistance and life of these new smart meters.

Conclusion

FCG's proposed four-year rate plan will provide rate stability and certainty, will save customers nearly \$10.8 million over the term of the four-year rate plan due to the implementation of the RSAM-adjusted depreciation rates, avoid repetitive and costly rate proceedings saving customers an additional approximately \$2.0 million in rate case expense in 2024, enable the Company to continue to meet the natural gas needs of existing and new customers, continue to provide safe, reliable, and high-quality customer service, and have a reasonable opportunity to earn a fair rate of return on the Company's investments. The record evidence in this case will demonstrate that if FCG's proposed four-year rate plan with the RSAM is not approved, FCG would need to file an additional base rate case in 2024 and the overall, net cumulative increase in cash that would be paid by customers over the period 2023-2026 would be approximately \$27.0 million more than as compared to FCG's proposed four-year rate plan.

OPC: The Office of Public Counsel's (OPC) basic position in this case is that Florida City Gas (FCG) has the burden to prove that every aspect of their requested rate increase is appropriate. The case filed by FCG grossly overstates the revenue requirement needed to provide safe and reliable service. The Commission may only approve the parts of FCG's rate request which are fair, just, and reasonable. In today's tough economic climate, FCG's customers are already under great financial pressure, so any increase will have a significant impact on them. Now

more than ever, the Commission must consider that impact when evaluating FCG's rate request. There are aspects of FCG's rate request, like the inflated equity ratio, excessive profit request, proposed RSAM, and the effort to resurrect an extinguished acquisition adjustment, to name a few, that the Commission must disallow as they are inappropriate and inconsistent with the Commission's established policy. OPC's expert witnesses, Helmuth W. Schultz, III and David Garrett, will testify in depth about the flawed aspects of FCG's requested rate increase. Ultimately, the Commission must hold FCG to its burden and only approve the portions of FCG's rate request which are fair, just, and reasonable. The Commission does not possess the authority to create the RSAM in a contested hearing by artificially manipulating depreciation parameters and expense. Likewise, the Commission lacks the authority to agree to the unenforceable, illusory four year rate plan proposed by FCG.

FEA: FEA filed testimony regarding investors' required return on equity for Florida City Gas ("FCG"). FEA's recommendation is predicated on a well-balanced and reasoned approach that relied on several market models and the resulting estimates from the application of those models. FEA's recommendation represents fair compensation for FCG's investment risk, is based on the current and expected economic environment, and will provide an equitable balance between customers and shareholders. As shown in FEA's testimony, the proximity of FEA's recommended range of 9.0%-9.80%, and recommended return on equity of 9.40%, are reasonable and just in this proceeding.

FEA also filed testimony regarding class cost of service ("CCOS") and rate design. FCG's CCOS study does not accurately reflect class cost causation because it uses the Peak and Average ("P&A") method to allocate the cost of mains to customer classes and also fails to classify and allocate any distribution mains cost on a customer basis.

FCG bases its class revenue allocation on its proposed P&A CCOS study. Since FCG's CCOS study does not accurately reflect cost causation, FEA recommends an alternative allocation of any revenue increase to customers.

FCG has also not justified its significant increase in its requested rate case expense. The requested increase is a 63% increase from the prior rate case. FEA recommends that the Commission limit the recovery of rate case expense to the amount approved in the prior case adjusted for inflation, or approximately \$1.427 million.

FEA also submitted testimony regarding FCG's proposed Reserve Surplus Amortization Mechanism ("RSAM"). It is FEA's position that the RSAM should be denied because it does not incentivize FCG to manage its costs efficiently to the benefit of its customers if it is automatically guaranteed its approved rate of

return. The proposed RSAM is an imbalanced regulatory mechanism, shifting revenue recovery risk to its customers and therefore, is inappropriate.

FIPUG: Florida City Gas (“FCG”) seeks to increase its customers’ base rates during these challenging economic times marked by high inflation and the real threat of an economic recession. FCG’s request for a midpoint return on equity (“ROE”) of 10.75%, its \$29 million dollar rate increase, and its proposed 59.6% equity ratio are excessive and should be reduced. FCG must meet its burden of proof in this matter in all respects. FIPUG further adopts the positions of the Office of Public Counsel in this matter as if fully set forth herein.

STAFF: Staff’s positions are preliminary and based on materials filed by the parties and on discovery. The preliminary positions are offered to assist the parties in preparing for the hearing. Staff’s final positions will be based upon all the evidence in the record and may differ from the preliminary positions stated herein.

VIII. ISSUES AND POSITIONS

OPC’s Proposed Issues A-D and F-I, were not accepted. By consent, the Parties approved OPC’s Proposed Exhibit E, which has been moved to Issue 39. Also, by consent, Issue 10 has been withdrawn and is removed from the Prehearing Order. The Prehearing order has been renumbered to reflect all changes. SCGC’s Proposed Issues J and K were withdrawn when SCGC withdrew from this docket.

TEST PERIOD AND FORECASTING

ISSUE 1: Is FCG’s projected test period of the twelve months ending December 31, 2023, appropriate?

FCG: Yes. The Company’s petition requests an increase in base rates effective February 1, 2023. Accordingly, 2023 is the most appropriate year to evaluate the Company’s projected revenue requirements to afford the appropriate match between revenues and revenue requirements for 2023. (Campbell)

OPC: No. If there are no imminent plans to merge the company with another and with appropriate adjustments, the proposed 2023 test year may be representative of the period of time in which rates will be in effect. FCG has failed to meet its burden of demonstrating the appropriateness of the test year since it has refused to demonstrate that there will be no merger activities that will affect the appropriateness of the test year. (Schultz)

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 2: **Are FCG's forecasts of customer and therms by rate class for the projected test year ending December 31, 2023, appropriate? If not, what adjustments should be made?**

FCG: Yes. FCG relied on statistically sound forecasting methods and reasonable input assumptions to forecast customers and therms by rate class for the 2023 projected Test Year. Consistent with Commission precedent, FCG's forecast assumes normal weather conditions. Additionally, the forecast of customers and therms by rate schedule is consistent with the sales and customer forecast by revenue class and reflects the billing determinants specified in each rate schedule. (Campbell)

OPC: No. FPL appears to have misstated these elements of the forecast and an adjustment should be made based on information being developed in discovery and at hearing.

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

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

FCG: Yes. FCG's sales forecasts were developed using econometric and regression models as the primary tools. These models are statistically sound and include logically reasonable drivers obtained from leading industry experts. FCG evaluated the forecasts for reasonableness by comparing forecasted trends against historical trends and other growth factors. FCG has correctly estimated the 2023 revenues from sales of gas at present rates. The revenue calculations for 2023 are detailed in Test Year MFR E-1 (with RSAM). (Campbell)

OPC: No. FPL appears to have misstated these elements of the revenue estimate and an adjustment should be made based on information being developed in discovery and at hearing.

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

QUALITY OF SERVICE

ISSUE 4: Is the quality of service provided by FCG adequate?

FCG: Yes. FCG has delivered superior reliability and a high level of customer service. The Commission held a total of five customer service hearings, with three held virtually and two held in-person at the request of OPC. At these hearings, a total of 18 individuals appeared and none expressed a negative view of the service quality provided by FCG. (Howard)

OPC: At least one customer has submitted a comment to the Commission in this docket and expressed dissatisfaction with the quality of service provided by FCG. Furthermore it is unclear if some of the testimony of the individuals who appeared at the customer service hearings reflect actual service provided by FCG. The merits of this testimony and other customer information adduced through the hearing should be considered. The OPC reserves the right to update its position based on customer testimony.

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

DEPRECIATION STUDY

ISSUE 5: Based on FCG's 2022 Depreciation Study, what are the appropriate depreciation parameters (e.g., service lives, remaining life, net salvage percentage, and reserve percentage) and resulting depreciation rates for each distribution and general plant account?

FCG: Based on FCG's 2022 Depreciation Study, the most reasonable depreciation parameters and resulting depreciation rates for each distribution and general plant account are reflected on FCG's Exhibit NWA-1. However, FCG's proposed RSAM-adjusted depreciation rates represent a reasonable alternative to those contained in the 2022 Depreciation Study and are appropriate and necessary to support the tremendous customer value and savings under FCG's proposed four-year rate plan. (Allis, Campbell, Fuentes)

OPC: The depreciation parameters and resulting depreciation rates are shown in OPC Witness Garrett's testimony and Exhibits DJG-19 and DJG-20. These parameters

and rates are proposed for the legitimate establishment -- in the Commission's litigated ratemaking process -- of depreciation expense to the lives of the assets and not for the purpose of creating an artificial earnings manipulation device. (Garrett)

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 6: **If the Commission approves FCG's proposed RSAM (Issue 67), what are the appropriate depreciation parameters (e.g., service lives, remaining lives, net salvage percentages, and reserve percentages) and depreciation rates?**

FCG: The appropriate depreciation parameters and resulting depreciation rates to be used in conjunction with the RSAM are reflected on FCG's Exhibit LF-5(B). The RSAM-adjusted depreciation parameters are a critical and essential component of FCG's proposed four-year rate plan, and are necessary to provide rate stability for FCG's customers and avoid the potential for approximately \$27.0 million in additional cumulative net cash paid by customers through at least the end of 2026 if FCG's proposed four-year rate plan with RSAM is denied. (Fuentes, Campbell)

OPC: The Commission does not have the authority to, and should not, approve FCG's proposed RSAM. The Commission may not establish depreciation rates in a general rate case for the express purpose of creating a depreciation imbalance (surplus) based on parameters which are not factually based on a depreciation study. Such a practice would be a departure from generally accepted accounting principles. It would also eliminate any incentive for FCG to generate efficiencies, and it would be grossly unfair to FCG's current and future customers. (Schultz; Garrett)

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 7: **Based on the application of the depreciation parameters that the Commission has deemed appropriate to FCG's data, and a comparison of the theoretical reserves to the book reserves, what, if any, are the resulting imbalances?**

FCG: If the Commission adopts the RSAM as part of the Company's four-year rate proposal, then the appropriate theoretical reserve imbalance is a surplus of approximately \$52.1 million as reflected in Exhibit LF-5(B), of which FCG has requested \$25 million to be available under an RSAM. The \$25 million of RSAM is only sufficient to allow FCG to earn at the proposed midpoint ROE over the term of the four-year rate plan. If, however, the Commission does not approve the RSAM, the theoretical reserve imbalances from FCG's 2022 Depreciation Study are reflected on NWA-1, which totals a net deficit of \$3.2 million (total system). (Allis, Campbell, Fuentes)

OPC: The depreciation parameters and resulting depreciation rates are shown in OPC Witness Garrett's testimony and Exhibits DJG-19 and DJG-20. The resulting imbalance, if any, with these adjustments is a fallout number. (Garrett)

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 8: What, if any, corrective depreciation reserve measures should be taken with respect to any imbalances identified in Issue 7?

FCG: If the Commission adopts the RSAM as part of FCG's four-year rate proposal, then the corrective reserve measures outlined in FCG's Exhibit MC-6 should be taken. Any remaining reserve imbalance should be addressed in FCG's next depreciation study. If the Commission does not adopt the RSAM as part of FCG's four-year rate proposal, then the remaining life technique should be used, and no other corrective reserve measures should be taken. (Allis, Campbell, Fuentes)

OPC: Any imbalances identified by adoption of the depreciation parameters and resulting depreciation rates shown in OPC Witness Garrett's testimony and exhibits should, consistent with Commission practice, be allocated over the service life of the assets using the parameters included in OPC Witness Garrett's testimony and exhibits. The Commission may not establish depreciation rates in a general rate case for the express purpose of creating a depreciation imbalance (surplus) based on parameters which are not factually based on a depreciation study. Such a practice would be a departure from generally accepted accounting principles. It would also eliminate any incentive for FCG to generate efficiencies, and it would be grossly unfair to FCG's current and future customers. (Garrett)

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 9: What should be the implementation date for revised depreciation rates and amortization schedules?

FCG: The implementation date should be February 1, 2023. (Fuentes)

OPC: The depreciation parameters and resulting depreciation rates are as shown in OPC Witness Garrett's testimony and exhibits and should be implemented upon approval by the Commission, effective January 1, 2023. (Garrett)

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

RATE BASE

ISSUE 10: Has FCG made the appropriate adjustment to Rate Base to transfer the SAFE investments as of December 31, 2022 from clause recovery to base rates?

FCG: Yes. Per Order No. PSC-15-0390-TRF-GU in Docket No. 150116-GU, investments in the SAFE program are required to be folded into any newly approved rate base and the SAFE surcharge is to begin anew. As reflected on Exhibit LF-3, \$5.7 million of SAFE revenue requirements were transferred from clause recovery to base rates in the 2023 Test Year. As a result, the \$5.7 million of SAFE revenue requirements that were transferred from clause to base rates are included in FCG's requested \$28.3 million⁸ total base revenue increase. (Fuentes)

OPC: No position.

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

⁸ As recalculated in the rebuttal testimony of FCG witness Fuentes and Exhibit LF-11.

ISSUE 11: Should FCG's proposed Advanced Metering Infrastructure (AMI) Pilot be approved? If so, what adjustments, if any, should be made?

FCG: Yes. The AMI Pilot will provide real-world data and information regarding the deployment, implementation, features and functionality, operating and maintenance costs, and benefits of AMI technology on FCG's system, as well as allow FCG to test and gather data on the corrosion resistance and life of new smart meters. This information will be valuable in evaluating and determining whether AMI technology should be deployed system wide, as well as providing an opportunity to identify best practices and lessons learned before full-scale deployment. FCG took a thoughtful and measured approach to its AMI Pilot, limiting the implementation of the pilot to only an initial 5,000 meters that currently experience accelerated corrosion and retirement. No adjustments should be made. (Howard)

OPC: No, the cost for this experimental program should be borne by shareholders, not customers, since it is not known whether there will be a benefit. The adjustments shown on HWS-2, page 8 of 38, Sch. B-3, of a plant in service adjustment of \$837,500 and related accumulated depreciation adjustment of \$23,456 and should be made. In addition, the related O&M expense of \$20,000 and depreciation expense of \$46,913 should be reduced as shown in Issue 49 and HWS-2, page 8 of 28, Schedule B-3. These amounts are subject to revision based on discovery. (Schultz)

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 12: What is the appropriate amount of plant in service for FCG's delayed LNG facility that was approved in its last rate case?

FCG: The need and construction of the LNG Facility was previously approved by the Commission in Docket No. 20170179-GU. FCG currently projects the total cost necessary to complete the LNG Facility is \$68 million with an in-service date of March 2023. As reflected on page 27 of MFR G-1, the appropriate amount of plant in service for the LNG Facility when it is placed in service in March 2023 is \$68 million. (Campbell, Howard)

OPC: OPC Witness Schultz's testimony and exhibits address the appropriate amount of plant-in-service. The plant in service for the delayed LNG facility should be reduced by at least \$7,692,308 and the associated accumulated depreciation of

\$56,253. Further adjustments may be warranted based on the actual in-service date of the facility. (Schultz)

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 13: What is the appropriate level of plant in service for the projected test year? (Fallout Issue)

FCG: As reflected in page 1 of MFR A-3 (with RSAM), the appropriate amount of plant in-service, including the gross amount of the acquisition adjustment, is \$664,736,539 (adjusted) for the 2023 projected Test Year. If the Commission does not adopt the RSAM as part of FCG's four-year rate proposal, the appropriate amount of plant in service for the 2023 projected test year is also \$664,736,539 (adjusted). (Campbell, Fuentes, Howard)

OPC: OPC Witness Schultz's testimony and exhibits demonstrate that the appropriate amount of plant-in-service to include in the projected test year should be no greater than \$624,911,908. This includes an adjustment to remove \$9,637,988 of overstated projected plant in service plus \$460,884 of accumulated depreciation. (Schultz)

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 14: Has FCG made the appropriate adjustments to remove all non-utility activities from Plant in Service, Accumulated Depreciation, and Working Capital?

FCG: FCG does not have any non-utility investments and therefore, adjustments were not required. (Fuentes)

OPC: No position.

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 15: Should any adjustments be made to the amounts included in the projected test year for acquisition adjustment and accumulated amortization of acquisition adjustment?

FCG: No. FCG has not requested Commission approval of an acquisition adjustment related to the acquisition from Southern Company Gas in July 2018, nor has it included any associated acquisition adjustment in its 2023 Test Year. Rather, FCG carried over the actual amounts reflected on its balance sheet at the time of the acquisition from Southern Company Gas in July 2018. This carryover amount included FCG's existing positive acquisition adjustment and associated accumulated amortization related to AGLR's acquisition of FCG in 2004, which was initially approved by Commission Order No. PSC-07-0913-PAA-GU in Docket No. 20060657-GU ("AGLR Order"). This acquisition adjustment survived a subsequent acquisition by Southern Company Gas and permanence of the acquisition adjustment was addressed and resolved in FCG's most recent base rate case in Docket No. 20170179-GU as required by the AGLR Order. As a result, FCG's rate base remained unchanged when it was acquired from Southern Company Gas in 2018 and there is no need to make an adjustment to remove the previously approved and re-confirmed AGLR acquisition adjustment and associated amortization from FCG's 2023 Test Year. (Fuentes)

OPC: Yes, the acquisition adjustment in the amount of \$21,656,835 and the accumulated amortization of acquisition adjustment in the amount of \$13,475,365 should be disallowed pursuant to prior Commission practice. Acquisition adjustments do not survive subsequent purchases of a utility's assets. Amortization expense in the amount of \$721,894 should also be removed from the income statement. (Schultz)

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 16: What is the appropriate level of CWIP to include in the projected test year?

FCG: As reflected on page 1 of MFR A-3 (with RSAM), the appropriate amount of CWIP is \$28,192,440 (adjusted) for the 2023 projected test year. If the Commission does not adopt the RSAM as part of FCG's four-year rate proposal, the appropriate amount of CWIP to include in the 2023 projected test year is also \$28,192,440 (adjusted). (Campbell, Fuentes)

OPC: No position.

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 17: What is the appropriate level of Gas Plant Accumulated Depreciation and Amortization for the projected test year?

FCG: As reflected on page 1 of MFR A-3 (with RSAM), the appropriate amount of Accumulated Depreciation with RSAM, including accumulated amortization associated with the acquisition adjustment, is \$221,380,711 (adjusted) for the 2023 projected test year. If the Commission does not adopt the RSAM as part of FCG's four-year rate proposal, the appropriate amount of Accumulated Depreciation without RSAM, including accumulated amortization associated with the acquisition adjustment, is \$222,960,003 (adjusted) for the 2023 projected test year as reflected on page 1 of MFR A-3. (Campbell, Fuentes)

OPC: OPC Witness Schultz addresses this in his testimony and exhibits including, but not limited to, Schedule B. The appropriate level of Accumulated Depreciation and Amortization for the projected test year should be at least \$208,172,408. (Schultz)

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 18: Have under recoveries and over recoveries related to the Purchased Gas Adjustment, Energy Conservation Cost Recovery, and Area Expansion Plan been appropriately reflected in the Working Capital Allowance?

FCG: Yes. FCG has made the appropriate test year adjustments to remove forecasted net-under recoveries related to its cost recovery clauses from working capital as reflected on page 4 of MFR G-1 with RSAM. (Fuentes)

OPC: No position.

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 19: Should the unamortized balance of Rate Case Expense be included in Working Capital and, if so, what is the appropriate amount to include?

FCG: Yes. The inclusion of the unamortized balance of rate case expenses of \$1,645,732 (as reflected on Exhibit LF-7) for the 2023 projected test year in Working Capital is appropriate in order to avoid an implicit disallowance of reasonable and necessary costs. Full recovery of necessary rate case expenses is appropriate but will not occur unless FCG is afforded the opportunity to earn a return on the unamortized balance of those expenses. (Fuentes)

OPC: No, unamortized rate case expense should not be included in working capital for a gas company pursuant to Commission policy.

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 20: What is the appropriate amount of deferred pension debit in working capital for FCG to include in rate base?

FCG: As reflected on page 2 of MFR G-1 (with RSAM), within the balance on Line 13, and provided in FEA's Second Request for Production of Documents No. 12, the appropriate amount of deferred pension debit in working capital for FCG to include in rate base is \$4,604,263 (adjusted) for the 2023 projected test year. (Fuentes, Slattery, Campbell)

OPC: No position.

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 21: Should the unbilled revenues be included in working capital?

FCG: Yes. FCG incurs costs to deliver gas to customers, all of which have been accrued or paid. Delivery of that gas gives rise to both customer accounts receivables and a receivable for unbilled revenues. FCG must finance the costs of delivering gas, whether or not the gas sales have yet been billed. For this reason, the Commission has a long-standing practice of including unbilled revenues in working capital. (Fuentes)

OPC: No position.

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 22: What is the appropriate level of working capital for the projected test year?

FCG: As reflected in Exhibit LF-11, the appropriate amount of working capital with RSAM for the 2023 projected test year is \$17,357,425 (adjusted). If the Commission does not adopt the RSAM as part of FCG's four-year rate proposal, the appropriate amount of working capital without RSAM for the 2023 projected test year is \$17,357,354 (adjusted) as reflected in FCG Exhibit LF-12. (Campbell, Fuentes)

OPC: OPC Witness Schultz's testimony and exhibits including, but not limited to, Schedule B, address the appropriate adjustments to the Working Capital Allowance. Working capital should be no more than \$10,103,595. (Schultz)

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 23: What is the appropriate level of rate base for the projected test year? (Fallout Issue)

FCG: As reflected in Exhibit LF-11, the appropriate amount of rate base with RSAM for the 2023 projected test year is \$488,905,694 (adjusted). If the Commission does not adopt the RSAM as part of FCG's four-year rate proposal, the appropriate

amount of rate base without RSAM for the 2023 projected test year is \$487,326,330 (adjusted) as reflected in Exhibit LF-12. (Campbell, Fuentes)

OPC: OPC Witness Schultz's testimony and exhibits including, but not limited to, Schedule B, page 1, address the appropriate adjustments to rate base. The adjusted amount should be no more than \$455,035,463. (Schultz)

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

COST OF CAPITAL

ISSUE 24: **What is the appropriate amount of accumulated deferred taxes to include in the projected test year capital structure?**

FCG: As reflected in Exhibit LF-11, the appropriate amount of accumulated deferred taxes with RSAM included in capital structure for the 2023 projected test year is \$53,898,912 (adjusted). If the Commission does not adopt the RSAM as part of FCG's four-year rate proposal, the appropriate amount of accumulated deferred taxes without RSAM included in capital structure for the 2023 projected test year is \$53,743,662 (adjusted) as reflected in Exhibit LF-12. (Fuentes, Campbell)

OPC: OPC Witness Garrett's testimony and exhibits including, but not limited to, Exhibit DJG-17, as well as OPC Witness Schultz's testimony and exhibits including, but not limited to HWS-2, Schedule D, address the appropriate amount of accumulated deferred taxes to include in the projected test year capital structure. The appropriate amount of accumulated deferred taxes is at least \$50,182,538. (Schultz; Garrett)

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 25: **What is the appropriate amount and cost rate for short-term debt to include in the projected test year capital structure?**

FCG: As reflected in Exhibit LF-11, the appropriate amount and cost rate for short-term debt with RSAM for the 2023 projected test year is \$20,203,793 (adjusted) and 1.78%, respectively. If the Commission does not adopt the RSAM as part of

FCG's four-year rate proposal, the appropriate amount and cost rate for short-term debt without RSAM for the 2023 projected test year is \$20,137,159 (adjusted) and 1.78%, respectively, as reflected in Exhibit LF-12. (Fuentes, Campbell)

OPC: The appropriate amount of short-term debt \$18,821,767 and cost rate for short-term debt to include in the projected test year capital structure, which is 1.78%. (Garrett)

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 26: What is the appropriate amount and cost rate for long-term debt to include in the projected test year capital structure?

FCG: As reflected in Exhibit LF-11, the appropriate amount and cost rate for long-term debt with RSAM for the 2023 projected test year is \$154,025,674 (adjusted) and 4.28%, respectively. If the Commission does not adopt the RSAM as part of FCG's four-year rate proposal, the appropriate amount and cost rate for long-term debt without RSAM for the 2023 projected test year is \$153,521,933 (adjusted) and 4.28%, respectively, as reflected in Exhibit LF-12. (Fuentes, Campbell)

OPC: The appropriate amount of long term debt is \$194,277,560 and the cost rate is 4.28%. (Garrett)

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 27: What is the appropriate amount and cost rate for customer deposits to include in the capital structure?

FCG: As reflected in Exhibit LF-11, the appropriate amount and cost rate for customer deposits with RSAM for the 2023 test year is \$3,799,283 (adjusted) and 2.64%, respectively. If the Commission does not adopt the RSAM as part of FCG's four-year rate proposal, the appropriate amount and cost rate for customer deposits without RSAM for the 2023 test year is \$3,786,845 (adjusted) and 2.64%, respectively, as reflected in Exhibit LF-12. (Fuentes, Campbell)

OPC: The appropriate amount of customer deposits is \$ \$3,535,924 and the cost rate is 2.64%. (Garrett)

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 28: What is the appropriate equity ratio to use in the capital structure for ratemaking purposes?

FCG: FCG's equity ratio should be 59.6% based on investor sources. This is appropriate due to the fact that FCG does not issue its own debt or equity and obtains all short- and long-term financing through its parent, FPL pursuant to Commission-approved Financing Applications. (Campbell, Nelson)

OPC: The Commission should authorize an equity ratio of no more than 46.9%. (Garrett)

FEA: Christopher Walters will testify that a common equity of no higher than 50% is fair, reasonable, and more consistent with the capital structures of the proxy group used to estimate FCG's cost of equity.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 29: What is the appropriate authorized return on equity (ROE) to use in establishing FCG's projected test year revenue requirement?

FCG: The Commission should authorize 10.75% as the return on common equity. Granting FCG's requested return on equity will appropriately take into account FCG's unique risk profile and the Company's commitment to a strong financial position. The requested rate also addresses the risk of the Company's proposed multi-year stay-out. Granting FCG's requested return on common equity is critical to maintaining FCG's financial strength and flexibility and will help FCG attract capital necessary to serve its customers on reasonable terms. (Nelson, Campbell)

OPC: OPC Witness Garrett's testimony and exhibits address the appropriate authorized ROE of 9.25% to include in the projected test year capital structure shown on Exhibit HWS-2, Schedule D, page 1 of 2. (Garrett)

FEA: Christopher Walters will testify that the appropriate return on common equity to use in establishing FCG's test year revenue requirement is in the range of 9.00% to 9.80% with a midpoint of 9.40%.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 30: **Has FCG made the appropriate adjustments to remove all non-utility investments from the common equity balance?**

FCG: FCG does not have any non-utility investments and therefore, adjustments were not required. (Fuentes)

OPC: No position.

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 31: **What is the appropriate weighted average cost of capital to use in establishing FCG's projected test year revenue requirement?**

FCG: The associated components, amounts, and cost rates with RSAM are reflected on Exhibit LF-11 for the 2023 projected test year. Based on those amounts, the appropriate after-tax weighted average cost of capital for the 2023 projected test year is 7.09%. If the Commission does not adopt the RSAM as part of FCG's four-year rate proposal, the appropriate after-tax weighted average cost of capital without RSAM for the 2023 projected test year is also 7.09% as reflected on Exhibit LF-12. (Fuentes)

OPC: OPC Witnesses Garrett and Schultz testimony and exhibits show the appropriate weighted average cost of capital of 5.75% to use in establishing the projected test year revenue requirement. (Schultz; Garrett)

FEA: FEA did not specify an appropriate weighted average cost of capital to use in establishing FCG's projected test year revenue requirement. However, FEA does not waive its right to make argument on this issue once all facts are complete. Notwithstanding the above, adopting the cost of capital parameters proposed by Christopher Walters, including a return on common equity of 9.40% and a

common equity ratio of 50.0%, would produce a weighted average cost of capital of approximately 5.95%.

FIPUG: Adopt position of OPC.

STAFF: No position.

NET OPERATING INCOME

ISSUE 32: **Has FCG properly removed Purchased Gas Adjustment and Natural Gas Conservation Cost Recovery Clause revenues, expenses, and taxes-other-than-income from the projected test year?**

FCG: Yes. FCG has properly removed Purchased Gas Adjustment and Natural Gas Conservation Cost Recovery Clause revenues, expenses, and taxes-other-than-income from the projected test year. (Fuentes)

OPC: No position.

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 33: **Has FCG made the appropriate adjustment to Net Operating Income to remove amounts associated with the transfer of SAFE investments as of December 31, 2022 from clause recovery to base rates?**

FCG: Yes. Amounts associated with the SAFE investments are not removed from Net Operating Income. Rather, pursuant to Order No. PSC-15-0390-TRF-GU, FCG has made the appropriate adjustments to Net Operating Income to reflect the transfer of SAFE investments as of December 31, 2022, from clause recovery to base rates. (Fuentes)

OPC: No position.

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 34: Should FCG's proposal to transfer outside service costs incurred for clause dockets from base rates to each of the respective cost recovery clause dockets be approved and, if so, has FCG made the appropriate adjustments to remove all such outside service costs incurred for clause dockets from the projected test year operating revenues and operating expenses?

FCG: Yes. FCG's proposal to transfer outside service costs incurred for clause dockets from base rates to each of the respective cost recovery clause dockets is consistent with the principle of cost-causation and will better ensure that FCG's customers only pay the actual costs incurred, subject to true-up, for the outside services necessary to support the clauses. FCG has made the appropriate adjustments to remove all such outside service costs incurred for clause dockets from the projected test year operating revenues and operating expenses. (Fuentes)

OPC: No position.

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 35: What is the appropriate amount of miscellaneous revenues?

FCG: As reflected on page 8 of MFR G-2 (with RSAM) (4 of 4) and adjusted by (\$16,071) per Exhibit LF-11, the appropriate amount of miscellaneous revenues is \$1,896,516. If the Commission does not adopt the RSAM as part of FCG's four-year rate proposal, the appropriate amount of miscellaneous revenues is \$1,896,516 as reflected on page 8 of MFR G-2 (4 of 4) and adjusted per Exhibit LF-12. (Campbell, Fuentes, DuBose)

OPC: No position.

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 36: Is FCG's projected Total Operating Revenues for the projected test year appropriate? (Fallout Issue)

FCG: Yes. As reflected on Exhibit LF-11, the appropriate amount of Total Operating Revenues is \$64,724,868 (adjusted) for the 2023 projected test year. If the Commission does not adopt the RSAM as part of FCG's four-year rate proposal, the appropriate amount of Total Operating Revenues without RSAM for the 2023 projected test year is also \$64,724,868 (adjusted) as reflected on Exhibit LF-12. (Fuentes)

OPC: No.

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 37: **Has FCG made the appropriate adjustments to remove all non-utility activities from operation expenses, including depreciation and amortization expense?**

FCG: FCG does not have any non-utility investments and therefore, adjustments were not required. (Fuentes)

OPC: No position.

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 38: **What is the appropriate amount of salaries and benefits to include in the projected test year?**

FCG: As adjusted on Exhibit LF-11 (with RSAM) and LF-12 (without RSAM), the appropriate amount of salaries and benefits, including incentive compensation amounts allocated from FPL, to include in the Test Year is \$14,803,183. One hundred percent of the 2023 Test Year level of Salaries and Employee Benefits expense is appropriate, and reflects that portions of executive and non-executive incentive compensation allocated from FPL have been excluded consistent with Order No. PSC-2010-0153-FOF-EI. The reasonableness of salary and benefit expense is demonstrated in a number of ways, including comparison of FCG's salaries, annual pay increase program, and non-executive variable incentive pay to the relevant comparative market. (Howard, Slattery)

OPC: Base payroll should be reduced by \$793,501. Excessive incentive compensation should be reduced by \$524,119. Incentive compensation should be reduced by \$398,746. Long term incentive compensation should be reduced by \$163,461. Benefits should be reduced to match actual employee complement in the amount of \$49,533. Payroll taxes should be reduced by \$122,767 as reflected in Issue 52. Affiliate payroll related expenses should be reduced by the amount of \$405,440, and affiliate SERP expense should be reduced by \$29,576. (Schultz)

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 39: What is the appropriate amount of the affiliate expense to be included in the projected test year?

FCG: As adjusted in Exhibit LF-11, the appropriate amount of affiliate expense to be included in the 2023 Test Year is \$2.5 million. This amount is included in the total amount of operation and maintenance expenses in the calculation of revenue requirements and does not reflect any affiliate costs related to rate case expenses or costs that were transferred from base to clause.

OPC: Yes, AMI O&M expense should be removed from the projected test year since the Commission should not grant FCG's request to burden customers with the cost of this experimental program. OPC Witness Schultz addresses this in his testimony and exhibits including, but not limited to, Schedule C-7. (Schultz)

FEA: No position.

FIPUG: No position.

STAFF: No position.

ISSUE 40: What is the appropriate amount of pensions and post-retirement benefits expense to include in the projected test year?

FCG: The appropriate amount of Other Post Employment Benefit expense for the 2023 Test Year is \$29,845 (adjusted). The appropriate amount of Pension income for the 2023 Test Year is \$1,357,212 (adjusted). (Fuentes, Slattery, Campbell)

OPC: Affiliate SERP costs in the amount of \$29,576 should be removed as shown in Issue 39. (Schultz)

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 41: Is the injuries and damages expense in the test year reasonable?

FCG: Yes. As reflected on page 4 of MFR E-6, the reasonable Test Year expense for Account 925 (Injuries & Damages) is \$515,304. The record evidence demonstrates FCG's commitment to safety and minimizing its OSHA-recordable incidents. The record evidence also demonstrates that the increase in the expense for Account 925 (Injuries and Damages) is largely attributable to an increase in the cost of insurance premiums across the business. (Howard)

OPC: No. OPC Witness Schultz addresses this issue in his testimony and exhibits including but not limited to, Schedule C-5. The Commission should adjust the injuries and damages expense by \$212,790. (Schultz)

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 42: Is the insurance expense in the test year reasonable and/or appropriate?

FCG: Yes. See FCG's response to Issue No. 41 above. Also, as reflected on page 4 of MFR E-6, the reasonable Test Year expense for Account 924 (Property Insurance) is \$503,407. (Howard)

OPC: No. OPC Witness Schultz addresses this issue in his testimony and exhibits including but not limited to, Schedule C-6. The Commission should adjust the Directors & Officers Liability (DOL) insurance amount by \$9,431 (Schultz)

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 43: Is the level of projected contractor cost reasonable, appropriate and/or justified?

FCG: Yes. FCG does not separately identify or track contractor costs on its books and records, or in its forecast. However, FCG does track outside services, which includes contractor costs. As reflected on page 4 of MFR E-6, the reasonable, appropriate, and justified Test Year expense for Account 923 (Outside Services Employed) is \$3,993,307 (adjusted). (Howard)

OPC: No position.

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 44: Should the projected test year O&M expenses be adjusted to reflect changes to the non-labor trend factors for inflation and customer growth?

FCG: No, the factors were based on the best estimates at the time and any changes would still be estimates. However, current inflation estimates are higher than filed estimates. (Howard, Campbell)

OPC: No position.

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 45: Should FCG's proposal to continue the Storm Damage Reserve provision included in the 2018 Settlement Agreement be approved and, if so, what is the appropriate annual storm damage accrual and target reserve amount?

FCG: Yes. The Commission should allow FCG to continue the Storm Damage Reserve provision included in the 2018 Settlement Agreement. A storm reserve is a prudent approach to addressing potential storm costs and is a mechanism commonly employed by Florida utilities. The appropriate annual storm damage accrual and target reserve amount are \$57,500 and \$800,000, respectively, which is supported by FCG's Storm Damage Self-Insurance Reserve Study filed with

the Commission on January 15, 2022, as required by Rule 25-7.0143, F.A.C. (Campbell, Howard)

OPC: No. The Storm Reserve Accrual in the amount of \$57,500 should be discontinued and removed. (Schultz)

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 46: **Is a Parent Debt Adjustment pursuant to Rule 25-14.004, Florida Administrative Code, appropriate, and if so, what is the appropriate amount?**

FCG: No. 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. 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 and the initial investment and resulting goodwill to acquire FCG is maintained at FPL as non-utility investment. Further, FCG receives all of its debt and equity from FPL pursuant to Commission-approved Financing Applications. 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% common equity and 40.4% debt over investor sources. As such, no additional interest expense tax benefit exists at the parent level and, therefore, no parent debt adjustment is required or appropriate. (Campbell)

OPC: Yes, a Parent Debt Adjustment is appropriate in this case. OPC Witness Schultz addresses this issue in his testimony and exhibits including, but not limited to, Schedules C and C-12. The Commission should approve a Parent Debt Adjustment of \$382,452. (Schultz)

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 47: What is the appropriate annual amount and amortization period for Rate Case Expense?

FCG: As shown in Exhibit LF-7, the appropriate annual amount of FCG's rate case expense is \$470,209. The appropriate amortization period is four years. (Fuentes)

OPC: OPC Witness Schultz addresses this issue in his testimony and exhibits including, but not limited to, Schedule C-8. Rate case expense should be amortized over four years. The appropriate annual amount of rate case expense should be reduced by \$142,785. (Schultz)

FEA: Brian Collins will testify that the appropriate amount for rate case expense should be the amount approved in the prior rate case adjusted for inflation, or approximately \$1.427 million. This would lower FCG's amortization expense by \$141,000 and lower the deferred rate case expenses in rate base in 2023 by approximately \$494,000.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 48: Should an adjustment be made to Uncollectible Accounts and for Bad Debt in the Revenue Expansion Factor?

FCG: No. The Company appropriately used a three-year average net bad debt write-off to revenues ratio in computing its proposed bad debt rate in the revenue expansion factor. (Campbell)

OPC: No Position.

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 49: What is the appropriate amount of projected test year O&M expenses? (Fallout Issue)

FCG: As reflected in Exhibit LF-11, the appropriate amount of O&M Expense is \$25,445,071 (adjusted) for the 2023 projected test year. If the Commission does not adopt the RSAM as part of FCG's four-year rate proposal, the appropriate

amount of O&M Expense for the 2023 projected test year is also \$25,445,071 (adjusted) as reflected on Exhibit LF-12. (Howard, Campbell)

OPC: OPC Witness Schultz addresses this issue in his testimony and exhibits including, but not limited to, Schedule C. The total amount of O&M expense, including removal of AMI O&M in the amount of \$20,000, should be reduced to no more than \$23,174,085. AMI O&M expense should be removed from the projected test year since the Commission should not grant FCG's request to burden customers with the cost of this experimental program. OPC Witness Schultz addresses this in his testimony and exhibits including, but not limited to, Schedule C-7. (Schultz)

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 50: **Should any adjustments be made to the amounts included in the projected test year for amortization expense associated with the acquisition adjustment?**

FCG: No. The permanence of the AGLR acquisition adjustment has already been addressed and resolved in FCG's most recent rate case in Docket No. 20170179-GU. In addition, the inclusion of the AGLR acquisition adjustment and related amortization in base rates is consistent with the treatment for any other asset in rate base, including regulatory assets, that FCG had on their books and records when it became a wholly-owned subsidiary of FPL. Therefore, there is no need to make adjustments to remove the AGLR acquisition adjustment and associated amortization from FCG's 2023 Test Year. FCG included the \$21.7 million AGLR acquisition adjustment and related accumulated amortization of \$13.5 million in rate base, and \$0.7 million of amortization expense in net operating income in the 2023 Test Year. This treatment is consistent with the 2018 Settlement Agreement. (Fuentes)

OPC: Yes, amortization expense associated with the acquisition adjustment in the amount of \$721,894 should be removed. (Schultz)

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 51: What is the appropriate amount of Depreciation and Amortization Expense for the projected test year?

FCG: As reflected on MFR A-4 (with RSAM), the appropriate amount of Depreciation and Amortization expense with RSAM is \$17,316,572 (adjusted) for the 2023 Test Year. If the Commission does not adopt the RSAM as part of FCG's four-year rate proposal, the appropriate amount of Depreciation and Amortization expense without RSAM is \$20,501,181 (adjusted) for the 2023 Test year as reflected on MFR A-4. (Fuentes)

OPC: The total amount of Depreciation and Amortization Expense should be reduced to no more than \$18,189,244, after making the adjustments identified in lines 18-22 of Exhibit HWS-2, Schedule C, page 2 of 2. (Schultz; Garrett)

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 52: What is the appropriate amount of projected test year Taxes Other than Income?

FCG: As reflected on MFR A-4 (with RSAM), the appropriate amount of Taxes Other Than Income Taxes is \$6,386,610 (adjusted) for the 2023 projected test year. If the Commission does not adopt the RSAM as part of FCG's four-year rate proposal, the appropriate amount of Taxes Other Than Income Taxes is also \$6,386,610 (adjusted) as reflected on Exhibit LF-12. (Campbell, Fuentes)

OPC: OPC Witness Schultz addresses this issue in his testimony and exhibits including, but not limited to, Schedule C. The total amount of Taxes Other than Income should be reduced to no more than \$6,263,843, after the payroll tax adjustment of \$122,767. See also Issue 39. (Schultz)

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 53: What is the appropriate amount of projected test year Income Tax Expense? (Fallout Issue)

FCG: As reflected on Exhibit LF-11, the appropriate amount of Income Taxes Expense with RSAM is \$1,804,203 (adjusted) for the 2023 Test Year. If the Commission does not adopt the RSAM as part of FCG's four-year rate proposal, the appropriate amount of Income Taxes Expense without RSAM is \$964,255 (adjusted) for the 2023 Test Year as reflected on Exhibit LF-12. (Fuentes)

OPC: OPC Witness Schultz addresses this issue in his testimony and exhibits including, but not limited to, Schedule C. The appropriate amount of income tax expense is no more than \$241,372. (Schultz)

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 54: What is the appropriate amount of Total Operating Expenses for the projected test year? (Fallout Issue)

FCG: As reflected on Exhibit LF-11, the appropriate amount of Total Operating Expenses with RSAM is \$50,952,456 (adjusted) for the 2023 projected test year. If the Commission does not adopt the RSAM as part of FCG's four-year rate proposal, the appropriate amount of Total Operating Expenses without RSAM is \$53,297,118 (adjusted) for the 2023 Test Year as reflected on Exhibit LF-12. (Campbell, Fuentes)

OPC: OPC Witness Schultz addresses this issue in his testimony and exhibits including, but not limited to, Schedule C. The Total amount of Operating Expenses should be reduced to no more than \$49,398,824. (Schultz)

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

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

FCG: As reflected on Exhibit LF-11, the appropriate amount of Net Operating Income with RSAM is \$13,772,412 (adjusted) for the 2023 Test Year. If the Commission does not adopt the RSAM as part of FCG's four-year rate proposal, the appropriate amount of Net Operating Income without RSAM is \$11,427,750 (adjusted) for the 2023 Test Year. (Campbell, Fuentes)

OPC: OPC Witness Schultz addresses this issue in his testimony and exhibits including, but not limited to, Schedule C. The total amount of Net Operating Income should be increased to at least \$15,342,115. (Schultz)

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

REVENUE REQUIREMENTS

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

FCG: As reflected in MFR G-4, the revenue expansion factor and net operating income multiplier for the 2023 projected test year is 73.9255 and 1.3527, respectively. (Fuentes)

OPC: No position.

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 57: **What is the appropriate annual operating revenue increase for the projected test year? (Fallout Issue)**

FCG: As reflected in Exhibit LF-11, the appropriate annual operating revenue increase with RSAM is \$28.3 million for the 2023 Test Year, which includes an incremental increase of \$18.8 million, the previously approved increase of \$3.8 million for the LNG Facility, and \$5.7 million to transfer the SAFE investments from clause to base. As reflected in LF-12, if the Commission does not adopt the RSAM as part of FCG's four-year rate proposal, the appropriate annual operating

revenue increase without RSAM is \$31.3 million for the 2023 Test Year, which includes an incremental increase of \$21.5 million, the previously approved increase of \$3.8 million for the LNG Facility, and \$6.0 million to transfer the SAFE investments from clause to base. (Fuentes)

OPC: The Commission should authorize a base rate revenue increase of no more than \$4,805,981. (Schultz)

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

COST OF SERVICE AND RATE DESIGN

ISSUE 58: **Is FCG’s proposed cost of service study appropriate and, if so, should it be approved for all regulatory purposes until base rates are reset in FCG’s next general base rate proceeding?**

FCG: Yes, FCG’s cost of service study is appropriate and consistent with the methodologies utilized by the Company in prior rate cases. The Company’s study also follows the presentation format contained in the H Schedules of the prescribed MFR forms. (DuBose)

OPC: No position.

FEA: Brian Collins will testify that FCG’s class cost of service study (“CCOS”) is not appropriate. Furthermore, the CCOS does not accurately reflect class cost causation because it uses the P&A method to allocate the cost of mains to customer classes and also fails to classify and allocate any distribution mains cost on a customer basis.

FIPUG: Adopt position of FEA.

STAFF: No position.

ISSUE 59: **If the Commission grants a revenue increase to FCG, how should the increase be allocated to the rate classes?**

FCG: The increase should be allocated as shown in Exhibit TBD-3. FCG has set the proposed revenues by rate class to improve parity among the rate classes to the

greatest extent possible, while following the Commission practice of gradualism and considering the competitive nature of the natural gas industry. (DuBose)

OPC: No position.

FEA: Brian Collins will testify that as depicted in Exhibit BCC-1 that FCG's class revenue allocation be distributed to classes using the results of his CCOS study, with no class receiving an increase greater than 1.5 times the system average increase, and with no class receiving a rate decrease.

FIPUG: Adopt position of FEA.

STAFF: No position.

ISSUE 60: Are FCG's proposed Customer Charges appropriate?

FCG: Yes. The appropriate customer charges are those shown in 2023 Test Year MFRs E-2 and H-1 (1 of 2). (DuBose)

OPC: No Position.

FEA: No position.

FIPUG: No.

STAFF: No position.

ISSUE 61: Are FCG's proposed per therm Distribution Charges appropriate?

FCG: Yes. The appropriate per therm Distribution Charges are those shown in 2023 Test Year MFRs E-2 and H-1 (1 of 2). (DuBose)

OPC: No Position.

FEA: No position.

FIPUG: No.

STAFF: No position.

ISSUE 62: Are FCG's proposed Demand Charges appropriate?

FCG: Yes. The appropriate Demand Charges are those shown in 2023 Test Year MFRs E-2 and H-1 (1 of 2). (DuBose)

OPC: No Position.

FEA: No position.

FIPUG: No.

STAFF: No position.

ISSUE 63: Are FCG's proposed connect and reconnection charges appropriate?

FCG: Yes. The appropriate service, connect, and reconnection charges are those shown in 2023 Test Year MFR H-1 (2 of 2). (DuBose)

OPC: No Position.

FEA: No position.

FIPUG: No.

STAFF: No position.

ISSUE 64: Is FCG's proposed per transportation customer charge applicable to Third Party Suppliers appropriate?

FCG: Yes. The appropriate per transportation customer charge applicable to Third Party Suppliers is shown in 2023 Test Year MFRs E-2 and H-1 (1 of 2). (DuBose)

OPC: No Position.

FEA: No position.

FIPUG: No.

STAFF: No position.

ISSUE 65: What is the appropriate effective date for FCG's revised rates and charges?

FCG: The appropriate effective date for FCG's revised rates and charges is February 1, 2023. (DuBose)

OPC: The effective date of FPUC's revised rates and charges should allow for time for implementation promptly after the Commission's final order in this matter.

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 66: Should the Commission give staff administrative authority to approve tariffs reflecting Commission approved rates and charges?

FCG: Yes. The Commission should approve tariffs reflecting the Commission's approved rates and charges effective February 1, 2023. The Commission should direct staff to verify that the revised tariffs are consistent with the Commission's decision. (DuBose)

OPC: No Position.

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

OTHER ISSUES

ISSUE 67: Should the Commission approve FCG's requested Reserve Surplus Amortization Mechanism (RSAM)?

FCG: Yes. The RSAM is a critical and essential component of FCG's proposed four-year rate plan and should be approved as set forth in Exhibit MC-6. The Company is proposing a Reserve Amount of \$25 million to be available for use in the RSAM for the 2023-2026 period, which will enable FCG to avoid another base rate increase until at least the end of 2026 while continuing to earn a reasonable rate of return. FCG's proposed RSAM follows the same framework that has previously been approved by the Commission. FCG will use the RSAM to respond to changes in its underlying revenues and expenses in order to maintain an FPSC Adjusted ROE within the Company's authorized range. FCG

projects that it will be necessary to use the entirety of the Reserve Amount to earn at FCG's midpoint ROE for 2024, 2025, and 2026 as illustrated in Exhibit MC-7. The record evidence in this case will demonstrate that if FCG's proposed four-year rate plan with the RSAM is not approved, FCG would need to file an additional base rate case in 2024 and the overall, net cumulative increase in cash that would be paid by customers over the period 2023-2026 would be approximately \$27.0 million more than as compared to FCG's proposed four-year rate plan. (Campbell, Fuentes)

OPC: FCG's requested rate increase is built around the RSAM. Absent the agreement of the parties, the Commission lacks the authority to approve the request as filed. The Commission cannot and should not approve the RSAM. OPC Witness Schultz extensively demonstrates in his testimony why the Commission should deny this request. In addition, the Commission may not establish depreciation rates in a general rate case for the express purpose of creating a depreciation imbalance (surplus) based on parameters which are not factually based on a depreciation study. Such a practice would be a departure from generally accepted accounting principles. It would also eliminate any incentive for FCG to generate efficiencies, and it would be grossly unfair to FCG's current and future customers. (Schultz; legal issue)

FEA: Brian Collins will testify that FCG's proposed RSAM should be denied because it does not incent FCG to manage its costs efficiently to the benefit of its customers if it is automatically guaranteed its approved rate of return. Furthermore, the proposed RSAM shifts revenue recovery risk to FCG's customers.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 68: **Should the Commission approve FCG's proposal for addressing a change in tax law, if any, that occurs during or after the pendency of this proceeding?**

FCG: Yes. FCG's proposed mechanism will allow FCG to adjust base rates in the event tax laws change during or after the conclusion of this proceeding. Following enactment of a change in tax law, FCG would calculate the impact of the change by comparing revenue requirements with and without the change, and submit the calculation of the rate adjustment needed to ensure FCG is not subject to tax expenses that are not reflected in the MFRs submitted with its base rate request. (Campbell)

OPC: No. This issue should be stricken from the case based on Commission precedent.

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 69: **Should the Commission approve FCG’s proposal to continue the SAFE program to include additional mains and services to be relocated from rear property easements to the street front? If so, what adjustments, if any, should be made?**

FCG: Yes. The Commission should approve the continuation and expansion of the SAFE program to include additional mains and services. The current SAFE program is set to expire in 2025 based on an original estimate of 254.3 miles of mains and services to be relocated from rear property easements to the street front over the ten-year program. FCG has subsequently identified approximately 150 miles of additional mains and services that are located in rear property easements and eligible for replacement under the SAFE program. As the Commission has previously found, mains and services located in rear property easements present operational and safety concerns, including the age of the facilities, limitations on the Company’s access to the facilities due to vegetation overgrowth, landscaping and construction in the easements, and potential gas theft or diversion and damages to the facilities. Therefore, continuation of the SAFE program beyond its 2025 expiration date and inclusion of an additional approximately 150 miles of mains and services is reasonable. If approved in this proceeding, FCG will propose a new investment/construction schedule and term for the SAFE program in its next applicable annual SAFE filing. (Howard)

OPC: No position.

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 70: **Should the Commission approve FCG’s proposal to expand the SAFE program to include replacement of “orange pipe”? If so, what adjustments, if any, should be made?**

FCG: Yes. Orange pipe is a specific plastic material that was used in the 1970s and 1980s that has been studied by the United States Department of Transportation Pipeline and Hazardous Materials Safety Administration (“PHMSA”) and shown through industry research to exhibit premature failure in the form of cracking.

The potentially compromised nature of the piping makes responding to leaks more hazardous since responders cannot safely squeeze the pipe without it cracking. In order to address this safety risk in a timely manner, FCG is seeking approval to expand the SAFE program cost recovery mechanism to include the capital investments necessary for the expedited replacement of approximately 160 miles of orange pipe installed before 1990. If approved in this proceeding, FCG will propose a new investment/construction schedule and term for the SAFE program in its next applicable annual SAFE filing. (Howard)

OPC: No position.

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 71: Should the Commission approve FCG's requested four-year rate plan?

FCG: Yes. Utilities in the state have operated under multi-year rate plans over the past two decades, including FCG's most recent 4-year rate plan that was approved in 2018. Multi-year plans offer rate certainty and stability for customers and, importantly, allow the Company the opportunity to continue to improve the value delivered to customers during a period of regulatory stability. FCG's proposed four-year rate plan provides tremendous value and savings to customers while avoiding the need for any additional base rate increase through at least the end of 2026. The record evidence in this case will demonstrate that if FCG's proposed four-year rate plan with the RSAM is not approved, FCG would need to file an additional base rate case in 2024 and the overall, net cumulative increase in cash that would be paid by customers over the period 2023-2026 would be approximately \$27.0 million more than as compared to FCG's proposed four-year rate plan. (Howard, Campbell)

OPC: No. The so-called four-year rate plan cannot be lawfully implemented because the Commission lacks the authority to deny the company rate-relief if it demonstrates that it is earning outside of its established range. This type of plan is an illusion and is cannot be defined. FCG's commitment is unenforceable against the current owners and any future owners of the company. Regarding portions of FCG's requested rate increase, including FCG's request to maintain the acquisition adjustment, the Commission does not have the authority, absent an agreement of the parties, to approve the request as filed. (Schultz; legal issue)

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 72: **Should FCG be required to file, within 90 days after the date of the final order in this docket, a description of all entries or adjustments to its annual report, rate of return reports, and books and records which will be required as a result of the Commission's findings in this rate case?**

FCG: FCG has no objection to making such a filing. (Fuentes)

OPC: Yes, the Commission should require FCG to file, within 90 days after the date of the final order in this docket, a description of all entries or adjustments to its annual report, rate of return reports, and books and records which will be required as a result of the Commission's findings in this rate case.

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

ISSUE 73: **Should this docket be closed?**

FCG: Yes.

OPC: No position.

FEA: No position.

FIPUG: Adopt position of OPC.

STAFF: No position.

IX. EXHIBIT LIST

<u>Witness</u>	<u>Proffered By</u>		<u>Description</u>
<u>Direct</u>			
Kurt S. Howard	FCG	KSH-1	List of MFRs Sponsored or Co-Sponsored by Kurt S. Howard
Mark Campbell	FCG	MC-1	List of MFRs Sponsored or Co-Sponsored by Mark Campbell
Mark Campbell	FCG	MC-2	Planning and Budgeting Process Guidelines
Mark Campbell	FCG	MC-3	Florida City Gas Forecasting Process Overview
Mark Campbell	FCG	MC-4	Major Forecast Assumptions
Mark Campbell	FCG	MC-5	Drivers of the Increase in Revenue Requirements
Mark Campbell; Liz Fuentes	FCG	MC-6	Reserve Surplus Amortization Mechanism
Liz Fuentes	FCG	LF-1	List of MFRs Sponsored or Co-Sponsored by Liz Fuentes
Liz Fuentes	FCG	LF-2	MFR G-5 for the 2023 Test Year
Liz Fuentes	FCG	LF-3	2023 SAFE Revenue Requirements Transferred to Base Rates
Liz Fuentes	FCG	LF-4	2023 ROE Calculation without Rate Relief
Liz Fuentes	FCG	LF-5(A)	Impact to Depreciation Expense using 2022 Depreciation Study Rates for Base vs. Clause for 2023

<u>Witness</u>	<u>Proffered By</u>		<u>Description</u>
Liz Fuentes; Ned W. Allis	FCG	LF-5(B)	Proposed Depreciation Company Adjustment for Base vs. Clause for 2023 Using the RSAM Adjusted Depreciation Rates
Liz Fuentes	FCG	LF-6	ADIT Proration Adjustment to Capital Structure for 2023 Test Year
Tara B. DuBose	FCG	TBD-1	List of MFRs Sponsored or Co-Sponsored by Tara DuBose
Tara B. DuBose	FCG	TBD-2	Forecast of Bills, Therms, Demand Charge Quantities, and Revenues for the 2023 Test Year at Present Rates
Tara B. DuBose	FCG	TBD-3	Comparison of Rates of Return and Parity at Present Rates to Equalized Rates and to Proposed Rates
Tara B. DuBose	FCG	TBD-4	Parity of Major Customer Classes at Proposed Rates
Tara B. DuBose	FCG	TBD-5	Analysis of Proposed Revenue Requirement Increases
Tara B. DuBose	FCG	TBD-6	FCG Bill Comparisons
Jennifer E. Nelson	FCG	JEN-1	Résumé and Testimony Listing of Jennifer E. Nelson
Jennifer E. Nelson	FCG	JEN-2	Constant Growth DCF Analysis
Jennifer E. Nelson	FCG	JEN-3	Quarterly Growth DCF Analysis
Jennifer E. Nelson	FCG	JEN-4	DCF-based Expected Market Return
Jennifer E. Nelson	FCG	JEN-5	CAPM and Empirical CAPM Analyses

<u>Witness</u>	<u>Proffered By</u>		<u>Description</u>
Jennifer E. Nelson	FCG	JEN-6	Bond Yield Plus Risk Premium Analysis
Jennifer E. Nelson	FCG	JEN-7	Small Size Premium Analysis
Jennifer E. Nelson	FCG	JEN-8	Proxy Group Regulatory Risk Comparative Assessment
Jennifer E. Nelson	FCG	JEN-9	Flotation Costs
Jennifer E. Nelson	FCG	JEN-10	Capital Structure Analysis
Ned W. Allis	FCG	NWA-1	2022 Depreciation Study
Ned W. Allis	FCG	NWA-2	List of Cases in which Ned W. Allis has Submitted Testimony
Ned W. Allis	FCG	NWA-3	Schedules 1A and 1B
Ned W. Allis	FCG	NWA-4	Summary of Depreciation Based on Current Service Life and Net Salvage Estimates
Ned W. Allis	FCG	NWA-5	Summary of Depreciation Based on Proposed Service Life and Current Net Salvage Estimates
Helmuth W. Schultz, III	OPC	HWS - 1	Resume of Helmuth W. Schultz, III
Helmuth W. Schultz, III	OPC	HWS – 2	Schedules
Helmuth W. Schultz, III	OPC	HWS – 3	Composite of RCS Exhibits 4 & 5 from 20220015-EI
Helmuth W. Schultz, III	OPC	HWS – 4	Composite FCG Discovery Responses
David J. Garrett	OPC	DJG - 1	Curriculum Vitae of David J. Garrett
David J. Garrett	OPC	DJG – 2	Proxy Group Summary
David J. Garrett	OPC	DJG – 3	DCF Stock Prices

<u>Witness</u>	<u>Proffered By</u>		<u>Description</u>
David J. Garrett	OPC	DJG – 4	DCF Dividend Yields
David J. Garrett	OPC	DJG – 5	DCF Terminal Growth Determinants
David J. Garrett	OPC	DJG – 6	DCF Final Results
David J. Garrett	OPC	DJG – 7	CAPM Risk Free Rate
David J. Garrett	OPC	DJG – 8	CAPM Betas
David J. Garrett	OPC	DJG – 9	CAPM Implied Equity Risk Premium Calculation
David J. Garrett	OPC	DJG – 10	CAPM Equity Risk Premium Results
David J. Garrett	OPC	DJG – 11	CAPM Final Results
David J. Garrett	OPC	DJG – 12	Cost of Equity Summary
David J. Garrett	OPC	DJG - 13	Utility Awarded Returns vs. Market Cost of Equity
David J. Garrett	OPC	DJG – 14	Proxy Group Debt Ratios
David J. Garrett	OPC	DJG – 15	Competitive Industry Debt Ratios
David J. Garrett	OPC	DJG – 16	Hamada Model
David J. Garrett	OPC	DJG – 17	Final Awarded Rate of Return Development
David J. Garrett	OPC	DJG-18	Summary Accrual Adjustment
David J. Garrett	OPC	DJG-19	Depreciation Parameter Comparison
David J. Garrett	OPC	DJG-20	Detailed Rate Comparison
David J. Garrett	OPC	DJG-21	Depreciation Rate Development
David J. Garrett	OPC	DJG-22	Accounts 376.10 and 376.20 Curve Fitting

<u>Witness</u>	<u>Proffered By</u>		<u>Description</u>
David J. Garrett	OPC	DJG-23	Accounts 378.00 and 379.00 Curve Fitting
David J. Garrett	OPC	DJG-24	Accounts 380.10 and 380.20 Curve Fitting
David J. Garrett	OPC	DJG-25	Account 383.00 Curve Fitting
David J. Garrett	OPC	DJG-26	Remaining Life Development
David J. Garrett	OPC	DJG-27	Appendices A-E
Christopher C. Walters	FEA	CCW-1	Valuation Metrics
Christopher C. Walters	FEA	CCW-2	Proxy Group
Christopher C. Walters	FEA	CCW-3	Consensus Analysts' Growth Rates
Christopher C. Walters	FEA	CCW-4	Constant Growth DCF Model
Christopher C. Walters	FEA	CCW-5	Payout Ratios
Christopher C. Walters	FEA	CCW-6	Sustainable Growth Rate
Christopher C. Walters	FEA	CCW-7	Constant Growth DCF Model
Christopher C. Walters	FEA	CCW-8	Electricity Sales Are Linked to U.S. Economic Growth
Christopher C. Walters	FEA	CCW-9	Multi-Stage Growth DCF Model
Christopher C. Walters	FEA	CCW-10	Common Stock Market/Book Ratio
Christopher C. Walters	FEA	CCW-11	Equity Risk Premium – Treasury Bond
Christopher C. Walters	FEA	CCW-12	Equity Risk Premium – Utility Bond
Christopher C. Walters	FEA	CCW-13	Bond Yield Spreads
Christopher C. Walters	FEA	CCW-14	Treasury and Utility Bond Yields

<u>Witness</u>	<u>Proffered By</u>		<u>Description</u>
Christopher C. Walters	FEA	CCW-15	Beta Analysis
Christopher C. Walters	FEA	CCW-16	CAPM Return
Brian C. Collins	FEA	BCC-1	Summary of Proposed Class Cost of Service and Revenue Allocation
Brian C. Collins	FEA	BCC-2	FCG's Response to OPC Interrogatory No. 90
Brian C. Collins	FEA	BCC-3	FCG's Response to OPC Interrogatory No. 92
Brian C. Collins	FEA	BCC-4	FCG's Response to OPC Interrogatory No. 137
Angela L. Calhoun	STAFF	ALC-1	List of Service Complaints
Angela L. Calhoun	STAFF	ALC-2	List of Billing Complaints
Angela L. Calhoun	STAFF	ALC-3	List of Warm Transfer Complaints

Rebuttal

Kurt S. Howard	FCG	KSH-2	FCG Responses to Staff Interrogatories Concerning LNG Facility Construction Status (Staff Interrogatory Nos. 78 and 79)
Kurt S. Howard	FCG	KSH-3	FCG Response to Staff Interrogatory Regarding the AMI Pilot (Staff Interrogatory No. 36)
Kurt S. Howard	FCG	KSH-4	FCG Response to OPC Interrogatory Regarding Net Plant Additions (OPC Interrogatory No. 151)

<u>Witness</u>	<u>Proffered By</u>		<u>Description</u>
Kurt S. Howard	FCG	KSH-5	FCG Responses to OPC Interrogatories Regarding Headcount and Payroll (OPC Interrogatory Nos. 150 and 170)
Mark Campbell	FCG	MC-7	2024 to 2026 Revenue Requirements
Mark Campbell	FCG	MC-8	Excerpts from the Florida Public Service Commission Staff Supreme Court Brief in Case Nos. SC21-1761 and SC22-12
Mark Campbell	FCG	MC-9	FCG's Responses to Staff Request for Production of Documents No. 11 and Interrogatories No. 64, 65, 71, and 73
Mark Campbell	FCG	MC-10	Florida Public Service Commission 2021 Regulatory Plan
Liz Fuentes	FCG	LF-7	Revised Rate Case Expenses
Liz Fuentes	FCG	LF-8	FCG Responses to OPC Discovery in Docket No. 20220069-GU
Liz Fuentes	FCG	LF-9	OPC's Proposed Adjustments to Rate Base and Net Operating Income in Docket No. 20170179-GU
Liz Fuentes; Tara B. DuBose; Kurt S. Howard	FCG	LF-10	FCG's Notice of Identified Adjustments filed August 16, 2022
Liz Fuentes	FCG	LF-11	2023 Test Year Recalculated Revenue Requirements with RSAM

<u>Witness</u>	<u>Proffered By</u>		<u>Description</u>
Liz Fuentes	FCG	LF-12	2023 Test Year Recalculated Revenue Requirements without RSAM
Ned W. Allis	FCG	NWA-6	Excerpts from FCG's 2018 Depreciation Study in Docket No. 20170179-GU
Ned W. Allis	FCG	NWA-7	Excerpts from Mr. Garrett's testimony provided as Exhibit TURN-18 in California Application A.21-06-021
Tara B. DuBose	FCG	TBD-7	Customers and Usage Comparison by Customer
Tara B. DuBose	FCG	TBD-8	Comparison of FEA to FCG Revenue Allocations
Tara B. DuBose	FCG	TBD-9	Comparison of FEA to FCG Increase Allocations
Kathleen Slattery	FCG	KS-1	FCG Cash Incentive Compared to Market
Kathleen Slattery	FCG	KS-2	FCG Position to Market - 2022 Base Pay
Jennifer E. Nelson	FCG	JEN-11	Constant Growth DCF Analysis
Jennifer E. Nelson	FCG	JEN-12	Quarterly Growth DCF Analysis
Jennifer E. Nelson	FCG	JEN-13	DCF-based Expected Market Return
Jennifer E. Nelson	FCG	JEN-14	CAPM and Empirical CAPM Analyses
Jennifer E. Nelson	FCG	JEN-15	Bond Yield Plus Risk Premium Analysis
Jennifer E. Nelson	FCG	JEN-16	Capital Structure Analysis
Jennifer E. Nelson	FCG	JEN-17	Recent Authorized ROEs and Equity Ratios

<u>Witness</u>	<u>Proffered By</u>		<u>Description</u>
Jennifer E. Nelson	FCG	JEN-18	Relationship between Industry Debt Ratios and Beta Coefficients
Jennifer E. Nelson	FCG	JEN-19	Gross Domestic Product by Industry
Jennifer E. Nelson	FCG	JEN-20	Frequency of Observed Annual Market Risk Premium
Jennifer E. Nelson	FCG	JEN-21	Adjustments to OPC Witness Garrett's Implied Equity Risk Premium Analysis
Jennifer E. Nelson	FCG	JEN-22	FEA Witness Walters' Corrected Beta Coefficients
Jennifer E. Nelson	FCG	JEN-23	Adjustments to FEA Witness Walters' CAPM Analysis

Parties and Staff reserve the right to identify additional exhibits for the purpose of cross-examination.

X. PROPOSED STIPULATIONS

There are no proposed stipulations at this time.

XI. PENDING MOTIONS

None.

XII. PENDING CONFIDENTIALITY MATTERS

There are no pending confidentiality matters.

XIII. POST-HEARING PROCEDURES

If no bench decision is made, each party shall file a post-hearing statement of issues and positions. A summary of each position, set off with asterisks, shall be included in that statement. If a party's position has not changed since the issuance of this Prehearing Order, the post-hearing statement may simply restate the prehearing position; however, if the prehearing position is

longer than 100 words, it must be reduced to no more than 100 words. If a party fails to file a post-hearing statement, that party shall have waived all issues and may be dismissed from the proceeding.

Pursuant to Rule 28-106.215, F.A.C., a party's proposed findings of fact and conclusions of law, if any, statement of issues and positions, and brief, shall together total no more than 100 pages and shall be filed no later than January 9, 2023.

XIV. RULINGS

Opening statements, if any, shall not exceed 10 minutes per party.

OPC's motion to allow one of their experts to participate in the hearing via the GoToMeeting platform is granted.

It is therefore,

ORDERED by Chairman Andrew Giles Fay, as Prehearing Officer, that this Prehearing Order shall govern the conduct of these proceedings as set forth above unless modified by the Commission.

By ORDER of Chairman Andrew Giles Fay, as Presiding Officer, this 8th day of December, 2022.



ANDREW GILES FAY
Chairman and Presiding Officer
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Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Subsection 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

Any party adversely affected by this order, which is preliminary, procedural or intermediate in nature, may request: (1) reconsideration within 10 days pursuant to Rule 25-22.0376, Florida Administrative Code; or (2) judicial review by the Florida Supreme Court, in the case of an electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or wastewater utility. A motion for reconsideration shall be filed with the Office of Commission Clerk, in the form prescribed by Rule 25-22.0376, Florida Administrative Code. Judicial review of a preliminary, procedural or intermediate ruling or order is available if review of the final action will not provide an adequate remedy. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.