Florida City Gas

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AUGUST 23, 2017

BY HAND DELIVERY

The Honorable Julie Imanuel Brown Chairman
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: Test Year Notification Pursuant to Rule 25-7.140, Florida Administrative Code

Dear Chairman Brown:

Florida City Gas ("FCG" or the "Company) operates as a natural gas utility in Florida, and as such, is subject to regulation by the Commission pursuant to Chapter 366, Florida Statutes. FCG's natural gas utility operations serve approximately 108,000 customers in the southeastern portions of Florida, including Miami-Dade, Broward, Palm Beach, Brevard, Indian River, St. Lucie, Martin and Hendry counties. The Company provides clean, safe, reliable, and affordable natural gas service to residential, commercial, and industrial customers with safety and quality customer service being our top priorities.

To maintain a high level of service to its customers while keeping rates at a reasonable level, FCG has taken proactive steps to successfully implement initiatives to manage costs through a variety of efficiency measures such as technology deployment with fully integrated automated systems. While these steps have improved operational efficiencies allowing us to enhance the quality of our customer service, the Company has, nevertheless, seen a significant increase in our cost to serve customers. This increase has made it challenging for the Company to continue to meet its compliance requirements, financial obligations and provide customers with the safe and reliable natural gas service they have come to expect. Additionally, the relatively low cost of natural gas has increased the demand for natural gas service, requiring the Company to enhance its distribution system to meet growing demand. FCG is proud to have held rates stable since 2003, but it is now time for a rate increase in order to sustain the financial integrity of the Company and ensure that we continue to provide a high level of service to our customers. The key drivers necessitating the Company's request for a rate increase are significant investment in capital projects to enhance our system, increasing capacity needs to ensure reliability in the southern portion of our system, and employee development needs due to an aging workforce.

It has been nearly 14 years since FCG last filed a request for a base rate increase. The Company agreed to a five-year stay out period as memorialized by Order No. PSC-07-0913-PAA-GU and then managed its costs such that a rate case was not necessary. During this period, the Company invested more than $284 million in infrastructure and general plant capital to support customer growth, enhance customer service, comply with increasing regulatory compliance requirements and sustain the reliability of our system. The Company has also installed more than 400 miles of distribution mains and 55 miles of transmission mains over the last 14 years, making natural gas available to cities and communities in south and central Florida that were previously unserved or underserved.

FCG has invested significant capital in system improvements, which has allowed us to interconnect critical pipelines to improve system safety and reliability by establishing two-way feeds, eliminating low pressure areas and increasing available capacity to serve more customers. While we have made tremendous progress improving our system for the benefit of our customers, we are experiencing increasing constraints on access to natural gas supplies. Therefore, we must take additional measures to ensure continued reliable access to gas supplies to serve all customers currently on our system during normal operations and emergency situations. To proactively address this issue, the Company has developed a two-pronged strategy: (1) acquire additional capacity to bring supply to our customers; and (2) invest in liquefied natural gas ("LNG") infrastructure, both of which will enhance the reliability of supply for the Company's customers.

At this time, FCG estimates that an increase in revenue requirement of approximately $12 million to $18 million is necessary to produce sufficient revenues to allow the Company to continue to provide the safe and reliable natural gas service our customers deserve. These additional revenues will enable the Company to invest in the safety and reliability of its natural gas distribution system, customer service enhancements, and the training and development of its employees. The Company, therefore, submits this Test Year Notification letter, along with the following required information.

A. Test Year Selection

In accordance with Rule 25-7.140, Florida Administrative Code, the Company has selected the twelve-month period ending December 31, 2018, as the projected test year for purposes of the Company's request for a permanent base rate increase. The Company's request will seek an effective date for new rates of June 24, 2018. The Company believes that the requested test year is appropriate in that it will: (1) best reflect the economic conditions impacting the Company during the first 12-month period that the new rates will be in effect; and (2) provide the most accurate picture of revenues (which are projected to continue to decline) as compared with the Company's cost to serve during the initial period new rates would be placed into effect.

B. Major Factors Necessitating Base Rate Increase

The following factors are the key drivers necessitating the Company's request for a base rate increase:

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

2. The Company is faced with the challenge of ensuring that enough capacity is held to serve all customers during peak demand times while also allowing for continued system expansion. This is particularly critical for customers on the southern end of our system where customer demand for natural gas service is higher but capacity is more constrained. As such, the Company has devised a strategy around LNG to provide back-up gas supply during emergencies and peak periods, as necessary. This significant and necessary capital project has been another important factor in our decision to pursue a rate increase.

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

C. Efforts and Actions Taken to Avoid a Base Rate Increase

In addition to its willingness to agree to a 5-year stay out period, as memorialized by Order No. PSC-07-0913-PAA-GU, the Company has undertaken every effort to avoid seeking a base rate increase, as outlined below:

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

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

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

3. The Company was able to take advantage of the stronger financial posture of AGL Resources Inc., and now The Southern Company, in order to refinance debt at lower interest rates, as well as to obtain less expensive capital.

D. Interim Rates

The Company will be requesting interim rate relief in accordance with Section 366.071, Florida Statutes, using the period Jan. 1, 2016, through Dec. 31, 2016, as the test period. The Company will be seeking interim relief in order to allow the Company the opportunity to earn within its authorized range while its request for permanent rate relief is processed. The period Jan. 1, 2016, through Dec. 31, 2016, will serve as the Company's interim test year, as well as its historic test year period for purposes of its petition.

Conclusion

FCG is not requesting that the Commission process the Company's petition for a rate increase using the proposed agency action process authorized in Section 366.06(4), Florida Statutes. The Company anticipates filing its petition as soon as practicable after the expiration of the notification period, but in any instance not before Oct. 23, 2017. If the Company is unable to file on Oct. 23, 2017, the Company will so notify the Commission in writing before that date, including an explanation as to the reasons for the delayed filing and an indication of the revised target date.

The Company has only undertaken this request upon thoughtful deliberation and considerable study. While the Company has made significant efforts to control its expenses, now after nearly 14 years under current rates, it will be unable to maintain high quality service to its customers at its current base rates. The initiatives the Company would like to implement with the revenue generated from a base rate increase have been developed with the benefits to its customers in mind, as the customer is indeed at the center of everything we do.

Sincerely,

Carolyn Bermudez

cc: // Honorable Art Graham, Commissioner
Honorable Ronald A. Brisé, Commissioner
Honorable Donald J. Polmann, Commissioner
Braulio Baez, Executive Director
Mark Futrell, Deputy Executive Director
Keith Hetrick, General Counsel
Andrew Maurey, Director/Accounting and Finance
Greg Shafer, Director/Economics
Commission Clerk (Stauffer)
Office of Public Counsel (Kelly)
Beth Keating (Gunster Law Firm)