JOE NEGRON
President of the Senate

J.R. KELLY
Public Counsel

STATE OF FLORIDA
OFFICE OF PUBLIC COUNSEL

C/O THE FLORIDA LEGISLATURE
111 WEST MADISON ST.
ROOM 812
TALLAHASSEE, FLORIDA 32399-1400
1-800-342-0222

EMAIL: OPC_WEBSITE@LEG.STATE.FL.US
WWW.FLORIDAOPC.GOV

RICHARD CORCORAN
Speaker of the House of Representatives

February 5, 2018

Ms. Carlotta Stauffer, Commission Clerk
Office of Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Re: Docket No. 20170179-GU
Petition for rate increase and approval of depreciation study by Florida City Gas

Dear Ms. Stauffer:

Enclosed for filing in the above docket on behalf of the Office of Public Counsel (OPC) is the Redacted Public Version of the prefiled testimony of Marshall W. Willis.

On February 1, 2018, the OPC submitted one copy of the prefiled original testimony of Mr. Willis. This confidential filing was an interim measure, allowing OPC to adhere to the procedural schedule while providing Florida City Gas an opportunity to review the testimony and redact the material that it regards as confidential. The enclosed Redacted Public Version reflects Florida City Gas' review. Counsel for Florida City Gas filed its request for confidentiality, including the highlighted confidential material and the accompanying detailed justification, in a separate filing on February 2, 2018.

The original testimony of Mr. Willis filed on February 1, 2018, is the evidence the OPC intends to introduce at the hearing. We have verified the confidential version filed by Florida City Gas on February 2, 2018, is identical to the original testimony filed on February 1, 2018, in all respects except for the yellow highlighting indicating the scope of its claim of confidentiality. The OPC has likewise verified the public version of Mr. Willis' testimony filed here is identical in all respects except for the redactions and the stamped indications of redaction. The public version will be served on all parties and the yellow highlighted confidential version filed by Florida City Gas will be available by request under appropriate arrangements.

Thank you for your assistance.

Sincerely,

/s/ *Virginia Ponder*

Virginia Ponder
Associate Public Counsel

cc: Parties of record

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was furnished by e-mail on this 5th day of February, 2018 to:

Beth Keating, Esq.
Lila A. Jaber, Esq.
Gregory Munson, Esq.
Gunster Law Firm
215 South Monroe Street; Suite 601
Tallahassee, FL 32301
bkeating@gunster.com
ljabor@gunster.com
gmunson@gunster.com

Walter Trierweiler, Esq.
Stephanie Cuello, Esq.
Danijela Janjic, Esq.
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850
wtrierwe@psc.state.fl.us
scuello@psc.state.fl.us
DJanjic@psc.state.fl.us

Ms. Carolyn Bermudez
Florida City Gas
4045 N.W. 97th Avenue
Doral FL 33178
cbermude@southernco.com

Federal Executive Agencies
A.J. Unsicker/L.L. Zieman/N.A. Cepak/R.K. Moore
c/o AFLOA/JACE-ULFSC
139 Barnes Drive, Suite 1
Tyndall AFB FL 32403
andrew.unsicker@us.af.mil
ULFSC.Tyndall@US.AF.MIL
lanny.zieman.1@us.af.mil
natalie.cepak.2@us.af.mil
ryan.moore.5@us.af.mil
thomas.jernigan.3@us.af.mil
ebony.payton.ctr@us.af.mil

/s/ *Virginia Ponder*
Virginia Ponder
Associate Public Counsel

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for rate increase and approval of depreciation study by Florida City Gas ______________________________/	Docket No. 20170179-GU Filed: February 1, 2018

~~(FCG PRELIMINARY CONFIDENTIAL DESIGNATION)~~

PUBLIC VERSION

DIRECT TESTIMONY

OF

MARSHALL W. WILLIS

ON BEHALF OF THE CITIZENS OF

THE STATE OF FLORIDA

J. R. Kelly
Public Counsel

Virginia Ponder
Associate Public Counsel
Patricia A. Christensen
Associate Public Counsel
Office of Public Counsel
c/o The Florida Legislature
111 West Madison Street, Room 812
Tallahassee, FL 32399-1400
(850) 488-9330

Attorneys for the Citizens
of the State of Florida

Direct Testimony

Of

Marshall W. Willis

On Behalf of the Office of Public Counsel

Before the

Florida Public Service Commission

Docket No. 20170179-GU

Q. PLEASE STATE YOUR NAME, TITLE AND BUSINESS ADDRESS.

A. My name is Marshall W. Willis, Chief Legislative Analyst, Office of Public Counsel. My business address is 111 W. Madison Street, Room 812, Tallahassee, Florida 32399-1400.

Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND, CERTIFICATIONS AND PROFESSIONAL EXPERIENCE.

A. I received a Bachelors of Arts degree in Accounting from the University of West Florida in June 1976. I am a Certified Public Accountant licensed in the State of Florida since August 1980.

I joined the Office of Public Counsel (OPC) on August 1, 2017. Prior to joining OPC, from September 2014 to July 2017, I was the owner and principal of Marshall Willis Consulting through which I provided consulting services mainly in the areas of utility regulatory accounting and regulatory policy to several clients in the areas of electric rates and ratemaking, one of which was OPC.

In April 2014, I retired from the Florida Public Service Commission (FPSC or Commission) after thirty seven years of service with the Commission. During my employment at the Commission, I held many positions which included that of Director of the Division of Accounting and Finance, Director of the Division of Economic Regulation, and Assistant Director of the Division of Economic Regulation. During my employment at the Commission, I worked on or was principally responsible for hundreds of filings from the jurisdictional regulated Electric, Natural Gas, Water and Wastewater utilities. This included rate cases (electric, gas, water and wastewater utilities), surveillance for overearnings, tariff filings, depreciation studies, clause recovery proceedings, territorial disputes, annual storm hardening reviews, financing requests, complaints and certification of water and wastewater utilities. I also was required to perform frequent briefings for Commissioners, the Chief Assistants and the Executive Director. Additionally, I interacted with State Legislators and Legislative staff on Commission matters and pending legislation affecting Commission jurisdiction.

Q. HAVE YOU PREVIOUSLY TESTIFIED IN PROCEEDINGS BEFORE THIS COMMISSION?

A. Yes. I have testified as an expert on accounting and regulatory policy issues before the Florida Public Service Commission and the Florida Division of Administrative Hearings.

Q. HAVE YOU PREVIOUSLY TESTIFIED IN PROCEEDINGS BEFORE OTHER REGULATORY COMMISSIONS?

A. No, I have not.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

A. I am presenting testimony for OPC, on behalf of the Citizens of the State of Florida.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I am testifying to the appropriate revenue requirement for Florida City Gas (FCG or Company). My testimony will address the following topics:

- Construction work in progress,
- SAFE Program,
- Annual storm damage accrual and reserve,
- Incentive Compensation,
- Employee positions,
- Regulatory asset for pension accounting,
- Annual depreciation expense and the associated reserve,
- Necessary changes due to the new Tax Cuts and Jobs Act,
- Revenue expansion factor, and
- Calculation of OPC's adjusted revenue increase.

OPC has two other witness testifying on its behalf, Dr. David E. Dismukes and David J. Garrett. Dr. Dismukes is testifying to the Company's proposal to secure additional firm natural gas transportation service capacity and the construction of a Liquefied Natural Gas (LNG) Facility. Mr. Garrett is testifying on two issues: the depreciation study and cost of capital. My revenue increase calculations will include their recommended adjusts as well as my own.

Q. ARE YOU SPONSORING ANY EXHIBITS IN THIS CASE?

A. Yes. I am sponsoring Exhibit MWW-1, a summary of my regulatory experience and qualifications, which is attached to my testimony. The exhibit is not exhaustive because of the inability to search Commission files prior to 1979. I also sponsor Exhibits MWW-2 to MWW-6, which contain the accounting spreadsheets for my recommended revenue requirement calculations.

Q. DO YOU HAVE ANY ADJUSTMENTS TO GAS PLANT IN SERVICE?

A. Yes. Dr. Dismukes is recommending that the Company's proposed LNG Facility not be approved. This requires an adjustment to remove the 13-month average balance to Gas Plant In Service for the LNG Facility of $3,884,615 and for the land for the LNG Facility of $576,923 or a total of $4,461,538.

Q. DO YOU HAVE ANY RECOMMENDATIONS CONCERNING THE SAFE PROGRAM AND HOW THE COMPANY INCLUDED THE AMOUNTS IN THIS RATE CASE?

A. Yes, I do. The Commission by Order PSC-2015-0390-TRF-GU, approved FCG's request for a 10-year Safety, Access, and Facility Enhancement (SAFE) Program and associated cost recovery mechanism. The Company proposed to relocate on an expedited basis certain existing gas mains and associated facilities located in or associated with rear lot easements to the street front to improve safety and reliability. In addition, the SAFE program would eliminate the majority of FCG's 61.3 miles of unprotected steel mains. The Commission also approved the Company's tariff employing an annual surcharge adjustment mechanism that was implemented January 1, 2016. The order also states that "if City Gas files a rate case before 2025, the then-current SAFE surcharge program would be folded into any newly approved rate base, and the surcharge would begin anew."

Company witness Morley has described in his direct testimony how the Company included the SAFE Program in the projected test year:

> …(T)he Company has included SAFE revenues in the revenue forecast supported by Company witness Nikolich, and included SAFE plant and accumulated depreciation in rate base. The Company also included depreciation on SAFE plant in service and any deferred taxes in the computation of the Company's cost of capital.[1]

My understanding of his testimony is that all of the assets, expense and capital components have been included in the projected rate base, income statement, and cost of capital for the test year. In my opinion this was the correct way to blend the SAFE Program in the current projected 2018 test year. The problem is that the Company may be inadvertently collecting for the SAFE Program twice if Company witness Morley's

[1] Michael Morley direct testimony, Page 21, lines 11 – 16.

testimony is correct. If all of the SAFE-related components are included in the revenue forecast, rate base and the income statement as he states, then the normal revenue requirement calculation would take these components into account and include the proper revenues to recover the SAFE-related components. However, FCG in its Revenue Deficiency Calculation, shown on Schedule G-5, Page 263 of the MFR's, has added SAFE revenues of $3,509,729 on top of the rate case revenue requirement. Thus, if Company witness Morley's testimony is correct, adding the $3,509,729 to the revenue deficiency would create a double recovery. This is best illustrated on my Exhibit MWW-6 attached to my testimony.

It is also important to note that, even if the Company were correct in how they have tried to include the SAFE revenue for this case, the $3,509,729 has to be adjusted to reflect the new 21% tax rate effective on January 1, 2018, of the test year. I provide more information on the Tax Cuts and Jobs Act (G.L.C.164, §94) ("The Act") passed by the United States Congress later in my testimony. The Company had an opportunity to correct the SAFE revenue amount in its response to OPC Interrogatory 175, Attachment 8-175.1 IND-G 1-18 Errata, and failed to do so. This attachment included a summary of changes as well as attached MFR schedules with the purported changes highlighted in yellow.

Q. ARE YOU RECOMMENDING ANY ADJUSTMENTS TO THE COMPANY'S REQUESTED LEVEL OF CONSTRUCTION WORK IN PROGRESS (CWIP) WHICH THEY HAVE INCLUDED IN RATE BASE?

A Yes, I am. As stated above, Dr. Dismukes has recommended the LNG Facility not be approved. Per the Company response to OPC Interrogatory 154, FCG has included the LNG facility in the CWIP calculation. This also requires that CWIP be reduced by $24,538,461 to remove the LNG Facility.

Q. WHAT ARE YOU RECOMMENDING AS RATE BASE FOR THE COMPANY FOR THE 2018 PROJECTED TEST YEAR?

A. Per my Schedule MWW-2, I am recommending a rate base of no more than $274,819,309.

Q. HAVE YOU REVIEWED THE COMPANY'S PROPOSAL FOR AN ANNUAL STORM ACCRUAL?

A. Yes, I have. The Company is requesting that an accrual of $100,000 annually be allowed in rates to establish an unfunded storm damage reserve of $1,000,000. I do not disagree with the concept of a storm reserve nor an annual accrual to fund the reserve. However, I disagree with the Company's proposed amount of the annual accrual.

Q. WOULD YOU PLEASE EXPLAIN WHY YOU DISAGREE WITH THE COMPANY'S PROPOSED ACCRUAL AMOUNT AND WHAT YOU WOULD RECOMMEND INSTEAD?

A. The Company was requested by OPC Interrogatory 45 to provide a schedule that shows expensed and capitalized costs for storm damage by year and by account name and number, for the years 2006 through 2016. The Company provided documents for two storms, Hurricanes Matthew and Irma, that totaled $220,721 and $357,189 respectively or a total of $577,910 over the ten year period. The Company has used a five year period to divide the $577,910 total amount to justify the $100,000 annual accrual requested.

Determining whether hurricanes impacting Florida and FCG's particular service territory is difficult to predict. In fact, Florida was fortunate to not experience a major hurricane from 2006 to 2014. Prior to the 2006-2014 time period was the unprecedented storm seasons of 2004 and 2005. Florida may in fact not experience another major hurricane for many years. Therefore, a ten year period should be used to determine the annual accrual. The use of a ten year period takes into account a longer historical period of storm history and should be used by the Commission in its determination of storm costs. The use of a ten year period justifies no more than an annual accrual of $57,791. As a result, the Company's requested annual accrual should be reduced by $42,209.

The Company states in its testimony that its mechanism is similar to the Peoples Gas storm reserve established in Docket No. 20080318-GU. However, Peoples Gas is materially larger in comparison to FCG. Pursuant to the June 2017 Earnings Surveillance Reports of both companies, Peoples Gas' total plant in service was $1.5 billion compared to FCG's $392.7 million. Based on the difference in plant in service alone, Peoples Gas has a greater possibility of incurring much higher hurricane storm costs than FCG. The Commission in Peoples Gas' last rate case reduced the company's requested $100,000 annual accrual to $57,500. This is in fact conservative and much more in line with what I am recommending in this case given the difference in the size of the two companies and the fact that Peoples Gas' annual accrual was set in 2009.

In this case, the Company is also asking that its reserve be unfunded, which means the Company does not have to set actual monies aside to pay for hurricane damage. The Company would be free to use these funds collected through the annual accrual for anything they wish to spend them on which could even include dividends to the parent company. For a company that has an unfunded reserve, when storm damage is incurred, they will normally need to go to the debt markets to obtain financing to recover those costs or obtain capital infusions from its parent for its cash needs even if the reserve on the books is higher or equal to the storm damage costs.

Q. **HOW WOULD THE COMPANY RECOVER ANY FUTURE COSTS OF A MAJOR HURRICANE IF THE COSTS EXCEEDED THE STORM RESERVE, ESPECIALLY SINCE YOU ARE RECOMMENDING TO REDUCE THE ANNUAL ACCRUAL?**

A. If the costs of a major storm would exceed the storm reserve and materially affect the Company's earnings, FCG could file for a limited proceeding to collect a surcharge to recover the amount that exceeded its storm reserve and possibly the amount needed to restore the reserve to its previous level prior to the hurricane event. In fact, this method is preferable to building a large storm reserve as it would then allow the Commission to immediately review any major hurricane related costs for appropriateness before they are passed on to consumers for recovery by just crediting the costs against the reserve. The accumulated reserve in this case would act as an earnings cushion allowing the Commission time to act on the Company's petition.

Q. WHAT ABOUT THE REQUESTED $1,000,000 LEVEL FOR THE STORM RESERVE?

A. The requested $1,000,000 storm reserve is also excessive. OPC POD No. 47 asked the Company to "…provide all studies, documents or analysis that FCG used to support the requested storm reserve target level and the annual storm reserve accrual." The Company provided no studies, documents or analyses in its response to this request. The Company did provide the following response on how they arrived at the requested $1,000,000 storm reserve target:

> The $1 million target for the storm damage reserve proposed by Florida City Gas was based on the target amount established in the Florida Public Service Commission's approval of a storm reserve for Peoples Gas in Docket 080318-GU.

As indicated above, Peoples Gas is materially larger in comparison to FCG. For that very same reason, FCG's storm damage reserve should also be less. I recommend a reserve level of $700,000 which would have been sufficient to handle the damages from the two storms if the recommended annual accrual of $57,500 had actually been collected over the past 10 years.

Q. HAVE YOU REVIEWED THE COMPANY'S REQUESTED AMOUNT OF INCENTIVE COMPENSATION THEY ARE REQUESTING TO BE INCLUDED IN RATES TO CONSUMERS?

A Yes, I have.

Q. DO YOU HAVE ANY ISSUES WITH THE AMOUNT OF INCENTIVE COMPENSATION REQUESTED FOR RECOVERY BY THE COMPANY?

A Yes, I do. FCG has included the cost of the Company's long-term incentive program in the 2018 projected test year. The Commission has a long standing practice of not allowing recovery of incentive programs that are designed to enhance shareholder value by emphasizing shareholder-preferred results, especially when they are not available for all employees. The Commission's practice was outlined in the 2010 final order for Duke Energy Florida, known then as Progress Energy Florida. In that order the Commission stated:

> The incentive portion of PRF's compensation plan rewards shareholders and top executives at the expense of ratepayers; the metrics used in computing incentive compensation emphasized shareholder-preferred results. The purpose of the incentive plan "is to promote the financial interests of the Company." If shareholders want company executives bound to the single-minded pursuit of shareholders' interests, they should pay for it. Forcing the public to bear a cost which provides it no benefit is wrong.[2]

The Commission also discussed long-term incentive compensation in the 2010 final order for Florida Power and Light:

> We find that the entire executive incentive compensation program is designed to benefit the shareholders by creating long-term shareholder value. We find that the executive incentive compensation program is

[2] Florida Public Service Commission Order No. 2010-0131-FOF-EI, issued March 5, 2010 page 159-160.

> designed to place the interests of executives in the same light as that of shareholders, thus creating incentive to increase the value of FPL Group's shares. Because these programs are designed for the benefit of the shareholders, those costs shall be borne exclusively by shareholders.[3]

Also, in the 2011 final order for Gulf Power Company, an affiliated company of FCG, the Commission disallowed long term incentive compensation.

> …(T)he test year amounts related to the long-term incentive compensation plans shall be disallowed for ratemaking purposes. Gulf's long-term incentive compensation plans are designed to benefit Gulf's 119 employees in management that are Pay Grade 7 and above and are exclusively tied to financial goals of Southern Company. The short-term PPP is based on performance measures that are the same for all employees, though the awards differ depending on the category of employment, as described previously. We note that excluding long-term incentive compensation would be similar to our treatment of incentive compensation in TECO's and FPL's last rate cases.[4]

According to page 2 of the 2017 Southern Company Long-Term Incentive Program provided by FCG in response to OPC's POD No. 9, the long-term incentive program is only available to employees with a salary grade level of 9 or higher and the employee must also be classified as exempt. According to page 7, the performance measures for the long-term incentive plan are tied to total shareholder return relative to industry peers, cumulative earnings per share and return on equity. Per Commission practice, the total costs of FCG's long-term incentive program should be borne totally by the shareholders and therefore should be removed from the projected test year.

[3] Florida Public Service Commission Order No. 2010-0153-FOF-EI, issued March 17, 2010, page 148.
[4] Florida Public Service Commission Order No. 2012-0179-FOF-EI, issued April 3, 2012, pages 94-95.

Q. WHAT ADJUSTMENTS NEED TO BE MADE TO REMOVE THE COMPANY'S LONG-TERM INCENTIVE PLAN COSTS FROM THE PROJECTED TEST YEAR?

A. According to the response to OPC Interrogatory No. 7, Attachment 1, the Company included a total expense of $324,528 in the 2018 projected test year that should be removed. In addition, the capitalized amounts for the years 2014 through 2018 totaling $472,914 for long-term incentive plan costs should be removed from plant in service. Benefits and payroll taxes on these amounts should also be removed. I have calculated a loading factor for employee benefits, including social security tax, federal and state unemployment tax and workers compensation, to be 18.05%. This was calculated from the information contained in Company witness James Garvie's direct testimony on page 15, line 2, showing the projected total compensation for the projected test year and Page 17, line 9, which shows the total benefit cost for the projected test year 2018. This equates to an additional adjustment to expenses of $58,577 and to plant in service of $85,361. Therefore, expenses should be reduced by $383,105 and plant in service should be reduced by $558,275.

Q. DO YOU HAVE ANY ADJUSTMENTS YOU ARE RECOMMENDING TO THE EMPLOYEE COMPLEMENT BEING REQUESTED FOR RECOVERY IN THE PROJECTED 2018 TEST YEAR?

A. Yes, I do. The Company is requesting three employees for the new LNG facility along with an additional twenty employees, or an approximate 20% increase in employees in the projected test year. For purposes of my testimony, I will discuss the twenty additional employees first.

In her testimony, Company witness Carolyn Bermudez stated that some of the new employees are needed for an "apprentice pool" that will be formed in 2018 by hiring additional employees. The "apprentice pool" will be used to fill in for positions that are being trained through the new apprentice-type program.[5] This is the only explanation the Company provided for the need for twenty additional employees. FCG was asked in OPC Interrogatory No, 130 to give a **detailed explanation** as to why employees are forecasted to increase by twenty three employees in 2018. Below is the Company's **detailed** response:

> The company has identified a need to add additional roles due to increased work, additional compliance requirements, high overtime, and a new LNG facility.

It is clear that the Company's response was far from detailed. It failed to identify what "increased work" was needed, why it was needed, or the additional positions needed that would be related to the additional work. It failed to explain what the additional compliance requirements are, who required them and why new positions would be needed to accomplish the new compliance work. It did not provide any explanation or calculations showing that overtime for 2018 would be excessive compared to past history. Additionally, FCG was asked through OPC Interrogatory No. 131 to identify why each individual position was needed. The Company's response included a short

[5] Carolyn Bermudez testimony, pages 21-23.

one sentence explanation for each position but gave no further detail as to excess overtime, new compliance work or new work requirements.

I also reviewed FCG's discovery responses to OPC Interrogatory No. 34, specifically those related to Operation Goals of the Company. **##BEGIN CONFIDENTIAL##** I specifically reviewed the documents labeled [redacted] which contains Company goal targets as well as actual results. [redacted] The periods included were from August 2016 through July 2017. I found only one goal, shown on Bates Stamp No. 16755, which did not meet or exceed the target goals. [redacted] No other metrics were provided for that period which demonstrated or indicated any problem that needed to be resolved with additional employees.**##END CONFIDENTIAL##**

I further reviewed Attachment 2-75 which was the Company's response to OPC Interrogatory No. 75. This interrogatory asked for the number of customers by year from 2006 to the base year 2016. A review of the document shows that customers have only increased by 4.07% from 2006 to the base year 2016 while, according to the Company's response to OPC Interrogatory No. 1(b), employees have increased 16.08% from 2013 to the base year of 2016, far outpacing customer growth. This clearly does not demonstrate the need for more employees.

The Company in response to OPC Interrogatories Nos. 1(b) and 2(b), showed a growth in employees of 2% for 2013, 3% for 2014, 5% for 2015, 5.5% for 2016 and zero growth in employees through October 2017. The historical employee count shown by the Company does not support the need for an additional 20 employees in the 2018 projected test year. In fact, if a three year average was used for employee growth, it would equate only to 4.8% or 5 employees rounded up.

In response to OPC Interrogatories Nos. 1 and 2, the Company supplied historic and projected salaries for base pay and overtime. This information is summarized below:

Year	Base or Overtime	Salary Dollars Shown on ROG 1 & 2	Total Salary Dollars	Overtime As A %
2013	B	5,375,991		
	O	861,615	6,237,606	13.81%
2014	B	5,980,915		
	O	1,151,853	7,132,768	16.15%
2015	B	6,222,483		
	O	1,454,047	7,676,530	18.94%
2016	B	6,492,640		
	O	1,182,995	7,675,635	15.41%
2017	B	5,690,880		
	O	956,386	6,647,266	14.39%
2018	B	8,061,682		
	O	1,451,152	9,512,834	15.25%

As shown in the table above, overtime reached a high of 18.94% in 2015 but has been declining since that year to the most recent actual numbers in 2017. What is most interesting about the table above is that overtime is being projected to increase in the projected test year from 14.39% to 15.25%. This is after the Company included the cost of the projected twenty positions in expenses and the requested revenue requirement. One would expect the overtime dollars to be reduced, not increased, in the projected test year, with the addition of twenty new employees for the stated purpose of reducing overtime. Thus, not only has the Company failed to justify the need for new employees but it has obviously overstated the salary need for the projected year 2018 by not projecting a significant reduction in overtime salary.

Based upon the evidence and testimony presented by the Company, it has failed to meet its burden to justify its request for an additional twenty employees. The Company should not be allowed to add more new positions than what the historic employee growth supports. Therefore, I am recommending that the Company's request be reduced by fifteen positions for a total of five new employees. This reduction should also take care of the overstated 2018 salaries as well. To calculate the necessary adjustment, I utilized the average salary for the twenty employees (excluding the three LNG employees) included in the response to OPC Interrogatory 131 which amounts to $53,570. Multiplying this amount by fifteen employees equates to a reduction of $803,543. I have calculated a loading factor for employee benefits, including social security tax, federal and state unemployment tax and workers compensation, to be 18.05% or $145,040. This was calculated from the information contained in Witness Garvie's direct testimony on page 15, line 2, showing the projected total compensation for the projected test year and Page 17, line 9, which shows the total benefit cost for the projected test year 2018.

Q. HOW SHOULD THE REMAINING THREE EMPLOYEES RELATED TO THE LNG FACILITY BE TREATED?

A. OPC Witness Dr. Dismukes recommends that the LNG facility be rejected by the Commission. The Company has requested in its filing the addition of three employees to run the LNG facility. As part of Dr. Dismukes' recommendation, these three proposed LNG employees should be removed from the Company's request. According to the Company's response to OPC Interrogatory No. 131, these employees' salaries amount to $232,100. I have calculated a loading factor for employee benefits, including social security tax, federal and state unemployment tax and workers compensation, to be 18.05% or $41,894. This was calculated from the information contained in Witness Garvie's direct testimony on page 15, line 2, showing the projected total compensation for the projected test year and Page 17, line 9, which shows the total benefit cost for the projected test year 2018. Therefore, the fully loaded cost for these three positions that should be removed is $273,994. I note that the response to OPC Interrogatory No. 131 contains a footnote that these positions were not fully budgeted for the projected test year, and the Company did not supply the actual budgeted amounts for these positions. Because of the manner in which the Company presented the expenses for the projected test year in its MFR's, one cannot determine the actual amount budgeted. Since the Company failed to show the exact amounts that were actually budgeted for each position, I am recommending that the full $273,994 be removed.

Q. HAVE YOU REVIEWED THE AMORTIZATION OF REGULATORY ASSETS INCLUDED IN THE PROJECTED 2018 TEST YEAR?

A. Yes, I have. By Order No. PSC-2007-0913-PAA-GU, issued on November 13, 2007, FCG was allowed to create a net regulatory asset for pension costs to recognize the accrual accounting required by FAS 87. The order allowed the regulatory asset to be amortized over a period of 13.3 years. The regulatory asset will be fully amortized as of February 2018 which is during the projected test year for this case. The Company included the last two months of amortization expense totaling $27,375 in its projected test year. In response to OPC Interrogatory No. 64, the Company's reason for including the expense was:

> The Company sought to consistently apply a forecast methodology that would include expenses in the test year irrespective of whether they would end during the test year or conversely start during the test year or continue beyond the test year, resulting in an annualized expense amount higher than the amount that was included in the test year.

New rates as a result of this rate case will not go into effect until approximately August 2018; therefore, the amortization expense for this regulatory asset should be removed from the projected test year as it is a known and measurable change that will not require recovery when the new rates go into effect. As a result, the total amortization expense of $27,375 included by the Company in the 2018 projected test year should be removed.

Q. DO YOU HAVE ANY CHANGES TO THE COMPANY'S PROPOSED LEVEL OF DEPRECIATION EXPENSE?

A. Yes, I do. OPC witness Garrett has proposed a further reduction to the annual depreciation expense calculated by Company witness Watson. The Company's witness has testified that the annual depreciation expense for FCG should be reduced by $2,347,219. OPC witness Garrett has recommended a further reduction in the annual depreciation expense of $1,014,348. I have included OPC witness Garrett's adjustment in my calculations of the projected test year depreciation expense.

Q. DO YOU HAVE FURTHER ADJUSTMENTS TO THE COMPANY'S ANNUAL DEPRECIATION EXPENSE FOR THE PROJECTED TEST YEAR?

A. Yes, I do. The Company has only included the effect of the reduction in depreciation expense from August to December, or for five months of the projected test year. This is incorrect and is not proper ratemaking practice. The projected test year should properly include all known and measurable changes necessary to make the test year reflective of the year that rates will go onto effect. This practice is what is normally termed the matching principal. The matching principal not only speaks to the idea that revenues should match costs but that the test year should be representative of the year that rates go into effect. To not follow this ratemaking practice will result in rates that would likely not be fair, just or reasonable. In this case, by only including five months of the new lower depreciation rates, the Company will be collecting far more revenue than they should be allowed when rates go into effect. This is because the Company's proposed rates would include a blend of the old and new depreciation rates, seven months of the higher rates and five months of the lower rates. This, in my opinion, does not follow the matching principle which is not proper ratemaking practice and should not be allowed. If the Commission allowed this method to be implemented in rates for this case, the Company would be put into a posture of earning a much higher rate of return than intended for the year that rates go into effect.

To correct this, I have made an adjustment to reduce the annual depreciation expense for the projected test year by an additional $1,281,740 so that the full effect of the Company's requested annual depreciation expense will be reflected in the projected 2018 test year. This is the proper ratemaking practice that the Commission should require the Company to follow. By making this adjustment, the Company will be put in the proper position to earn the rate of return set by the Commission in this case when rates are changed in August of this year.

I have also adjusted accumulated depreciation for the projected test year to include a half year or averaging adjustment to reflect the additional adjustments that I have made to the annual depreciation expense.

Q. HAVE YOU MADE ANY CHANGES TO THE INCOME TAX EXPENSE INCLUDED BY THE COMPANY FOR THE PROJECTED 2018 TEST YEAR?

A. Yes, I have. The Act was enacted by the United States Congress on December 20, 2017, and signed into law by the President on December 22, 2017. The Act has an effective date of January 1, 2018, and reduces the tax rate for the Company from 35% to 21%. This is a reduction of 40% over the tax expense included by the Company in its MFR's. This is a material known and measurable change that has occurred since the MFR's were filed. As a result of the Act becoming law, the effective tax rate included in the MFR's for the test year must be adjusted to reflect the lower taxes of 21% that will be paid or deferred by the Company in the 2018 test year.

The Company provided Attachment 8-175.1 IND-G 1-18 Errata ("Attachment 8-175.1") in response to OPC Interrogatory 175 which requested all required changes to the Company's MFR's as a result of The Act. Attachment 8-175.1 included a summary of changes as well as attached MFR schedules with the specific changes highlighted in yellow. I include the changes necessary to implement The Act for the projected test year in my schedules. I also include numerous corrections made by the Company to the MFR's throughout the discovery process and which were incorporated in Attachment 8-175.1. However, the Company also included in its Attachment 8-175.1, changes to the capital structure components that are not required as a result of The Act. Specifically, these relate to changes in the Company's debt to equity ratio and were not included as part of the Company's original filing or case. Therefore, because these changes are not triggered by The Act, I have excluded these changes in my schedules calculating the revenue deficiency. To highlight the changes due to The Act, I have included a separate column in my Rate Base and Operating Income Schedules, Exhibit MWW-2 and MWW-3, Column C.

Q. WHAT DO YOU RECOMMEND FOR THE PORTION OF THE ACT RELATED TO DEFERRED INCOME TAXES?

A. The reduction in taxes from the 35% rate to the new 21% rate affects deferred taxes as well as the test year tax expense. Deferred taxes are divided into two categories;

"protected" and "unprotected." "Protected" deferred income taxes are those created due to the difference between depreciation taken for tax purposes and straight line depreciation used for book purposes. "Unprotected" deferred income taxes relate to all other temporary tax differences created because of the difference between the expense taken for tax purposes and the amount used for book purposes. An example would be those created through the differences in pension accounting used for tax purposes versus book purposes. The normalization requirements of The Act only effect the "protected" deferred taxes. The Act requires that the "protected" deferred income taxes be normalized using the Average Rate Assumption Method (ARAM). This basically requires the excess deferred income taxes related to the difference in tax and book depreciation be given back to the customers over the life of the asset that created the deferred tax. The Act does not protect any other deferred taxes. Therefore, the Commission is free to return the "unprotected" excess deferred taxes to ratepayers over any time period it chooses.

Recent rate settlements in the electric industry with Duke Energy Florida, Tampa Electric Company and Florida Public Utilities Company require the "unprotected" excess deferred income taxes be given back over a five or ten year period depending on the materiality of the amount of "unprotected' deferred income taxes. In FCG's case, it is my opinion that the excess "unprotected" deferred income taxes should be flowed back to the customers over a five year period. This is consistent with the Company's position taken in Attachment 8-175.1, in Tickmark B, wherein the

Company states, that the unprotected Deferred Income Taxes are being flowed back or amortized over a five year period.

Q. WHAT ARE YOU RECOMMENDING AS THE 2018 PROJECTED TEST YEAR OPERATING INCOME FOR THE COMPANY?

A. Per my Schedule MWW-3, I am recommending an operating income of $13,200,358.

Q. HAVE YOU MADE ANY ADJUSTMENTS TO THE COMPANY'S PROPOSED CAPITAL STRUCTURE?

A. Yes, I have. As I mentioned earlier, in response to OPC Interrogatory 175 concerning the necessary changes to the MFR's due to The Act, the Company filed Attachment 8-175.1. Attachment 8-175.1 included a summary of changes, including attached MFR schedules with the changes highlighted in yellow. As part of this response, the Company filed a new Schedule G-3, page 2 of 11, for the projected test year. After discussions concerning this schedule with the Company, a new corrected version of the same schedule (Corrected G-3) was submitted on January 31, 2018. The Corrected G-3 schedule indicates the Company changed the beginning book balances. Documentation provided by the Company indicates the purpose of this change was to recapitalize the balance sheet as of December 2017 based on the capital structure ratios of Southern Company Gas. For the months January - November, the Company balanced the balance sheet through short-term debt. I disagree with changing the beginning book balances from the MFR's. This is in essence deciding in the middle of a rate case to change the components of capital structure to something the Company now prefers. Furthermore, the Company failed to justify these changes. This should not be allowed especially since the Company's direct case has already been filed. Therefore, I have excluded all changes to the beginning book balances that did not result from the change to a 21% corporate tax rate.

I did reduce Deferred Income Taxes reflected in the OPC adjustment column, shown on my Exhibit MWW-3, to reflect the changes being made to deferred income taxes as a result of The Act. The reduction is the difference between the original per book Deferred Income Taxes shown on MFR G-3, Page 2 of 11, and the per book amount shown on the Corrected G-3. I have also included the specific adjustment to deferred income taxes of $517,598, made by the Company on Corrected G-3. I made a further adjustment shown in my OPC adjustment column to remove a proration adjustment of $172,825 made by the Company as part of the specific adjustment of $517,598. This was removed for the same reason that I did not accept the per book changes made by the Company which are in my opinion not related to changes required by The Act. The remaining adjustments are simply proration adjustments required to equate the total components of capital structure to rate base.

Q. HAVE YOU REVIEWED THE COMPANY'S CALCULATION OF THE REVENUE EXPANSION FACTOR?

A. Yes, I have.

Q. DO YOU HAVE ANY CORRECTIONS THAT YOU BELIEVE SHOULD BE MADE TO THE REVENUE EXPANSION FACTOR?

A. Yes, I do. I believe the Bad Debt Rate of .4382% used in the revenue expansion factor is overstated. Based on the information provided by the Company in response to OPC Interrogatory No. 17, I have done a calculation of the bad debt expense by year since 2012. As you can see below in the following table, the Company has done an excellent job of lowering its bad debt each year since 2012.

Calculation of Bad Debt to Revenues by Year

Year	Bad Debt Write Offs	Recoveries & Adjustments	Total Bad Debt	Gross Revenues	Bad Debt to Revenues by Year
2012	$536,222	$ 46,008	$490,214	$74,037,871	0.66%
2013	$522,657	$ 62,654	$460,003	$84,303,882	0.55%
2014	$538,532	$106,228	$432,304	$88,086,594	0.49%
2015	$448,132	$101,549	$346,583	$82,362,702	0.42%
2016	$531,042	$202,324	$328,718	$82,513,400	0.40%
2017	$276,916	$ 90,146	$186,770	$58,514,804	0.32%

As a result, the bad debt to revenues ratio went from .66% in 2012 consistently falling to .40% in 2016. There is not a complete year of information yet for 2017; however, the ratio is on track to continue to decline. Based on this information, the correct factor to use in the revenue expansion factor for the Bad Debt Rate is .40%. The resulting change to the Revenue Expansion Factor is shown in my Exhibit MWW-5.

Q. ARE THERE ANY OTHER PROBLEMS WITH THE REVENUE EXPANSION FACTOR?

A. Yes, there is. In December 2017, President Trump signed The Act which has an effective date of January 1, 2018, and reduces the corporate tax rate from 35% to 21%. Therefore, the Revenue Expansion Factor has to be revised to reflect the new tax rate that FCG will be paying in 2018.

Q. WHAT IS THE REVENUE EXPANSION FACTOR AND THE NET OPERATING INCOME MULTIPLIER AFTER YOU APPLY YOUR CORRECTIONS?

A. The corrected Revenue Expansion Factor is 73.9831% and the Net Operating Income Multiplier is 1.3517%.

Q. HAVE YOU CALCULATED A REVENUE REQUIREMENT FOR THE 2018 TEST YEAR?

A. Yes. Per my Schedule MWW-6, I am recommending a revenue deficiency of $2,727,467.

Q. DO YOU HAVE ANY TESTIMONY RELATED TO THE REFUND OF INTERIM RATES?

A. Yes, I do. As stated above, the effective date of The Act is January 1, 2018, and changes the effective tax rate for the Company from 35% to 21%, a reduction of 40% over the tax expense included by the Company in its MFR's. This is a known and measurable change that has occurred since the MFR's were filed. As a result of The Act becoming law, the effective tax rate paid by customers through interim rates must be adjusted to reflect the lower taxes of 21% that will be paid or deferred by the Company in the 2018 test year. Interim rates did not go into effect until after January 1, 2018. Therefore, the effective difference between rates calculated using the 35% tax rate versus the 21% tax rate should be refunded to customers as part of an interim refund.

In addition, the test year for interim purposes should be adjusted for the long-term incentive pay. The 2016 test year should be reduced by $196,747 which with the loading factor should be a total reduction of $232,260. The interim rate base should be reduced by $307,117 which includes the loading factor.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing (FCG Preliminary CONFIDENTIAL Designation) Direct Testimony and Exhibits of Marshall W. Willis has been furnished to the following parties by hand delivery on this 1st day of February, 2018.

Beth Keating, Esq.
Lila A. Jaber, Esq.
Gregory Munson, Esq.
Gunster Law Firm
215 South Monroe Street; Suite 601
Tallahassee, FL 32301
bkeating@gunster.com
ljabor@gunster.com
gmunson@gunster.com

*Walter Trierweiler, Esq.
Stephanie Cuello, Esq.
Danijela Janjic, Esq.
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850
wtrierwe@psc.state.fl.us
scuello@psc.state.fl.us
DJanjic@psc.state.fl.us

*Ms. Carolyn Bermudez
Florida City Gas
4045 N.W. 97th Avenue
Doral FL 33178
cbermude@southernco.com

*Federal Executive Agencies
A.J. Unsicker/L.L. Zieman/N.A. Cepak/R.K. Moore
c/o AFLOA/JACE-ULFSC
139 Barnes Drive, Suite 1
Tyndall AFB FL 32403
andrew.unsicker@us.af.mil
ULFSC.Tyndall@US.AF.MIL
lanny.zieman.1@us.af.mil
natalie.cepak.2@us.af.mil
ryan.moore.5@us.af.mil
thomas.jernigan.3@us.af.mil
ebony.payton.ctr@us.af.mil

*Not served at this time. One (1) copy of each confidential testimony has been filed with the PSC Commission Clerk's Office under seal, pending confidentiality determination. Staff and Federal Executive Agencies will be served with a Public Version, when finally so designated.

/s/Virginia Ponder________
Virginia Ponder
Associate Public Counsel

Resume' of MARSHALL W. WILLIS, CPA

Professional Achievements

Forty years of utility regulatory experience of electric, natural gas, water and wastewater investor-owned utilities.

Certified Public Accountant licensed in Florida since 1980

Testified as an expert on accounting, finance and regulatory policy issues before the FPSC and the Florida Division of Administrative Hearings.

2006 Elected Chairman of the NARUC Staff Subcommittee on Accounting and Finance.

2005 Recipient of the Gerald L. Gunter Distinguished Service Award.

Coauthored the 1984 and authored the 1996 NARUC Uniform System of Accounts for Water and Wastewater Utilities currently used by the majority of states that regulate investor-owned water and wastewater utilities.

Past member of the faculty and instructor at the annual NARUC Eastern Utility Rate Seminar.

Employment

September 2017 to current The Office of Public Counsel, Tallahassee, Florida

Chief Legislative Analyst

- Provide financial and accounting analysis and reviews, provide testimony when needed in the area of electric, natural gas, water and wastewater regulated utilities involving filings before the Florida Public Service Commission on behalf of the Office of Public Counsel. Areas of specialties include accounting, economics and regulatory policy.

May 2014 to August 2017 Self Employed, Tallahassee, Florida

Utility Regulatory Consultant

- Regulatory consulting services in the area of electric, natural gas, water and wastewater regulated utilities. Areas of specialties include accounting, economics and regulatory policy.

July 2012 to April 2014 Florida Public Service Commission, Tallahassee, Florida

Director, Division of Accounting and Finance

- Appointed as the Director of a new Division created by a Commission wide reorganization. Direct supervision of an Assistant Director and three Bureau Chiefs who supervised approximately 34 professionals in the Division. Duties and responsibilities included overseeing the work product and administrative functions of the Division. The Division functions include processing rate cases for electric, gas, water and wastewater utilities, surveillance for overearnings, clause recovery proceedings, financing requests, and customer complaints. Position also required frequent briefing of Commissioners, Chief Assistants, Executive Director. Duties also requires interaction with State Legislators and Legislative staff on Commission activity and current legislation.

January 2010 to July 2012 Florida Public Service Commission, Tallahassee, Florida

Director, Division of Economic Regulation

- Direct supervision of an Assistant Director and three Bureau Chiefs who supervised approximately 58 professionals in the Division. Duties and responsibilities included overseeing the work product and administrative functions of the Division. The Division functions included processing rate cases for electric, gas, water and wastewater utilities, surveillance for overearnings, tariff filings, depreciation studies, clause recovery proceedings, territorial disputes, annual storm hardening review, financing requests, complaints and certification of water and wastewater utilities. Position also required frequent briefing of Commissioners, Chief Assistants, Executive Director. Duties also required interaction with State Legislators and Legislative staff on Commission activity and current legislation.

June 2006 to January 2010 Florida Public Service Commission, Tallahassee, Florida

Assistant Director, Division of Economic Regulation

- Direct supervision of three Bureau Chiefs who supervise approximately 53 professionals while assisting the Director in overseeing the functions of the Division. The Division functions included processing rate cases for electric, gas, water and wastewater utilities, surveillance for overearnings, tariff filings, depreciation studies, clause recovery proceedings, territorial disputes, annual storm hardening review, financing requests, complaints and certification of water and wastewater utilities. Position also required frequent briefing of Commissioners as well as their Chief Assistants.

Sept. 1980 to June 2006 Florida Public Service Commission, Tallahassee, Florida

Bureau Chief, Division of Economic Regulation

- Responsible for supervising approximately eighteen professionals through three supervisors. Bureau functions included processing rates cases for electric, natural gas and water and wastewater companies, overearnings surveillance activities, tariff filings, complaints and rulemaking activities. Position also required briefing of Commissioners as well as their Chief Assistants.

Sept. 1978 - Sept. 1980 Florida Public Service Commission, Tallahassee, Florida

Public Utilities Accounting Analyst

- Processed water and wastewater rate cases, testified as an expert in accounting and finance, performed special studies involving the water and wastewater industry.

June 1976 - Sept. 1978 Florida Public Service Commission, Tallahassee, Florida

Public Utilities Auditor

- Audited water and wastewater utility companies and testified as an expert in accounting and finance.

Professional Certifications

Certified Public Accountant licensed in the State of Florida since 1980

Education

Bachelor of Arts in Accounting

University of West Florida, Pensacola, Florida (June 1976)

Associate in Arts in Business

Indian River Community College, Ft. Pierce, Florida (June 1974)

Professional memberships

NARUC Staff Subcommittee on Accounting and Finance (Past)
NARUC Staff Subcommittee on Technology (Past)

Community Service

Scoutmaster (Retired), Boy Scout Troop 114
Chartered by Christ Presbyterian Church

List of Prior Testimony of Marshall W. Willis

Docket No. 020006-WS, Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity.

Docket No. 980483-WU, Investigation into Possible Over Collection of Allowance for Funds Prudently Invested (AFPI) in Lake County, by Lake Utility Services, Inc.

Docket No. 950387-SU, Florida Cities Water Company's Application for a Wastewater Rate Increase (DOAH Case No. 98-1347FC).

Docket No. 920782-WU, St. George Island Utility Company, LTD., Revocation by the Florida Public Service Commission of St. George Island Utility Company, LTD.

Docket No 911082-WS, Proposed revisions to Rules 25-22.0406, 25-30.020, 25-30.025, 25-30.030, 25-30.032 through 25-30.037, 25-30.060, 25-30.110, 25-30.111, 25-30.135, 25-30.255, 25-30.320, 25-30.335, 25-30.360, 25-30.430, 25-30.436, 25-30.437, 25-30.443, 25-30.455, 25-30.515, 25-30.565; adoption of Rules 25-22.0407, 25-22.0408, 25-22.0371, 25-30.038, 25-30.039, 25-30.090, 25-30.117, 25-30.432 through 25-30.435, 25-30.4385, 25-30.4415, 25-30.456, 25-30.460, 25-30.465, 25-30.470, 25-30.475; and repeal of Rule 25-30.441, F.A.C., pertaining to water and wastewater regulation.

Docket No. 900386-WU, Sunshine Utilities of Central Florida, Inc., Application for a Water Rate Increase

Docket No. 830059-WS, Spring Hill Utilities, a Division of Deltona Utilities, Inc., Application for a Water and Wastewater Rate Increase.

DOAH Case No. 82-538RP, Florida Waterworks Association, and its member companies; and Southern Gulf Utilities, Inc., Central Florida Utilities, Inc.; Meadowbrook Utility Systems Inc.; Kingsley Service Company; Ortega Utility vs. Florida Public Service Commission.

Docket No. 820073-WS, Seacoast Utilities, Inc., Application for a Water and Wastewater Rate Increase in Palm Beach County.

Docket No. 800614-WS, Amendment of Rule 25-10.07, Contents and Number of Copies of the Application and Adoption of Rule 25-10.075, Establishment of Rate Base Upon Transfer of a Water and Sewer System.

Docket No. 800363-WS, Southern States Utilities, Inc., Lake County Division, Application for a Water and Wastewater Rate Increase.

Docket No. 800362-WU, Southern States Utilities, Inc., Osceola County Division, Application for a Water Rate Increase.

Docket No. 800361-WS, Southern States Utilities, Inc., Citrus County Division, Application for a Water and Wastewater Rate Increase.

Docket No. 800075-SU, South Seas Plantation Utility Company, Application for a Wastewater Rate Increase.

Docket No. 790760-WS, Southern States Utilities, Inc., University Shores Division, Application for a Water and Wastewater Rate Increase.

Docket No. 790638-WS, Lehigh Utilities, Inc. Application for a Water and Wastewater Rate Increase.

Docket No. 790479-SU, Mariner Properties, Inc. d/b/a Sanibel Sewer System, Application for a Wastewater Rate Increase.

Docket No. 790442-SU, Mangonia Park Utility Company Application for a Wastewater Rate Increase.

Docket No. 790164-WS, Hydratech Utilities, Inc., Application for a Water and Wastewater Rate Increase.

Docket No. 780625-WU, Lands, Inc. of Rhinelander, Application for a Water Rate Increase.

Docket No. 780432-WU, Mangonia Park Utility Company Application for a Water Rate Increase.

Docket No. 770933-WS, Cooper City Utilities, Inc., Application for a Water and Wastewater Rate Increase.

Schedule A

	Florida City Gas Average Rate Base December 31, 2018	Company as Filed	Company Tax Changes & Corrections (8-175.1 IND-G1-18)	OPC Adjustments	OPC Adjusted
	(a)	(b)	(c)	(d)	(e)
1	Gas Plant In Service	$ 429,446,193		(5,019,813)	424,426,380
2	Common Allocated Plant	4,959,263	(187,644)		4,771,619
3	Construction Work In Progress	30,962,948		(24,538,461)	6,424,487
4	Accumulated Depreciation	(177,918,948)		1,163,792	(176,755,157)
5	Accum. Depr. - Common Alloc. Plant	(918,038)	33,360		(884,678)
6	Acquisition Adjustment	21,656,835			21,656,835
7	Accum. Amortization of Acq. Adj.	(9,865,892)			(9,865,892)
8	Working Capital Allowance	955,790	4,093,083	(3,159)	5,045,714
9	Total Rate Base	$ 299,278,151	$ 3,938,799	$ (28,397,642)	$ 274,819,309

Florida City Gas OPC Rate Base Adjustments December 31, 2018 (a)	OPC Adjustments (b)	Adjustment Reference (c)
1 Gas Plant In Service		
a) Adjustment to remove the Company's capitalized long-term incentive plan	(558,275)	OPC ROG 7
b) Adjustment to remove LNG Plant	(3,884,615)	MFR's Page 183
c) Adjustment to remove LNG land	(576,923)	MFR's Page 183
Total Adjustment	(5,019,813)	
2 CWIP		
a) Adjustment to remove 13 month avg. balance of the LNG Plant	(24,538,461)	OPC ROG 154
Total Adjustment	(24,538,461)	
3 Accumulated Depreciation		
a) Adjust for half year of Dr. Garrett's depreciation adjustment	522,922	MWW Testimony
b) Adjust for half year for a complete year of new depreciation rates	640,870	MWW Testimony
Total Adjustment	1,163,792	
4 Working Capital Allowance		
a) Adjustment to remove 13 month avg. balance of the pension regulatory asset	(3,159)	OPC ROG 64
Total Adjustment	(3,159)	

Schedule B

	Florida City Gas Income Statement December 31, 2018	Company as Filed	Company Tax Changes & Corrections (8-175.1 IND-G1-18)	OPC Adjustments	OPC Adjusted
	(a)	(b)	(c)	(d)	(e)
1	Operating Revenues	$ 53,847,331			$ 53,847,331
2	Operating Expenses:				
3	Operation & Maintenance Expences	$ 22,903,906		$ (1,402,380)	$ 21,501,526
4	Depreciation & Amortization Expense	16,603,266	(11,548)	(27,375)	16,564,343
5	Taxes Other Than Income	2,900,349		(2,354,958)	545,391
6	Income Taxes - Current	(479,567)	190,839	1,407,802	1,119,074
7	Income Taxes - Deferred	2,628,895	(1,712,256)	-	916,639
8	Total Operating Expenses	$ 44,556,849	$ (1,532,965)	$ (2,376,911)	$ 40,646,973
9	Net Operating Income	$ 9,290,482	$ 1,532,965	$ 2,376,911	$ 13,200,358

Florida City Gas OPC Income Statement Adjustments December 31, 2018 (a)	OPC Adjustments (b)	Adjustment Reference (c)
1 Operation & Maintenance Expences:		
a) To remove the Company's long-term incentive plan	(324,528)	OPC ROG 7
b) To reduce storm accrual	(42,209)	MWW Testimony
c) To remove 15 proposed employees from 2018 test year	(803,543)	MWW Testimony
d) To remove three proposed LNG employees	(232,100)	Dismukes Testimony
Total Adjustment	(1,402,380)	
2 Depreciation & Amortization Expense		
a) Dr. Garrett's depreciation expense reduction	(1,045,843)	Garrett Testimony
b) To adjust depreciation expense to include a full year of the company proposed depreciation rates	(1,281,740)	MWW Testimony
c) To remove amortization of the pension regulatory asset	(27,375)	OPC ROG 64
Total Adjustment	(2,354,958)	
3 Taxes Other Than Income		
a) Payroll tax and benefit loading for incentive pay adj.	(58,577)	OPC ROG 7
b) Payroll tax and benefit loading for 15 employees	(145,040)	MWW Testimony
c) Payroll tax and benefit loading for 3 LNG employees	(41,894)	Dismukes Testimony
Total Adjustment	(245,511)	

4 Income Taxes - Current	
a) Tax effect on the Storm Reserve Removed	14,845
b) Tax effect for Pension Regulatory Asset removed	9,628
c) Tax effect for depreciation expense	818,611
d) Tax effect for 18 employees	429,980
e) Tax effect on incentive pay adj.	134,738
Total Adjustment	1,407,802

Schedule C

Florida City Gas
Capital Structure
December 31, 2018

	Desciption (a)	Company Adjusted (b)	Company Tax Changes & Corrections (8-175.1 IND-G1-18) (d)	OPC Pro Rata and Specific Adjustments (c)	OPC Adjusted (e)	Ratio (f)	Cost Rate (g)	Weighted Cost (h)
1	Common Equity	$ 115,745,170		$ (9,691,698)	$ 106,053,472	38.59%	9.25%	3.57%
2	Long Term Debt	115,217,944		(9,647,552)	105,570,392	38.41%	4.66%	1.79%
3	Short Term Debt	15,814,600		(1,324,205)	14,490,395	5.27%	2.64%	0.14%
4	Customer Deposits	3,888,281			3,888,281	1.41%	2.73%	0.04%
5	Deferred Taxes	48,612,155	517,698	(3,795,386)	44,816,769	16.31%	0.00%	0.00%
6	Investment Tax Credits	-			-	0.00%		0.00%
7	Total	$ 299,278,150		$ (24,458,841)	$ 274,819,309	100.00%		5.54%

	Florida City Gas OPC Capital Structure Adjustments December 31, 2018 (a)	OPC Adjustments (b)
1	Deferred Taxes	
	a) Adjustment to remove the proration adjustment from the Company's specific adjustment	172,825
	b) To add the Compsny's adjustment to reflect The Act changes to deferred taxes	(3,968,211)
	Total Adjustment	(3,795,386)

Schedule D

Florida City Gas
Net Operating Income Multiplier

	(a)	(b)
1	Revenue Requirment	100.0000%
2	Regulatory Assessment Fee	-0.5000%
3	Bad Debt Rate	-0.4000%
4	Net Before Income Taxes	99.1000%
5	State Income Tax (Line4 x 5.5%	-5.4505%
6	Income Taxes ((Line 4 - Line 5) x 21%)	-19.6664%
7	Revenue Expansion Factor	73.9831%
8	Net Operating Income Multiplier	1.3517%
9	(100%/Line 7)	

Schedule E

Florida City Gas
Revenue Requirement Calculator

	(a)	OPC Calculation (b)	Company Calculation (c)
1	OPC Adjusted Rate Base	$ 274,819,309	$ 299,278,151
2	OPC Overall Rate Of Return	5.54%	6.32%
3	OPC Required Net Operating Income	$ 15,218,223	$ 18,899,714
4	OPC Adjusted Net Operating Income	$ 13,200,358	$ 9,290,482
5	Revenue Deficiency	$ 2,017,865	$ 9,609,232
6	Net Operating Income Multiplier	1.3517%	1.6434%
7	OPC Operating Revenue Requirement	$ 2,727,467	$ 15,791,812
8	Add SAFE Program Revenue	-	3,509,729
9	Total Revenue Deficiency	$ 2,727,467	$ 19,301,541