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May 31, 2022

VIA ELECTRONIC FILING

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

Re: In re: Petition by Florida City Gas for Base Rate Increase
Docket No. 20220069-GU

Dear Mr. Teitzman:

Enclosed for filing on behalf of Florida City Gas ("FCG") in the above-referenced docket is FCG's Petition for Base Rate Increase, together with supporting testimonies, exhibits, and Minimum Filing Requirements. This filing includes the following documents:

1. Petition for Base Rate Increase

2. Direct Testimony of Kurt S. Howard and Exhibit KSH-1

3. Direct Testimony of Mark Campbell and Exhibits MC-1 through MC-6

4. Direct Testimony of Liz Fuentes and Exhibits LF-1 through LF-6

5. Direct Testimony of Tara DuBose and Exhibits TBD-1 through TBD-6

6. Direct Testimony of Jennifer Nelson and Exhibits JEN-1 through JEN-10

7. Direct Testimony of Ned Allis and Exhibits NWA-1 (2022 Depreciation Study) through NWA-5

8. Minimum Filing Requirements, Schedule A

9. Minimum Filing Requirements, Schedule B

10. Minimum Filing Requirements, Schedule C

11. Minimum Filing Requirements, Schedule D

12. Minimum Filing Requirements, Schedule E

13. Minimum Filing Requirements, Schedule G

14. Minimum Filing Requirements, Schedule H

15. Minimum Filing Requirements, Schedule I

FCG is not seeking interim rate relief and, therefore, is not providing Minimum Filing Requirements, Schedule F. Each of the above-referenced documents are being separately filed in this docket.

Please note that certain Minimum Filing Requirements contain confidential information and data, which has been redacted and will be provided with a Request for Confidential Classification filed under separate cover.

If you or your staff have any question regarding this filing, please contact me at (561) 691-7144.

Respectfully submitted,

Christopher T. Wright
Authorized House Counsel No. 1007055

Enclosed: [Document 1 of 15]

CERTIFICATE OF SERVICE

20220069-GU

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by electronic mail this 31st day of May 2022 to the following parties:

Ashley Weisenfeld Walt Trierweiler Florida Public Service Commission Office of the General Counsel 2540 Shumard Oak Boulevard Tallahassee, Florida 32399-0850 aweisenf@psc.state.fl.us wtrierwe@psc.state.fl.us ***For Commission Staff***	Office of Public Counsel Richard Gentry Patricia A. Christensen c/o The Florida Legislature 111 West Madison Street, Room 812 Tallahassee, FL 32399-1400 Gentry.richard@leg.state.fl.us christensen.patty@leg.state.fl.us ***For Office of Public Counsel***

s/ Christopher T. Wright

Christopher T. Wright
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Attorney for Florida City Gas

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition by Florida City Gas for Base Rate Increase.	Docket No. 20220069-GU Filed: May 31, 2022

PETITION FOR APPROVAL OF RATE INCREASE AND REQUEST FOR APPROVAL OF DEPRECIATION RATES BY FLORIDA CITY GAS

Pivotal Utility Holdings, Inc. d/b/a Florida City Gas ("FCG" or the "Company"), by and through its undersigned counsel, and pursuant to Section 366.06, Florida Statutes ("F.S."), and Rules 25-7.039 and 25-7.045, Florida Administrative Code ("F.A.C."), hereby respectfully petitions the Florida Public Service Commission ("Commission") for approval of a four-year rate plan and associated depreciation rates that would enable FCG to avoid seeking a base rate increase until at least through the end of 2026.

Specifically, FCG's proposed four-year rate plan would run from 2023 through at least the last billing cycle of December 2026, consisting of: (a) an increase in base rates and charges sufficient to generate a total base revenue increase of $29.0 million based on a projected 2023 Test Year, which includes (i) an incremental base rate revenue requirement of $19.4 million, (ii) the revenue requirements for the previously approved Liquefied Natural Gas ("LNG") Facility,[1] and (iii) the reclassification of the Safety, Access, and Facility Enhancement ("SAFE") program revenues from clause to base rates;[2] (b) a 10.75% mid-point return on equity ("ROE") and an equity ratio of 59.6% from investor sources for all regulatory purposes; (c) implementation of a reserve surplus amortization mechanism ("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

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

[2] Order No. PSC-15-0390-TRF-GU, Docket No. 150116-GU.

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

The testimony and exhibits of FCG's witnesses and the minimum filing requirements ("MFR") and schedules accompanying this Petition, which are incorporated herein by reference, describe the need for the requested rate relief and detail how 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 RSAM-adjusted depreciation rates; avoid repetitive and costly rate proceedings, saving customers an additional $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; 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 investments. In support of this request, the Company hereby states as follows:

I. INTRODUCTION OF PETITIONER

1. FCG is a natural gas utility subject to the Commission's jurisdiction in accordance with Chapter 366, F.S. Its principal business address is:

Florida City Gas
700 Universe Blvd
Juno Beach, FL 33408

2. The name and mailing address of the persons authorized to receive notices are:

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3. FCG was originally incorporated as City Gas Company of Florida in 1949. Its initial operations were as a propane dealer in Dade County, Florida. Beginning in 1960, the Company commenced operations as a natural gas local distribution company and, thus, became a "public utility" as that term is defined in Section 366.02, F.S. In July 1988, NUI Corporation acquired the Company and owned it for 16 years until AGL Resources Inc. ("AGLR") acquired it in 2004 and changed the name to Florida City Gas. On July 1, 2015, AGLR became a wholly owned subsidiary of Southern Company. On July 29, 2018, FCG was acquired by 700 Universe, LLC, a subsidiary of NextEra Energy, Inc., and subsequently transferred to Florida Power & Light Company ("FPL"). As a result of this transaction, FCG became a wholly owned, direct subsidiary of FPL.

4. FCG currently provides safe, reliable, and affordable natural gas service to approximately 116,000 residential, commercial, and industrial natural gas customers in Florida's Miami-Dade, Broward, St. Lucie, Indian River, Brevard, Palm Beach, Hendry, and Martin counties.

II. **<u>TEST YEAR AND MFRS</u>**

5. FCG has provided its forecast of 2023 for use in this proceeding. The Company proposes that new base rates and charges become effective February 1, 2023, at a level sufficient to cover the Company's projected revenue requirements in 2023. Accordingly, 2023 should be the test year for FCG's 2023 base rate increase in order to best reflect the revenues, costs, and investments during the year in which those new rates are proposed to go into effect.

6. Use of the 2023 Test Year is fully consistent with Commission rule, Commission precedent, and Florida law. Rule 25-7.140(1)(a), F.A.C., requires that a company notify the Commission of its selected test year and expressly contemplates that a utility may use a projected test year. Moreover, the Commission has long held that the use of projected test years is appropriate, and the Supreme Court of Florida has recognized that the Commission has the authority to do so. *See, e.g., Southern Bell Tel & Tel. Co. v. Public Serv. Comm'n*, 443 So. 2d 92, 97 (Fla. 1983). The Court "long ago recognized that rates are fixed for the future and that it is appropriate for [the Commission] to recognize factors which affect future rates and to grant prospective rate increases based on these factors." *Citizens v. Fla. Pub. Serv. Comm'n*, 146 So. 3d 1143, 1157 n.7 (Fla. 2014) (quoting *Floridians United for Safe Energy, Inc. v. Pub. Serv. Comm'n*, 475 So. 2d 241, 242 (Fla. 1985)).

7. In support of the 2023 requested base rate increase, FCG has provided MFRs for the 2023 Test Year consistent with Rule 25-7.039, F.A.C. As part of this proceeding, FCG is seeking approval of RSAM-adjusted depreciation rates that are necessary to support the proposed RSAM, which is an essential and critical element of FCG's proposed four-year rate plan. If, however, the Commission declines to adopt FCG's four-year rate plan, the incremental revenue requirement would be based on the depreciation rates reflected in FCG's 2022 Depreciation Study

presented by FCG witness Allis, which would increase FCG's incremental revenue requirement by $2.7 million. Therefore, FCG has provided applicable MFRs both with and without the effects of RSAM.

8. Preparation of the MFRs and the budgets that underlie them involved a forecasting and planning process that was subject to a high level of scrutiny to ensure reliability for use in setting rates. Internal and external subject matter experts provided inputs and processed data through financial models widely used in the industry.

III. MAJOR FACTORS NECESSITATING A RATE INCREASE

9. FCG's last general rate case was filed on October 23, 2017, in Docket No. 20170179-GU and resolved by the Commission's approval of the 2018 Settlement. The 2018 Settlement authorized, among other things, new base rates and charges to become effective June 1, 2018, and a ROE range of 9.19 percent to 11.19 percent. As part of the 2018 Settlement, FCG agreed not to seek a change in base rates, or the implementation of interim rates, that would take effect prior to June 1, 2022, unless the earned ROE reported on an FCG earnings surveillance report were to fall below 9.19 percent.

10. 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), F.S. As detailed in FCG's testimonies and exhibits, 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.

11. FCG is proposing a four-year rate plan that includes the adoption of the RSAM. Under the four-year proposal with the RSAM, FCG is requesting an incremental base rate increase of $19.4 million for the 2023 Test Year. As explained by FCG witnesses Howard and Campbell, the primary drivers of the change in revenue requirements are: (1) capital investment initiatives that support system growth, increase reliability and safety, and provide and enhance customer service; (2) the change in weighted average cost of capital to more accurately reflect the actual funding of FCG's operations; (3) growth in operating and maintenance ("O&M") expenses that are largely in line with inflation; (4) revenue growth that partially offsets the increase in base revenue requirements; and (5) the favorable impact of adopting the RSAM-adjusted depreciation rates that also partially offset the growth in base revenue requirements.

12. Since 2018 through the end of 2023, retail rate base is forecasted to increase approximately $190 million, or approximately 64 percent. This increase in rate base is primarily due to FCG's projected investment of more than $290 million over the period 2018 through 2023 for infrastructure and other capital to support customer growth, enhance customer service, and enhance the safety and reliability of its system. These investments were prudent and necessary for FCG to fulfill its obligation to provide safe and reliable natural gas service to the customers and communities it serves.

13. The increase in the weighted average cost of capital is primarily driven by FCG's proposed increase in investor sources equity ratio from 48 percent to 59.6 percent and the proposed change in ROE from 10.19 percent to 10.75 percent as further described below.

14. FCG's O&M expenses have increased since the last rate case resulting in the need for an additional $5.8 million in the 2023 Test Year revenue requirement. Approximately $2.4 million of the increase in operating costs is attributable to inflation. The remainder is due to

customer growth, system expansion, increased damage prevention efforts, and implementation of certain technologies that are necessary to continue to provide safe and reliable natural gas service.

15. FCG is projected to have higher retail sales in 2023 than in 2018, resulting in an increase in retail base revenues and a corresponding decrease in the 2023 Test Year revenue requirements by $6.7 million.

16. The RSAM is an essential component of FCG's four-year rate plan. Adopting RSAM-adjusted depreciation rates, which are necessary to support the RSAM, decreases the incremental revenue requirement by $2.7 million as further described below.

17. Collectively, these factors are driving the need for FCG's proposed incremental base rate increase of $19.4 million for the 2023 Test Year as further explained by FCG witness testimonies and exhibits.

IV. FCG'S PROPOSED FOUR-YEAR RATE PLAN

18. FCG's proposed four-year rate plan is designed to allow the Company to focus on efficiently operating and growing its business, while providing customers with rate certainty. FCG's four-year rate plan includes the commitment not to request any additional general base rate increases effective prior to January 1, 2027, other than those requested in the Petition and supporting testimonies and exhibits.

19. The four-year rate plan includes certain components that are essential to the Company's ability to commit to such a plan: (a) a single incremental base rate increase of $19.4 million to become effective February 1, 2023; (b) a capital structure and ROE that provide the necessary financial support and enable FCG the opportunity to earn a fair and reasonable return; (c) approval of the RSAM; (d) approval of the RSAM-adjusted depreciation rates; (e) continuation of the Storm Damage Reserve provision previously approved in the 2018 Settlement, modified to

reflect the Commission's new storm rule for gas utilities; and (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. In addition, as part of the four-year rate plan, FCG is proposing a new, limited AMI Pilot and modifications to the existing SAFE program. Each of these components are summarized below and more fully explained in FCG's testimonies, exhibits, and MFRs.

A. <u>Revenue Requirement</u>

20. Under the four-year proposal with the RSAM, FCG is requesting a single incremental base rate increase of $19.4 million to be effective February 1, 2023.

21. The incremental base rate increase is based on the difference between FCG's projected net operating income of $13.3 million and FCG's required net operating income of $34.7 million, multiplied by the revenue expansion factor of 1.3527, 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.

22. Absent rate relief in 2023, FCG's earned ROE is projected to be 5.3 percent, which is well below the bottom end of the ROE range supported by FCG witnesses Campbell and Nelson, as well as FCG's current authorized ROE range.

23. Details regarding FCG's proposed 2023 Test Year revenue requirement are provided in the testimony of FCG witness Fuentes and in the MFRs identified on page 1 of Exhibit LF-2.

B. <u>Capital Structure and Return on Equity</u>

24. 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 its own debt or equity and obtained all short- and long-term financing through Southern

Company Gas.[3] As part of the 2018 Settlement, FCG agreed to a capital structure with a 48 percent equity ratio for all regulatory purposes, and a deemed equity ratio of no greater than 49.1 percent for earnings surveillance reporting purposes.

25. On July 29, 2018, FCG became a wholly owned, direct subsidiary of FPL. Starting in 2019, FCG received approval to obtain all its short- and long-term financing needs through an intercompany loan with FPL.[4] 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 percent common equity and 40.4 percent 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 and associated amounts of AFUDC.

26. 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

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[3] *See In re: Petition for rate increase by Florida City Gas*, Docket No. 20170179-GU, FCG Direct Testimony of Michael J. Morley at 17-18 (F.P.S.C. Oct. 23, 2017).

[4] *See In re: Application for authority to issue debt securities during calendar year 2019, pursuant to Section 366.04, F.S., and Chapter 25-8, F.A.C., by Florida City Gas*, Docket No. 20180166-GU, Order No. PSC-2018-0550-FOF-GU (F.P.S.C. Nov. 19, 2018); *In re: Application for authority to issue and sell securities during calendar years 2020 and 2021, pursuant to Section 366.04, F.S., and Chapter 25-8, F.A.C., by Florida Power & Light Company and Florida City Gas*, Docket No. 20190157-EI, Order No. PSC-2019-0472-FOF-EI (F.P.S.C. Nov. 6, 2019); *In re: Application for authority to issue and sell securities during calendar years 2020 and 2021, pursuant to Section 366.04, F.S., and Chapter 25-8, F.A.C., by Florida Power & Light Company and Florida City Gas*, Docket No. 20200188-EI, Order No. PSC-2020-0401-FOF-EI (F.P.S.C. Oct. 26, 2020); and *In re: Application for authority to issue and sell securities during calendar years 2022 and 2023, pursuant to Section 366.04, F.S., and Chapter 25-8, F.A.C., by Florida Power & Light Company and Florida City Gas,* Docket No. 20210127-EI, Order PSC-2021-0409-FOF-EI (F.P.S.C. Nov. 1, 2021).

reasonable and reflects the benefit to customers of FCG's financial strength, including the benefit FCG receives from its parent.

C. <u>Reserve Surplus Amortization Mechanism</u>

27. A critical and essential component of FCG's four-year rate plan is the adoption of the RSAM. FCG's proposed RSAM follows the same RSAM framework approved by the Commission in prior proceedings.

28. The RSAM is an accounting mechanism that will be used by the Company to respond to changes in its underlying revenues and expenses during the four-year rate plan in order to maintain a Commission Adjusted ROE within the ROE range authorized by the Commission. In each earnings surveillance reporting period, the Company will record increases to expense (debits) or decreases to expense (credits) such that the overall resulting ROE for that rolling period equals a pre-established ROE within the authorized range. The application of the RSAM is set forth in detail in FCG witness Campbell's Exhibit MC-6.

29. In connection with its four-year rate plan, FCG proposes that a total Reserve Amount of $25 million, representing a portion of the theoretical reserve imbalance, be available for use in the RSAM until base rates are reset following FCG's next general base rate proceeding which, under the four-year rate plan, would be expected to occur in 2026 with new base rates effective in January 2027. Similar to the RSAM framework approved for other utilities, FCG would be required to amortize at least the amount necessary to keep it from falling below the bottom of the authorized ROE range and to use amortization in a way that avoids exceeding the top of authorized ROE range.

30. The four-year rate plan with the proposed RSAM will work well for FCG's customers in terms of providing customers with rate stability and certainty, avoiding repetitive and costly rate proceedings, and enabling the Company to continue to focus on providing safe, reliable,

and affordable service to our customers. Without the proposed RSAM, FCG projects that it would fall at or below the bottom of its authorized ROE range and would need to file an additional rate case in 2024 to support a base rate increase in 2025. Adoption of the RSAM avoids the need to file an additional rate case in 2024, which avoids a base rate increase in 2025 and saves customers approximately $2.0 million in additional estimated rate case expense.

D. <u>RSAM-Adjusted Depreciation Rates</u>

31. Pursuant to Rule 25-7.0445, F.A.C., FCG prepared and is filing with this Petition a 2022 Depreciation Study and calculated accruals resulting from the parameters identified in that Study. FCG also calculated alternative depreciation rates with parameters that, while different from those presented in the Company's 2022 Depreciation Study, are reasonable to support the use of the RSAM and, therefore, support the Company's four-year rate plan.

32. The RSAM-adjusted depreciation rates developed from these alternative parameters will support a Reserve Amount of up to $52 million; however, FCG is only requesting a Reserve Amount of $25 million be available for use during the four-year rate plan. Adoption of the RSAM-adjusted depreciation rates reduces the annual revenue requirements by approximately $2.7 million, amounting to nearly $10.8 million in customer savings over the term of FCG's proposed four-year rate plan. FCG requests approval of the RSAM-adjusted depreciation rates as part of its four-year rate plan.

33. Company adjustments have been made to reflect the effects of the RSAM-adjusted depreciation rates. Exhibit LF-5(B) to FCG witness Fuentes's direct testimony sets forth the depreciation adjustments that result from RSAM-adjusted depreciation rates. As part of its four-year rate plan, FCG requests that the RSAM-adjusted depreciation rates be approved and remain in effect until base rates are next reset by the Commission.

E. Storm Damage Reserve

34. FCG is proposing to continue an annual Storm Damage Reserve accrual of $57,500 and a target reserve of $800,000, and to recover prudently incurred storm costs under the framework prescribed by the 2018 Settlement. The only modification FCG is proposing is to calculate and recover the storm-related costs consistent with the Commission's new gas storm rule, Rule 25-7.0143, F.A.C., which became effective on June 28, 2021.

35. In the 2018 Settlement, FCG was authorized to implement a storm reserve with an annual accrual of $57,500 and a target reserve of $800,000. On January 14, 2022, FCG filed a Storm Damage Self-Insurance Reserve Study that supports the continuation of FCG's Storm Damage Reserve with a target of $800,000. As of year-end 2021, the storm reserve balance was $147,915. FCG projects that the storm reserve balance will be $205,415 by year-end 2022 and $262,915 by year-end 2023, assuming no future storm charges in those years.

36. The Storm Damage Reserve provision of the 2018 Settlement authorized FCG to petition the Commission to seek for recovery of storm costs from customers. The 2018 Settlement provides that the recovery of storm costs from customers may begin on an interim basis (subject to refund following a hearing or a full opportunity for a formal proceeding), sixty days following the filing of a cost recovery petition with the Commission and shall be based on a 12-month recovery period if the storm costs do not exceed $1 million. In the event the Company's storm costs exceed that level, any additional costs in excess of $1 million shall be recovered in a subsequent year or years as determined by the Commission after hearing if FCG incurs storm costs.

37. The 2018 Settlement also provided that all storm related costs were to be calculated and recovered consistent with the Commission's storm rule for electric utilities, but proscribed additional restrictions on the storm costs that FCG may petition the Commission for recovery. Subsequent to the 2018 Settlement, the Commission adopted a new gas storm rule, Rule 25-7.0143,

F.A.C., that became effective on June 28, 2021. Therefore, FCG is proposing to modify the Storm Damage Reserve provision of the 2018 Settlement to calculate and recover the storm-related costs consistent with the terms, requirements, and limitations of the new gas storm rule, including the types of storm related costs allowed to be charged to the reserve under the Incremental Cost and Capitalization Approach methodology.

F. <u>Tax Reform</u>

38. FCG's 2023 Test Year forecast is based on current federal tax law as passed in the 2017 Tax Cuts and Jobs Act ("TCJA"). However, there exists the possibility for a change in tax law either during or after the conclusion of the rate case that could have a material impact on the four-year proposal being presented by FCG.

39. To address this potential, FCG proposes that the impact of any permanent change in tax law be handled through an adjustment to base rates. Within 90 days of the enactment of the new tax law, FCG will 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.

40. 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.

41. Details regarding FCG's tax reform proposal, including how the impact of any change in tax law will be quantified and how any changes in deferred taxes as a result of a new tax law will be accounted for, are described in the testimony of FCG witness Campbell.

G. **AMI Pilot**

42. FCG's proposed AMI Pilot is a four-year research and development pilot to support the evaluation of system-wide deployment of AMI infrastructure in a future case.

43. The purpose of the AMI Pilot is intended 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.

44. 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.

45. The AMI Pilot will replace 5,000 residential meters in Brevard County. Brevard County was selected because the gas meters currently in use in Brevard County experience accelerated corrosion due to the region's high salinity content in the air and groundwater. 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.

46. As proposed, the total capital expenditure associated with the AMI Pilot is $3.4 million, with a total annual O&M cost of $20,000. The costs and expenses forecasted for the AMI Pilot are included in FCG's requested revenue requirements for the 2023 Test Year.

H. SAFE Program

47. The Company's SAFE program was approved by Order No. PSC-15-0390-TRF-GU in Docket No. 150116-GU. The SAFE program facilitates the expeditious relocation of certain existing gas facilities located in, or associated with, rear lot easements. FCG recovers these costs through the SAFE surcharge, which is subject to true up each year.

48. Per Order No. PSC-15-0390-TRF-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. In order to clearly reflect this requirement in its filing, FCG initially reflected all currently approved and forecasted SAFE investments and associated operating expenses recoverable through the 2022 SAFE surcharge[5] in the 2023 Test Year forecast and then applied a Company adjustment to move the associated investment as of December 31, 2022, from clause recovery to base rates. Thus, the SAFE program costs as of December 31, 2022, were included in total revenue requirements for the 2023 Test Year and are part of the overall deficiency between present base revenues and proposed base revenue requirements as explained by FCG witness Fuentes.

49. 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. As explained by FCG witness Howard, the Company is requesting approval to continue the SAFE program beyond its initial 2025 expiration date to include an additional approximately 150 miles of mains and services that are currently located in rear property

[5] See Order No. PSC-2021-0430-TRF-GU, Docket No. 20210149-GU (approving the projected SAFE revenues and factors for calendar year 2022).

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.

50. As further explained by FCG witness Howard, 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 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.

51. 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 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.

V. <u>ALTERNATIVE ONE-YEAR RATE RELIEF</u>

52. Without the RSAM, FCG projects that it will fall at or below the bottom of its authorized ROE range and would need to file an additional rate case in 2024 to support a base rate

increase in 2025, which would require an additional approximately $2.0 million in estimated rate case expense.

53. Thus, if the Commission declines to approve the RSAM or any other element of FCG's four-year rate plan, FCG requests, in the alternative, that the Commission approve rates and charges sufficient to provide an incremental base rate increase of $22.2 million (total increase of $32.0 million including the revenues associated with SAFE and LNG) effective February 1, 2023, which is $2.7 million higher than the annual revenue requirements under FCG's four-year rate plan.

54. Under this alternative relief, FCG requests a capital structure consisting of 59.6 percent common equity and 40.4 percent debt, which is equal to the capital structure of FCG's direct parent FPL, and an authorized ROE range based on a midpoint of 10.75% to reflect market conditions. FCG's alternative rate relief also includes the continuation of the Storm Damage Reserve provision from the 2018 Settlement, as described above, and implementation of the research and development AMI Pilot.

55. FCG's alternative revenue requirements are premised on the same forecast data used to calculate the revenue increase for the 2023 Test Year under FCG's four-year rate plan, except that the RSAM-adjusted depreciation rates were replaced with the depreciation rates resulting from the 2022 Depreciation Study. These modifications, plus the related income tax impacts, produce the higher revenue requirements compared to the four-year rate plan.

56. Because this proposed alternative rate relief contemplates that no RSAM is authorized, FCG also requests that its 2022 Depreciation Study filed with this Petition, and the resulting depreciation rates, be approved in conjunction with the alternative rate relief in the event the Commission declines to approve FCG's proposed four-year rate plan. Company adjustments have been calculated reflecting the effects of the 2022 Depreciation Study. If the Commission

grants the alternative one-year rate relief, FPL requests approval of the base rates without RSAM adjustment.

VI. RATE DESIGN, REVENUE ALLOCATION, AND TARIFFS

57. The results of the FCG cost of service study, the final proposed revenue requirement allocations, and the resulting proposed base rates and service charges will produce revenues sufficient to recover the Company's jurisdictional revenue requirements for the 2023 Test Year. Under the Company's four-year rate plan, FCG would not request any additional increases to these base rates and service charges effective prior to January 1, 2027, other than those requested in the Petition and supporting testimonies and exhibits.

58. FCG's cost of service study is explained by FCG witness Dubose and provided in MFR H-1. The cost of service methodologies used to allocate rate base, revenues, and expenses among the rate classes were accurately applied, are consistent with the methodology used in FCG's last rate case in Docket No. 20170179-GU, and align costs and benefits to the customer classes. The FCG cost of service study results accurately represent the cost responsibility of all customers on FCG's system and should be approved.

59. The results of the FCG rate class cost of service study show that at present rates several rate classes, such as RS-1, GS-1, GS-120K, and GS-1250K, are well below parity, while other rate classes, RS-100, RS-600, GS-6K, GS-25K, and Gas Lighting, are well above parity. 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 as further explained by FCG witness DuBose. The proposed revenues for each rate class are presented in Exhibit TBD-3, and Exhibit TBD-4 presents the parity of major customer classes at present and proposed rates.

60. Adopting the proposed four-year rate plan with the RSAM reduces the average residential bill by approximately $0.94 per month or a total of $45.12 over the term of the four-year rate plan. Exhibit TBD-6 shows that the compound annual growth rate ("CAGR") of the typical residential bill from 2019 to 2026 is projected to be approximately 4.9 percent.

61. The commercial and industrial ("CI") rate classes will experience varying increases under FCG's four-year rate plan depending on the current rate of return for each class as compared to the system average rate of return, *i.e.*, parity index for each respective class. Adopting the proposed four-year rate plan with the RSAM reduces the average CI customers' bills from $5.15 per month for GS-1 to $465.83 per month for GS-120K. Exhibit TBD-6 shows the CAGR for an average CI customer in each of the four major rate classes, is projected to range from 5.0 percent to 5.9 percent.

62. FCG proposes to achieve these proposed revenues through changes to existing residential and CI base rates. The proposed changes to existing rates are consistent with the objectives of providing rates that are cost-based, send appropriate price signals, and are understandable to customers.

63. FCG is proposing certain revisions to service charges to ensure that costs generated by individual customer requests are recovered from the customers requiring the service, instead of spreading them over the general body of customers. FCG is not otherwise proposing any changes to the residential and CI rate schedules or tariffs, nor is FCG proposing any new tariffs, rate schedules, or riders as part of this proceeding.

64. Proposed changes to existing base rates by rate schedule can also be found on MFR E-2. Legislative and clean versions of FCG's proposed Tariff sheets are provided in MFR E-9. FCG has provided MFRs, Tariff sheets, and exhibits with and without the impacts of the RSAM.

VII. SUPPORTING DOCUMENTS

65. Simultaneously with this Petition, FCG files and hereby incorporates by reference: (a) the supporting direct testimony and exhibits of FCG's witnesses; and (b) MFRs for the 2023 Test Year containing the information required by Rule 25-7.039, F.A.C. (with and without the effect of the RSAM).

66. The MFRs supporting FCG's proposed base rate increase have been prepared using the same rigorous, established, and proven planning and forecasting processes employed by FCG's parent, FPL. The MFRs have been prepared relying on inputs from internal and external subject matter experts, processed through financial models widely used in the industry, and with review and approvals designed to ensure their reliability for use in setting rates.

67. Attached to MFR E-9 are the appropriate Tariff sheets (with and without the RSAM), including new rate schedules designed to produce the additional revenue sought by this Petition and needed to give the Company a fair opportunity to earn a reasonable rate of return beginning February 2023. FCG respectfully requests that the Commission consent to these rate schedules going into operation beginning February 1, 2023.

VIII. CONCLUSION

68. Despite its efforts to control costs and efficiently manage its operations, FCG has and will continue to earn well below a fair rate of return if rate relief is not granted.

69. In order to respond to customer growth and demand, improve system safety, and enhance system resiliency, FCG has an obligation to make prudent and necessary infrastructure investments that provide a safe and reliable natural gas distribution system in the communities served. For the period 2018 through 2023, FCG projects to invest more than $290 million in

infrastructure and other capital to support customer growth, enhance customer service, and enhance the safety and reliability of its system.

70. FCG's operating costs have increased since its last rate case due to significant inflationary pressures, customer growth and system expansion, increased damage prevention efforts, and enhanced oversight over safety and quality control.

71. The testimony and exhibits of FCG's witnesses and MFRs and schedules accompanying this Petition, demonstrate that 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 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.

72. Based on the foregoing, and as more fully explained in FCG's testimonies, exhibits, and MFRs submitted with this Petition, FCG's proposed four-year rate plan and the associated increase in base rates and charges is fair, just, and reasonable and, therefore, should be approved.

WHEREFORE, Florida City Gas respectfully petitions the Florida Public Service Commission to:

(1) Accept this filing for purposes of final agency action;

(2) Set a hearing for purposes of considering the Company's request and enter a final order that protects the financial integrity of the Company and enables it to earn a fair and reasonable rate of return;

(3) Enter a final decision approving rates on or before December 31, 2022, so as to render the final decision in time to make rates effective February 1, 2023, following 30 days' notice to customers;

(4) Approve an authorized return on common equity with a mid-point of 10.75% to provide the Company with the opportunity to earn a fair overall rate of return of 7.09%;

(5) Approve an equity ratio for FCG of 59.6% based on investor sources;

(6) Approve the continued use of FCG's Storm Damage Reserve provision from the 2018 Settlement modified to reflect the new gas storm rule, Rule 25-7.0143, F.A.C., as described herein;

(7) Approve the Company's four-year AMI Pilot, as described herein;

(8) Allow the Company to move the SAFE program investments as of December 31, 2022 into rate base and allow the associated revenue increase and surcharge reset associated therewith, as set forth in greater detail herein;

(9) Approve FCG's four-year rate plan, encompassing February 2023 through December 2026, including FCG's commitment not to request any permanent

general base rate increases to be implemented prior to 2027, such that in addition to Paragraphs (1) through (8) above, the Commission:

a. Finds and determines that the rates under the current tariffs are insufficient to yield a fair rate of return for FCG;

b. Authorizes FCG to revise and increase its base rates and charges to generate a total base revenue increase of $29.0 million beginning February 1, 2023, which includes (i) an incremental base rate increase of $19.4 million, (ii) the revenue requirements for the previously approved LNG Facility, and (iii) the reclassification of the SAFE program revenues from clause to base;

c. Approves FCG's RSAM as described herein and detailed in Exhibit MC-6 filed with this Petition;

d. Approves a Reserve Amount of $25 million to be available for use in the RSAM until base rates are reset following FCG's next general base rate proceeding;

e. Approves the Company's proposed RSAM-adjusted depreciation rates;

f. Approves FCG's mechanism to address potential tax reform such that FCG will change base rates based upon the impact of a change in tax law that occurs from 2023-2026;

g. Approves the FCG Tariff sheets and rate schedules with the RSAM submitted with this Petition;

h. Approves the continuation of FCG's SAFE program to include additional mains and services to be relocated from rear property easements to the street front as described herein; and

i. Approves the continuation of FCG's SAFE program to include the replacement of "orange pipe" as described herein; or

(10) Alternatively, if the Commission does not accept FCG's four-year rate plan described in this Petition, the Company respectfully requests that in addition to Paragraphs (1) through (8) above, the Commission:

a. Finds and determines that the rates under the current tariffs are insufficient to yield a fair rate of return for FCG;

b. Authorizes FCG to revise and increase its base rates and charges to generate a total base revenue increase of $32.0 million beginning February 1, 2023, which includes (i) an incremental base rate increase of $22.2 million, (ii) the revenue requirements for the previously approved LNG Facility, and (iii) the reclassification of the SAFE program revenues from clause to base;

c. Approves FCG's 2022 Depreciation Study and resulting depreciation rates submitted with this Petition; and

d. Approves the FCG Tariff sheets and rate schedules without RSAM submitted with this Petition;

(11) Approve the Company's cost of service study for all regulatory purposes until base rates are reset in FCG's next general base rate proceeding;

(12) Approve the Company's allocation of the requested revenue increase across the rate classes as appropriate;

(13) Allow the depreciation rates approved in this proceeding to remain in effect the until base rates are reset in FCG's next general base rate proceeding;

(14) Allow the Company to amortize its rate case expense over a four-year period; and

(15) Provide any other such relief as the Commission may deem appropriate.

Respectfully submitted this 31st day of May 2022.

FLORIDA CITY GAS

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