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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 2 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
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Attorney for Florida City Gas

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 20220069-GU

FLORIDA CITY GAS

DIRECT TESTIMONY OF KURT S. HOWARD

Topics: **Overview of Rate Request, Capital Expenditures, Operations and Maintenance Expense, Update on the LNG Facility, Expansion of the SAFE Program, and Implementation of an AMI Pilot**

Filed: May 31, 2022

TABLE OF CONTENTS

I. INTRODUCTION....3
II. OVERVIEW OF FCG....8
III. OVERVIEW OF FCG'S RATE REQUEST....10
IV. CAPITAL EXPENDITURES....19
V. OPERATIONS AND MAINTENANCE....25
VI. LNG FACILITY....28
VII. SAFE PROGRAM EXPANSION....34
VIII. AMI PILOT....37
IX. CONCLUSION....41

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Kurt S. Howard. My business address is Florida City Gas, 700 Universe Boulevard, Juno Beach, Florida 33408.

Q. By whom are you employed and what is your position?

A. I am employed by Pivotal Utility Holdings, Inc. d/b/a Florida City Gas ("FCG" or the "Company") as the Senior Director and General Manager, Gas Operations.

Q. Please describe your duties and responsibilities in that position.

A. In my role, I am responsible for all day-to-day operations, financial performance, and strategy for FCG.

Q. Please describe your educational background and professional experience.

A. I received a Bachelor of Science in Accounting, Master of Science in Decision and Information Sciences, and a Master of Business Administration from the University of Florida. I have been the General Manager of Florida City Gas since July 2020. Prior to my current role as General Manager, I started my career with NextEra Energy, Inc. ("NextEra") in 2008 with NextEra's unregulated subsidiary, NextEra Energy Resources, LLC. Over the past 14 years, I have held positions in Financial Analysis, Treasury, Mergers & Acquisitions, Gas Infrastructure, and Business Development, all with increasing levels of responsibility.

Q. Are you sponsoring or co-sponsoring any exhibits in this case?

A. Yes. I am sponsoring Exhibit KSH-1 (List of MFRs Sponsored or Co-Sponsored by Kurt Howard).

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide an overview of FCG's filing and introduce the witnesses who are submitting direct testimony on FCG's behalf in support of the Company's proposed four-year rate plan. My testimony also supports the Company's actual and forecasted capital expenditures, as well as FCG's test year operations and maintenance ("O&M") projections. I also provide an update on the progress made to construct and complete the Liquefied Natural Gas ("LNG") Facility approved in FCG's prior rate case in Docket No. 20170179-GU. Finally, I describe two new initiatives to further improve the safety of FCG's system and enhance the service provided to our customers: (i) the proposal to expand the existing Safety, Access, and Facility Enhancement ("SAFE") program to include certain vintage plastic pipeline and other rear-easement mains identified by our distribution integrity management program ("DIMP"); and (ii) the proposal to implement an advanced metering infrastructure pilot program ("AMI Pilot").

Q. Please summarize your testimony.

A. FCG is proposing a four-year rate plan, the elements of which I describe later in my testimony, modeled after prior multi-year plans approved by the Commission. With the approval of FCG's four-year rate plan, FCG would not seek a general base rate increase effective prior to January 1, 2027. We believe this multi-year approach will work well for FCG's customers in terms of providing 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.

As discussed by the various FCG witnesses, the proposed base rate increase is appropriate and necessary for the Company to continue to meet the natural gas needs of existing and new customers; continue to provide safe, reliable, and quality customer service; and have a reasonable opportunity to earn a fair rate of return on the Company's investments. The proposed four-year rate plan would allow the Company to continue focusing on ways to improve its operations and performance, better meet customer needs and expectations, and invest the capital necessary to continue to safely and efficiently operate the utility during the term of the four-year rate plan.

FCG's operations, like those of all utilities, are capital-intensive, and FCG's ability to continue to deploy capital is a key component of FCG's rate request. As explained by FCG witness Campbell, for the period 2019 through 2023, FCG projects to invest more than $290 million in infrastructure and other capital necessary to support customer growth, enhance customer service, and continue to improve the safety and reliability of the system.

FCG's operating costs have increased since its last rate case due to significant inflationary pressures and ongoing customer growth and system expansion, increased damage prevention efforts, enhanced oversight over safety and quality control, and implementation of technology necessary to provide and enhance service to customers. FCG's O&M forecast for the 2023 Test Year is reasonable and appropriate to continue to provide safe and reliable service and meet the needs of our current and future customers.

FCG has continued its efforts to complete the LNG Facility that was approved in the Company's prior rate case. However, as I further describe below, the construction and in-service schedule of the LNG Facility were delayed due to unanticipated external factors that were largely beyond FCG's control. As a result, the LNG Facility is currently scheduled to be completed and begin providing service to customers in March 2023.

As part of this proceeding, FCG is seeking approval to continue and expand its existing SAFE program. As I further describe below, FCG is proposing to continue the SAFE program beyond its initial 2025 expiration date to include additional mains and services eligible to be replaced through the SAFE program. FCG is also proposing to expand the SAFE program cost recovery mechanism to include the capital investments necessary for the expedited replacement of early vintage polymer pipelines and mains installed before

1990. The proposal to continue and expand the SAFE program will help further improve the safety of our system for the customers and communities we serve.

FCG is also seeking approval to implement a limited four-year AMI Pilot. The proposed AMI Pilot, if approved, will allow FCG to evaluate the deployment and implementation of state-of-the-art smart meter technology capable of recording natural gas usage daily or hourly, transmitting data in real-time via a radio frequency mesh network that supports two-way communication, and enabling faster leak detection and response. In addition to the technological benefits, the new meters and meter assembly materials are anticipated to be more resistant to corrosion. The AMI Pilot was thoughtfully designed in order to test, obtain, and evaluate information and data on the deployment, use, and benefits associated with AMI technology paired with two-way communication functionality.

Taken as a whole, the proposed four-year rate plan will provide a high degree of base rate certainty for all FCG customers over a minimum of four years, encourage management to continue its focus on improving safety and reliability, allow FCG to realize additional operational efficiencies, and to continue creating stronger customer value.

II. OVERVIEW OF FCG

Q. Please provide a brief introduction to FCG.

A. FCG is a natural gas utility subject to regulation by the Commission. FCG's service to customers has spanned decades, with its local distribution operations beginning in 1949. The Company currently provides safe, reliable, and affordable natural gas service to approximately 116,000 residential, commercial, and industrial customers in Miami-Dade, Broward, Brevard, Indian River, Palm Beach, Hendry, Indian River, and St. Lucie counties.

In July 1988, NUI Corporation acquired and subsequently operated the Company for 16 years until AGL Resources Inc. ("AGLR") acquired the Company in 2004. Upon acquisition in 2004, the name was changed to Florida City Gas. On July 1, 2015, AGLR became a wholly owned subsidiary of The Southern Company ("Southern").

On July 29, 2018, FCG was acquired by 700 Universe, LLC, a subsidiary of NextEra Energy, Inc. ("NextEra"), and subsequently transferred to Florida Power & Light Company ("FPL"). As a result of this transaction, FCG became and remains a wholly owned, direct subsidiary of FPL.

Q. Please describe FCG's system.

A. FCG currently operates approximately 3,800 miles of distribution main as well as 80 miles of transmission designated pipe located in southeast Florida. The system is interconnected with and receives natural gas supply from a single interstate pipeline, Florida Gas Transmission ("FGT"). The Company operates 20 gate stations that receive gas from FGT and transfer it onto the FCG-owned system. FCG operates three service centers located in Doral, Port St. Lucie, and Rockledge that enable the Company to cover the footprint of the service territory mentioned above.

Q. What are the core values of FCG?

A. As a wholly owned, direct subsidiary of FPL, FCG shares and embraces the core values that are central to FPL's business; specifically, the commitment to excellence, doing the right thing, and treating people with respect. At FCG, these core values support and emphasize our commitment to safety for customers, as well as our employees and vendors. Safety is paramount to all facets of our business – from the investments we undertake, to the actions we perform, and to the business decisions we make.

Consistent with these core values, we hold ourselves accountable to our customers. That accountability starts with a commitment to listen to and learn from our customers so that we fully understand their energy needs and can better assist them in determining how FCG can effectively and efficiently meet those needs. FCG is committed to increasing customer engagement, retention, and growth by making appropriate investments to ensure it is easy to do business with us.

As a natural gas utility, FCG is uniquely situated in that our service requires direct contact with our customers on a more frequent basis than other types of utilities. Unlike other utilities, natural gas utilities must enter the customer's home to initiate service by making two physical visits to the premise to safely turn the service off and on during outages. This requires the customer to be at home when the employee returns to restore service. Because our employees must enter the customer's home, this makes the initiation of gas service more challenging and emphasizes the need for effective communication and trust with our customers.

III. OVERVIEW OF FCG'S RATE REQUEST

Q. Please summarize FCG's last general rate case.

A. FCG's last general rate case was filed on October 23, 2017, in Docket No. 20170179-GU, and resolved by Commission approval of a Stipulation and Settlement Agreement (the "2018 Settlement"). The 2018 Settlement authorized, among other things, new base rates and charges to become effective June 1, 2018, and a return on equity ("ROE") range of 9.19% to 11.19%. As part of the 2018 Settlement, FCG agreed not to seek a change in base rates prior to June 1, 2022, unless the earned ROE reported on an FCG earnings surveillance report fell below 9.19%.

The 2018 Settlement included projected qualified tax savings arising from the Tax Cuts and Jobs Act of 2017, which were applied as a reduction to the test year revenues. As required by the 2018 Settlement, on August 10, 2018, FCG filed a petition in Docket No. 20180154-GU for approval of the amount and flowback of protected and unprotected excess accumulated deferred income taxes. On December 20, 2018, the Commission approved a Stipulation and Settlement Agreement that reclassified $1.6 million of excess accumulated deferred income taxes from "protected" to "unprotected" and flowed the excess accumulated deferred income tax back to customers through five amortizations of $304,943. Under this agreement, FCG applied a levelized Purchased Gas Adjustment credit each month during 2019 to reflect the 2018 amortization of $304,943 and implemented the remaining four amortizations through a base rate reduction of $304,943, beginning January 1, 2019.

The 2018 Settlement also established a Storm Damage Reserve and authorized FCG to accrue $57,500 annually with a target total reserve amount of $800,000. The parties to the 2018 Settlement agreed to revisit the Storm Damage Reserve accrual if the reserve amount exceeds the $800,000 target.

The 2018 Settlement also authorized FCG to construct a new LNG Facility capable of providing 10,000 dekatherms per day of capacity. The 2018 Settlement allowed the Company to implement a subsequent increase in its base rates and charges in an amount sufficient to recover an additional revenue requirement of $3.8 million on the completed LNG Facility.

Q. Has FCG been able to earn within the ROE range authorized by the 2018 Settlement?

A. No. As detailed in the testimony of FCG witness Campbell, capital investments since the prior case, as well as inflation and increases in operating costs, have impacted the Company's ability to achieve a reasonable return. As discussed by FCG witness Fuentes, 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. FCG witness Fuentes also describes that, 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.

Q. What are some of the actions the Company has taken to control costs and defer the need for a base rate increase?

A. Despite the fact that FCG has earned below its authorized ROE range each year since its last general rate case, FCG declined to seek a base rate increase and, instead, focused on managing its costs under the terms of the 2018 Settlement, while keeping customer rates stable and at reasonable levels.

For example, FCG revised its periodic meter testing program in 2019, which involved replacing the prior residential sampling plan deployed under Southern with a new statistical sampling plan that uses the American National Standards Institute sampling techniques to determine sample size and failure rate. This refined approached allowed the Company to reduce the labor and materials associated with this activity while still strictly adhering to industry standards around ensuring the accuracy of measurement.

Additionally, starting in 2019, FCG obtained all its short- and long-term financing needs through an intercompany loan with its parent company, FPL. The interest rate on these short- and long-term borrowings is significantly lower than the interest rates FCG could otherwise obtain on its own. This action has resulted in the Company paying lower financing costs for its working capital and capital expenditure requirements.

Lastly, FCG has continued to efficiently manage and implement its SAFE program and associated cost recovery mechanism, which has enabled the Company to make capital investments that are necessary to further modernize and improve the safety, reliability, and quality of its system without the need for more frequent base rate case filings. As part of this rate case, the current SAFE investments will be moved from clause to base pursuant to Commission Order No. PSC-2015-0390-TRF-GU as explained by FCG witness Fuentes.

Q. Please summarize the primary drivers for FCG's requested increase in base rates.

A. The principal factor necessitating a rate increase is that FCG has been earning at or below the bottom of its approved ROE range since its last rate case. Without a rate increase, FCG is forecasted to continue to underearn.

Another factor necessitating the rate increase is the need 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. As discussed in the testimony of FCG witness Fuentes, FCG projects an adjusted rate base of $489 million for the 2023 Test Year, which is an increase of approximately $190 million (or approximately 64%) over what was proposed in the last base rate proceeding.[1]

FCG's operating costs have also increased since the last rate case due to the significant increase in inflation, with current inflation rates reaching their highest levels in 40 years as explained by FCG witnesses Campbell and Nelson. In addition to these significant inflationary pressures, FCG's operating costs have increased since its last rate case due to continued customer growth and system expansion, increased damage prevention efforts, enhanced oversight

[1] The estimated increase in the adjusted rate base includes the SAFE investments that are being transferred from clause recovery to base rates in 2023 as contemplated in Order No. PSC-2015-0390-TRF-GU.

over safety and quality control, and implementation of technology necessary to provide and enhance service to customers.

Q. What is the specific rate relief that FCG is requesting in this proceeding?

A. FCG is proposing a four-year rate plan that will allow FCG to continue to meet the natural gas needs of existing and new customers, continue to provide safe, reliable, and high-quality customer service, and have a reasonable opportunity to earn a fair rate of return on the Company's investments. The Company's four-year rate plan includes the following core elements:

- FCG is requesting an incremental base revenue increase of $19.4 million based on a projected 2023 Test Year as further explained by FCG witness Fuentes.
- The requested increase reflects a 10.75% mid-point ROE and an equity ratio of 59.6% from investor sources (*i.e.*, short-term debt, long-term debt, and common equity) for all regulatory purposes as described by FCG witnesses Campbell and Nelson.
- New base rates and charges would become effective February 1, 2023 and continue at least until the last billing cycle of December 2026. The revenues will be allocated to FCG's rate classes based on a class cost of service study and applying the Commission's guideline on gradualism as described by FCG witness DuBose.
- A critical and essential component of FCG's proposed four-year rate plan is the adoption of a reserve surplus amortization mechanism ("RSAM") as explained by FCG witnesses Campbell and Fuentes. The

RSAM results in a significant reduction in the annual revenue requirement, and will enable FCG to avoid seeking a base rate increase until at least through the end of 2026. Without the RSAM proposed in this proceeding, including the proposed Reserve Amount, the Company likely would need to file an additional rate case in 2024 to support a base rate increase in 2025 as further explained by FCG witness Campbell.

- The continuation and expansion of the existing SAFE program, which will allow FCG to further implement safe, reliable, and quality system enhancements as detailed below.
- Implementation of a new limited AMI Pilot that will enable FCG to explore the potential for AMI meters to provide enhanced service to FCG's customers as further described below.
- A mechanism to account for the potential of tax reform legislation being passed during the four-year rate plan as explained by FCG witness Campbell.
- Continuation of FCG's existing Storm Damage Reserve provision approved in the 2018 Settlement, subject to the provisions of the new Rule 25-7.0143, Florida Administrative Code, as explained by FCG witness Campbell.

The proposed four-year rate plan will provide rate stability and certainty, avoid repetitive and costly rate proceedings, enable the Company to continue to focus on improving safety and reliability, and allow FCG to realize additional efficiencies in operations and to create stronger customer value during the term of the four-year rate plan.

Q. Is FCG proposing any substantive revisions to its rate schedules or tariff?

A. No. As explained by FCG witness DuBose, FCG is updating its base rates and a few of its service charges but is not otherwise proposing any material changes to the rules and regulations or rate schedules in its current tariff. FCG is proposing to update certain miscellaneous service charges to more accurately reflect the costs incurred to provide these services to customers as shown on MFR E-3.

Q. Who will be testifying on FCG's behalf in this proceeding?

A. The following witnesses will also testify as part of FCG's direct case:

- Mark Campbell, Senior Director of Financial Forecasting at FPL – Details and supports the load, customer, capital, sales, and financial forecasts upon which FCG's projected MFRs are based. Witness Campbell also explains the major cost drivers since 2018 that necessitate a base rate increase effective February 1, 2023. He also details and supports key features of the Company's four-year rate plan, such as the RSAM, the tax change adjustment mechanism, and the continued use of FCG's Storm Damage Reserve.
- Liz Fuentes, Senior Director of Regulatory Accounting at FPL – Provides the calculation of FCG's net operating income, working capital, rate base, capital structure, and revenue requirements for the 2023 Test Year, including all Commission adjustments and Company

proposed adjustments. Witness Fuentes also presents the impacts of several depreciation adjustments related to the RSAM that the Commission could approve as part of the Company's four-year rate plan in lieu of those presented by FCG witness Allis. Witness Fuentes also provides an overview of the corporate support and services FCG has received and will continue to receive from its affiliates during the 2023 Test Year, and describes the policies in place to ensure no subsidization of affiliate activities.

- Tara DuBose, Manager of Cost of Service and Load Research in the Rates & Tariffs Department at FPL – Supports the specific methods employed in developing the forecasts of revenues for the historic year ended December 31, 2021, and for the 2023 Test Year ending December 31, 2023. Witness DuBose also describes the methodology used to develop the class cost of service study, revenue allocation, and rate design associated with FCG's request, and presents the results of each.
- Jennifer Nelson, Concentric Energy Advisors – Provides the Commission with a recommendation on behalf of the Company regarding the Company's ROE in this proceeding and assesses the reasonableness of the Company's requested capital structure.
- Ned Allis – CDP, Gannett Fleming Valuation and Rate Consultants, LLC – Details the methods and procedures supporting the 2022 Depreciation Study and sets forth the annual depreciation rates that result from the application of the Study.

Some of these individuals, as well as others, also may provide rebuttal testimony on behalf of FCG.

IV. CAPITAL EXPENDITURES

Q. Please describe the types of capital investments made by FCG.

A. FCG has regular ongoing capital investments that are necessary to continue to provide safe and reliable service to customers. These ongoing investments typically fall in four general categories: customer growth, reliability, safety, and customer service. In addition to these ongoing capital expenses, FCG makes periodic capital investments for special or major projects, such as the LNG Facility[2] and the new Starnik customer information system.[3]

With respect to customer growth or enhanced/incremental load, the Company is required to make capital investments to extend or upgrade its mains and services necessary to interconnect and provide natural gas service to new customers or enhanced/incremental load. Although these types of expenditures are ongoing, the timing of when these projects occur is largely driven by customers' needs and construction schedules. For these types of investments, FCG applies its tariff rules on the maximum allowable construction costs or "MACC" to determine whether the extension of service is economical and

[2] See Order No. PSC-2018-0190-FOF-GU.

[3] See Order Nos. PSC-2020-0489-PAA-GU and PSC-2021-0023-CO-GU.

beneficial to the general body of customers, or whether the customer requesting the new or enhanced service is required to pay a contribution in aid of construction consistent with the Commission Rules.

The Company also routinely makes capital investments to continue to improve the reliability of its system. These types of investments are typically driven by the demands on FCG's system, capacity constraints of the physical system, and the need to plan for reasonably continuous natural gas service. Examples of FCG's reliability projects include, but are not limited to: projects to provide redundant (not duplicative) sources of gas supply; projects to increase capacity of the physical facilities; projects to increase system pressures; and additional gate stations.

As I previously mentioned, safety is paramount to all facets of our business and FCG routinely makes capital investments to continue to improve the safety of system for the customers and communities we serve, as well as for our own employees and contractors. These safety-related capital investments include replacement or relocation of facilities, such as under our Commission-approved SAFE program, emergency response and preparedness, and projects to replace facilities that are identified by FCG's DIMP to have a higher risk or consequence of failure. These investments also include the addition of a new training facility.

Q. How does FCG develop and budget for capital expenditures?

A. FCG evaluates capital projects annually and integrates them into a five-year capital expenditure forecast ("Five-Year Forecast"). The Five-Year Forecast reflects the Company's planning of future capital projects, initiatives, and associated expenditures. Each fall, FCG develops a capital budget ("Annual Capital Budget") for projects and initiatives associated with the upcoming calendar year. The Annual Capital Budget and Five-Year Forecast are developed from information submitted by various departments within the organization, including business development, engineering, field operations, distribution and transmission integrity, fleet and facilities, and information technology. The Annual Capital Budget and the Five-Year Forecast, including all annual updates to that forecast, are subject to the review and approval by the budget review committee as further described by FCG witness Campbell.

Q. Are natural gas system construction costs increasing?

A. Yes, FCG has seen an increase in construction costs since its last base rate case. For example, based on actual cost data for all work on mains between 2019 and 2021, including main extensions and system integrity work, FCG's cost to construct had increased by 7% per linear foot.

Q. Why are these construction costs increasing?

A. These increases have largely been driven by the following: increases in inflation and material costs; industry market demand for external contractors; supply chain issues; governmental, regulatory, and compliance requirements including permitting and maintenance of traffic requirements; retirement, removal and restoration costs; construction safety protocols; and enhanced construction management, inspection, and quality control.

Q. How does FCG ensure that the construction costs for its planned capital projects are reasonable?

A. FCG follows several practices to ensure that its capital expenditures are at the lowest reasonable cost. These include competitive bidding, contractor quality assurance, and cost tracking. With respect to competitive bidding, FCG awards pipeline installation contracts for common work as blanket agreements covering a three-year term based upon competitive bids. Larger or unique pipeline projects and other capital work are advertised separately for bids. In addition, these projects and other smaller services are all obtained using established NextEra supply chain policies to mitigate risk and deliver value. The pool of qualified candidates for each project is reviewed prior to advertisement to assure high competition for project bids. Contractor bids are evaluated weighing a combination of criteria including cost, contractor quality, supplier diversity, past performance, experience, availability, schedule, and safety. This traditional approach is readily validated and ensures that customers are delivered market-driven value through a selection process that involves multiple criteria.

Q. How does FCG ensure that capital projects are completed by qualified personnel who share FCG's focus on quality for the customer?

A. FCG has a robust operator qualification program in full compliance with 49 CFR § 192.805 and up to date with industry best practices and evaluation criteria. All personnel performing work on FCG facilities for operation, maintenance, and construction are subject to full compliance with FCG's qualification program. Qualifications and performance are continuously monitored, tracked, inspected, and audited for adherence to federal, local, and company requirements and company standards by Project Coordinators, third party inspectors, and internal Quality Assurance Specialists.

Q. What are the processes and procedures that FCG uses to ensure that additions to plant are necessary and made at a reasonable cost?

A. FCG undertakes each of these projects based on its planning criteria and analysis of alternatives. The capital investment approval process considers whether capital projects satisfy regulatory requirements, are necessary to extend services to new customers, or will enhance the efficiency, safety, and reliability of the service the Company provides to its customers in a cost-effective manner. In addition, the Company maintains and uses purchasing programs and policies designed to ensure that equipment and components are purchased at a reasonable cost and that the Company takes advantage of purchasing economies that are reasonably available to it.

Q. What are the capital investments FCG has made since its last rate case?

A. With the exception of the LNG Facility and FCG's new Starnik customer information system, FCG's capital investments since its last rate case were primarily related to the Company's regular ongoing capital investments for customer growth/load enhancement, safety and reliability, and customer service. As summarized by FCG witness Campbell, between 2019 and 2023, FCG projects to invest more than $290 million (including the LNG Facility and SAFE program) in infrastructure and other capital to support customer growth, customer service, and enhance the safety and reliability of its system.

Q. What are the capital investments FCG is projecting for the 2023 Test Year?

A. FCG projects to invest approximately $55 million in infrastructure and other capital by the end of the 2023 Test Year (including the LNG Facility and SAFE program) to support customer growth, enhance customer service, comply with increasing regulatory compliance requirements, and enhance the reliability of its system. In addition to FCG's regular ongoing capital investments, these projected capital expenditures include investments for the ongoing SAFE program, the previously approved LNG Facility as further discussed below, and FCG's proposed AMI Pilot as further discussed below. MFR G1-26 provides further details regarding FCG's capital expenditures projected for the 2023 Test Year.

Q. For the plant additions projected through the end of the 2023 Test Year, did FCG follow the processes and procedures you described above to ensure that additions to plant are necessary and reasonable?

A. Yes. For all plant additions since its last rate case, including capital expenditures projected through the end of the 2023 Test Year, the Company has followed these same processes and procedures to ensure that its capital investments are reasonable, and it has proposed only those additions to rate base that are necessary to provide regulated natural gas service and benefit customers.

Q. Do you have an opinion as to whether the plant additions projected through the end of the 2023 Test Year have been or will be added in a prudent manner and at a reasonable cost?

A. Yes. Based upon my knowledge of the Company's planning, operations, and purchasing policies and practices described above, and my knowledge of significant Company projects, I conclude that the plant additions since the last rate case and projected through the end of the 2023 Test Year have been made or will be made in a prudent manner and at a reasonable cost.

V. OPERATIONS AND MAINTENANCE

Q. What is FCG's projected O&M expense for the 2023 Test Year?

A. As shown on MFR E-6 (with RSAM), FCG's total unadjusted O&M expense for the 2023 Test Year is $66.8 million.

Q. Has FCG's O&M expense increased since its last rate case?

A. Yes. As explained by FCG witness Campbell, FCG's O&M expense for the 2023 Test Year has increased by $5.8 million since the Company's last rate case, with $2.4 million of this increase due to inflationary pressures.

Q. Has FCG implemented any changes or improvements in its operations and management since its last rate case that impact the O&M expense for the 2023 Test Year?

A. Yes. Since its last rate case, FCG has initiated several changes to continue to improve reliability, safety, and customer service. Below is a summary of the key improvements and initiatives since the last rate case:

- FCG is implementing measures to address the requirements of the United States Department of Transportation Pipeline and Hazardous Materials Safety Administration's ("PHMSA") Mega Rule, which became effective July 1, 2020, and has added additional significant safety-oriented regulations applicable to gas transmission entities like FCG. The details of this Mega Rule can be found in the Federal Register at 84 FR 52180.
- FCG is implementing measures to comply with PHMSA's Public Awareness Program, which requires pipeline operators to develop and conduct continuing public awareness programs to provide pipeline safety information to stakeholder audiences, including the affected public, emergency officials, local public officials, and excavators.
- In 2020, FCG implemented a new artificial intelligence-based damage prevention solution that allows FCG to employ predictive analytics to detect and prevent damage to its system. This solution

has dramatically improved damage prevention and significantly reduced safety risks and damages caused by excavator error.

- During the 2023 Test Year, FCG will begin implementing the measures to comply with the Protecting Our Infrastructure of Pipelines and Enhancing Safety Act of 2020 ("PIPES Act"), which requires FCG to utilize tools and advanced equipment to limit the release of methane emissions into the environment. In addition, the PIPES Act requires FCG to maintain advanced leak survey equipment to improve and accelerate leak detection and response process.
- FCG developed a core of Quality Assurance and Quality Control programs to further improve and enhance the quality of work processes.
- In 2020, FCG moved all of its GIS applications and functions in-house. Insourcing the GIS function has significantly improved the efficiency and accuracy of FCG's system maps updates.
- FCG deployed iPhone smart devices for its field employees, which has improved the efficiency of FCG's field operations.
- In 2020, FCG moved its leak survey program in-house and utilizes less costly, and more efficient, internal resources. Insourcing this function reduces costs and provides a more robust overall leak survey by leveraging the talent of our internal employees and minimizing the number of multiple trips to customers' premises.

- During the 2023 Test Year, FCG will begin implementing measures associated with the safety management system recommended by the American Petroleum Institute Recommended Practice 1173 ("API RP 1173"), which establishes a pipeline safety management system framework to assist pipeline operators, such as FCG, to identify and manage risk, promote a learning environment, and continuously improve pipeline safety and integrity.

Each of the foregoing improvements and initiatives are reflected in FCG's O&M expense for the 2023 Test Year.

VI. LNG FACILITY

Q. Please describe FCG's LNG Facility.

A. FCG's LNG Facility was approved as part of the 2018 Settlement. The 2018 Settlement Agreement authorized FCG to construct the facility as FCG proposed it in the Company's direct testimony. As set forth in FCG's direct testimony in Docket No. 20170179-GU, the facility was proposed to be located along and tied into FCG's Jet Fuel Line and would serve to reinforce FCG's system south of the Miami International Airport. The LNG Facility would be capable of providing an additional 10,000 Dth/d of capacity and would include the following features: (i) truck loading facilities; (ii) three storage tanks holding a total of 270,000 gallons of LNG; (iii) vaporization equipment; and

(iv) other related specifications. At the time, FCG estimated the cost of the facility to be approximately $58 million.

As proposed in the 2018 rate case, the LNG will be brought into the plant by tankers from third-party LNG producers. The LNG will be stored in the three storage tanks until FCG's distribution system needs supplemental gas. As needed to meet system demands, the LNG will be pumped to a vaporizer and heated to change it from a liquid back into a gas. The gas will then be injected into and flow through FCG's Jet Fuel Line to the regular stations and on to end-use customers on FCG's distribution system. As FCG explained in the 2018 rate case, the LNG Facility will provide extra capacity to serve customers at the most southern portion of the Company's system during times of high demand. FCG also detailed how the availability of an LNG resource will allow FCG to continue to expand further south with a plan to meet the capacity needs of additional customers during peak demand.

Q. Did the 2018 Settlement address cost recovery for the LNG Facility?

A. Yes. The 2018 Settlement authorized two specific step increases to recover the revenue requirements associated with the estimated costs for the LNG Facility: (i) $2.5 million on June 1, 2019, or the in-service date of the LNG Facility, whichever is later; and (ii) $1.3 million on December 1, 2019. The 2018 Settlement also included a provision that if the in-service date of the LNG Facility was after December 1, 2019, the Company would be allowed to implement an increase in rates and charges sufficient to recover the remaining revenue requirement of $3.8 million upon the in-service date of the LNG Facility.

Q. Did the 2018 Settlement require any further review or approval before the base rate revenue increases associated with the LNG Facility could become effective?

A. No. Under the 2018 Settlement, the effective dates for the revenue increases associated with the LNG Facility were contingent only upon the in-service date of the LNG Facility.

Q. Has FCG completed construction of the LNG Facility?

A. No, the project has been delayed due to factors largely beyond FCG's control.

Q. Please explain the delay in completing the construction of the LNG Facility.

A. The delay in the project was caused by the loss of the initial site for the LNG Facility that was selected while FCG was still under the ownership of Southern. As explained in the direct testimony of FCG witness Wassell submitted in Docket No. 20170179-GU, the LNG Facility was originally proposed to be located on a property along FCG's Jet Fuel Line in the area between Cutler Ridge and Homestead in Miami-Dade County; however, the Company also explained that it was continuing to evaluate locations. After the 2018 Settlement was approved, FCG began to engineer and design the original proposed site for the LNG Facility. However, the Company was ultimately unable to successfully obtain the zoning and permitting approvals necessary to construct the LNG Facility at the original proposed site. Since the original site was no longer viable, FCG determined the most appropriate strategy would be to sell the original proposed site and secure a new site for the LNG Facility that would still allow the facility to tie into FCG's Jet Fuel Line and reinforce FCG's system south of the Miami International Airport as originally approved under the 2018 Settlement. The timing and difficulty associated with the permits and approvals for the original site, the loss of the original site as a viable project location, the need to sell the original site, and the need to secure a new project site all contributed to the delay of the LNG Facility.

Q. Is the LNG Facility still needed to provide service to FCG's customers?

A. Yes. Although the project has been delayed due to reasons that were largely beyond FCG's control, the need for the LNG Facility remains today just as it did when initially approved as part of the 2018 Settlement. As described in the direct testimony of FCG witness Becker submitted in Docket No. 20170179-GU, FCG needs additional interstate pipeline capacity to meet the needs of both its Sales and Essential Use Transportation customers primarily in the Miami-Dade County area, which is currently served by a single interstate pipeline with capacity that is fully subscribed. To date, FCG has been unable to acquire any additional interstate capacity at terms and pricing that is acceptable and reasonable, including additional capacity to serve customers in the Miami-Dade County area. As such, the LNG Facility continues to be necessary to provide extra capacity to serve customers at the most southern portion of the Company's system during times of high demand as originally approved in the 2018 Settlement. Additionally, FCG has seen significant gas demand growth on the southern portion of its system since the 2018 Settlement.

Q. Has FCG successfully acquired a new viable site for the LNG Facility?

A. Yes. After its decision to sell the original site, FCG began an extensive search for a new site that would still tie into the Jet Fuel Line to serve FCG's system south of the Miami International Airport as originally approved under the 2018 Settlement. After a diligent search for an appropriate site, FCG was able to identify a property that could deliver those benefits in Homestead, Florida. After months of coordination and discussion with local officials, FCG received all necessary permits and approvals to site the LNG Facility at the Homestead property and closed on the property in December of 2021.

Q. Has FCG made any changes to the scope of the LNG Facility that was approved for construction in the 2018 Settlement?

A. No. Despite the need to relocate the project site, the LNG Facility will have the same scope and purpose as approved in the 2018 Settlement.

Q. What is the new projected in-service date of the LNG Facility?

A. The LNG Facility currently is scheduled to be constructed and placed in-service in March 2023.

Q. What is FCG's current estimated cost to complete the LNG Facility?

A. The revenue increase for the LNG Facility pre-approved by the 2018 Settlement was based on a total estimated project cost of $58 million. However, as explained in the direct testimony of FCG's witness Wassell submitted in Docket No. 20170179-GU, this was only an estimate subject to change as the project gets closer to completion. FCG currently projects the total cost of the LNG Facility to be $68 million.

Q. Please describe why the total estimated costs for the LNG Facility have increased since the last rate case.

A. The primary driver of the increased project cost is due to the loss of the original site proposed for the LNG Facility and the associated delay to the in-service date. Specifically, FCG is forecasting: (i) $6.2 million in increased costs associated with geotechnical analysis, environmental studies, and permitting associated with the new site; (ii) $3.5 million in increased pipeline costs associated with the need to extend a connection from the new site for the LNG Facility to FCG's distribution system; and (iii) $2.5 million in increased costs associated with site-specific engineering costs. These increased costs have been offset by $2.2 million in land-related savings attributable to switching site locations. These additional costs are needed to complete the project at the new site and interconnect the LNG Facility to the Jet Fuel Line to reinforce FCG's system south of the Miami International Airport as originally approved under the 2018 Settlement.

Q. Are the costs associated with the LNG Facility reflected in FCG's revenue requirement for the 2023 Test Year?

A. Yes. As explained by FCG witness Fuentes, the total cost of the LNG Facility is included in the calculation of the total revenue requirements for the 2023 Test Year. However, as I mentioned before, the Commission previously approved an automatic increase in base rate revenues of $3.8 million upon the in-service date of the LNG Facility. This revenue increase is factored into the calculation of the incremental base revenue increase of $19.4 million as discussed by FCG witness Fuentes.

As explained above, the total costs for the LNG Project have increased by $10 million more than the original project estimate of $58 million, which was the basis for the automatic increase in base rate revenues of $3.8 million approved as part of the 2018 Rate Case Settlement. Therefore, FCG's proposed incremental base rate increase includes the revenue requirements for the incremental $10 million of capital expenditures necessary to complete the LNG Facility.

VII. SAFE PROGRAM EXPANSION

Q. Please describe the Company's SAFE program.

A. The Company's SAFE program was approved by Order No. PSC-15-0390-TRF-GU, issued September 15, 2015, 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. As the Commission recognized in its Order approving the SAFE program, the existing location of these mains, services and, in some cases, above-ground facilities, presents significant operational risks and challenges for FCG and its customers. The SAFE program facilitates the relocation process by enabling FCG to recover appropriate costs, along with a reasonable return, for the necessary main relocations and associated new service lines, as well as costs associated with any above-ground facilities, such as meters and regulator sets, that may need to be replaced or relocated due to the main and service line relocations. FCG recovers these costs through a surcharge, which is subject to true up each year.

Q. Is the Company proposing to continue the SAFE program?

A. Yes. The current SAFE program is set to expire in 2025 based on an original estimate of 254.3 miles of mains and services to be relocated from rear property easements to the street front over the ten-year program. FCG has subsequently identified an additional approximately 150 miles of mains and services that are currently located in rear property easements and eligible for replacement under the SAFE program. As the Commission has previously found, mains and services located in rear property easements present operational and safety concerns, including the age of the facilities, limitations on the Company's access to the facilities due to vegetation overgrowth, landscaping and construction in the easements, and potential gas theft or diversion and damages to the facilities. Accordingly, FCG is seeking Commission approval to continue the SAFE program beyond its 2025 expiration date and include an additional approximately 150 miles of mains and services eligible to be replaced through the SAFE program. If approved in this proceeding, FCG will update the SAFE program in its next annual SAFE filing to reflect that the program will continue in order to relocate an additional approximately 150 miles of mains and services. 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 will continue to be reviewed as part of FCG's normal SAFE annual filing.

Q. Is FCG proposing any other changes to the SAFE program?

A. Yes. FCG is also proposing 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 referred to as "orange pipe". Orange pipe is a specific plastic material that was used in the 1970s and 1980s that has been studied by the PHMSA and shown through industry research to exhibit premature failure in the form of cracking.[4] The potentially compromised nature of the piping makes responding to leaks more hazardous since responders cannot safely squeeze the pipe without it cracking. This presents a significant and serious safety risk to the customers and communities we serve, as well as to first responders.

In order to address this safety risk in a timely manner, FCG is seeking approval to expand the SAFE program cost recovery mechanism to include the capital investments necessary for the expedited replacement of approximately 160 miles of orange pipe installed before 1990. The Company will prioritize the replacement of this orange pipe based on age and highest risk. If approved in this proceeding, FCG will update the SAFE program in its next annual SAFE filing to reflect the expansion of the SAFE program to include the replacement of the orange pipe. As part of that annual SAFE filing, FCG will propose an

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[4] *See* Final Report, Plastic Pipe Failure, Risk, and Threat Analysis, Gas Technology Institute (Revised April 29, 2009), *available at*: https://rosap.ntl.bts.gov/view/dot/34642/dot_34642_DS1.pdf.

investment/construction schedule for the replacement of the orange pipe and new term for the SAFE program. The reasonableness and prudence of the annual projected and actual costs incurred will continue to be reviewed as part of FCG's annual SAFE filing.

VIII. AMI PILOT

Q. What is AMI?

A. AMI systems provide granular usage information to utilities and customers. An AMI system has three major components: (i) smart meters (and associated communication modules), (ii) a communication network, and (iii) AMI back-office information technology (IT) systems to manage the two-way communications enabled by AMI. To date, only a small number of gas utilities have deployed AMI technology, but AMI is widely used across the electric utility industry.

Q. Please describe FCG's proposed AMI Pilot.

A. 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. 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 with two-way communications. As part of the AMI Pilot, FCG will also test and gather data on (i) corrosion resistance and life of new smart meters and associated assemblies and (ii) ability of FCG's back-office system to support and utilize the full potential of two-way communication smart meters. The AMI Pilot is proposed as a one-year roll-out (*i.e.*, installation) of the meters and a subsequent three-year evaluation period in which the performance of the meters and their correlative benefits will be assessed.

Q. Please describe the expected benefits of using AMI.

A. Although a few gas utilities currently use smart meters with AMI technology, FCG's proposed AMI Pilot would be the first of its kind in Florida with FCG potentially being the first to deliver the customer and Company benefits associated with AMI. FCG previously deployed smart meters across its system, which eliminated the need for meter readers to physically access and read the individual gas meters. The current gas meters are read remotely but still require a vehicle equipped with meter reading technology to drive FCG's entire system to read the meters on a monthly basis. Moreover, these existing meters lack any functionality for two-way communications between FCG's systems and the meter.

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 or hourly remote meter reads for the smart meters installed. The remote monitoring of this data will allow for: (i) reduced costs associated with driving routes to read meters on monthly basis; (ii) remote disconnection of meters; (iii) remote leak and outage detection capabilities; (iv) more accurate billing; and (v) enhanced customer access to individualized data and usage information.

Q. How many meters will be included in the AMI Pilot?

A. Under the AMI Pilot, FCG will replace 5,000 meters in Brevard County. FCG determined that 5,000 meters would provide a large enough sample of meters such that the functionalities and benefits of the meters could be assessed. At the same time, the sample is not so large as to create an undue cost. Given that 5,000 meters represents less than 5% of the customer meters on FCG's system, the number of meters will appropriately balance the need to obtain fulsome data without the need for the additional costs that would be incurred in a broader roll-out.

Q. Why did FCG choose Brevard County as the location for the installation of the smart meters?

A. Brevard County makes an ideal location to test the resiliency of the meters to be installed under the AMI Pilot. 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 resistant to corrosion, which will avoid costs of accelerated retirement and replacement. Implementation of the AMI Pilot in Brevard County will also allow FCG to test and gather data on the corrosion resistance and life of these new smart meters.

Q. Does FCG currently have the wireless or radio frequency ("RF") mesh network capabilities needed to support two-way communications for the AMI Pilot?

A. No. FCG plans to use FPL's existing RF mesh network, which will avoid the substantial costs associated with installing and creating a new standalone wireless or RF mesh network. This will allow FCG to implement the AMI Pilot with significantly less technology- and infrastructure-related risk. The RF mesh, which has worked effectively for FPL's customers, is open with sufficient bandwidth available for FCG's use and will not impact the functionality of FPL's existing smart meters. FCG will fully compensate FPL for use of the network, and those costs are included in the total costs of the pilot.

Q. Does FCG have the back-office systems needed to support the AMI Pilot?

A. Yes. FCG's current back-office IT and billing systems are fully capable of supporting the new smart meters to be deployed under the AMI Pilot. There will be some up-front integration costs to ensure connectivity to the existing billing system, and those costs are included in the total costs of the pilot, but no substantial system upgrades are anticipated to be necessary for the AMI Pilot.

Q. What are the capital costs associated with the AMI Pilot?

A. The total capital expenditures of the AMI pilot over four years are forecast to be $3.4 million. This represents the cost of an entirely new meter assembly equipped with AMI and the cost of installation.

Q. What are the total ongoing O&M costs attributable to the AMI Pilot?

A. Annual O&M spend for the AMI Pilot is projected to be $20,000 for the four-year administration of the pilot, which includes a licensing fee paid to Itron and compensation to FPL for use of its network.

IX. CONCLUSION

Q. What conclusion should the Commission draw from your testimony and that of the other FCG witnesses?

A. At FCG, our highest priority is ensuring the safety of every customer and community we serve. We want our employees to be in a safe work environment, thereby creating a work environment that is productive and customer centric. Our customers are at the center of everything we do. Therefore, we intend to do all things possible to maintain clean, safe, reliable, affordable natural gas service at just and reasonable rates. We cannot achieve these objectives without sufficient revenues and a fair rate of return.

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. 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 2019 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. In addition to inflationary pressures, FCG's operating costs have continued to increase since its last rate case due to customer growth and system expansion, increased damage prevention efforts, enhanced oversight over safety and quality control, and implementation of additional technology.

FCG's proposed four-year rate plan will alleviate the financial constraint currently experienced by FCG and provide it with room to expand and enhance its operations while meeting additional regulatory and compliance requirements. The four-year proposal also includes features designed to allow FCG to deploy innovative solutions that serve to enhance the customer experience – the AMI Pilot is a prime example of this.

In total, FCG's proposal allows the Company to innovate, advance, and improve the safe, effective and affordable service it delivers to customers and should be approved by the Commission.

Q. Does this conclude your direct testimony?

A. Yes.

Florida City Gas

MFRs SPONSORED OR CO-SPONSORED BY KURT S. HOWARD

MFR	Title
SOLE SPONSOR:	
E-3	Connections and Reconnections Disconnection and Reconnections Collection in Lieu of Disconnection Administrative Costs For Name and/or Billing Address Changes
I-1	Interruption of Gas Service
I-2	Notification of Rule Violations
I-3	Periodic Test of Customer Meters
I-4	Vehicle Allocation
CO-SPONSOR:	
C-8	Uncollectible Accounts
C-9	Advertising Expenses
C-11	Industry Association Dues
C-31	Outside Professional Services
C-33	Wage & Salary Increases Compared to C.P.I.
C-34	O & M Benchmark Comparisons
C-38	O & M Benchmark Variance By Function
D-6	Customer Deposits
E-6	Derivation of Rate Base Derivation of Operating and Maintenance Expenses
G1-26	Projected Test Year - Construction Budget
G3-7	Customer Deposits
G6	Projected Test Year - Attrition Calculation of Major Assumptions