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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for rate increase by Florida City Gas	Docket No. 20220069-GU Filed: November 15, 2022

FLORIDA CITY GAS PREHEARING STATEMENT

Florida City Gas ("FCG" or the "Company"), pursuant to the Florida Public Service Commission's ("FPSC" or "Commission") Order Nos. PSC-2022-0224-PCO-GU and PSC-2022-0275-PCO-GU, hereby files its Prehearing Statement.

I. FCG WITNESSES

Witness	Subject Matter	Issue Nos.
Direct		
Kurt S. Howard	Provides an overview of FCG's filing and the Company's proposed four-year rate plan. Supports the Company's actual and forecasted capital expenditures, as well as FCG's test year operations and maintenance ("O&M") projections. Provides 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. Describes the Company's proposal to expand the existing Safety, Access, and Facility Enhancement ("SAFE") program to include certain vintage plastic pipeline and additional rear easement mains and the proposal to implement an advanced metering infrastructure pilot program ("AMI Pilot").	4, 12-14, 39, 41-45, 49, 69-71
Mark Campbell	Details and supports the therm, customer, capital, sales, and financial forecasts upon which FCG's projected MFRs are based. Explains the major drivers since 2018 that necessitate a base rate increase effective February 1, 2023. Details and supports key features of the Company's four-year rate plan, including the Reserve Surplus Amortization Mechanism ("RSAM"), capital structure and weighted average cost of capital, the tax change adjustment mechanism, and the continued use of FCG's Storm Damage Reserve.	1-3, 5-8, 13-14, 17-18, 21, 23-30, 36, 40, 44-46, 48-49, 52, 54-55, 67-68, 71

Witness	Subject Matter	Issue Nos.
Direct		
Liz Fuentes	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. Presents the revenue requirement impact of the proposed RSAM-adjusted depreciation rates that the Commission could approve as part of the Company’s four-year rate plan in lieu of those presented by FCG witness Allis. 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.	5-9, 11, 14-28, 31-38, 40, 47, 50-57, 67, 72, OPC Issue E
Tara B. DuBose	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. 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.	36, 58-66
Jennifer E. Nelson	Provides the Commission with a detailed analysis and recommendation on behalf of the Company regarding the Company’s return on equity (“ROE”) and assesses the reasonableness of the Company’s requested capital structure.	29-30
Ned W. Allis	Details the methods and procedures supporting the 2022 Depreciation Study and sets forth the annual depreciation rates that result from the application of the 2022 Depreciation Study.	5, 7-8

Witness	Subject Matter	Issue Nos.
Rebuttal		
Kurt S. Howard	Responds to the testimony of Office of Public Counsel (“OPC”) witness Helmuth W. Schultz, III regarding the following topics: (i) the LNG Facility; (ii) the proposed AMI Pilot; (iii) plant additions; (iv) headcount and payroll; (v) safety, injuries, and damages; (vi) the Storm Damage Reserve; and (vii) integration of FCG into the NextEra Energy, Inc. (“NEE”) organization. Addresses customer comments regarding FCG’s service, and the testimony of Staff witness Angela L. Calhoun regarding customer complaints.	4, 12-14, 39, 41, 42, 45, 71

Witness	Subject Matter	Issue Nos.
Rebuttal		
Mark Campbell	Responds to the OPC and the Federal Executive Agencies' ("FEA") witnesses' testimony regarding FCG's proposed four-year rate plan and RSAM. Addresses OPC witness Schultz's proposed adjustments to the projected 2023 Test Year rate base, Directors and Officers Liability ("DOL") expense, and Parent Debt Adjustment. Responds to the capital structure and weighted average cost of capital recommendations by OPC witness Garrett and FEA witness Walters.	6-8, 13-14, 23-24, 29, 46, 67, 71
Liz Fuentes	Addresses OPC witness Schultz and FEA witness Collins proposed adjustments to FCG's rate case expenses, the AGL Resources, Inc. ("AGLR") acquisition adjustment, and the revenue requirements associated with the LNG Facility. Presents the recalculated base revenue increase for the 2023 Test Year to incorporate certain adjustments identified by FCG.	14, 16, 18, 20, 23-28, 32, 36-37, 47, 50, 53-55, 57, OPC Issue E
Ned W. Allis	Discusses the seven plant accounts and subaccounts for which OPC witness Garrett proposes longer service lives than those recommended in FCG's 2022 Depreciation Study. Explains why the service lives recommended in the 2022 Depreciation Study are more reasonable than those recommended by OPC witness Garrett.	5, 7-8
Tara B. DuBose	Responds to FEA witness Collins' proposal to allocate capacity costs using a design day allocation and explains why such an allocation is not reasonable, is inconsistent with the principles of gradualism, and is not reflective of how FCG operates and provides service to its customers.	58-59
Kathleen Slattery	Responds to the direct testimony of OPC witness Schultz regarding staffing and payroll, incentive compensation, benefits, and payroll tax expense of FCG.	21, 39-40, OPC Issue E
Jennifer E. Nelson	Responds to the direct testimony of OPC witness Garrett and FEA witness Walters regarding cost of capital. Concludes that witness Garrett and witness Walters ROE and capital structure recommendations are below any reasonable measure of FCG's cost of equity and do not satisfy the *Hope* and *Bluefield* comparable risk, financial integrity, and capital attraction standards.	29-30

II. PREFILED EXHIBITS

Witness	Proffered By	Exhibit No.	Description	Issue Nos.
Direct				
Kurt S. Howard	FCG	KSH-1	List of MFRs Sponsored or Co-Sponsored by Kurt S. Howard	57
Mark Campbell	FCG	MC-1	List of MFRs Sponsored or Co-Sponsored by Mark Campbell	57
Mark Campbell	FCG	MC-2	Planning and Budgeting Process Guidelines	1-3
Mark Campbell	FCG	MC-3	Florida City Gas Forecasting Process Overview	1-3
Mark Campbell	FCG	MC-4	Major Forecast Assumptions	1-3
Mark Campbell	FCG	MC-5	Drivers of the Increase in Revenue Requirements	57
Mark Campbell; Liz Fuentes	FCG	MC-6	Reserve Surplus Amortization Mechanism	6-8, 67
Liz Fuentes	FCG	LF-1	List of MFRs Sponsored or Co-Sponsored by Liz Fuentes	57
Liz Fuentes	FCG	LF-2	MFR G-5 for the 2023 Test Year	57
Liz Fuentes	FCG	LF-3	2023 SAFE Revenue Requirements Transferred to Base Rates	11, 34, 57
Liz Fuentes	FCG	LF-4	2023 ROE Calculation without Rate Relief	57
Liz Fuentes	FCG	LF-5(A)	Impact to Depreciation Expense using 2022 Depreciation Study Rates for Base vs. Clause for 2023	6, 7
Liz Fuentes; Ned W. Allis	FCG	LF-5(B)	Proposed Depreciation Company Adjustment for Base vs. Clause for 2023 Using the RSAM Adjusted Depreciation Rates	6, 7
Liz Fuentes	FCG	LF-6	ADIT Proration Adjustment to Capital Structure for 2023 Test Year	25
Tara B. DuBose	FCG	TBD-1	List of MFRs Sponsored or Co-Sponsored by Tara DuBose	57
Tara B. DuBose	FCG	TBD-2	Forecast of Bills, Therms, Demand Charge Quantities, and Revenues for the 2023 Test Year at Present Rates	58-64
Tara B. DuBose	FCG	TBD-3	Comparison of Rates of Return and Parity at Present Rates to Equalized Rates and to Proposed Rates	58-59

Witness	Proffered By	Exhibit No.	Description	Issue Nos.
Direct				
Tara B. DuBose	FCG	TBD-4	Parity of Major Customer Classes at Proposed Rates	58-59
Tara B. DuBose	FCG	TBD-5	Analysis of Proposed Revenue Requirement Increases	58-59
Tara B. DuBose	FCG	TBD-6	FCG Bill Comparisons	58-59
Jennifer E. Nelson	FCG	JEN-1	Résumé and Testimony Listing of Jennifer E. Nelson	29-30
Jennifer E. Nelson	FCG	JEN-2	Constant Growth DCF Analysis	29-30
Jennifer E. Nelson	FCG	JEN-3	Quarterly Growth DCF Analysis	29-30
Jennifer E. Nelson	FCG	JEN-4	DCF-based Expected Market Return	29-30
Jennifer E. Nelson	FCG	JEN-5	CAPM and Empirical CAPM Analyses	29-30
Jennifer E. Nelson	FCG	JEN-6	Bond Yield Plus Risk Premium Analysis	29-30
Jennifer E. Nelson	FCG	JEN-7	Small Size Premium Analysis	29-30
Jennifer E. Nelson	FCG	JEN-8	Proxy Group Regulatory Risk Comparative Assessment	29-30
Jennifer E. Nelson	FCG	JEN-9	Flotation Costs	29-30
Jennifer E. Nelson	FCG	JEN-10	Capital Structure Analysis	29-30
Ned W. Allis	FCG	NWA-1	2022 Depreciation Study	5, 7-8
Ned W. Allis	FCG	NWA-2	List of Cases in which Ned W. Allis has Submitted Testimony	5, 7-8
Ned W. Allis	FCG	NWA-3	Schedules 1A and 1B	5, 7-8
Ned W. Allis	FCG	NWA-4	Summary of Depreciation Based on Current Service Life and Net Salvage Estimates	5, 7-8
Ned W. Allis	FCG	NWA-5	Summary of Depreciation Based on Proposed Service Life and Current Net Salvage Estimates	5, 7-8

Witness	Proffered By	Exhibit No.	Description	Issues Nos.
Rebuttal				
Kurt S. Howard	FCG	KSH-2	FCG Responses to Staff Interrogatories Concerning LNG Facility Construction Status (Staff Interrogatory Nos. 78 and 79)	13
Kurt S. Howard	FCG	KSH-3	FCG Response to Staff Interrogatory Regarding the AMI Pilot (Staff Interrogatory No. 36)	12
Kurt S. Howard	FCG	KSH-4	FCG Response to OPC Interrogatory Regarding Net Plant Additions (OPC Interrogatory No. 151)	14
Kurt S. Howard	FCG	KSH-5	FCG Responses to OPC Interrogatories Regarding Headcount and Payroll (OPC Interrogatory Nos. 150 and 170)	39
Mark Campbell	FCG	MC-7	2024 to 2026 Revenue Requirements	6-8, 67, 71
Mark Campbell	FCG	MC-8	Excerpts from the Florida Public Service Commission Staff Supreme Court Brief in Case Nos. SC21-1761 and SC22-12	67
Mark Campbell	FCG	MC-9	FCG's Responses to Staff Request for Production of Documents No. 11 and Interrogatories No. 64, 65, 71, and 73	6-8, 67, 71
Mark Campbell	FCG	MC-10	Florida Public Service Commission 2021 Regulatory Plan	46
Liz Fuentes	FCG	LF-7	Revised Rate Case Expenses	20, 47
Liz Fuentes	FCG	LF-8	FCG Responses to OPC Discovery in Docket No. 20220069-GU	14, 16, 18, 50, 57
Liz Fuentes	FCG	LF-9	OPC's Proposed Adjustments to Rate Base and Net Operating Income in Docket No. 20170179-GU	57
Liz Fuentes; Tara B. DuBose; Kurt S. Howard	FCG	LF-10	FCG's Notice of Identified Adjustments filed August 16, 2022	57
Liz Fuentes	FCG	LF-11	2023 Test Year Recalculated Revenue Requirements with RSAM	23-28, 32, 36-37, 39, 49, 53-55, 57
Liz Fuentes	FCG	LF-12	2023 Test Year Recalculated Revenue Requirements without RSAM	23-28, 32, 36-37, 39, 49, 52-54, 57

Witness	Proffered By	Exhibit No.	Description	Issues Nos.
Rebuttal				
Ned W. Allis	FCG	NWA-6	Excerpts from FCG's 2018 Depreciation Study in Docket No. 20170179-GU	5, 7-8
Ned W. Allis	FCG	NWA-7	Excerpts from Mr. Garrett's testimony provided as Exhibit TURN-18 in California Application A.21-06-021	5, 7-8
Tara B. DuBose	FCG	TBD-7	Customers and Usage Comparison by Customer	58-59
Tara B. DuBose	FCG	TBD-8	Comparison of FEA to FCG Revenue Allocations	58-59
Tara B. DuBose	FCG	TBD-9	Comparison of FEA to FCG Increase Allocations	58-59
Kathleen Slattery	FCG	KS-1	FCG Cash Incentive Compared to Market	39
Kathleen Slattery	FCG	KS-2	FCG Position to Market - 2022 Base Pay	39
Jennifer E. Nelson	FCG	JEN-11	Constant Growth DCF Analysis	29-30
Jennifer E. Nelson	FCG	JEN-12	Quarterly Growth DCF Analysis	29-30
Jennifer E. Nelson	FCG	JEN-13	DCF-based Expected Market Return	29-30
Jennifer E. Nelson	FCG	JEN-14	CAPM and Empirical CAPM Analyses	29-30
Jennifer E. Nelson	FCG	JEN-15	Bond Yield Plus Risk Premium Analysis	29-30
Jennifer E. Nelson	FCG	JEN-16	Capital Structure Analysis	29-30
Jennifer E. Nelson	FCG	JEN-17	Recent Authorized ROEs and Equity Ratios	29-30
Jennifer E. Nelson	FCG	JEN-18	Relationship between Industry Debt Ratios and Beta Coefficients	29-30
Jennifer E. Nelson	FCG	JEN-19	Gross Domestic Product by Industry	29-30
Jennifer E. Nelson	FCG	JEN-20	Frequency of Observed Annual Market Risk Premium	29-30
Jennifer E. Nelson	FCG	JEN-21	Adjustments to OPC Witness Garrett's Implied Equity Risk Premium Analysis	29-30
Jennifer E. Nelson	FCG	JEN-22	FEA Witness Walters' Corrected Beta Coefficients	29-30
Jennifer E. Nelson	FCG	JEN-23	Adjustments to FEA Witness Walters' CAPM Analysis	29-30

III. STATEMENT OF BASIC POSITION

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

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

Under the four-year proposal described below, FCG is requesting a single incremental base rate increase of $18.8 million[1] to be effective February 1, 2023. The incremental base rate increase is based on the difference between FCG's projected net operating income of $13.8 million and FCG's required net operating income of $34.7 million, multiplied by the revenue expansion factor of 1.3527, less $5.7 million for the required reclassification of the SAFE program revenues from clause to base rates, and less $3.8 million for the previously approved LNG Facility. Absent rate relief in 2023, FCG's earned ROE is projected to be well below the bottom end of the ROE range.

FCG's Four-Year Rate Plan

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

(a) an increase in base rates and charges sufficient to generate a total base revenue increase of $28.3 million[2] based on a projected 2023 Test Year, which includes: (i) an incremental base rate revenue requirement of $18.8 million,[3] (ii) the revenue requirements for the previously approved LNG Facility,[4] and (iii) the reclassification of the SAFE program revenues from clause to base rates;[5]

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[1] As recalculated in the rebuttal testimony of FCG witness Fuentes and Exhibit LF-11.
[2] *Id.*
[3] *Id*.
[4] Order No. PSC-2018-0190-FOF-GU, Docket No. 20170179-GU (the "2018 Settlement").
[5] Order No. PSC-15-0390-TRF-GU, Docket No. 150116-GU.

(b) a 10.75% mid-point ROE and an equity ratio of 59.6% from investor sources for all regulatory purposes;

(c) implementation of a RSAM, which is a critical and essential component of FCG's four-year rate plan;

(d) approval of RSAM-adjusted depreciation rates, which is necessary to support the RSAM and decreases the incremental revenue requirement by $2.7 million;

(e) the continuation of the Storm Damage Reserve provision approved as part of FCG's 2018 Settlement Agreement, as modified to reflect the Commission's new storm rule for gas utilities;

(f) a mechanism that will allow FCG to adjust base rates in the event tax laws change during or after the conclusion of this proceeding;

(g) continuation and expansion of the existing SAFE program, which will allow FCG to further improve safe and reliable service to customers and the communities it serves; and

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

Return on Equity and Capital Structure

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

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

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

Reserve Surplus Amortization Mechanism

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

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

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

Storm Damage Reserve

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

Potential Change in Tax Law

FCG requests that if a new tax law is passed during the pendency of or after this proceeding, the impact of tax reform be handled through subsequent base rate adjustments. Within 90 days of the enactment of the new tax law, FCG would submit the calculation of the required change in base rates to the Commission for review. If timing permits, FCG will submit a revised revenue requirement calculation for Commission consideration as part of FCG's base rate request. Otherwise, FCG will submit the calculation for Commission approval of a subsequent base rate adjustment. In no instance will FCG defer incremental income tax expense for 2022 or request the tax-related base rate adjustment be implemented before February 1, 2023. Depending on the nature of any final tax law, any deficient or excess deferred income taxes that arise will be deferred as a regulatory asset or liability on the balance sheet and included within FCG's capital structure.

SAFE Program Expansion

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

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

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

AMI Pilot

FCG's proposed AMI Pilot is a four-year pilot to support the evaluation of system-wide deployment of AMI infrastructure in a future case. The purpose of the AMI Pilot is to test and gain information and data on the deployment, use, benefits, and cost savings associated with AMI that includes two-way communications. The AMI Pilot will also test and gather data on corrosion resistance and life of new smart meters, as well as the ability of FCG's back-office information technology and billing systems to support and utilize the full potential of two-way communication smart meters.

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

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

Conclusion

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

IV. ISSUES AND POSITIONS

Below are FCG's positions on the issues identified. Unless otherwise indicated, FCG's positions are based on its Four-Year Rate Proposal.

Note: There are disputes concerning the appropriateness of certain issues. Those disputes will be brought before the Prehearing Officer for resolution at the Prehearing Conference. Accordingly, FCG has not included and is not stating a position on any contested issues at this time, but will do so following the Prehearing Conference if the Prehearing Officer determines any such issues are appropriate.

TEST PERIOD AND FORECASTING

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

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

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

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

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

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

QUALITY OF SERVICE

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

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

DEPRECIATION STUDY

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

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

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

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

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

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

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

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

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

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

ISSUE 10: **Should FCG's depreciation rates approved in this proceeding remain in effect until base rates are reset in FCG's next general base rate proceeding?**

FCG: ISSUE WITHDRAWN BY FCG.

RATE BASE

ISSUE 11: Has FCG made the appropriate adjustment to Rate Base to transfer the SAFE investments as of December 31, 2022 from clause recovery to base rates?

FCG: Yes. Per Order No. PSC-15-0390-TRF-GU in Docket No. 150116-GU, investments in the SAFE program are required to be folded into any newly approved rate base and the SAFE surcharge is to begin anew. As reflected on Exhibit LF-3, $5.7 million of SAFE revenue requirements were transferred from clause recovery to base rates in the 2023 Test Year. As a result, the $5.7 million of SAFE revenue requirements that were transferred from clause to base rates are included in FCG's requested $28.3 million[6] total base revenue increase. (Fuentes)

ISSUE 12: Should FCG's proposed Advanced Metering Infrastructure (AMI) Pilot be approved? If so, what adjustments, if any, should be made?

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

ISSUE 13: What is the appropriate amount of plant in service for FCG's delayed LNG facility that was approved in its last rate case?

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

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

<u>ISSUE 14:</u> **What is the appropriate level of plant in service for the projected test year? (Fallout Issue)**

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

<u>ISSUE 15:</u> **Has FCG made the appropriate adjustments to remove all non-utility activities from Plant in Service, Accumulated Depreciation, and Working Capital?**

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

<u>ISSUE 16:</u> **Should any adjustments be made to the amounts included in the projected test year for acquisition adjustment and accumulated amortization of acquisition adjustment?**

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

<u>ISSUE 17:</u> **What is the appropriate level of CWIP to include in the projected test year?**

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

ISSUE 18: **What is the appropriate level of Gas Plant Accumulated Depreciation and Amortization for the projected test year?**

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

ISSUE 19: **Have under recoveries and over recoveries related to the Purchased Gas Adjustment, Energy Conservation Cost Recovery, and Area Expansion Plan been appropriately reflected in the Working Capital Allowance?**

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

ISSUE 20: **Should the unamortized balance of Rate Case Expense be included in Working Capital and, if so, what is the appropriate amount to include?**

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

ISSUE 21: **What is the appropriate amount of deferred pension debit in working capital for FCG to include in rate base?**

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

ISSUE 22: **Should the unbilled revenues be included in working capital?**

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

ISSUE 23: **What is the appropriate level of working capital for the projected test year?**

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

ISSUE 24: **What is the appropriate level of rate base for the projected test year? (Fallout Issue)**

FCG: As reflected in Exhibit LF-11, the appropriate amount of rate base with RSAM for the 2023 projected test year is $488,905,694 (adjusted). If the Commission does not adopt the RSAM as part of FCG's four-year rate proposal, the appropriate amount of rate base without RSAM for the 2023 projected test year is $487,326,330 (adjusted) as reflected in Exhibit LF-12. (Campbell, Fuentes)

COST OF CAPITAL

ISSUE 25: **What is the appropriate amount of accumulated deferred taxes to include in the projected test year capital structure?**

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

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

FCG: As reflected in Exhibit LF-11, the appropriate amount and cost rate for short-term debt with RSAM for the 2023 projected test year is $20,203,793 (adjusted) and 1.78%, respectively. If the Commission does not adopt the RSAM as part of FCG's four-year rate proposal, the appropriate amount and cost rate for short-term debt without RSAM for the 2023 projected test year is $20,137,159 (adjusted) and 1.78%, respectively, as reflected in Exhibit LF-12. (Fuentes, Campbell)

ISSUE 27: **What is the appropriate amount and cost rate for long-term debt to include in the projected test year capital structure?**

FCG: As reflected in Exhibit LF-11, the appropriate amount and cost rate for long-term debt with RSAM for the 2023 projected test year is $154,025,674 (adjusted) and 4.28%, respectively. If the Commission does not adopt the RSAM as part of

FCG's four-year rate proposal, the appropriate amount and cost rate for long-term debt without RSAM for the 2023 projected test year is $153,521,933 (adjusted) and 4.28%, respectively, as reflected in Exhibit LF-12. (Fuentes, Campbell)

ISSUE 28: **What is the appropriate amount and cost rate for customer deposits to include in the capital structure?**

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

ISSUE 29: **What is the appropriate equity ratio to use in the capital structure for ratemaking purposes?**

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

ISSUE 30: **What is the appropriate authorized return on equity (ROE) to use in establishing FCG's projected test year revenue requirement?**

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

ISSUE 31: **Has FCG made the appropriate adjustments to remove all non-utility investments from the common equity balance?**

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

ISSUE 32: **What is the appropriate weighted average cost of capital to use in establishing FCG's projected test year revenue requirement?**

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

NET OPERATING INCOME

ISSUE 33: **Has FCG properly removed Purchased Gas Adjustment and Natural Gas Conservation Cost Recovery Clause revenues, expenses, and taxes-other-than-income from the projected test year?**

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

ISSUE 34: **Has FCG made the appropriate adjustment to Net Operating Income to remove amounts associated with the transfer of SAFE investments as of December 31, 2022 from clause recovery to base rates?**

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

ISSUE 35: **Should FCG's proposal to transfer outside service costs incurred for clause dockets from base rates to each of the respective cost recovery clause dockets be approved and, if so, has FCG made the appropriate adjustments to remove all such outside service costs incurred for clause dockets from the projected test year operating revenues and operating expenses?**

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

ISSUE 36: **What is the appropriate amount of miscellaneous revenues?**

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

ISSUE 37: **Is FCG's projected Total Operating Revenues for the projected test year appropriate? (Fallout Issue)**

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

ISSUE 38: **Has FCG made the appropriate adjustments to remove all non-utility activities from operation expenses, including depreciation and amortization expense?**

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

ISSUE 39: **What is the appropriate amount of salaries and benefits to include in the projected test year?**

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

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

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

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

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

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

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

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

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

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

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

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

<u>FCG</u>: Yes. The Commission should allow FCG to continue the Storm Damage Reserve provision included in the 2018 Settlement Agreement. A storm reserve is a prudent approach to addressing potential storm costs and is a mechanism commonly employed by Florida utilities. The appropriate annual storm damage accrual and target reserve amount are $57,500 and $800,000, respectively, which is supported by FCG's Storm Damage Self-Insurance Reserve Study filed with the Commission on January 15, 2022, as required by Rule 25-7.0143, F.A.C. (Campbell, Howard)

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

<u>FCG</u>: No. Rule 25-14.004, F.A.C., is based on the premise that debt at the parent level supports a portion of the parent's equity investment in the subsidiary, which is not the case for FCG. Upon the July 29, 2018 acquisition by FPL, there was no significant change in FCG's total per book capital structure value as inherited from Southern Company Gas and the initial investment and resulting goodwill to acquire FCG is maintained at FPL as non-utility investment. Further, FCG receives all of its debt and equity from FPL pursuant to Commission-approved Financing Applications. FCG has proposed a 2023 Test Year financing capital structure equal to the capital structure of FCG's parent company, FPL, which consists of 59.6%

common equity and 40.4% debt over investor sources. As such, no additional interest expense tax benefit exists at the parent level and, therefore, no parent debt adjustment is required or appropriate. (Campbell)

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

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

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

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

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

FCG: As reflected in Exhibit LF-11, the appropriate amount of O&M Expense is $25,445,071 (adjusted) for the 2023 projected test year. If the Commission does not adopt the RSAM as part of FCG's four-year rate proposal, the appropriate amount of O&M Expense for the 2023 projected test year is also $25,445,071 (adjusted) as reflected on Exhibit LF-12. (Howard, Campbell)

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

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

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

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

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

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

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

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

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

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

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

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

REVENUE REQUIREMENTS

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

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

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

FCG: As reflected in Exhibit LF-11, the appropriate annual operating revenue increase with RSAM is $28.3 million for the 2023 Test Year, which includes an incremental increase of $18.8 million, the previously approved increase of $3.8 million for the LNG Facility, and $5.7 million to transfer the SAFE investments from clause to base. As reflected in LF-12, if the Commission does not adopt the RSAM as part of FCG's four-year rate proposal, the appropriate annual operating revenue increase without RSAM is $31.3 million for the 2023 Test Year, which includes an incremental increase of $21.5 million, the previously approved increase of $3.8 million for the LNG Facility, and $6.0 million to transfer the SAFE investments from clause to base. (Fuentes)

COST OF SERVICE AND RATE DESIGN

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

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

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

FCG: The increase should be allocated as shown in Exhibit TBD-3. FCG has set the proposed revenues by rate class to improve parity among the rate classes to the greatest extent possible, while following the Commission practice of gradualism and considering the competitive nature of the natural gas industry. (DuBose)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

OTHER ISSUES

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

FCG: Yes. The RSAM is a critical and essential component of FCG's proposed four-year rate plan and should be approved as set forth in Exhibit MC-6. The Company is proposing a Reserve Amount of $25 million to be available for use in the RSAM for the 2023-2026 period, which will enable FCG to avoid another base rate increase until at least the end of 2026 while continuing to earn a reasonable rate of return. FCG's proposed RSAM follows the same framework that has previously been approved by the Commission. FCG will use the RSAM to respond to changes in its underlying revenues and expenses in order to maintain an FPSC Adjusted ROE within the Company's authorized range. FCG projects that it will be necessary to use the entirety of the Reserve Amount to earn at FCG's midpoint ROE for 2024, 2025, and 2026 as illustrated in Exhibit MC-7. The record evidence in this case will demonstrate that if FCG's proposed four-year rate plan with the RSAM is not approved, FCG would need to file an additional base rate case in 2024 and the overall, net cumulative increase in cash that would be paid by customers over the period 2023-2026 would be approximately $27.0 million more than as compared to FCG's proposed four-year rate plan. (Campbell, Fuentes)

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

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

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

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

ISSUE 70: **Should the Commission approve FCG's proposal to expand the SAFE program to include replacement of "orange pipe" and, if so, how should the program be adjusted?**

FCG: Yes. Orange pipe is a specific plastic material that was used in the 1970s and 1980s that has been studied by the United States Department of Transportation Pipeline and Hazardous Materials Safety Administration ("PHMSA") and shown through industry research to exhibit premature failure in the form of cracking. The potentially compromised nature of the piping makes responding to leaks more hazardous since responders cannot safely squeeze the pipe without it cracking. In order to address this safety risk in a timely manner, FCG is seeking approval to expand the SAFE program cost recovery mechanism to include the capital investments necessary for the expedited replacement of approximately 160 miles of orange pipe installed before 1990. If approved in this proceeding, FCG will propose a new investment/construction schedule and term for the SAFE program in its next applicable annual SAFE filing. (Howard)

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

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

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

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

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

FCG: Yes.

OPC PROPOSED ISSUES

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

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

V. ISSUES TO WHICH THE PARTIES HAVE STIPULATED

No issues have been stipulated at this time.

VI. PENDING MOTIONS

No motions are pending.

VII. PENDING CONFIDENTIAL REQUESTS

The following Request for Confidential Classification is pending as of the time of this filing:

1. FCG's Request for Confidential Classification of certain information provided in its response to OPC's Seventh Request for Production of Documents No. 53, filed on November 4, 2022.

VIII. OBJECTIONS TO WITNESSES' QUALIFICATIONS AS AN EXPERT

At this time, FCG has no objections to any witness qualifications as an expert.

IX. SEQUESTRATION OF WITNESSES

FCG does not request that the witnesses in this proceeding be sequestered.

X. REQUIREMENTS OF THE PREHEARING ORDER THAT CANNOT BE MET

At this time, FCG is not aware of any requirements in the Order Establishing Procedure with which it cannot comply.

Respectfully submitted this 15th day of November 2022.

By: *_/s/ Christopher T. Wright_*

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by Electronic Mail to the following parties of record this 15th day of November 2022:

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