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BY E-PORTAL

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

Docket No. 20250035-GU – Petition for approval of 2025 depreciation study and for approval to amortize reserve imbalance, by Florida City Gas.

Dear Mr. Teitzman:

Enclosed for filing, please find Florida City Gas's Responses to Staff's Second Set of Data Requests.

As always, thank you for your assistance in connection with this filing. If you have any questions whatsoever, please do not hesitate to let me know.

Sincerely,

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Docket No. 20250035-GU: Petition for approval of 2025 depreciation study and for approval to amortize reserve imbalance, by Florida City Gas.

Florida City Gas's Responses to Staff's Second Data Requests

1. Please refer to FCG's Depreciation Study Narrative, Pages 13-14.

   For Account 3762: Mains - Steel, FCG states,

   > "The currently approved net salvage is (50)%. The overall average net salvage is (146)% with the most recent 2021-2024 period averaging (64)%. Even though removal costs have historically been high, the costs have continually decreased over time....FCG proposes (40)% net salvage in line with recent trends... "

   For Account 3801: Services - Plastic, FCG states,

   > "The current approved net salvage factor for this account is (68)%. The overall net salvage is (398)% with the most recent 2021-2024 period averaging (132)%. Given the miniscule retirement data, the Company does not believe this activity is indicative of future salvage expectations ....At this time, the Company proposes a decrease to (40)% net salvage... "

   FCG indicates it relied on recent net salvage trends in the case of Account 3762, but it did not do so for Account 3801. Please explain why.

Company Response:

The Company would like to point out that while the trend in removal costs for plastic services is not as prominent as seen in plastic mains, there is a downward turn. In both instances, the overall and most recent 4-year average net salvage factors are higher than the currently approved factor. Ms. Lee reviewed both the historical and the current trends for these accounts, and based on her expertise, discussions with Company personnel, and considering the approved parameters of other Florida gas utilities, a (40)% net salvage is proposed for each account.

The historical net salvage for Account 3762, Steel Mains, is (146)% with the 2021-2024 period averaging (132)%. As pointed out in the 2025 Depreciation Study narrative, removal costs for steel mains have continually decreased over time as shown on Sch Q of the study workbook. Steel mains require welding labor and fittings to cut connections. All disturbed

areas are restored to the original condition per permit requirements. Restoration costs include concrete/sidewalks and curbs, asphalt/paving streets and patching, sod, etc. That said, FCG is replacing mains running through less accessible parts of customer property (e.g., backyards) with mains located in more accessible areas. Therefore, when a main is retired, the labor required to excavate and access the main to cut and cap is expected to continue to decrease. The miniscule retirement rate does not lend credibility for reliance on historical net salvage costs in projecting future expectations. Even the 2022 Gannett Fleming 2022 submitted study did not rely on historical salvage for its proposal. Other Florida gas utilities estimate net salvage for steel mains in the range of (30)% to (60)%. The proposed (40)% net salvage is in line with the future expectations of a continued reduction in removal costs and a move more in the range of other Florida utility estimates. The historical net salvage for Account 3801, Plastic Services, is (398)% with the 2022-2024 period averaging (132)%. The retirement rate has averaged less than 1% making reliance on estimates of other Florida utilities necessary. As with mains, services are being relocated from customer backyards and becoming more accessible. Thus, a reduction in labor costs associated with the abandonment of the retired service is expected. Net salvage estimates of other Florida gas utilities range from (30)% to (75)%, averaging (41)%, with several companies projecting (30)% net salvage. The proposed (40)% net salvage is in line with the future expectations of a continued reduction in removal costs and a move more in the range of other Florida utility estimates.

2. Please refer to FCG's response to Staffs 1st Data Request, No. 11. FCG proposes to increase the ASL for Account 3900: Structures and Improvements from 25 to 40 years (a 60 percent increase). Please explain whether FCG considered a reduced percent increase in this adjustment, to be revisited in a later study, in recognition of the depreciation concept of Gradualism. If not, please explain why not.

Company Response:

Gradualism is not a depreciation concept, but when applied in the depreciation context, it emphasizes incremental changes to depreciation parameters over time rather than all at once.

Gradualism was not considered in the proposed average service life for Account 390. The future life expectancy for general plant office buildings is typically 40 years as indicated in the average service life projections of other Florida gas companies. The account investment includes a 2024 office building not considered in the previous Gannett Fleming submitted depreciation study. The retirement rate for the 2004-2024 period averaged 2.2% with the 2004-2024 period averaging 0%. In fact, during the 2021-2024 period, retirements only occurred in 3 years. Other Florida utilities project average service life factors ranging from 25 years to 40 years. Only one company estimates a 25-year life expectancy for general plant structures. It is the expert opinion of Ms. Lee that a 25-year average service life may be appropriate for leasehold improvements but not for office buildings.

3. Please refer to FCG's Depreciation Study Narrative, Page 15, as well as FCG's response to Staffs 15[1] Data Request, No. 7. FCG is proposing to increase the net salvage factor for Account 3801: Services -Plastic from (68)% to (40)%.
   a. Please explain the basis for proposing an increase to net salvage when both the overall net salvage of (398)% and most recent net salvage of (132)% experienced for the account are both significantly higher than the currently approved net salvage factor (68)%.
   b. Did FCG consider requesting a lower net salvage percentage for this account based on the depreciation concept of Gradualism, especially given the recent higher trend in net salvage of (132)% compared to the currently approved (68)%? Is so, please explain. If not, please explain why not.
   c. FCG's claims that relocation of the services to the front of the customer's property will serve to reduce retirement costs. Please also provide any quantitative impact/calculations the utility relied upon that supports increasing the net salvage factor of the account from (68)% to (40)%.

Company Response:

As explained in the depreciation study narrative as well as in response to Staff's First Data Request, miniscule retirements makes reliance on industry averages necessary. Otherwise, the assumption is that the net salvage experienced by retirements relating to less than 1% of

the account relates to what the future retirement of the surviving investment will experience.

a. See response to question 1 above.

b. Gradualism is not a depreciation concept. It is a concept that emphasizes incremental changes to depreciation parameters over time rather than all at once. Gradualism was not considered in the proposed net salvage percentage for Account 3801. See response to question 1 above.

c. Based on conversations with FCG, the relocation of services to the front of the customer's property should reduce future removal costs because the service will be more easily accessible resulting in a decrease of associated time and labor costs. There are no quantitative calculations. The proposed (40)% net salvage is in line with the future expectations of a continued reduction in removal costs and a move more in the range of other Florida gas utility estimates.

4. Please refer to FCG's Depreciation Study Narrative, Page 18. FCG is proposing to increase the net salvage factor for Account 3820: Meter Installations from (25)% to 0%.

a. Was the concept of gradualism considered when FCG proposed to increase the net salvage factor for Account 3820: Meter Installations from (25)% to 0% in a single adjustment? If so, please explain. If not, please explain why not.

b. FCG states, "Other gas companies have net salvage estimates in the range of (5)% to (35)%, averaging (23)%." Please explain why FCG's proposed a net salvage factor of 0%, which is outside the band of its peer gas companies.

Company Response:

a. Gradualism is not a depreciation concept. It was not considered in the proposed 0% net salvage because there has been no net salvage incurred over the past 10 years and the future expectations are that little, if any, net salvage will be incurred upon retirement. See response to 4b below.

b. Historical net salvage (2004-2024) averaged (3)% with no net salvage experienced over the past 10 years. With this activity, a 0% net salvage is proposed as being appropriate even though it is outside the range of other Florida gas companies. The study parameters are based on Ms. Lee's expertise and Company input.

5. Please refer to FCG's Depreciation Study Narrative, Pages 16-17. Regarding Account 3810: Meters, FCG states, "The Company does not see a meter older than 20 years in the field and expects the average life for a meter is in the range of 15-20 years." However, FCG is proposing to increase the ASL for this account from 19 years to 20 years. Please explain why FCG is proposing a 20 year ASL for this account rather than an ASL representing the mid- range, given the Company's statement that there is no "meter older than 20 years in the field."

Company Response:

Based on discussions with FCG personnel, a 20-year average service life for meters is expected even though 10% of the surviving investment is more than 20 years old (Sch J of the study workbook). Under group depreciation, some items will experience a life shorter than the average while others will experience a life longer than the average service life.

6. Please refer to FCG's Depreciation Study Narrative, Pages 18-19. Regarding Account 3821:- Meter Installations- ERT, FCG states that there is limited data for the net salvage analysis. Please explain why FCG is proposing a significant change to the net salvage factor (from (25)% to 0%) for this account, given the Company's representation that there is limited data for analysis.

Company Response:

The Study narrative states "At this time, FCG proposes zero net salvage, the same as for Account 3820. The next Study will examine future trends in this account." A zero net salvage is the same net salvage as the proposed net salvage in the submitted 2022 Gannett Fleming Study.

7. Please refer to FCG's Depreciation Study Narrative, Pages 19-20, FCG states in its narrative that the currently approved net salvage factor is zero for Account 3840: House Regulators Installations, while the currently approved net salvage factor for the account is (25)% (Order No. PSC-2023-0177-FOF-GU). Does this information change the Company's proposed net salvage percentage since its stated position is a continuation of the currently approved net salvage factor? Please explain.

Company Response:

The Study Narrative, pages19-20, incorrectly stated that the currently prescribed net salvage factor is 0%. It is (25)%. The analysis remains the same. Of the 21 years of data available, retirements occurred in only 8 years, 4 of which were in the 2021-2024 period. No net salvage was realized in any year. FCG proposes a 0% net salvage factor.

8. Please refer to FCG's attachment to its response to Staffs 1st Data Request, No. 12, as well as the table below.

Average Service Life (years)						
Account	St. Joe	Peoples Gas	FPUC	Sebring Gas	**Florida Average**	**FCG Proposed**
3761: Mains - Plastic	40	75	75	45	59	**75**
3762: Mains-Steel	40	65	65	45	54	**65**
3801: Services - Plastic	42	55	55	40	48	**55**
3802: Services - Other/Steel	55	52	60	48	54	**60**

Please provide an explanation of what accounts for the wide variability between the four peer gas companies ASL estimates. For example, why does St. Joe and Sebring estimate a 45 year ASL for Account 3761 while FPUC and Peoples Gas estimate a 75 year ASL for the same account, a difference of 30 years?

Company Response:

FCG cannot explain the variability between the average service lives of St. Joe, Sebring, or Peoples Gas other than that found in the Commission orders of the associated last depreciation represcriptions. See also response to question 9b below.

9. Please refer to FCG's attachment to its response to Staffs 1st Data Request, Nos. 12 and 13, as well as the table below.

Average Service Life (Years)				
Account	FCG Currently Approved	FCG 2022 Study	**Florida Average**	**FCG 2025 Proposed**
3761: Mains - Plastic	75	65	59	**75**
3762: Mains-Steel	65	65	54	**65**
3801: Services - Plastic	55	50	48	**55**
3802: Services - Other/Steel	52	50	54	**60**

a. Given the Company's reliance on its peer gas companies for its ASL projections for many accounts, please explain why, for the above-referenced accounts, FCG is proposing an ASL that is higher than the Florida Average ASL among the peer utility group.

b. Specifically for Account 3761: Mains - Plastic, FCG is proposing a 75 year ASL, which is 16 years longer than the Florida Average and 10 years longer than FCG's 2022 Depreciation Study. FCG's last depreciation study's proposed 65 year ASL relied on a mathematical fit of FCG's retirement data to a 65-R4 survivor curve (FCG 2022 Depreciation Study, Exhibit NWA-1, page 157 of 179) Please provide any calculations supporting FCG's proposal in the instant case to extend the average service life of this account to 75 years.

Company Response:

a. In general, FCG relied on the range of average service lives of the peer Florida gas utilities, not the average. The beginning point in any depreciation review is the average service life underlying the currently approved average remaining life. Depending on the retirement experience, movement within the range of industry average lives is considered within the range of reasonableness.

For Accounts 3761 and 3762, the average service lives underlying the current approved average remaining lives are 75 and 65 years, respectively. The current study recommends no change to those average service lives but does recommend a change in the mortality dispersion that better depicts the expected retirement pattern. The existing curves imply more retirements than are being experienced and expected to be experienced in the future.

For Account 3801, the average service life underlying the current approved average remaining life is 55 years. No change is proposed to the average service life or current curve shape at this time.

For Account 3802, the average service life underlying the current approved average remaining life is 52 years. A slight increase in average service life to 60 years with a modification to the current curve shape are proposed as being in line with discussions with Company personnel and future expectations.

b. The Company is not recommending any change to the average service life underlying the currently approved average remaining life of Account 3761. A 75-year service life was approved in the last proceeding and is proposed in this 2025 Study. The average service life underlying the approved average remaining life for Account 3761 in Docket No. 20220069-GU differs from the 65-year average service life proposed in the 2022 submitted Gannett Fleming Study. As stated in the 2025 Depreciation Study narrative,

> Regarding the life of plastic pipe, some studies project lives as long as 100 years, but they often do not factor in operational realities. Moreover, the studies do not consider external factors such as soil conditions, system operating pressures, maintenance procedures, street widening, system growth and forces of nature that will impact life expectations. Factoring these things in as well as the replacement of the early vintage plastic pipe and first-generation coated steel pipe, a 75-year average service life for the account remains reasonable.

See attachment PSC DR 2-9b, Life Expectancy of Plastic Pipe. Additionally, FPUC, another Chesapeake gas utility, also estimates a 75-year average service life for plastic pipe. FCG also references the testimony of OPC witness Garrett in Docket No. 20220069 where the witness supported a 75-year average service life for plastic mains.

10. Please refer to FCG's response to Staffs 1st data request, No. 2.a. FCG states, "FCG did not consider placement/experience bands for curve shape considerations." Please explain why FCG elected not to utilize placement/experience bands in the instant case, as was done in FCG's last depreciation study.

Company Response:

There is no Commission requirement for utilizing placement/experience bands in a Company's depreciation study. The instant study reviewed the average service life and curve shape underlying the currently prescribed average remaining life for each account along with the current average age, short term and historic retirement rate, company input, and then Ms. Lee applied her substantial depreciation experience. The purpose of the depreciation study is to estimate forward looking average lives. See also response to question 11 below.

11. Please refer to Page 4 of FCG's 2025 Depreciation Study Narrative. FCG indicates that a review of the existing survivor curve for each account was performed to determine if a modification to the average service life is warranted based on average age and actual or expected retirement experience.
    a. Explain each element of FCG's process of analyzing average age distribution and aged retirement data to assess average service life selection in this case. Provide an example and any documentation showing how this process was completed.
    b. For each account, did FCG prepare updated Original Life Tables of FCG's assets and application of percent surviving at each age interval to create graphical and/or mathematical Iowa curve analyses in support of average service life determinations? Please provide all related analysis, computations, and graphical representations. If not, explain why not.

Company Response:

a) As noted in the 2025 Depreciation Study narrative, page 7, FCG's continuing property record ("CPR") system is the basis for the average age of surviving investments for each account (Sch H, I, and J of the 2025 Depreciation Study Workbook). First, annual data for the 2021–2024 period, as well as the General Ledger, Fixed Asset System, and near-term planning were compiled. This data was reviewed and compared for accuracy and followed-up on all discrepancies with Company personnel having knowledge of the property being studied and/or Company practices.

Each account's average retirement rate over the historic 2004-2024 period and recent 2021-2024 period along with the curve shape underlying the currently prescribed average remaining life were reviewed. This data, along with the January 1, 2025 calculated average age of the account's surviving investments, indicated whether a need for some modification to the curve shape underlying the currently approved average remaining life was needed. Retirement activity averaging less than 1% provides insufficient data to perform any meaningful statistical analyses results for life or salvage characteristics; therefore, it was necessary to rely on life characteristics for similar plant of other Florida gas utilities to make a complete analysis. The assumption is that the same type of plant, located in the same environment is likely to follow similar

life patterns unless otherwise warranted by specific company planning. Average retirement rates were calculated for each account and compared to those implied retirements at the January1, 2025 average age of the underlying account curve shape to determine if any modifications were warranted. If the proportion surviving at the current age implied more or less retirements than those experienced under the current curve, a change in curve shape was not necessarily proposed if the curve was considered indicative of future expectations.

The recommended average service life (projection life) and the January 1, 2025 average age for each account were used with the selected Iowa Curve life table to determine the average remaining life. The Life Tables used in the remaining life expectancy determinations were obtained from GTE-INC.[1] These are standard Iowa Curve tables that can also be replicated from other sources.[2]

For example, an account with an average service life of 30 years following an S3 retirement dispersion (Iowa Curve) would, at age 9.5 years, have an average remaining life of 20.52 years, rounded to 21 years. See attached Response PSC DR 2-11 S3-30 Life Table. For accounts where the average age is not found in the life table, the remaining life is determined by extrapolation. For instance, using the same service life and curve shape, at age 9.7 years, the average remaining life is 20.3 years, rounded to 20 years.

Projection Life 30 Years	
Age	Remaining Life
9.5	20.52
9.7	X
10.5	19.54

$$(9.7-9.5)/(10.5-9.5) = (X-20.52)/(19.54-20.52)$$

$$0.2/1 = -0.196$$

[1] The life tables obtained from GTE-INC are comprised of two volumes, each consisting of 646 pages, to voluminous to copy and attach.

[2] Frank K. Wolf and W. Chester Fitch, *Depreciation Systems*, Iowa State University Press, 1992, p. 40 and Appendix 1, pp. 305-338; Robley Winfrey, *Bulletin 125: Statistical Analyses of Industrial Property Retirements*, 1935 as revised 1967, Iowa State University Engineering Publications and Communications Services, pp. 102-106; Robley Winfrey, *Bulletin 155: Depreciation of Group Properties*, 1942, Iowa State University Engineering Publications and Communications Services, pp. 124-127.

$$X-20.52 = -0.196$$

$$X = 20.52-0.196$$

$$X = 20.324 \text{ rounded to } 20 \text{ years}$$

b) No. See response to question 11a above.

12. Absent statistical or visual analysis of the data described in Question 11 above, please explain how FCG determined the appropriate ASL/survivor curve shapes for each account in the instant case. Please provide an example.

Company Response:

See response to question 11 above.

13. The 2025 Depreciation Study Narrative indicates that, for several accounts (Accounts 3762, 378, 3790, 3801, 380.2) low retirement rates from 2004 through 2024 (averaging less than one percent) makes statistical analysis of life and salvage factors meaningless and/or reliance on industry expectations necessary. Yet, in FCG's 2022 Depreciation Study, the utility did provide statistical analysis of both life and salvage factors and used such analysis, along with other information, to establish depreciation parameters. Please explain why long term low retirement rates makes such statistical analysis meaningless in 2025 but not so in 2022.

Company Response:

FCG assumes that the reference to the 2022 Depreciation Study relates to the submitted Gannett Fleming depreciation study. The 2025 Depreciation Study Narrative does not state that statistical analysis cannot be performed where there are miniscule retirement rates, just that the results of that analysis are not considered meaningful for life and salvage determinations. Statistical analysis only indicates how the account has lived in the past. If that history represents a minor retirement pattern, relying on those results as a projection to the future retirement of the surviving investments is meaningless. Other information including Company input and projections of other Florida gas utilities is necessary.

For Account 3762, the Gannett Fleming submitted 2022 Depreciation Study conducted statistical analysis on the combined steel and plastic mains accounts. There was no information as to why the accounts were combined. According to that study, the data supported a longer life expectancy implying that the statistical analysis results were meaningless.

A similar situation exists with Account 378. This account was studied with Account 379 with a recommendation for a longer service life based on reliance on industry life estimates. Again, the implication was that the statistical analysis results were not meaningful.

For Accounts 3801 and 3802, the Gannett Fleming Study studied these accounts together and acknowledged increased life estimates. There was no information as to why the accounts were studied together other than an increase in life estimates was indicated. Reliance on industry estimates was used suggesting that reliance on the statistical analysis was not meaningful.

14. Please provide an overview of the differences in methodology in the various components of FCG's proposed 2025 Depreciation Study and the 2022 Depreciation Study approved by the Commission in 2023.

Company Response:

FCG assumes that the reference to the 2022 Depreciation Study relates to the submitted Gannett Fleming depreciation study. This study was not approved by the Commission. The Commission approved a different methodology to correct the reserve surplus imbalance while the 2025 study is proposing an amortization of the entire reserve imbalance over 2 years.

The methodology used in the current 2025 Depreciation Study is discussed within it. The components required in the remaining life rate design are average service life, age of surviving investments as of the study date, curve shape (Iowa Curve or mortality dispersion), average remaining life, and reserve. The aged retirement data and the average age distributions of the surviving investments along with the lives of other Florida gas utilities were used to determine if a revision to the average service life underlying the currently approved average remaining life for each account is needed.

The average service life and curve shape underlying the currently prescribed average remaining life along with the lives of other Florida gas utilities were used to determine if a life and/or curve revision was warranted. The current average age (Schs H, I, and J of the study workbook) was used with the average service life and curve combination underlying the existing average remaining life to determine whether the implied survivors are reasonable with the retirement experience. If not, a curve that closely resembles the retirement experience was selected for the study. The retirement rate for the last 4 years (2021-2024) as well as for the period 2004-2024 was calculated for each account. (See Schs F-1 and P of the 2025 Study workbook). Generally, a 4-year average retirement rate includes more recent retirement trends than a longer period. For accounts with minimal retirement experience (less than 1%), reliance on the average service lives of other Florida gas utilities as well as FCG input and Ms. Lee's extensive experience was used.

The calculation of the average remaining life for each account is discussed in the response to question11 above.

15. Assuming all other things equal (i.e. no new depreciation study), would the requested two-year amortization of the $27.3 million surplus lead to a higher depreciation expense and higher customer rates in FCG's next rate case than if the surplus were corrected using the remaining life technique? Please explain your answer.

Company Response:

Correction of the reserve imbalance through remaining life depreciation rates would take about 44 years, the composite remaining life of all FCG accounts. Correcting the reserve imbalance over a period shorter than the average remaining life provides a better chance of benefiting customers who previously overpaid for services by reducing depreciation expenses now through lower depreciation rates. Also, the 2-year amortization will allow the company to get closer to reaching a fair rate of return thus avoiding a near term rate increase proceeding. See also FCG response to item 20a of Staff's First Data Request.

Correction of the reserve imbalance over the proposed 2-year period compared to correction through the remaining life rate design, would result in an increase rate base and depreciation expenses in FCG's next rate case proceeding. In a vacuum, this would increase

customer rates.

16. Please provide an estimate, quantified in dollars, of the benefits customers would receive from the two-year amortization of the $27.3 million surplus (compared to remaining life technique), including:
    a. An estimate of the difference between existing customer rates and the increased rates FCG would request without the amortization;
    b. An estimate of the rate case expense for the near-term rate case FCG projects would be required absent the amortization;
    c. Any other quantifiable benefit FCG believes customers would receive as a result of the two-year amortization.

Company Response:

a) FCG customers will benefit of the two-year amortization of the $27.3 million surplus by having an extended period of rate stability and rate case savings avoiding a rate proceeding now, also, customers that paid for the excess would be the ones more likely receiving the benefit of the amortization for a shorter period of time. If the 2-year amortization is not approved FCG will initiate a rate proceeding in short order A preliminary estimate of the revenue increase requirement at midpoint is $20.7 million. The estimated average annual increase for base rate only for a typical RS-100 customer is 34%, for small commercial about 28% and large commercial about 6% increase. This does not include any increases in miscellaneous services.

b) A preliminary estimate of rate case expenses if FCG had to file a rate proceeding now is $1.9 million. This estimate includes legal services and consultants. A longer amortization period would most likely result in the need for multiple rate cases over the next five to six years versus one rate case with a short amortization period; thus, saving customers $1.9M over the next six years.

c) Please refer to response 16 a above. Not only will the customer benefit from an extended period of rate stability and rate case savings, the two-year amortization would also provide a better chance of benefiting customers who previously overpaid for services by

reducing depreciation expenses now through lower depreciation rates. Also, a longer time would allow FCG and FPUC to further develop efficiencies and savings as a result of the acquisition. A rate case this year would not provide the Companies with the time necessary to fully realize any benefits and synergies, while a delay increases the ability to identify and implement those benefits and to pass along to customers in a future rate proceeding.

17. Please provide an estimate of the total cost of FCG's petition for approval of the 2025 Depreciation Study in the present docket. Does FCG intend to request recovery of that expense in connection with its next petition for rate increase?

Company Response:

The estimated cost of FCG's petition for approval of the depreciation study is $100,000. If the amortization is approved as filed, the Company anticipates that it would not require a rate case in the short term and accordingly no recovery would be requested in the next petition for a rate case.