FLORIDA PUBLIC SERVICE COMMISSION

SPECIAL COMMISSION CONFERENCE AGENDA

CONFERENCE DATE AND TIME: Tuesday, March 28, 2023, Following Internal Affairs.

LOCATION: Betty Easley Conference Center, Joseph P. Cresse Hearing Room 148

DATE ISSUED: March 16, 2023

NOTICE

Conference agendas, staff recommendations, and vote sheets are available from the PSC website, http://www.floridapsc.com, by selecting *Conferences & Meeting Agendas* and *Commission Conferences of the FPSC*. Once filed, a verbatim transcript of the Commission Conference will be available from this page by selecting the conference date, or by selecting *Clerk's Office* and the Item's docket number (you can then advance to the *Docket Details* page and the Document Filings Index for that particular docket). If you have any questions, contact the Office of Commission Clerk at (850) 413-6770 or Clerk@psc.state.fl.us.

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ITEM NO.	**CASE**
1	**Docket No. 20220069-GU** – Petition for rate increase by Florida City Gas.

Critical Date(s): 06/24/23 (12-Month Effective Date)

Commissioners Assigned: Fay, Passidomo, La Rosa
Prehearing Officer: Fay

Staff: ENG: Knoblauch, Ellis, King, Ramos, Thompson
AFD: Andrews, D. Buys, Cicchetti, Fletcher, Gatlin, Hinson, Norris, Snyder
ECO: Barrett, Draper, Galloway, Hampson, Kunkler, Lang, McNulty, Smith II, Wu
GCL: Harper, Sparks

(Post-Hearing Decision - Participation is Limited to Commissioners and Staff)

Issue 1: Is FCG's projected test period of the twelve months ending December 31, 2023, appropriate?
Recommendation: Yes. FCG's projected test period comprised of the twelve months ending December 31, 2023, is appropriate.

Issue 2: Are FCG's forecasts of customer and therms by rate class for the projected test year ending December 31, 2023, appropriate? If not, what adjustments should be made?
Recommendation: Yes. FCG's test year customer forecasts and therm forecasts for the projected test year, by rate class, are appropriate and no adjustments are necessary.

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?
Recommendation: Yes. FCG's estimated revenues from sales of gas by rate class at present rates for the projected test year, totaling $62,828,352, are reasonable and appropriate. This amount includes the Company-noted adjustment of $155,495 to reflect additional revenues associated with the Load Enhancement Service rate class.

Issue 4: Is the quality of service provided by FCG adequate?
Recommendation: Staff recommends that FCG's quality of service is adequate.

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?
Recommendation: The appropriate depreciation parameters are those that result from witness Allis' FCG-specific depreciation study. These parameters are reflective of FCG's assets life, mortality, and net salvage characteristics, and are consistent with past Commission practices. Staff's recommended depreciation parameters and resulting depreciation rates for each distribution and general plant account are shown on Table 5-3. If the Commission approves staff's recommended depreciation parameters and rates, Issues 6 and 67 are moot.

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<u>Issue 6:</u> 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?
Recommendation: If the Commission approves FCG's proposed RSAM in Issue 67, staff recommends that the appropriate depreciation parameters and resulting depreciation rates for each distribution and general plant account are those shown on Table 6-1 of staff's memorandum dated February 16, 2024. If the Commission does not approve FCG's proposed RSAM, staff's recommended depreciation parameters are discussed in Issue 5.
<u>Issue 7:</u> 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?
Recommendation: If the Commission approves staff's recommended life and salvage parameters in Issue 5, staff recommends a resulting reserve deficit of $3.2 million, based on FCG's 2022 Depreciation Study. If the Commission approves staff's recommended life and salvage parameters in Issue 6, as proposed by FCG as part of its RSAM request, staff recommends a resulting reserve surplus of $52.1 million.
<u>Issue 8:</u> What, if any, corrective depreciation reserve measures should be taken with respect to any imbalances identified in Issue 7?
Recommendation: If the Commission approves staff's recommended life and salvage parameters in Issue 5, staff recommends using the remaining life technique for the Distribution and General Plant accounts. If the Commission approves FCG's proposed RSAM in Issue 67 and staff's recommended life and salvage parameters in Issue 6, the method for addressing the imbalance is discussed in Issue 67.
<u>Issue 9:</u> What should be the implementation date for revised depreciation rates and amortization schedules?
Recommendation: Staff recommends January 1, 2023, for implementing the revised depreciation rates and amortization schedules approved in either Issue 5 or Issue 6 of this recommendation.
<u>Issue 10:</u> 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?
<u>Approved Type II Stipulation:</u> 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.

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Issue 11: Should FCG's proposed Advanced Metering Infrastructure (AMI) Pilot be approved? If so, what adjustments, if any, should be made?
Recommendation: Yes. Staff recommends that the AMI Pilot should be approved. As shown in Attachment 3 of staff's memorandum dated February 16, 2023, a staff adjustment of ($3,104) is recommended to the originally projected operation and maintenance (O&M) expense provided for the AMI Pilot to reflect the corrected O&M expense identified in FCG witness Howard's revised testimony. In addition, staff recommends that FCG provide a final report with a summary of the findings to the Commission within 90 days of completion of the AMI Pilot.
Issue 12: What is the appropriate amount of plant in service for FCG's delayed LNG facility that was approved in its last rate case?
Recommendation: Staff recommends that the appropriate amount of plant in service for FCG's delayed LNG facility, once it is placed in service, is $68 million.
Issue 13: What is the appropriate level of plant in service for the projected test year?
Recommendation: The appropriate level of plant in service for the projected test year is $643,079,704.
Issue 14: Has FCG made the appropriate adjustments to remove all non-utility activities from Plant in Service, Accumulated Depreciation, and Working Capital?
Approved Type II Stipulation: FCG does not have any non-utility investments; no adjustments are necessary.
Issue 15: Should any adjustments be made to the amounts included in the projected test year for acquisition adjustment and accumulated amortization of acquisition adjustment?
Recommendation: Yes. In agreement with Generally Accepted Accounting Principles (GAAP), which directs an acquiring entity to write off any goodwill existing on the prior owner's balance sheet at the time of acquisition, the entire acquisition adjustment should be removed as well as any amortization related to the acquisition adjustment. The acquisition adjustment should be decreased by $21,656,835 and the accumulated amortization of the adjustment should be decreased by $13,475,365.
Issue 16: What is the appropriate level of CWIP to include in the projected test year?
Approved Type II Stipulation: The appropriate amount of CWIP is $28,192,440 for the 2023 projected test year.
Issue 17: What is the appropriate level of Gas Plant Accumulated Depreciation and Amortization for the projected test year?
Recommendation: The appropriate level of Gas Plant Accumulated Depreciation and Amortization is $209,484,638.

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Issue 18: 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?
Approved Type II Stipulation: Yes.
Issue 19: Should the unamortized balance of Rate Case Expense be included in Working Capital and, if so, what is the appropriate amount to include?
Recommendation: No, staff recommends removing the unamortized balance of Rate Case Expense included in Working Capital. As such, Working Capital should be decreased by $1,742,227.
Issue 20: What is the appropriate amount of deferred pension debit in working capital for FCG to include in rate base?
Approved Type II Stipulation: The appropriate amount of deferred pension debit in working capital for FCG to include in rate base is $4,604,263 for the 2023 projected test year.
Issue 21: Should the unbilled revenues be included in working capital?
Approved Type II Stipulation: 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.
Issue 22: What is the appropriate level of working capital for the projected test year?
Recommendation: In Issue 42, staff recommended a decrease to Directors and Officers liability insurance expense resulting in a decrease of $2,086 to working capital. Based on staff's recommendation in Issues 17, 18, 19, 20, 21, and 42, the appropriate level of working capital for the projected test year is $15,709,535.
Issue 23: What is the appropriate level of rate base for the projected test year?
Recommendation: The appropriate level of rate base for the projected test year is $477,497,041.
Issue 24: What is the appropriate amount of accumulated deferred taxes to include in the projected test year capital structure?
Recommendation: The appropriate amount of accumulated deferred income taxes to include in the projected test year capital structure ending December 31, 2023, is $52,659,661.

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<u>Issue 25:</u> What is the appropriate amount and cost rate for short-term debt to include in the projected test year capital structure?
Recommendation: The appropriate amount and cost rate for short-term debt to include in the projected test year capital structure ending December 31, 2023, is $19,730,996 at a cost rate of 1.78 percent.
<u>Issue 26:</u> What is the appropriate amount and cost rate for long-term debt to include in the projected test year capital structure?
Recommendation: The appropriate amount of long-term debt to include in the projected test year capital structure ending December 31, 2023, is $150,425,423, at a cost rate of 4.28 percent.
<u>Issue 27:</u> What is the appropriate amount and cost rate for customer deposits to include in the capital structure?
Recommendation: The appropriate amount and cost rate for customer deposits to include in the projected test year capital structure is $3,710,465 at a cost rate of 2.64 percent.
<u>Issue 28:</u> What is the appropriate equity ratio to use in the capital structure for ratemaking purposes?
Recommendation: The appropriate equity ratio is 59.6 percent as a percentage of investor-supplied capital.
<u>Issue 29:</u> What is the appropriate authorized return on equity (ROE) to use in establishing FCG's projected test year revenue requirement?
Recommendation: The appropriate authorized ROE midpoint is 10.00 percent with a range of plus or minus 100 basis points.
<u>Issue 30:</u> Has FCG made the appropriate adjustments to remove all non-utility investments from the common equity balance?
<u>Approved Type II Stipulation:</u> FCG does not have any non-utility investments and therefore, adjustments were not required.
<u>Issue 31:</u> What is the appropriate weighted average cost of capital to use in establishing FCG's projected test year revenue requirement?
Recommendation: The appropriate capital structure consists of 59.6 percent common equity, 39.39 percent long-term debt, and 5.51 percent short-term debt as a percentage of investor sources. Based on the proper components, amounts, and cost rates associated with the projected capital structure for the 13-month average test year ending December 31, 2023, as discussed in Issues 24 through 29, the appropriate weighted average cost of capital for FCG for purposes of setting rates in this proceeding is 6.70 percent.

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<u>Issue 32:</u> 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?
<u>Approved Type II Stipulation:</u> Yes.
<u>Issue 33:</u> 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?
<u>Approved Type II Stipulation:</u> Yes.
<u>Issue 34:</u> 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?
Recommendation: No, FCG should continue to recover outside service costs incurred for clause dockets through base rates and not cost recovery clauses. As such, O&M expense should be increased by $57,294.
<u>Issue 35:</u> What is the appropriate amount of miscellaneous revenues?
Recommendation: Miscellaneous revenues should be decreased by $16,071 and the appropriate amount of miscellaneous revenues is $1,896,516.
<u>Issue 36:</u> Is FCG's projected Total Operating Revenues for the projected test year appropriate?
Recommendation: Yes, the appropriate Total Operating Revenues for the projected test year is $64,724,868.
<u>Issue 37:</u> Has FCG made the appropriate adjustments to remove all non-utility activities from operation expenses, including depreciation and amortization expense?
<u>Approved Type II Stipulation:</u> Yes.
<u>Issue 38:</u> What is the appropriate amount of salaries and benefits to include in the projected test year?
Recommendation: The appropriate amount of salaries and benefits to include in the projected test year is $14,803,183. Employee pension & benefits expense should be decreased by $505,222.
<u>Issue 39:</u> What is the appropriate amount of the affiliate expense to be included in the projected test year?
Recommendation: Based on staff's recommendations in other issues, affiliate expense for the projected test year should be $2,477,003.

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Issue 40: What is the appropriate amount of pensions and post-retirement benefits expense to include in the projected test year?
Recommendation: The appropriate amount of pensions and post-retirement benefits expense to include in the projected test year is $661,618.
Issue 41: Is the injuries and damages expense in the test year reasonable?
Recommendation: Yes, injuries and damages expense in the amount of $515,304 in the projected test year is reasonable.
Issue 42: Is the insurance expense in the test year reasonable and/or appropriate?
Recommendation: No, insurance expense should be decreased by $4,716 to reflect half of Directors & Officers Liability insurance expense. As such, the appropriate amount of test year insurance expense is $498,691.
Issue 43: Is the level of projected contractor cost reasonable, appropriate and/or justified?
Approved Type II Stipulation: 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).
Issue 44: Should the projected test year O&M expenses be adjusted to reflect changes to the non-labor trend factors for inflation and customer growth?
Approved Type II Stipulation: No adjustment is needed.
Issue 45: 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?
Recommendation: Staff recommends continuation of FCG's Storm Damage Reserve provision as included in the 2018 Settlement Agreement[1] and consistent with Commission Rule 25-7.0143, F.A.C., with no change to the annual storm damage accrual of $57,500 and target reserve amount of $800,000.
Issue 46: Is a Parent Debt Adjustment pursuant to Rule 25-14.004, Florida Administrative Code, appropriate, and if so, what is the appropriate amount?
Recommendation: No, a parent debt adjustment pursuant to Rule 25-14.004, Florida Administrative Code, is not appropriate.

[1] Order No. PSC-2018-0190-FOF-GU, issued April 20, 2018, in Docket No. 20170179-GU, *In re: Petition for rate increase by Florida City Gas.*

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Issue 47: What is the appropriate annual amount and amortization period for Rate Case Expense?
Recommendation: The appropriate annual amount of Rate Case Expense should be reduced by $27,570 to result in a total Rate Case Expense of $470,209. The appropriate amortization period is four years.
Issue 48: Should an adjustment be made to Uncollectible Accounts and for Bad Debt in the Revenue Expansion Factor?
Approved Type II Stipulation: No.
Issue 49: What is the appropriate amount of projected test year O&M expenses?
Recommendation: The appropriate amount of projected test year O&M expense is $25,497,650.
Issue 50: Should any adjustments be made to the amounts included in the projected test year for amortization expense associated with the acquisition adjustment?
Recommendation: Consistent with staff's recommendation to disallow the acquisition adjustment, amortization expense should be decreased by $721,894.
Issue 51: What is the appropriate amount of Depreciation and Amortization Expense for the projected test year?
Recommendation: The appropriate amount of Depreciation and Amortization Expense for the projected test year is $19,779,288.
Issue 52: What is the appropriate amount of projected test year Taxes Other than Income?
Recommendation: Staff recommends that Taxes Other than Income (TOTI) be reduced by a total of $543,184. As such, the appropriate amount of TOTI for the projected test year is $5,843,427.
Issue 53: What is the appropriate amount of projected test year Income Tax Expense?
Recommendation: The appropriate amount of projected test year Income Tax Expense, including current and deferred income taxes and interest synchronization is $1,176,567.
Issue 54: What is the appropriate amount of Total Operating Expenses for the projected test year?
Recommendation: The appropriate amount of Total Operating Expenses for the projected test year is $52,296,931.
Issue 55: What is the appropriate amount of Net Operating Income for the projected test year?
Recommendation: The appropriate amount of Net Operating Income for the projected test year is $12,427,937.

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Issue 56: What are the appropriate revenue expansion factor and the appropriate net operating income multiplier, including the appropriate elements and rates for FCG?
Approved Type II Stipulation: 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.
Issue 57: What is the appropriate annual operating revenue increase for the projected test year?
Recommendation: The appropriate annual operating revenue increase for the projected test year is $26,454,304. This amount includes an incremental base rate increase of $16,635,469 and revenue associated with the transfer of SAFE investments and the LNG facility.
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?
Recommendation: Yes, FCG's proposed cost of service study is appropriate and should be approved for all regulatory purposes until base rates are reset in FCG's next general base rate proceeding. Within seven business days of today's vote, the Company should be required to file a revised cost of service and tariffs to reflect the Commission-approved revenue increase.
Issue 59: If the Commission grants a revenue increase to FCG, how should the increase be allocated to the rate classes?
Recommendation: If the Commission grants a revenue increase to FCG, the revenue increase approved in Issue 57 should be allocated to the rate classes as shown by FCG witness DuBose in Exhibit TBD-3. FCG's proposed revenue increase to the rate classes limits the increase in total revenues to any rate class to 1.5 times the system increase reflecting the Commission's guidelines on gradualism and improves parity among the rate classes.
Issue 60: Are FCG's proposed Customer Charges appropriate?
Recommendation: This is a fall-out issue and will be decided at the March 28, 2023 Commission Conference.
Issue 61: Are FCG's proposed per therm Distribution Charges appropriate?
Recommendation: This is a fall-out issue and will be decided at the March 28, 2023 Commission Conference.
Issue 62: Are FCG's proposed Demand Charges appropriate?
Recommendation: This is a fall-out issue and will be decided at the March 28, 2023 Commission Conference.

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Issue 63: Are FCG’s proposed connect and reconnection charges appropriate?
Approved Type II Stipulation: Yes. The appropriate service, connect, and reconnection charges are those shown in 2023 Test Year MFR H-1 (2 of 2).
Issue 64: Is FCG’s proposed per transportation customer charge applicable to Third Party Suppliers appropriate?
Approved Type II Stipulation: 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).
Issue 65: What is the appropriate effective date for FCG’s revised rates and charges?
Recommendation: This is a fall-out issue and will be decided at the March 28, 2023 Commission Conference.
Issue 66: Should the Commission give staff administrative authority to approve tariffs reflecting Commission approved rates and charges?
Recommendation: This issue will be decided at the March 28, 2023 Commission Conference.
Issue 67: Should the Commission approve FCG’s requested Reserve Surplus Amortization Mechanism (RSAM)?
Recommendation: No. The proposed RSAM contradicts well-established Commission practice and ratemaking principles, could potentially result in double recovery by the Company from its customers in the future, and could allow a depreciation surplus paid by customers to be transferred unfairly to shareholders.
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?
Recommendation: No. If there is a change in State or Federal tax laws, FCG or OPC has the opportunity to file a petition for a limited proceeding pursuant to Section 366.076, Florida Statutes, requesting that the Commission consider the issues and expenses affected by a potential corporate tax law change.

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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?
Approved Type II Stipulation: 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.
Issue 70: Should the Commission approve FCG's proposal to expand the SAFE program to include replacement of "orange pipe"? If so, what adjustments, if any, should be made?
Approved Type II Stipulation: 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.
Issue 71: Should the Commission approve FCG's requested four-year rate plan?
Recommendation: No. Even if approved by the Commission without modification, FCG's requested four-year rate plan would not result in an enforceable stay out provision, and would not result in any additional benefits to customers.

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<u>Issue 72:</u> 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?
<u>Approved Type II Stipulation:</u> Yes, the Commission should require FCG 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.
<u>Issue 73:</u> Should this docket be closed?
Recommendation: This docket should remain open for the Commission to determine the final rates at a subsequent Special Agenda.