

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for rate increase by Florida City
Gas.

DOCKET NO. 20170179-GU
ORDER NO. PSC-2018-0011-PCO-GU
ISSUED: January 4, 2018

The following Commissioners participated in the disposition of this matter:

JULIE I. BROWN, Chairman
ART GRAHAM
RONALD A. BRISÉ
DONALD J. POLMANN
GARY F. CLARK

ORDER APPROVING INTERIM RATES AND SUSPENDING PROPOSED FINAL RATES

BY THE COMMISSION:

Background

On October 23, 2017, Florida City Gas (FCG or Company) filed a petition seeking Commission approval of a rate increase, depreciation study, and a request for interim rate relief. FCG is a natural gas local distribution company providing sales and transportation of natural gas, and is a public utility subject to this Commission's regulatory jurisdiction under Section 366.02, Florida Statutes (F.S.). As a subsidiary of Southern Company, FCG currently serves approximately 108,000 residential, commercial, and industrial natural gas customers in Miami-Dade, Brevard, St. Lucie, Palm Beach, Hendry, Broward, and Indian River counties. FCG requested an increase of \$19.3 million in additional annual revenues. Of that amount, \$3.5 million is associated with moving the Company's current investment in a Commission-approved backyard mains and service relocation program, which is being recovered through a separate surcharge on customers' bills, into rate base. The remaining \$15.8 million, according to FCG, is necessary for the utility to earn a fair return on their investment and a requested return on equity of 11.25 percent. The Company based its request on a 13-month average rate base of \$299.3 million for the projected test year ending December 31, 2018. The requested overall rate of return is 6.32 percent based on an 11.25 percent return on equity.

The Company requested in its original MFRs an interim increase of \$4,871,932. FCG calculated the interim increase based on a 13-month average rate base of \$209,312,678 at 5.84 percent cost of capital using a 10.25 percent return on equity. The interim test year is the period ended December 31, 2016.

On November 17, 2017, FCG filed a revised MFR Schedule F-10 to correct certain errors. On November 27, 2017, FCG filed an amended MFR Schedule F to reflect a corrected

interim increase request of \$4,893,061 based on a cost of capital of 5.85 percent. This order provides our findings concerning FCG's request to suspend the proposed final rates and charges and to address the requested interim rate relief as revised on November 17, 2017 and on November 27, 2017.

FCG's last rate case was in 2003.¹ Pursuant to Section 366.06(4), F.S., FCG requested to proceed in 2003 under the rules governing Proposed Agency Action (PAA). We approved a jurisdictional rate base of \$119,897,447 and an annual operating revenue increase of \$6,699,655 for the projected test year ended September 30, 2004. The allowed rate of return was found to be 7.36 percent for the test year using an 11.25 percent return on equity.

Pursuant to Sections 366.06(2) and (3), F.S., FCG requested to proceed this rate case using this Commission's hearing process. Accordingly, in compliance with Section 366.06(2), F.S., an administrative hearing has been scheduled for this matter from March 26 - 30, 2018. We have jurisdiction over this request under Sections 366.06 and 366.071, F.S.

Decision

Suspension of Rates

Pursuant to Section 366.06(3), F.S., this Commission may withhold consent to the operation of all or any portion of a new rate schedule, delivering to the utility requesting such a change, a reason, or written statement of a good cause for doing so with 60 days. The requested permanent increase in rates and charges shall be suspended for FCG to allow us sufficient time to complete our review of the Company's MFRs. This purpose meets the good cause requirements of Section 366.06(3), F.S.

Appropriate Interim Rate Base

In its filing, the Company proposed an interim test year 13-month average rate base of \$209,312,678 for the period ended December 31, 2016. We have reviewed the rate base adjustments made in the current interim filing for consistency with the Commission-approved adjustments in the Company's last rate case proceeding as well as other applicable dockets.² Based on our review, it appears that FCG has made the applicable and appropriate adjustments that are consistent with this Commission's prior Orders. Consistent with our determination that interim relief shall be granted to FCG in this case, \$209,312,678 is the appropriate amount of rate base for the for the historical base year ended December 31, 2016. The calculation is shown at Attachment A.

¹ Order No. PSC-04-0128-PAA-GU, issued February 9, 2004, in Docket No. 030569-GU, In re: Application for rate increase by City Gas Company of Florida.

² Id., and PSC-07-0913-PAA-GU, issued November 13, 2007, in Docket No. 060657-GU, In re: Petition for approval of acquisition adjustment and recognition of regulatory asset to reflect purchase of Florida City Gas by AGL Resources, Inc., and PSC-16-0517-TRF-GU, issued November 21, 2016, in Docket No. 160198-GU, In re: Petition for approval of safety, access, and facility enhancement program (SAFE) true-up and associated cost recovery factors, by Florida City Gas.

Appropriate Interim Return on Equity and Overall Cost of Capital

For purposes of its corrected interim rate request, FCG used an overall cost of capital of 5.85 percent based on a return on equity (ROE) of 10.25 percent and the capital structure for the historical base year ended December 31, 2016. Pursuant to Section 366.071(2)(a), F.S., the appropriate ROE for purposes of determining an interim rate increase is the minimum of the Company's currently authorized ROE range. We find that both the ROE and the adjustments recognized in the capital structure are consistent with Company's last rate case proceeding as well as other applicable dockets.³

Therefore, we approve the capital structure for the historical base year ended December 31, 2016, and an ROE of 10.25 percent results in an overall cost of capital of 5.85 percent. Attachment B details the calculation of the Company's overall cost of capital. We find that the appropriate interim rate base for FCG is \$209,312,678.

Appropriate Interim Test Year Net Operating Income

The proposed historical base year net operating income of \$9,221,584, is the twelve-month amount for the historical base year ended December 31, 2016. We have reviewed the net operating income adjustments made in the current interim filing for consistency with the Commission-approved adjustments in the Company's last rate case proceeding as well as other applicable dockets.⁴ It appears that FCG has made the applicable and appropriate adjustments that are consistent with the prior Commission Orders. Consistent with our determination that interim relief shall be granted to FCG in this case, \$9,221,584 is the appropriate amount of net operating income for the historical base year ended December 31, 2016. The calculation is shown on Attachment A.

Appropriate Interim Net Operating Income Multiplier

On FCG's revised MFR Schedule F-6, the Company calculated an interim net operating income multiplier of 1.6185 using a 34 percent federal income tax rate and a 5.5 percent state income tax rate. Additionally, the Company applied a 0.500 percent factor for regulatory assessment fees and a 0.4382 percent factor for bad debt expense. After reviewing the Company's calculation of the interim net operating income multiplier, we accept them without adjustments. Therefore, we find that 1.6185 is the appropriate interim net operating income multiplier. The calculation is shown below.

³ Id.

⁴ Id.

Table 1
Florida City Gas - Interim Net Operating Income Multiplier

<u>Description</u>	
Revenue Requirement	100.0000%
Regulatory Assessment Fee	-0.5000%
Bad Debt Rate	<u>-0.4382%</u>
Net Before Income Tax	99.0618%
State Income Tax @ 5.5%	-5.4484%
Federal Income Tax @ 34%	<u>-31.8286%</u>
Revenue Expansion Factor	<u><u>61.7848%</u></u>
NOI Multiplier (100/61.7848)	<u>1.6185</u>

Source: Revised MFR Schedule F-6

Appropriate Interim Revenue Increase

FCG requested a revised interim rate relief of \$4,893,061 for the historical base period ended December 31, 2016. This would allow the Company an opportunity to earn an overall rate of return of 5.85 percent and the minimum of the range of return on equity of 10.25 percent. After a determination of the permanent rate increase has been made, the interim rate increase will be reviewed to determine if any portion should be refunded to the ratepayers.

The calculation of the \$4,893,061 of interim rate relief is shown below.

Table 2
Florida City Gas - Interim Revenue Increase

<u>Description</u>	
Jurisdictional Adjusted Rate Base	\$ 209,312,678
Overall Rate of Return Requested	<u>5.85%</u>
Jurisdictional Net Operating Income Requested	\$ 12,244,792
Jurisdictional Adjusted Net Operating Income	<u>\$ 9,221,584</u>
Revenue Deficiency	\$ 3,023,208
Net Operating Income Multiplier	<u>1.6185</u>
Interim Revenue Increase	<u><u>\$ 4,893,061</u></u>

Source: Revised MFR Schedule F-7

Distribution of the Interim Rate Increase Among the Rate Classes

Attachment C provides the allocation of the \$4,893,061 interim increase and the resulting cents-per-therm increases to be applied to the rate classes. The increases were calculated using the methodology contained in Rule 25-7.040, Florida Administrative Code (F.A.C.), which requires that any increase be applied evenly across the board to all rate classes based on their base rate revenues. Attachment D shows the resulting interim per therm distribution charges for all rate classes.

FCG included revenues from its approved safety, access, and facility enhancement program (SAFE) program to calculate the base rate revenues for each rate class. The SAFE program was approved in Order No. PSC-16-0517-TRF-GU as a surcharge.⁵ Rule 25-7.040, F.A.C., specifically states that revenues from the cost of gas should be excluded in the calculation of the interim increase for each rate class, but is silent on surcharges such as the

⁵ PSC-16-0517-TRF-GU, issued November 21, 2016, in Docket No. 160198-GU, In re: Petition for approval of safety, access, and facility enhancement program (SAFE) true-up and associated cost recovery factors, by Florida City Gas.

SAFE surcharge. The inclusion or absence of the SAFE revenues do not affected the total interim increase; however, it does have a minimal impact on the dollar increase and resulting interim rates for each rate class. Since FCG proposed to move the current investment in the SAFE program into rate base, we find that including the SAFE revenues in the interim calculation is appropriate in this instance.

Any interim revenue increase authorized shall be applied evenly across the board to all rate classes based on their base rate revenues, as required by Rule 25-7.040, F.A.C., and shall be collected on a cents-per-therm basis. The interim rates shall be made effective for all meter readings made on or after thirty days from the date of this Commission's vote and decision herein. The Company shall provide pursuant to Rule 25-22.0406(8), F.A.C., notice to customers of the revised rates with the first bill containing the new rates. The Company shall file tariff sheets reflecting the Commission-approved interim rates.

Appropriate Security to Guarantee the Amount Subject to Refund

FCG has requested that all funds collected subject to refund be secured by a corporate undertaking. The criteria for a corporate undertaking include sufficient liquidity, ownership equity, profitability, and interest coverage to guarantee any potential refund. We reviewed FCG's 2014, 2015 and 2016 financial statements filed with the Company's Application for Authority to Issue Debt Security in 2016 and 2017 filed with this Commission to determine if FCG can support a corporate undertaking for its potential refund obligation. Based on an estimated six-month collection period of interim rates for FCG, we have determined the maximum amount of revenues that may need to be protected is \$2,452,256. Our analysis shows FCG has negative working capital and an unfavorable current ratio. However, FCG's ownership equity, profitability (net income), and interest coverage are sufficient to guarantee any potential refund of the requested interim revenue increase. For all three years, FCG's working capital has been negative and the current ratio has been less than one. However, FCG's equity ratio was 48 percent in 2014 and 2015, and 49 percent in 2016, indicating adequate equity ownership. The Company's interest coverage ratio has declined from 7.83 in 2014 to 4.53 in 2016, indicating that its earnings before interest and tax expense is currently 4.5 times greater than its interest expense. FCG's net income has been on average fourteen times greater than the requested corporate undertaking amount, indicating good profitability. In addition, FCG participates in Southern Company Gas's Utility Money Pool and is authorized by us to make short-term borrowings not to exceed \$250 million.

Our analysis supports our finding that FCG has adequate financial resources to support a corporate undertaking in the amount requested. Based on this analysis, we find that a corporate undertaking in the amount of \$2,452,256 is acceptable. The preferred limit of the corporate undertaking amount is \$8,751,917. This brief financial analysis is only appropriate for deciding if the Company can support a corporate undertaking in the amount requested and shall not be considered a finding regarding other issues in this proceeding.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Florida City Gas's proposed final rates are hereby suspended. It is further

ORDERED that Florida City Gas's requested interim revenue requirement and rate increases are hereby approved as set forth in the body of this order. It is further

ORDERED that the all funds collected subject to refund be secured by a corporate undertaking by Florida City Gas to guarantee any potential refund of revenues collected under interim conditions as set forth herein. It is further

ORDERED that any interim revenue increase authorized shall be applied evenly across the board to all rate classes based on their base rate revenues, and shall be collected on a cents-per-therm basis. It is further

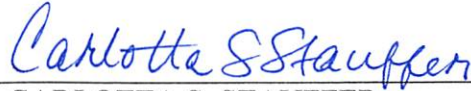
ORDERED that interim rates shall be made effective for all meter readings made on or after thirty days from the date of this Commission's vote, December 12, 2017. It is further

ORDERED that the Company shall notice to customers of the revised rates with the first bill containing the new rates. It is further

ORDERED that the Utility shall file revised tariff sheets and a proposed customer notice to reflect this Commission's approved rates. It is further

ORDERED that this docket shall remain open pending this Commission's final action on Florida City Gas's requested final rates.

By ORDER of the Florida Public Service Commission this 4th day of January, 2018.



CARLOTTA S. STAUFFER
Commission Clerk
Florida Public Service Commission
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Tallahassee, Florida 32399
(850) 413-6770
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Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

WLT

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by this order, which is non-final in nature, may request (1) reconsideration within 10 days pursuant to Rule 25-22.0376, Florida Administrative Code, or (2) judicial review by the Florida Supreme Court, in the case of an electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or wastewater utility. A motion for reconsideration shall be filed with the Office of Commission Clerk, in the form prescribed by Rule 25-22.0376, Florida Administrative Code. Citizens of the State of Florida v. Mayo, 316 So.2d 262 (Fla. 1975), states that an order on interim rates is not final or reviewable until a final order is issued. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.

Any party adversely affected by the portion of this order suspending proposed final rates, which is preliminary, procedural or intermediate in nature, may request: (1) reconsideration within 10 days pursuant to Rule 25-22.0376, Florida Administrative Code; or (2) judicial review by the Florida Supreme Court, in the case of an electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or wastewater utility. A motion for reconsideration shall be filed with the Office of Commission Clerk, in the form prescribed by

ORDER NO. PSC-2018-0011-PCO-GU

DOCKET NO. 20170179-GU

PAGE 9

Rule 25-22.0376, Florida Administrative Code. Judicial review of a preliminary, procedural or intermediate ruling or order is available if review of the final action will not provide an adequate remedy. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

Florida City Gas
Docket No. 20170179-GU
Interim Rate Base and Net Operating Income
December 31, 2016

	Adjusted Base Year Per Company	Adjustments	Interest Synchronization	Adjusted Base Year Per Comm.
<u>Rate Base</u>				
Plant in Service	348,619,750	-		348,619,750
Accumulated Depreciation	(167,595,854)	-		(167,595,854)
Net Plant in Service	181,023,896	-		181,023,896
Acquisition Adjustment	21,656,835	-		21,656,835
Accum. Amort. Acquisition	(8,422,103)	-		(8,422,103)
Construction Work In Progress	19,729,410	-		19,729,410
Net Utility Plant	213,988,038	-		213,988,038
Working Capital Allowance	(4,675,360)	-		(4,675,360)
Total Rate Base	<u>209,312,678</u>	-		<u>209,312,678</u>
<u>Income Statement</u>				
Operating Revenue	50,316,465	-		50,316,465
Operating Expenses:				
Operation & Maintenance	20,261,429	-		20,261,429
Depreciation & Amortization	14,898,337	-		14,898,337
Taxes Other Than Income	2,707,715	-		2,707,715
Income Taxes - Current	413,903	-		413,903
Income Taxes - Deferred	2,813,496	-		2,813,496
Total Operating Expenses	<u>41,094,881</u>	-		<u>41,094,881</u>
Net Operating Income	<u>9,221,584</u>	-		<u>9,221,584</u>
Overall Rate of Return	<u>4.41%</u>			<u>4.41%</u>

Florida City Gas
Docket No. 20170179-GU
Interim Base Year
December 31, 2016

Capital Component	Jurisdictional		Cost Rate	Weighted Cost Rate
	Capital Structure	Ratio		
Long Term Debt	\$73,857,708	35.29%	4.75%	1.68%
Short Term Debt	13,071,944	6.25%	1.89%	0.12%
Preferred Stock	-	0.00%	0.00%	0.00%
Common Equity	81,589,680	38.98%	10.25%	4.00%
Customer Deposits	3,901,581	1.86%	2.73%	0.05%
Deferred Income Taxes	36,891,759	17.63%	0.00%	0.00%
Investment Tax Credits	6	0.00%	0.00%	0.00%
Total	<u>\$209,312,678</u>	<u>100.00%</u>		<u>5.85%</u>

FLORIDA CITY GAS
 ALLOCATION OF INTERIM RATE INCREASE
 DOCKET NO. 20170179-GU

PRESENT BASE RATE REVENUE						INTERIM INCREASE			
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	
RATE CODE	BILLS	THERM SALES	CUSTOMER CHARGE	ENERGY CHARGE	SAFE	TOTAL BASE REVENUE	\$ INCREASE	% INCREASE	INCREASE IN CENTS PER THERM
						(4) + (5) + (6)	(7)X(8)	(8) / (7)	(8) / (3) * 100
GS-1	328,138	2,274,617	\$2,625,104	\$1,278,631	\$231,813	\$4,135,548	\$421,666	10.20%	18.538
GS-100	604,822	7,691,925	\$5,745,809	\$4,018,877	\$427,281	\$10,191,967	\$1,039,188	10.20%	13.510
GS-220	271,242	5,715,039	\$2,983,662	\$2,830,716	\$191,283	\$6,005,661	\$612,346	10.20%	10.715
GS-600	15,895	1,173,620	\$190,740	\$512,438	\$11,200	\$714,378	\$72,839	10.20%	6.206
GS-1.2K	36,059	10,344,031	\$540,885	\$3,280,609	\$25,426	\$3,846,920	\$392,237	10.20%	3.792
GS-6K	28,807	25,735,468	\$864,210	\$7,073,908	\$37,474	\$7,975,592	\$813,203	10.20%	3.160
GL	2,373	14,854	\$0	\$8,843	0	\$8,843	\$902	10.20%	6.070
GS-25K	3,880	10,518,645	\$310,400	\$2,905,039	\$5,052	\$3,220,491	\$328,366	10.20%	3.122
GS-60K	854	7,753,377	\$128,100	\$2,130,395	\$1,114	\$2,259,609	\$230,393	10.20%	2.972
GS-120K	507	8,079,386	\$126,750	\$1,610,247	\$517	\$1,737,514	\$177,159	10.20%	2.193
GS-250K	555	23,876,304	\$166,500	\$4,681,307	\$607	\$4,848,414	\$494,351	10.20%	2.070
GS-1,250K	98	20,598,129	\$49,000	\$2,995,329	\$66	\$3,044,395	\$310,411	10.20%	1.507
TOTAL	<u>1,293,230</u>	<u>123,775,395</u>	<u>\$13,731,160</u>	<u>\$33,326,339</u>	<u>\$931,833</u>	<u>\$47,989,332</u>	<u>\$4,893,061</u>	<u>10.20%</u>	

FLORIDA CITY GAS
PRESENT AND INTERIM RATES
DOCKET NO. 20170179-GU

RATE CODE	RATE SCHEDULE	PRESENT RATE	INTERIM INCREASE	INTERIM RATE
GS-1	<u>GENERAL SERVICE - 1</u>			
	CUSTOMER CHARGE	\$8.00	N/A	\$8.00
	DISTRIBUTION CHARGE (cents/therm)	56.213	18.538	74.751
GS-100	<u>GENERAL SERVICE - 100</u>			
	CUSTOMER CHARGE	\$9.50	N/A	\$9.50
	DISTRIBUTION CHARGE (cents/therm)	52.248	13.510	65.758
GS-220	<u>GENERAL SERVICE - 220</u>			
	CUSTOMER CHARGE	\$11.00	N/A	\$11.00
	DISTRIBUTION CHARGE (cents/therm)	49.531	10.715	60.246
GS-600	<u>GENERAL SERVICE - 600</u>			
	CUSTOMER CHARGE	\$12.00	N/A	\$12.00
	DISTRIBUTION CHARGE (cents/therm)	43.663	6.206	49.869
GS-1.2K	<u>GENERAL SERVICE - 1.2K</u>			
	CUSTOMER CHARGE	\$15.00	N/A	\$15.00
	DISTRIBUTION CHARGE (cents/therm)	31.715	3.792	35.507
GS-6K	<u>GENERAL SERVICE - 6K</u>			
	CUSTOMER CHARGE	\$30.00	N/A	\$30.00
	DISTRIBUTION CHARGE (cents/therm)	27.487	3.160	30.647
GL	<u>GAS LIGHTING</u>			
	CUSTOMER CHARGE	\$0	N/A	\$0
	DISTRIBUTION CHARGE (cents/therm)	59.535	6.070	65.605
GS-25K	<u>GENERAL SERVICE - 25K</u>			
	CUSTOMER CHARGE	\$80.00	N/A	\$80.00
	DISTRIBUTION CHARGE (cents/therm)	27.618	3.122	30.740
GS-60K	<u>GENERAL SERVICE - 60K</u>			
	CUSTOMER CHARGE	\$150.00	N/A	\$150.00
	DISTRIBUTION CHARGE (cents/therm)	27.477	2.972	30.449
GS-120K	<u>GENERAL SERVICE - 120K</u>			
	CUSTOMER CHARGE	\$250.00	N/A	\$250.00
	DISTRIBUTION CHARGE (cents/therm)	18.084	2.193	20.277
	DEMAND CHARGE (per demand charge quantity)	\$0.289	N/A	\$0.289
GS-250K	<u>GENERAL SERVICE - 250K</u>			
	CUSTOMER CHARGE	\$300.00	N/A	\$300.00
	DISTRIBUTION CHARGE (cents/therm)	17.191	2.070	19.261
	DEMAND CHARGE (per demand charge quantity)	\$0.289	N/A	\$0.289
GS-1,250K	<u>GENERAL SERVICE - 1.250K</u>			
	CUSTOMER CHARGE	\$500.00	N/A	\$500.00
	DISTRIBUTION CHARGE (cents/therm)	12.225	1.507	13.732
	DEMAND CHARGE (per demand charge quantity)	\$0.289	N/A	\$0.289