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February 16, 2018

BY E-PORTAL

Ms. Carlotta Stauffer
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: DOCKET NO. 20170179-GU - Petition for rate increase and approval of depreciation study by Florida City Gas.

Dear Ms. Stauffer:

Attached, for electronic filing, please find the testimony and exhibits of Florida City Gas' rebuttal witness Matthew Kim. (Document 2 of 10)

Sincerely,

A handwritten signature in cursive script, appearing to read 'Beth Keating', written over a horizontal line.

Beth Keating
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ATTACHMENTS

cc:// Office of Public Counsel
FEA

1 Before the Florida Public Service Commission

2 Docket No. 20170179-GU: Petition for Rate Increase by Florida City Gas

3 Prepared Rebuttal Testimony of Matthew Kim

4 Date of Filing: February 16, 2018

5

6 Q. Please state your name, business address, and occupation.

7 A. My name is Matthew Kim. My business address is Ten Peachtree Place,
8 Atlanta, GA 30309. I am employed by Southern Company Gas as Vice
9 President and Utilities Controller.

10 .

11 Q. Have you previously filed testimony in this proceeding?

12 A. Yes.

13

14 Q. What is the purpose of your rebuttal testimony?

15 A. My rebuttal testimony addresses certain assertions and positions
16 contained in the testimony of Office of Public Counsel (OPC) witness
17 Marshall W. Willis concerning the storm damage reserve requested by
18 Florida City Gas ("FCG" or "Company") and the amortization of the
19 pension regulatory asset. Specifically, my rebuttal testimony addresses:

20 • The appropriateness of the annual accrual amount requested to
21 fund the storm damage reserve;

22 • The appropriateness of FCG's proposal for the Florida Public
23 Service Commission ("FPSC") to review when the reserve fund
24 reaches the target level of \$1 million and the benefit to customers

- 1 of establishing an adequate storm damage reserve instead of
2 seeking surcharges when costs are incurred;
- 3 • How the storm damage reserve will be funded; and
 - 4 • The appropriateness of including in the projected test year \$27,375
5 of the amortization related to the pension regulatory asset pursuant
6 to the previous Order by the FPSC.

7

8 Q. Are you sponsoring any rebuttal exhibits?

9 A. No.

10

11 **I. Storm Damage Reserve Annual Accrual Amount**

12

13 Q. Please summarize Witness Willis' position regarding the annual accrual
14 amount FCG is requesting to fund the storm damage reserve.

15 A. Witness Willis does not disagree with FCG's request to establish a storm
16 damage reserve or an annual accrual to fund the reserve. However,
17 Witness Willis recommends an annual accrual of \$57,791 instead of
18 \$100,000 as requested by FCG.¹

19

20 Q. Do you agree with Witness Willis' position?

21 A. No, I disagree with Witness Willis' recommendation of the annual accrual
22 amount. In recommending \$57,791 for the annual accrual amount,
23 Witness Willis considered \$577,910 of the storm-related costs incurred by

¹ Direct Testimony of Marshall W. Willis, 8:16 through 10:14.

1 FCG over a ten-year period from 2006 through 2016, which included a
2 long period during which there was little or no major hurricane activity in
3 Florida. I do not dispute that Florida was fortunate not to be significantly
4 impacted by major storms from 2006 to 2014.² However, Witness Willis is
5 incorrect to use this extremely fortunate stretch of years as any indication
6 of future storm activities. Future storms are impossible to predict and
7 estimate. After a long stretch of experiencing no major storms, Florida
8 has recently experienced three hurricanes (Hurricanes Hermine, Matthew
9 and Irma) in just the last two years. Furthermore, if we look past the ten-
10 year period used by Witness Willis, Florida experienced unprecedented
11 storm seasons of 2004 and 2005, in which seven hurricanes (Hurricanes
12 Frances, Ivan, Jeanne, Charley, Rita, Dennis and Wilma) affected the
13 state in those two years. This history of hurricane activities affecting
14 Florida is a clear indication that future storm activities are difficult to
15 predict by simply looking at a discrete period in the past, nor does the use
16 of a longer period necessarily provide a more accurate estimate of
17 average annual storm-related costs.

18

19 Q. Even though Florida experienced no major hurricanes between 2006 and
20 2014, why is it more prudent for FCG to predict storm damage needs
21 based on experience over the last five years rather than the last ten years,
22 as Witness Willis suggests?

23

² Direct Testimony of Marshall W. Willis, 9:2-5, 12-16.

1 A. FCG used its experience over the last five years as it is more relevant and
2 reasonable. The five-year period from 2012 to 2017 includes three years
3 of no storm activities and two years with major storms affecting the FCG
4 service territory. This period provides a fair mix of years with and without
5 storms, while it excludes data from the more distant past which included
6 both a long stretch of no hurricane activity, as well as two years of
7 unprecedented hurricane activity. Utilizing the more recent experiences
8 of the past 5 years provides a more reasonable representation of average
9 annual storm costs.

10

11 Q. Is Witness Willis' assumption correct that, if Florida were to experience a
12 major hurricane this year, Peoples Gas would necessarily incur greater
13 damage costs than FCG simply based on the difference in plant in
14 service?³

15

16 A. Witness Willis' assumption is a mere speculation at best, and he did not
17 provide any evidence to show the correlation between the amount of plant
18 in service and the level of storm-related damage to support his
19 assumption. The size of a system alone does not dictate the potential
20 costs associated with storm damage. There are many other factors
21 affecting the possibility and extent of storm damage, which may include,
22 but are not limited to, location of service territory, density of population in

³ Direct Testimony of Marshall W. Willis, 9:18 – 10:6.

1 service territory, condition of utility's system, including the vintage of the
2 plant in service, and availability of local resources.

3

4 Q. Do you agree with Witness Willis' use of the FPSC's approval of the
5 \$57,500 annual accrual for Peoples Gas as a benchmark to assess the
6 appropriate amount for FCG?⁴

7

8 A. No. I have previously discussed the difficulty of comparing storm-related
9 costs of two different utilities with different service territories over different
10 periods of time. Even if we were to ignore these factors, which I am not
11 suggesting that we should, there are two other differences that I would like
12 to point out. First, Peoples Gas's accrual previously approved by the
13 FPSC was based primarily on its storm costs incurred in 2004 and 2005,
14 for the accrual beginning in 2009. FCG's request is based on costs
15 incurred in 2016 and 2017, for the accrual beginning in 2018. The
16 approximately ten-year gap between two sets of information makes them
17 difficult to compare the amounts due to the change in costs to operate and
18 maintain natural gas systems over that time. One such example is
19 inflation. Taking into consideration only the inflation during that time, the
20 cost incurred by Peoples' Gas in 2004 and 2005 would need to be
21 multiplied by approximately 1.3 times to translate to the comparable
22 dollars in 2016 and 2017. In addition, FCG's annual accrual for storm
23 reserve should include the costs already incurred by FCG related to

⁴ Direct Testimony of Marshall W. Willis, 10:2.

1 Hurricanes Matthew and Irma in 2016 and 2017 that were not recovered
2 due to the lack of a storm damage reserve, as well as building up the
3 appropriate level of reserve for future storm costs. In referencing the storm
4 costs incurred by FCG in 2016, Witness Leon from the FPSC Staff
5 requested “the Commission determine the appropriate disposition of this
6 amount.”⁵

7

8

II. Storm Damage Reserve Target

9

10 Q. Please summarize Witness Willis’ position regarding the storm damage
11 reserve target level FCG is proposing.⁶

12

13 A. Witness Willis recommends a reserve level of \$700,000, instead of \$1
14 million requested by FCG. Witness Willis provides two reasons for his
15 recommendation to reduce the reserve target – (1) the fact that FCG is
16 smaller than Peoples Gas and (2) \$700,000 would be sufficient to handle
17 the damages from the two recent hurricanes.

18

19 Q. Do you agree with Witness Willis’ position?

20 A. No. Witness Willis’ recommendation to reduce the reserve target to
21 \$700,000 does not appear to be based on any analysis or precedent.

22

⁵ Direct Testimony of Gabriela Leon, 6:1-9.

⁶ Direct Testimony of Marshall W. Willis, 11:7 – 24.

1 Q. Has the FPSC previously approved a similar reserve target level for a
2 natural gas utility?

3 A. Yes. As I mentioned in my testimony and Witness Willis also references
4 in his testimony, the \$1 million reserve target was based on the target
5 amount established in the FPSC's approval of Peoples Gas' storm
6 reserve. In that case, the FPSC still approved the \$1 million reserve
7 target despite adjusting the annual accrual amount to \$57,500 from
8 \$100,000 requested by Peoples Gas.

9

10 Q. Is the fact that "Peoples Gas is materially larger than FCG," as stated by
11 Witness Willis, a well-grounded basis for the suggestion that the reserve
12 target level requested by FCG should be reduced?⁷

13 A. No. As I previous stated, the size of a utility or overall amount of plant
14 assets in service is not the only consideration for estimating the amount of
15 future storm-related costs. Witness Willis provides no evidence to
16 collaborate this assumption.

17

18 Q. How would FCG customers be disadvantaged by a lower storm damage
19 reserve target level?

20 A. A lower storm damage reserve target increases the possibility of FCG
21 having to file a rate case or a limited proceeding to increase its rates in the
22 future as FCG inevitably incurs storm-related costs and the costs exceed
23 the reserve. Unfortunately, Witness Willis appears to advocate such

⁷ Direct Testimony of Marshall W. Willis, 9:19-20 and 11:20.

1 proceedings, which can be costly and time-consuming and would result in
2 unexpected fluctuations in customer rates.⁸ This can be avoided by
3 allowing FCG to have an adequate level of storm damage reserve that can
4 be applied to future storm costs. If FCG is fortunate not to experience any
5 major storms in the next ten years, as it did prior to 2016, the \$1 million
6 reserve target will provide a mechanism to stop the annual accrual and
7 allow the FPSC to revisit it at that time. As such, FCG's request for the \$1
8 million reserve target is reasonable, particularly considering the \$1 million
9 reserve target previously approved by the FPSC for Peoples Gas.

10
11 **III. Storm Damage Reserve Funds**

- 12
- 13 Q. Please summarize Witness Willis' position regarding FCG's use of storm
14 damage reserve funds.⁹
- 15 A. Witness Willis acknowledges FCG's request that storm damage reserve
16 be unfunded and does not propose anything differently. However,
17 Witness Willis comments that as an unfunded reserve, FCG would be free
18 to use the reserve for any purpose, including dividends to its parent
19 company. Witness Willis further comments that FCG would need to
20 borrow from the debt market or obtain capital from its parent to pay for
21 storm-related costs when they are incurred even if it has the reserve on
22 the books that exceeds the costs.

⁸ Direct Testimony of Marshall W. Willis, 10:16-11:5.

⁹ Direct Testimony of Marshall W. Willis, 10:7 – 11:24.

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Q. Is Witness Willis' testimony accurate regarding FCG's use of the funds accrued or its need to borrow or obtain capital infusion when storm damage is incurred?

A. I agree that as an unfunded reserve, FCG will not have any restriction on the use of the funds it collects through the annual accrual. Unless FCG chooses to set up a fund specific for future storm damage costs, which it will not be required to do, the funds collected will be used for general purposes. However, Witness Willis' testimony does not provide the complete picture. The storm reserve fund (i.e., the funds collected through annual storm accrual in excess of the actual storm costs incurred) reduces FCG's overall cash requirement and thus reduces the amount to debt and/or equity necessary to support its capital projects and operations. The reserve on the books will be a reduction to FCG's rate base, which properly reflects this reality. When FCG incurs storm costs, FCG may be required to borrow or obtain an equity infusion if it does not have adequate cash flows from operations to cover the costs; however, such an increase in debt and/or equity would come only after FCG had already reduced the amount of debt and/or equity with the funds collected through annual accrual. Therefore, there is no adverse impact to customers and FCG's rates as a result of having an unfunded reserve for storm damage costs. The accounting mechanics of this reserve are not unique to a storm damage reserve. For example, FCG, along with other utilities, has a similar mechanism for asset removal costs. FCG collects, as part of

1 depreciation, future costs expected to incur when removing certain plant
2 assets like main. The portion of depreciation collected for asset removal
3 cost is also not separately set aside from FCG's operating funds (it is not
4 required to be set aside), and there is no restriction on FCG's use of such
5 funds.

6

7 Q. Is FCG's storm damage reserve proposal in keeping with industry
8 practices?¹⁰

9 A. Yes. It is my understanding that Peoples Gas and Florida Public Utilities
10 Company both have unfunded storm damage reserve.

11

12 **IV. Amortization of Pension Regulatory Asset**

13

14 Q. Please summarize Witness Willis' position on the inclusion in the projected
15 test year of the amortization of pension regulatory asset.¹¹

16 A. FCG included \$27,375 of the amortization related to the pension
17 regulatory asset previously approved by the FCG through Order No. PSC-
18 2007-0913-PAA-GU. Witness Willis is recommending exclusion of this
19 remaining unamortized amount from the projected test year because the
20 amortization period for this regulatory asset ends in February 2018, which
21 precedes August 2018 (expected time at which new rates from this rate
22 case will go into effect).

¹⁰ Direct Testimony of Marshall W. Willis, 11:7-24.

¹¹ Direct Testimony of Marshall W. Willis, 20:1-22.

1 Q. Do you agree with Witness Willis' position?

2 A. No. This amortization of \$27,375 in 2018 relates to the pension regulatory
3 asset approved by the FPSC and was calculated in accordance with Order
4 No. PSC-2007-0913-PAA-GU. Therefore, FCG has properly included this
5 amount in the projected test year. In Order No. PSC-2007-0913-PAA-GU,
6 the FPSC approved creation of a net regulatory asset in the amount of
7 \$1,365,856 to be amortized over a period of 13.3 years beginning
8 November 2004. The amortization in accordance with this Order requires
9 \$27,375 of this regulatory asset to be amortized in 2018. The mere fact
10 that the amortization of this regulatory asset ends prior to the time when
11 FCG is expected to have new rates established as a result of this rate
12 case does not change the appropriateness of this amortization in 2018
13 based on the Order. This FPSC approved this regulatory asset and
14 related amortization period, because it allowed FCG to recover, through
15 normal pension expense, the pension cost that would otherwise have
16 been accelerated as a result of the acquisition of FCG by AGL Resources
17 Inc. in 2004. The amortization period of 13.3 period was approved by the
18 FPSC, because it approximated the remaining service period of FCG
19 employees under the pension, and thus approximated the normal pension
20 expense recognition. Excluding this amortization from 2018 would be
21 contrary to the Order and what the FPSC has already approved.

22

23 Q. Does this conclude your testimony?

24 A. Yes.