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BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

DOCKET NO. 20190083-GU

Application for rate increase
in Highlands, Hardee, and Desoto
Counties, by Sebring Gas System, Inc.

PROCEEDINGS: COMMISSION CONFERENCE AGENDA
ITEM NO. 4

COMMISSIONERS
PARTICIPATING: CHAIRMAN GARY F. CLARK
COMMISSIONER ART GRAHAM
COMMISSIONER JULIE I. BROWN
COMMISSIONER DONALD J. POLMANN
COMMISSIONER ANDREW GILES FAY

DATE: Tuesday, January 14, 2020

PLACE: Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida

REPORTED BY: DEBRA R. KRICK
Court Reporter and
Notary Public in and for
the State of Florida at Large

PREMIER REPORTING
114 W. 5TH AVENUE
TALLAHASSEE, FLORIDA
(850) 894-0828

1 P R O C E E D I N G S

2 CHAIRMAN CLARK: All right. Moving to Item
3 No. 4, application for rate increase in Highlands,
4 Hardee, Desoto county by Sebring Gas, Ms. Galloway.

5 MS. GALLOWAY: Good afternoon, Commissioners.

6 CHAIRMAN CLARK: Your microphone.

7 MS. GALLOWAY: Item 4 is staff's
8 recommendation regarding the petition for a rate
9 increase by Sebring Gas, Inc.

10 Sebring Gas provides natural gas service to
11 approximately 662 natural gas customers in the City
12 of Sebring and the surrounding area, including
13 Highlands, Hardee and Desoto Counties. The company
14 last petitioned the Commission for a rate increase
15 in 2004 with rates approved by the Commission in
16 that docket in 2005.

17 For this docket, a customer meeting was held
18 on August 8th, 2019. Staff has not received any
19 customer complaints.

20 Beth Keating is here representing the company
21 and would like to address the Commission, and staff
22 is also available for questions.

23 CHAIRMAN CLARK: Thank you, Ms. Galloway.

24 Ms. Keating.

25 MS. KEATING: Good afternoon, Mr. Chairman,

1 Commissioners, and Happy New Year.

2 CHAIRMAN CLARK: Happy New Year.

3 MS. KEATING: Again, I am Beth Keating with
4 the Gunster Law Firm here this afternoon for
5 Sebring Gas Company. I would like to take the
6 opportunity to introduce a couple of folks to you.

7 To my left is Mr. Jerry Melendy. He is the
8 President of Sebring Gas. And to my right Bruce
9 Christmas. He's a consultant with the company and
10 with RBC Resources.

11 I would like to begin first, Commissioners, by
12 saying we appreciate your staff's efforts in
13 bringing this matter before you and for working
14 with the company throughout this process.

15 As I am sure you can understand, undertaking a
16 rate case is a pretty monumental endeavor for a
17 company of Sebring's size. And your staff has been
18 professional and reasonable in terms of navigating
19 the process.

20 For the most part, the company appreciates and
21 supports staff's recommendation; however, the
22 company does take exception on two issues.

23 Issue 11, which addresses the recommended ROE,
24 and Issue 27 as it pertains to the calculation of
25 the appropriate per therm transportation charges.

1 With your indulgence, Mr. Chairman, I can go
2 ahead and address each of our concerns. I didn't
3 know if you preferred to go issue by issue as --

4 CHAIRMAN CLARK: Without objection, we will
5 just take them both. Go ahead.

6 MS. KEATING: Okay. Thank you, Mr. Chairman.

7 With regard to Issue 11. Commissioners,
8 Sebring is privately held, and is the smallest gas
9 utility in the state. In size, it's more
10 comparable to some of your smaller water and
11 wastewater utilities that you regulate, and it's
12 certainly smaller than any electric IOU.
13 Consequently, and as you have recognized in a
14 variety of contexts, it faces greater financial
15 risk and is less able to adjust for the changes in
16 the market. Your staff, has, however, applied an
17 extremely conservative analysis, and their
18 recommendation allows for only a modest adjustment
19 to the DCF and CAPM results in recommending an ROE
20 midpoint of 10 percent. We think this is
21 wrong-headed for a few reasons.

22 First of all, the proxy group staff utilized
23 running the model consists of companies that are
24 not at all comparable to Sebring. Commissioners, I
25 believe, if I am not mistaken, your staff has

1 handed out a chart that we prepared for your
2 review. And that analysis includes an analysis not
3 just of the proxy group that your staff utilized,
4 but also the Florida Gas utilities, some of the
5 smaller electric utilities and certain water
6 companies that you regulate.

7 If you will notice on -- at the bottom of the
8 chart on the second page, that's where the proxy
9 group that your staff utilized is reflected. You
10 will see there is Atmos, Northwest, One Gas and
11 Spire. You will note that none of those companies
12 has fewer than \$1.7 million customers.

13 And then lower down, you will see that the
14 smallest division of one of those entities, Spire
15 Mississippi, still has over 18,500 customers.
16 Sebring has 622.

17 You have historically acknowledged that
18 smaller companies are higher risk companies. And
19 certainly, I will tell you Sebring is planning and
20 working towards making some customer gains, but
21 they've got aways to go to get to 18,000, much less
22 a million.

23 Second, Commissioners, the Commission has also
24 consistently recognized that the capital structure
25 is a good indicator of risk. For gas companies,

1 the target cap structure you have historically
2 applied is 60 percent equity, 40 percent debt. In
3 reality, however, the MFRs and the testimony in
4 this case reflect that Sebring's existing cap
5 structure is more like 38 percent equity.

6 This is indicative of a company that's subject
7 to much greater risk than the proxy group staff
8 utilized. In fact, Commissioners, a low equity
9 ratio is such a good indicator of risk that you
10 have made 40 percent equity before for calculating
11 water and wastewater ROEs using your leverage
12 formula.

13 When you consider again the chart we have
14 prepared, you will note that a 10-percent ROE would
15 place Sebring below all other electric and gas
16 utilities in the state. It would also be below
17 other relatively comparable water utilities. And
18 we acknowledge that the ROEs in the chart for
19 certain utilities were set more -- more than 10
20 years ago, while others are the result of
21 stipulations, or the application of the
22 Commission's leverage formula for water.

23 That said, Sebring is subject to greater risk
24 than almost any other utility on this chart and
25 shouldn't be penalized with a significant ROE

1 reduction just because it filed a rate case.

2 Commissioners, while we don't think it's
3 staff's intention, we think it's appropriate to
4 characterize the ROE reduction as just that, it's a
5 penalty. In water, that's precisely how you have
6 historically addressed service quality issues, by
7 imposing a reduction on ROE.

8 Sebring, however, has an outstanding customer
9 service record, so much so that not one person
10 showed up to the customer meeting in Sebring to
11 address the company's service. And not one
12 customer communication has been filed in the
13 Commission's docket file.

14 The Melendys have worked hard to build a
15 solid, safe and reliable company supplying natural
16 gas service in an area that had access only to
17 propane service prior to the company's
18 establishment in 1992.

19 This is a small but growing company. They've
20 only sought rate release once since then, in 2004.
21 Over 16 years ago. And over the intervening period
22 of time have continued to provide reliable service
23 and to extend service to new customers. They
24 should be rewarded for what they have accomplished,
25 not penalized.

1 As such, we respectfully ask that you rejected
2 your staff's analysis, which is based on a proxy
3 group that, on the low end, are more than 3,000
4 percent Sebring's size, and set a midpoint ROE for
5 Sebring within a more appropriate range of 11 to
6 11.5.

7 With regard to Issue 27, I will keep this a
8 little briefer.

9 The company respectfully suggests that as
10 calculated and applied to the rate classes, the per
11 therm rates just don't send the appropriate price
12 signals to customers. Rather than decline in a
13 linear fashion such that lower usage customers pay
14 the higher per therm charge and vice-versa, the
15 rates bounce in both directions.

16 The company appreciates that staff has
17 endeavored to ensure that each rate class sees
18 about the same amount of a percentage rate
19 increase. And Sebring would be the first to
20 acknowledge that how rates were set in past rate
21 cases has had some impact on the ability to make
22 the appropriate adjustments in this case. But the
23 company believes it's critical to correct the rates
24 now to send the right pricing signals.

25 To that end, I believe you may also have an

1 analysis that we prepared that reflects our
2 recommended adjustments to both the customer
3 charges and the per therm charge, where we've tried
4 to address staff's concerns about the per rate
5 class increase, while also implementing what we
6 think is better regulatory policy and sends the
7 appropriate pricing signals by having linear
8 declining per therm charges.

9 If you don't have those copies, Commissioners,
10 I have additional copies.

11 CHAIRMAN CLARK: Does everyone have a copy?
12 It is this one?

13 MS. KEATING: That's correct.

14 CHAIRMAN CLARK: Okay.

15 MS. KEATING: And just to explain a little bit
16 further about that chart. The company took staff's
17 recommendations on every other issue and flowed
18 them through the MFRs, and then made additional
19 adjust-- manual adjustments to both the per therm
20 charges and the customer charges to try to address
21 the concerns that we have regarding pricing
22 signals, and that staff also has indicated with
23 regard to the percentage increase per rate class.

24 So, Commissioners, we would also ask that you
25 give some consideration to our proposal with regard

1 to Issue 27.

2 And with that, Commissioners, we again thank
3 your staff for their efforts. Thank you for
4 listening to our comments today, and we are happy
5 to address any questions you may have.

6 CHAIRAN CLARK: Commissioner Brown.

7 COMMISSIONER BROWN: Thank you.

8 Ms. Keating, just a clarification on the
9 document that we have before us regarding Issue 27.
10 It's -- it does have the ROE up at the very top,
11 and it has the current ROE at 11.5, the original
12 filing at 12.5, the staff recommendation of 10.0,
13 and then it has your company proposed as 10.0. So
14 I just want to be clear from your comments, is --
15 is that a mistake?

16 MS. KEATING: No. That's an excellent
17 question.

18 The company is not proposing 10 percent, but
19 for purposes of flowing it through the chart, we
20 just reflected that we were accepting staff's
21 recommendations for purposes of making the changes
22 in the rates. But the company would very
23 strenuously ask that the Commission consider
24 changing that ROE.

25 COMMISSIONER BROWN: So on that -- thank you

1 for that clarification, Mr. Chairman. If I may
2 follow up --

3 CHAIRMAN CLARK: Yes, continue.

4 COMMISSIONER BROWN: -- on the ROE. I think
5 you raised some -- some valid points, and I
6 appreciate the chart that you gave us with the
7 comparisons.

8 You know, settings ROEs as regulators is -- is
9 a tricky science, slash, art, and it is -- it is
10 difficult. So, you know, we have -- we've had -- I
11 mean, this is a different type of posture. We
12 don't have a live witness, but I would love to ask
13 your consultant, if he is the ROE witness, a few
14 questions on how you derived the 12.5 percent that
15 was originally requested.

16 CHAIRMAN CLARK: Mr. Christmas.

17 MR. CHRISTMAS: It was a combination of a
18 couple of things. And what drove it beyond the
19 11.5 percent is there was the tax issue, the
20 deferred tax issue that staff addressed in a
21 different way, and we agree with how they addressed
22 it, but we had added a percentage point in to
23 recover those dollars. So if we were refiling this
24 as it is today, we would file it at 11-and-a-half,
25 so...

1 COMMISSIONER BROWN: And -- okay. And not
2 12-and-a-half?

3 MR. CHRISTMAS: Not 12-and-a-half.

4 MR. BROWN: So you would keep the current ROE
5 that you have if in place today?

6 MR. CHRISTMAS: Yes.

7 COMMISSIONER BROWN: Staff, did you have any
8 comments?

9 MR. CICCHETTI: Yes, Commissioner. Good
10 afternoon, Mr. Chairman and Commissioners.

11 The company current allowed ROE is
12 11-and-a-half percent, and that was set in December
13 of 2004. Staff is recommending 10 percent based on
14 current market conditions and the risk of the
15 utility as compared to its proxy group.

16 There is a -- there has been a significant
17 decrease in interest rates since the 11.5 percent
18 was set, almost 300 basis points. And it's
19 standard practice to use a proxy group of utilities
20 that trade in the marketplace, because you couldn't
21 find stocks trading for companies that have 600
22 customers.

23 So we do it in -- with the leverage formula.
24 It's used in almost every rate case where we are
25 recommending an ROE. There is a proxy group, and

1 thin you make an adjustment for risk.

2 Based on our analyses, it was approximately
3 the average of the DCF, the discounted cash flow
4 methodology and the capitalized set pricing model
5 came in under just eight percent, at 7.8 percent.
6 And we knew that was too low because the proxy
7 group is a less risky group than -- than Sebring.
8 However, Sebring is still a regulated utility, and
9 given adequate management and adequate regulation,
10 there should be no reason why they couldn't adjust
11 their rates so that they could meet their expenses
12 and earn a fair return.

13 So we thought 10 percent, based on a couple of
14 comparisons that we looked at, was reasonable. For
15 example, the average gas utility ROE that was
16 allowed for 2019 was approximately 9.6 percent, and
17 we are somewhat above that at 10 percent.

18 And also the long-term treasury yield, the
19 forecasted rate for that, it's a risk-free rate, is
20 approximately three-and-a-quarter percent.
21 Currently, it's 2.3 percent.

22 So allowing a 10-percent ROE, that's a
23 significant risk premium over the risk-free rate.
24 So based on those considerations, we thought
25 10 percent was fair.

1 CHAIRMAN CLARK: Commissioner Graham.

2 COMMISSIONER GRAHAM: Thank you, Mr. Chairman.

3 You know, my big issue has always been
4 customer service. Whenever I get the opportunity
5 to talk to our utilities, to talk at different
6 conferences, I talk about customer service,
7 especially because we have a monopoly situation
8 where people don't have a choice to pick and choose
9 who they are going to get utilities from. And I
10 have always preached that the one thing you do
11 control is your customer service. I think it's
12 key. I think you need to spend the money to make
13 sure that the customers are happy.

14 I think what Ms. Keating touched on the
15 beginning of her conversation was the fact that
16 they didn't have anybody come complain about the
17 rate increase, which, as we all know here, is
18 almost unheard of.

19 And quite a bit of times when we are dealing
20 with the water utilities, we will dink these guys
21 because they have poor customer service, or we will
22 dink these guys because they have a poor pro -- a
23 poor product. And in this case, it doesn't appear
24 to be a poor product, because I hadn't heard any
25 moisture complaints or anything like that in their

1 gas, and the customer service appears to be pretty
2 stellar.

3 So going back to the whole addict of the
4 carrot or the stick, I don't have a problem with
5 giving them the carrot in this case because I think
6 they have done the job that they need to do, and
7 they are keeping the customers that they have
8 happy.

9 So I don't have a problem with -- you know,
10 normally when we are going to penalize somebody, we
11 will penalize them up to 100 basis points. And
12 we -- that's just to kind of not do any undue harm
13 to them. I don't have a problem going the opposite
14 direction in this case and adding the basis points.

15 Now, anywhere between 50 and 100 works for me.
16 I will open that up to everybody else, but that's
17 just the way I feel about this Issue No. 11. I
18 don't have a comment on Issue No. 27.

19 Thank you, Mr. Chairman.

20 CHAIRMAN CLARK: Commissioner Polmann.

21 COMMISSIONER POLMANN: Thank you, Mr.
22 Chairman.

23 I appreciate Mr. Cicchetti's explanation.
24 That's very helpful to me. I do see Sebring as
25 a -- as a small utility. I recognize that. I

1 am -- I am, I don't want to say troubled, but I am
2 not persuaded by the argument that the comparison
3 to utilities that are much larger is not a valid
4 comparison, because I do accept Mr. Cicchetti's
5 argument that it's a -- it's a market-based issue
6 in -- in large part because we are talking about
7 that comparison, as we typically do, so -- so I
8 think that carries weight for me.

9 I will ask this, though, on the -- on the
10 cap -- capitalization structure, how does that
11 weigh into your analysis here? Ms. Keating raised
12 that issue and the distinction there. Could you
13 please elaborate or offer a comment there if you
14 think that -- that would be helpful to us?

15 MR. CICHETTI: Yes, we certainly take that
16 into consideration. We always do.

17 The company's current equity ratio is around
18 50 percent. And they projected that the additional
19 capital expenditures that they were going to make,
20 the proforma capital expenditures going forward,
21 would be financed with debt. And that's what
22 brought the equity ratio down.

23 Now, they have reduced somewhat the amount of
24 those expected capital expenditures, at least in
25 the short-term. And I would expect over time they

1 would build back up.

2 But, yes, if they did add a significant amount
3 of debt, it would bring it down from what their
4 current equity ratio is.

5 COMMISSIONER POLMANN: Now, I understand that
6 the 11.5 is -- is the current rate as an
7 opportunity. But where -- where are -- where is
8 the company historically compared to the 11.5
9 versus the 10? Because we are talking about 11.5,
10 or 12.5, or 10, and, again, you know, Ms. Keating
11 has -- has suggested this as a penalty, but I am
12 not quite sure I understand that -- I am not
13 suggesting that staff is looking at it that way,
14 but that word is -- is a powerful word and I am
15 trying to put that in a perspective of where the
16 company has been historically relative to -- to
17 the -- to the approved rate, or the allowable rate.

18 MR. CICCHETTI: Well, we certainly were not
19 looking at it as a penalty. I mean, the allowed
20 rate is 11.5, and based on current market
21 conditions, we thought 10 was reasonable.
22 Significant reduction in interest rates, I think,
23 is a general reflection of that.

24 They've been at 11.5 and allowed a return of
25 11.5 since December of 2004. I don't think they

1 have earned that consistently, but their allowed
2 has been 11.5 since 2004, and it's consistent.

3 If you look at a lot of these in the handout
4 they provided are older, and it would be as if pipe
5 back in 2004 cost X, and today it's -- the price
6 has dropped. You wouldn't say, well, let's -- we
7 got X in 2004, that's what we ought to get today.
8 It's based on what the cost is today so we could
9 set appropriate rates going forward.

10 COMMISSIONER POLMANN: Okay. Thank you, Mr.
11 Chairman.

12 CHAIRMAN CLARK: Commissioner Brown.

13 COMMISSIONER BROWN: Well, I was going to
14 switch on to Issue 27 and kind of go into that a
15 little bit more before going to the ROE.

16 CHAIRMAN CLARK: That's fine.

17 COMMISSIONER BROWN: Okay. Staff, the
18 document that we have in front of us, can you just
19 go over what the company is now proposing and what
20 affect that would actually have for -- I would
21 really like to know for residential customers,
22 quite frankly.

23 MR. COSTON: Yes, Commissioner.

24 In the -- the chart that was provided and
25 mentioned and referenced by the company, they are

1 all making modifications. In this particular rate
2 structure for this company, it's not necessarily
3 fully residential versus commercial versus
4 industrial, it's volumetric. But it's -- it's
5 reasonable to say that the first two rate classes,
6 TS-1 and TS-2, not all carry a bulk of the
7 residential customers.

8 In their proposal -- in the original proposal,
9 staff, in looking at the company's original cost of
10 service study, and looking at some manual
11 adjustments they made, and kind of identifying and
12 looking at their responses to both data request and
13 their explanation in their original testimony, I
14 believe that those adjustments were reasonable. I
15 did not find an -- any issues with those.

16 And then using that, we base our -- an
17 allocation of fixed costs versus variable costs in
18 setting all of the rate classes, including TS-1 and
19 TS-2, the residential. And we definitely looked at
20 those particular classes to try to see what the
21 rate impact would be.

22 Originally, right now, the staff
23 recommendation for TS-1, which has the largest
24 number of customers within it for the company, the
25 current rate of fixed charge is \$9, the original

1 filing requested 15. Staff recommended 12.

2 And in that, the current proposal with the
3 sheet that was provided that you are making
4 reference to, the proposal right now is the company
5 is requesting 12.5 in fixed charges. What that
6 does is that does shift some of the variability of
7 the customer having, you know, an impact on being
8 able to adjust or influence their bills based on
9 their usage, it does shift that a little bit as far
10 as --

11 COMMISSIONER BROWN: And it shifts it upward.

12 MR. COSTON: It shifts -- it shifts the
13 ability to -- they are no longer able to kind of
14 impact their -- their usage. Yes, right, it does
15 shift it upward.

16 And it certainly -- one thing to also
17 recognize, because of the volumetric aspect of the
18 rate structure, the lower volume users in any rate
19 class, the lower your volume usage and the higher
20 your fixed charge is, you are absorbing a greater
21 percentage, if you will, of the -- of the increased
22 rate increase.

23 And so that was something staff has looked at
24 specifically in all the rate classes, when we were
25 setting the fixed charges, and certainly when we

1 were looking at it in TS-1 and TS-2.

2 COMMISSIONER BROWN: And what are your
3 thoughts on the sheet the -- the company proposed
4 rate?

5 MR. COSTON: Well, staff supports its original
6 staff recommendation for -- for several reasons.

7 Again, first, the staff -- the company, in its
8 original proposal, provided a cost of service
9 study. They -- they provided justification on why
10 that cost of service study was appropriate for
11 their business structure. Staff reviewed that as
12 data request, and they provided responses. So
13 staff felt comfortable with that cost of service
14 study.

15 And so looking at it now, what they are
16 proposing now, they are proposing not only making
17 modifications, if you will, to the ratio of fixed
18 versus variable, they also are making additional
19 modifications to adjust the revenue requirements
20 across the each of the classes.

21 And so those -- right now, we are not really
22 fully -- having a fully -- full understanding,
23 rather, of those changes, but also recognizing that
24 that is in place, staff is comfortable and feels
25 very comfortable with what we have recommended in

1 the original petition based on the information we
2 have at hand.

3 COMMISSIONER BROWN: Okay. Thank you, Tripp.
4 A follow-up question for Sebring.

5 Can you explain why we have these
6 modifications from the original cost of service
7 study? Do you know which sheet I am talking about
8 here?

9 MS. KEATING: I do, Commissioner. I am -- I
10 am trying to think of the way to address that. We
11 didn't actually modify the cost of service study.

12 There is a saying that goes along the lines of
13 that rate-making is a science and an art, and we
14 disagree with staff's science part of this. We
15 think they just haven't applied the art portion of
16 it.

17 We utilized the same cost of service study in
18 coming up with these rates. We took staff's
19 recommended ROE and flowed it through the MFRs, but
20 then made manual adjustments to try to address the
21 concerns that staff had and that we had. They are
22 revenue neutral adjustments. They don't change the
23 revenue requirement --

24 COMMISSIONER BROWN: I understand.

25 MS. KEATING: -- but -- but they are not --

1 they weren't a change to the cost of service study,
2 per se.

3 COMMISSIONER BROWN: Well -- okay, thank you
4 for that clarification. Can you explain to this
5 body why you made the changes from the original
6 filing --

7 MS. KEATING: So --

8 COMMISSIONER BROWN: -- shifting the fixed
9 versus the variable?

10 MS. KEATING: The changes were made largely to
11 try to respond to staff's recommendation. We were
12 endeavoring to try to find an in between that might
13 address our concerns while also addressing staff's
14 concerns.

15 This isn't -- this wasn't necessarily intended
16 to revise our filing, per se, as much as it was a
17 suggestion to staff that, you know, here's-- here
18 are some other adjustments that could be done that
19 would still implement all of your recommendations,
20 but would get the rates in -- to a situation where
21 they are declining linearly, which is more
22 consistent with good pricing signals.

23 COMMISSIONER BROWN: Mr. Chairman, one last
24 question.

25 CHAIRMAN CLARK: Commissioner Brown.

1 COMMISSIONER BROWN: From -- if the
2 Commissioner decides to go ahead and keep the
3 current ROE rather than as proposed by staff, then
4 would -- is your position that you are comfortable,
5 then, with the fallout from there of the -- of the
6 previous recommendation from staff on the rate
7 structure?

8 MS. KEATING: As far as if they -- if you were
9 to allow the company to maintain an 11.5?

10 COMMISSIONER BROWN: Or 11, somewhere --

11 MS. KEATING: Or 11.

12 COMMISSIONER BROWN: If we change it from what
13 the staff is proposing.

14 MS. KEATING: Okay. And then -- so you are
15 saying -- we can make whatever the Commission
16 approves of work.

17 COMMISSIONER BROWN: Oh, we know that.

18 MS. KEATING: Absolutely. I don't want to --

19 CHAIRMAN CLARK: It's kind of like asking,
20 which one of these would you prefer.

21 MS. KEATING: Yes.

22 COMMISSIONER BROWN: The Chairman said it very
23 well.

24 MS. KEATING: I -- I think, from the company's
25 perspective, you know, we realize that there --

1 some adjustments were made in prior rate cases that
2 really put the Commission -- put the company's
3 rates a little askew. And -- and all we are trying
4 to do with the rec -- with the additional analysis
5 we provided is to get the pot right. And from our
6 perspective, getting the pot right means linear
7 designing rates that don't bounce around.

8 COMMISSIONER BROWN: Got you.

9 CHAIRMAN CLARK: Before I go to Commissioner
10 Polmann, I want to ask two questions on -- on to
11 that -- on that same line of thought.

12 I kind of lean toward the linear declining
13 rates myself. That's a preference. I think that
14 contrary to what staff says, there is rationale and
15 logic for having a higher fixed based cost and
16 lowering the per kilowatt hour, or per therm cost
17 in this particular case. There is a lot of logic
18 in that with fluctuations and weather that we have
19 here.

20 Looking back at your cost of service study,
21 you have done a maximum allowable fixed cost
22 recovery through fixed -- through your base rate --
23 through your fixed base rate. What was that
24 maximum number that if you had to recover all your
25 costs through that base rate, what would that be?

1 MS. KEATING: Through the fixed charge?

2 CHAIRMAN CLARK: Through the fixed charge.
3 What's the actual cost of service if you backed
4 that into a fixed cost -- fixed charge?

5 MS. KEATING: I would have to go back and
6 check that.

7 CHAIRMAN CLARK: How much per month per
8 customer on a standard residential?

9 MS. KEATING: I think it was, from a
10 percentage of the -- I think it was going to be,
11 like, 60 percent through --

12 MR. CHRISTMAS: For a dollar value.

13 CHAIRMAN CLARK: For a dollar value, what
14 would you -- to recover the fixed cost through that
15 fixed charge --

16 MS. KEATING: Of the original -- of the
17 original --

18 CHAIRMAN CLARK: Yes.

19 MS. KEATING: -- charges?

20 If you give us a moment, we can come up with
21 that.

22 CHAIRMAN CLARK: Would -- would that number be
23 significantly above the \$15 that you requested in
24 your original filing?

25 MR. CHRISTMAS: It would probably be between

1 \$25 and \$30.

2 CHAIRMAN CLARK: So to -- to actually recover
3 those fixed costs in your fixed charge, you would
4 need about \$30 a month, roughly?

5 MR. CHRISTMAS: Right, ballpark.

6 CHAIRMAN CLARK: Okay.

7 MR. CHRISTMAS: Subject to check.

8 CHAIRMAN CLARK: Subject to check. I am with
9 you. Okay.

10 All right. Commissioner Polmann.

11 COMMISSIONER POLMANN: Thank you, Mr.
12 Chairman.

13 As Commissioner Brown said, you will do what's
14 necessary, but --

15 MS. KEATING: Absolutely, Commissioner.

16 COMMISSIONER POLMANN: Let me try to just
17 understand. With an adjustment to the ROE from the
18 staff recommendation, where in the rate structure
19 would -- would you think the change would be
20 necessary or most appropriate to recover what would
21 then necessarily be additional revenue to -- to
22 achieve the additional return?

23 MS. KEATING: So if I --

24 COMMISSIONER POLMANN: Or am I confused?

25 MS. KEATING: I -- I think I see -- I think I

1 understand the question.

2 COMMISSIONER POLMANN: You are going to
3 have -- you are going to have an additional
4 increment of return, which would necessitate
5 additional costs to the customer, yes?

6 MR. CHRISTMAS: Correct.

7 COMMISSIONER POLMANN: So where is that going
8 to show up in the -- in the rates?

9 MR. CHRISTMAS: It would show up in the per
10 therm charges.

11 COMMISSIONER POLMANN: So it will be the in
12 variable cost?

13 MR. CHRISTMAS: Right.

14 COMMISSIONER POLMANN: Across the board, or it
15 would --

16 MR. CHRISTMAS: Yes.

17 COMMISSIONER POLMANN: That's your intention?

18 MR. CHRISTMAS: Uh-huh.

19 COMMISSIONER POLMANN: Okay.

20 CHAIRMAN CLARK: Any other questions from the
21 Commissioners? Any other comments?

22 MS. FALL-FREY: Excuse me, is OPC permitted to
23 speak?

24 CHAIRMAN CLARK: Absolutely, I was coming back
25 to you next. You are on the list.

1 MS. FALL-FREY: I didn't want to miss my
2 chance.

3 CHAIRMAN CLARK: Introduce yourself, please.

4 MS. FALL-FREY: I am A. Mireille Fall-Frey with
5 the Office of Public Counsel.

6 CHAIRMAN CLARK: Thank you.

7 MS. FALL-FREY: We want to commend staff on the
8 job done. It's been great working with Beth.

9 We support staff recommendation. We are not
10 opposed to Sebring's change to Issue 27. I do
11 think that, though, with those changes to Issue 27,
12 that that bolsters staff's recommendation on Issue
13 11, that they've -- they did the CAPM and they did
14 the DCF, and they al-- and they raised it a bit for
15 the difference between the peer group, there will
16 be less variability if you accept the additions to
17 27, so that that -- it makes it even less risky.
18 So OPC supports staff.

19 Thank you.

20 CHAIRMAN CLARK: Thank you very much.

21 Other comments, questions from Commissioners?
22 Commissioner Brown.

23 COMMISSIONER BROWN: Just I appreciate OPC's
24 comments. I know which direction you don't object
25 to.

1 Tripp, do you object to the -- pardon me --
2 the rate the proposed changes that we just
3 discussed?

4 MR. COSTON: The presentation based on staff's
5 analysis done up to this point, staff does not find
6 their proposal unreasonable.

7 COMMISSIONER BROWN: Unreasonable?

8 MR. COSTON: Yes -- or correct.

9 COMMISSIONER BROWN: At a 10.0 ROE?

10 MR. COSTON: Not what -- setting on the rates,
11 taking the ROE out, but as far as how the rates are
12 structured, you know, their request is not
13 unreasonable.

14 COMMISSIONER BROWN: Okay. Understanding it's
15 revenue neutral --

16 MR. COSTON: Right.

17 COMMISSIONER BROWN: -- but I -- I am curious
18 a little bit more thought or discussion on the ROE
19 side. If we could have Mr. Cicchetti come back
20 before we move to a vote if we could.

21 CHAIRMAN CLARK: Mr. Cicchetti.

22 COMMISSIONER BROWN: And we've had many
23 discussions off-line about ROE, and it is -- it's
24 difficult to get to -- to that right number. And
25 there is formulas, but there is also a science, so

1 I am really appreciative of Commissioner Graham's
2 thoughts on incorporating customer service into our
3 analysis when setting rates.

4 Just declining it from 11.5 percent to 10.0
5 when this utility -- I am just curious how you
6 factor that in. Obviously, interest rates have
7 declined over the past few years, but it's a
8 significant jump. You said that the utility has
9 earned its midpoint range?

10 MR. CICCHETTI: No. It's -- I think the most
11 recent surveillance report, it showed, I think,
12 4.35 percent was what was earned in June of '19.
13 As recently as June in '17, it was 8.7 percent
14 approximately as an earned return.

15 COMMISSIONER BROWN: Okay. I don't have any
16 more. Thank you.

17 CHAIRMAN CLARK: Commissioner Graham.

18 COMMISSIONER GRAHAM: Are we ready -- I am not
19 used to turning my mic on and off.

20 CHAIRMAN CLARK: We can have someone do that
21 for you if you would like.

22 COMMISSIONER GRAHAM: Can we have someone from
23 staff up here to work this button?

24 My suggestion about the -- the added bump in
25 basis points to the ROE, I do not question or

1 begrudge where staff came up with the 10.0. Mine
2 with me just on customer service. As I said
3 before, it is the carrot or the stick, and it is
4 the carrot. It is the reward.

5 In my 10 years up here, nine-and-a-half years
6 up here, I don't if we have ever had a -- a rate
7 case where there wasn't one single customer
8 complaint. And so I think it's more of a policy
9 decision than anything else, and that's something
10 that you four, us five, have to make a decision one
11 way or the other.

12 Thank you, Mr. Chairman.

13 CHAIRMAN CLARK: Just a quick question. I am
14 going to throw this out. I know we have ran a lot
15 of numbers and talked some different scenarios
16 here.

17 I think we did a waiver to get us to this
18 point today. Would 30 days -- a 30-day delay here
19 to have a chance to rerun these and bring this back
20 to the Commission with -- or do you want to make a
21 decision today?

22 It matters not to me. I am just throwing that
23 out there as a -- to the company's perspective,
24 would there be any huge issue with -- would you
25 rather have a vote today?

1 MS. HELTON: Mr. Chairman, you can give us --
2 if you make changes to staff's recommendation, then
3 you can give the staff the administrative --

4 CHAIRMAN CLARK: Authority.

5 MS. HELTON: -- administrative authority to
6 run all of those changes through to get to the --
7 to the correct --

8 CHAIRMAN CLARK: I think that's where I am
9 trying to get to, is see where these -- where the
10 numbers end up when we run these --

11 COMMISSIONER BROWN: I think we are ready to
12 vote.

13 CHAIRMAN CLARK: Okay. The Chair will
14 entertain a motion.

15 COMMISSIONER BROWN: I am looking to
16 Commissioner Graham.

17 CHAIRMAN CLARK: Commissioner Graham.

18 COMMISSIONER GRAHAM: I am not sure if --
19 well, my motion is, and we can amend my motion if
20 need be, move staff recommendation on all issues
21 except for Issue No. 11. And we will bump it 100
22 basis points, so the midpoint ROE will be 11.0.

23 CHAIRMAN CLARK: 11.0. All other items as
24 presented?

25 COMMISSIONER GRAHAM: That's correct.

1 CHAIRMAN CLARK: Okay.

2 COMMISSIONER BROWN: Second.

3 CHAIRMAN CLARK: I have a motion and a second.

4 Any discussion? No discussion?

5 On the motion, all in favor say, aye.

6 (Chorus of ayes.)

7 CHAIRMAN CLARK: Opposed?

8 (No response.)

9 CHAIRMAN CLARK: All right. That concludes
10 the Agenda Conference. We got through it and
11 nobody got hurt. Congratulations.

12 We will resume IA in 10 minutes in this
13 location.

14 (Agenda item concluded.)

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CERTIFICATE OF REPORTER

STATE OF FLORIDA)
COUNTY OF LEON)

I, DEBRA KRICK, Court Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED this 23rd day of January, 2020.



DEBRA R. KRICK
NOTARY PUBLIC
COMMISSION #GG015952
EXPIRES JULY 27, 2020

Investor-Owned Utility	Midpoint - Authorized Return on Equity	Number of Customers (At time of Case)	Year	Order
Peoples Gas System	10.75% (low point 9.25% - Stipulation)	386,342	2009 (ordered and stipulated)	PSC-2009-0411-FOF-GU/(2017-0066-AS-GU)
Florida City Gas	10.19%	109,674	2018 (stipulation)	Order PSC-2018-0190-FOF-GU
Florida Public Utilities (Gas)	10.85%	60,643	2009	Order No. PSC-09-0375-PAA-GU
Florida Division of Chesapeake Utilities Corporation	10.80%	17,985	2010	ORDER NO. PSC-10-0029-PAA-GU
St. Joe Natural Gas	11.00%	2,997	2008	Order No. PSC-2008-0436-PAA-GU
Florida Public Utilities - Indiantown Division	11.50%	696	2004	ORDER NO. PSC-04-0565-PAA-GU
Sebring Gas System, Inc.	11.50% (Current)	622	2004	Order No. PSC-04-1260-PAA-GU
Gulf Power	10.25%	450,000	2017 (stipulation)	ORDER NO. PSC-17-0178-S-EI
Florida Public Utilities (Electric)	10.25%	32,000	2014 (stipulation)	ORDER NO. PSC-14-0517-S-EI
TECO	10.25%	684,000	2017 (stipulation)	ORDER NO. PSC-2017-0456-S-EI
Utilities Inc.	10.40% (for all systems, except Summertree, Cypress Lakes, Mid-County, and Pembroke, which were reduced for poor quality of service)	(Systems range from 1,300 to 122,000 customers)	2017 (PSC leverage formula)	ORDER NO. PSC-2017-0361-FOF-WS
Crestridge Utilities, LLC. (Pasco)	11.16%	614	2017 (staff assisted/leverage formula)	ORDER NO. PSC-17-0042-PAA-WU
Aquarina (Brevard)	11.16%	296 Water 311 Wastewater	2016 (PSC leverage formula)	Order No. PSC-2016-0583-PAA-WS

Parties/Staff Handout
Internal Affairs Agenda
on 1/14/20
Item No. 4

Investor-Owned Utility	Midpoint - Authorized Return on Equity	Number of Customers (At time of Case)	Year	Order
Atmos Energy	9.8% (Blended) (Distribution Companies - 70,000 miles of distribution and transmission mains) 11.5% (Intrastate Pipeline - 5,700 miles of intrastate)	3,000,000+	11/2019	11/2019 Investor Presentation
Northwest Natural Gas	9.4% (1.2B rate base)	2,500,000 (5 year Cap Ex of \$875 Million)	1/1/2020	12/2019 Investor Presentation
One Gas	9.5% (\$3.5B rate base)	2,000,000	10/2019	10/29/2019 Earnings Call
Spire, Inc (See Also Below)	10.7% (Spire Gulf) 9/30/18 9.73%(Spire Mississippi) 10.4% (Spire Alabama) 10/2018 9.8% (Spire Missouri) 4/2018 (Plus Supplemental Growth Rider for Mississippi and Rate Stabilization Mechanism in Alabama)	1,700,000 (total)		Investor Earnings Call Reports

	Alabama	Gulf	Mississippi	Missouri
Primary office	Birmingham	Mobile	Hattiesburg	St. Louis
Employees ¹	941	119	35	2,389
Customers ¹	420,600	83,900	18,500	1,169,900
Pipeline miles	~23,000	~4,300	~1,200	~30,000
Rate base (Millions)	\$543 ²	\$98 ²	\$29 ³	\$2,217 ⁴
Return on equity	10.40% ⁵	10.70%	9.73%	9.80%
Equity capitalization	55.5% ⁵	55.5%	50.0%	54.2%