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VIA E-MAIL (Commissioner.Fay@psc.state.fl.us)

The Honorable Andrew Giles Fay
Chairman
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: Florida City Gas – Test Year Notification
Pursuant to Rule 25-7.140, Florida Administrative Code

Dear Chairman Fay:

Florida City Gas ("FCG" or the "Company") hereby submits this Test Year Notification pursuant to Rule 25-7.140, Florida Administrative Code ("F.A.C."). This letter is provided as notification to the Florida Public Service Commission ("Commission") that FCG intends to seek a general base rate increase pursuant to the provisions of Section 366.06(3), Florida Statutes ("F.S."). The Company currently contemplates a filing date on or after May 31, 2022, based on a projected test year ending December 31, 2023. Together with its petition for a general base rate increase, FCG intends to seek approval of its 2022 depreciation study pursuant to Rule 25-7.045, F.A.C.

FCG is a natural gas utility subject to regulation by the Commission pursuant to Chapter 366, F.S. FCG's service to customers has spanned decades, with its local distribution operations having been active since 1949. The Company currently provides clean, safe, and reliable natural gas service to approximately 116,000 residential, commercial, and industrial customers within fifty-one municipalities in the counties of Miami-Dade, Broward, Palm Beach, Brevard, Indian River, St. Lucie, Martin, and Hendry.

FCG's last general rate case was filed on October 23, 2017, in Docket No. 20170179-GU, and resolved by Commission approval of a Stipulation and Settlement Agreement ("2018 Settlement") that authorized, among other things, new base rates and charges to become effective June 1, 2018, and a return on equity ("ROE") range of 9.19% to 11.19%.[1] For the period 2019 through 2023, FCG projects to invest more than $235 million in infrastructure and other capital to support customer growth, enhance customer service, comply with increasing regulatory compliance requirements, and enhance the reliability of its system.

[1] Order No. PSC-2018-0190-FOF-GU issued April 20, 2018.

Inflation and increases in operating costs, as well as the capital investments since the prior case, have impacted the Company's ability to achieve a reasonable return. As reflected on the Company's quarterly earnings surveillance reports and 2022 forecasted earnings surveillance report filed with the Commission, FCG has continually earned and expects to earn at or below the bottom of its authorized ROE range each year since its last general rate case. Further, based on the Company's projected 2023 financial forecast, FCG projects that its earned ROE will be significantly below the bottom of the current authorized ROE range in 2023 without rate relief. For these reasons, FCG has determined it must seek an increase in base rates.

FCG is finalizing its 2023 revenue requirements but currently estimates a net incremental base rate revenue increase of approximately $20 million to $23 million will be required.[2] FCG submits that these additional revenues are appropriate and necessary for the Company to continue to meet the natural gas needs of existing and new customers; continue to provide safe, reliable, and high quality customer service; and have a reasonable opportunity to earn a fair rate of return on the Company's investments. FCG, therefore, submits this Test Year Notification letter, along with the following required information.

Test Year and Statements Regarding Interim Rates and Proposed Agency Action

In accordance with Rule 25-7.140, F.A.C., the Company has selected the 12-month period ending December 31, 2023, as the projected test year for purposes of the Company's request for a permanent base rate increase. Subject to the actual filing date of FCG's general base rate petition, the Company anticipates it will seek an effective date for new rates of February 1, 2023. The Company believes that the requested test year is appropriate in that it will: (a) best reflect the economic conditions impacting the Company during the first 12-month period that the new rates will be in effect; and (b) provide the most accurate picture of revenues as compared with the Company's cost to serve during the initial period new rates would be placed into effect.

FCG will not request the proposed agency action process authorized in Section 366.06(4), F.S.

FCG will not seek interim rate relief pursuant to Section 366.071, F.S.

Actions and Measures Implemented to Avoid a Base Rate Increase

In addition to its willingness to agree to a four-year rate case stay out under the 2018 Settlement, the Company has undertaken considerable effort to avoid seeking a base rate increase, as outlined below:

[2] FCG's estimate of the necessary revenue increase is separate and apart from the previously approved revenues associated with the liquified natural gas ("LNG") plant and transfer of the Safety Access and Facility Enhancement ("SAFE") program investments from clause to base.

1. Under the 2018 Settlement, FCG agreed to not seek new base rates prior to June 1, 2022, unless the earned ROE reported on an FCG earnings surveillance report fell below 9.19%. Despite the fact that FCG has continually earned at or below the bottom of its authorized ROE range each year (per its earnings surveillance reports) since its last general rate case, FCG declined to seek a base rate increase and, instead, focused on managing its costs under the terms of the 2018 Settlement, while keeping customer rates stable and at reasonable levels.

2. FCG has proactively taken measures to improve operational efficiencies, including revising its periodic meter testing program to better reflect industry best practices, and deployment of new technology and software systems.

3. Starting in 2019, FCG obtained all its short- and long-term financing needs through an intercompany loan with its parent company. The interest rate on these short- and long-term borrowings is significantly lower than the interest rates FCG could otherwise obtain on its own. This action has resulted in the Company paying lower financing costs for its working capital and capital expenditure requirements, which has resulted in savings for customers.

4. FCG has continued to efficiently manage and implement its SAFE program and associated cost recovery mechanism, which has enabled FCG to make capital investments that are necessary to further improve the safety of its system without the need for more frequent base rate case filings. As part of this base rate case, the current SAFE investments will be moved from clause to base pursuant to Commission Order No. PSC-2015-0390-TRF-GU, which will have no net incremental impact on customer bills.

These beneficial cost-control measures have provided – and continue to provide – demonstrable customer benefits. However, despite these initiatives to manage costs, FCG has seen a significant increase in the cost to serve customers.

<u>Major Factors Necessitating a Rate Increase and Estimate of Impact on Revenue Requirements</u>

The key drivers necessitating the Company's request for a base rate increase include, but are not limited to, the following:

1. The principal factor necessitating a rate increase is that FCG has been earning at or below the bottom of its approved ROE range since its last rate case as demonstrated by the Company's quarterly earnings surveillance reports filed with the Commission. Further, without a rate increase, FCG is forecasted to continue to underearn, which could lead to negative financial and operational outcomes.

2. In order to respond to customer growth and demand, improve system safety, and enhance system resiliency, FCG has an obligation to make prudent and necessary infrastructure investments that provide a safe and reliable natural gas distribution system in the communities served. FCG projects its adjusted rate base in 2023 to be nearly $446 million, which is an increase of approximately $147 million (or approximately 49%) since the last base rate proceeding.[3]

3. In addition to inflationary pressures, FCG's operating costs have continued to increase since its last rate case due to customer growth and system expansion, increased damage prevention efforts, enhanced oversight over safety and quality control, and implementation of additional technology. Use of this technology to predict future damage resulted in a 15% reduction of damaged underground pipelines since 2020. This preventive strategy is helping to ensure continued safe operations for the customers and the communities we serve.

4. FCG engaged an independent consultant to complete a depreciation study. The Company proposes to implement new depreciation rates to reflect updated estimates for asset useful lives and costs of removal. The impact is an expected increase to depreciation expense in 2023.

As a result of these major factors, FCG has determined it must seek an increase in base rates to continue to meet the natural gas needs of existing and new customers, continue to provide safe, reliable, and high-quality customer service, and have a reasonable opportunity to earn a fair rate of return on the Company's investments. As explained above, FCG is currently finalizing its 2023 revenue requirements, but the Company estimates the net incremental 2023 revenue requirement to be approximately $20 million to $23 million based on a 2023 test year.

<u>Conclusion</u>

The Company is undertaking its forthcoming rate request only following thoughtful deliberation and considerable review. Despite its efforts to control costs and efficiently manage its operations, FCG has and will continue to earn well below a fair rate of return if rate relief is not granted. FCG submits that its base rate petition and supporting testimony, minimum filing requirements, and exhibits will demonstrate that the proposed base rate increase and associated proposal are appropriate and necessary to support customer growth and continue to provide safe and reliable service.

FCG looks forward to presenting its proposal to the Commission for its review and consideration.

[3] The estimated increase in the adjusted rate base for 2023 does not include the SAFE investments that will be moved into rate base as contemplated in Order No. PSC-2015-0390-TRF-GU.

Respectfully submitted,

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