BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the matter of:

DOCKET NO. 20220067-GU

Petition for rate increase by Florida Public Utilities Company, Florida Division of Chesapeake Utilities Corporation, Florida Public Utilities Company - Fort Meade, and Florida Public Utilities Company - Indiantown Division.
______________________________________/

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PROCEEDINGS: HEARING

COMMISSIONERS
PARTICIPATING: CHAIRMAN ANDREW GILES FAY
COMMISSIONER GARY F. CLARK
COMMISSIONER GABRIELLA PASSIDOMO

DATE: Tuesday, October 25, 2022

TIME: Commenced: 11:00 a.m.
Concluded: 5:01 p.m.

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

REPORTED BY: DEBRA R. KRICK
Court Reporter

APPEARANCES: (As heretofore noted.)

PREMIER REPORTING
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P R O C E E D I N G S

(Transcript follows in sequence from Volume 1.)

CHAIRMAN FAY: And then I would like to go ahead and call the next witness, Mr. Rehwinkel. Do you have a general idea of the timeline of questions for Mr. Napier?

MR. REHWINKEL: Ms. Napier?

CHAIRMAN FAY: Ms. Napier, excuse me.

MR. REHWINKEL: I think they are in the realm of what I just did with Mr. Galtman.

CHAIRMAN FAY: Okay. And I think if you are okay, or do you need a break?

COURT REPORTER: Not at this time.

CHAIRMAN FAY: Okay. Ms. Keating, you are recognized to call your next witness.

MR. REHWINKEL: But I may need -- I do need to direct Ms. Napier to the MFR schedules.

CHAIRMAN FAY: Okay. That's fine, as long as you can let us know what schedule, I can pull it here. And as long as our staff feels comfortable, then I think wire okay. I'm -- I can pull it -- as long as you reference which schedule it is, I can pull it, but if they want to use it, then that's fine.

Okay. Ms. Keating, you are welcome to call your next witness.

MS. KEATING: Thank you, Mr. Chairman. FPUC calls Michelle Napier to the stand.

Whereupon,

MICHELLE NAPIER

was called as a witness, having been previously duly sworn to speak the truth, the whole truth, and nothing but the truth, was examined and testified as follows:

EXAMINATION

BY MS. KEATING:

Q Good afternoon, Ms. Napier.

A Good afternoon.

Q Could you please state your name and business address for the record?

A Michelle Napier. 1635 Meathe Drive, West Palm Beach, Florida, 33411.

Q And by whom are you employed and in what capacity?

A Chesapeake Utilities as Director of Regulatory Affairs.

Q And did you cause to be prepared and filed in this proceeding 19 pages of direct testimony?

A Yes, I did.

Q And did you also cause to be prepared and

filed an errata sheet to that testimony on October 19th?

A Yes.

Q Do you have any additional changes or corrections to your direct testimony?

A No, I do not.

MS. KEATING: Mr. Chairman, we would ask that Ms. Napier's direct testimony subject to the errata filed on October 19th be entered into the record as though read.

CHAIRMAN FAY: Show it entered.

(Whereupon, prefiled direct testimony of Michelle Napier was inserted.)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

Docket No. 2022067-GU: Petition for rate increase by Florida Public Utilities Company, Florida Division of Chesapeake Utilities Corporation, Florida Public Utilities Company-Fort Meade, and Florida Public Utilities Company-Indiantown Division

Prepared Direct Testimony of Michelle Napier

Date of Filing: May 24, 2022

Q. Please state your name and business address.

A. My name is Michelle D. Napier. My business address is 1635 Meathe Drive, West Palm Beach, Florida 33411.

Q. By whom are you employed and in what capacity?

A. I am employed by Florida Public Utilities Company ("FPUC") as the Director, Regulatory Affairs/Distribution.

Q. Can you please provide a brief overview of your educational and employment background?

A. I received a Bachelor of Science degree in Finance from the University of South Florida. I have been employed with FPUC since 1987. Over the course of my employment at FPUC, I have performed various roles and functions in accounting, including General Accounting Manager, before moving to the regulatory department in 2011. As previously stated, I am currently the Director, Regulatory Affairs and in this role, my responsibilities include directing the regulatory activities for all regulated distribution companies of Chesapeake Utilities Corporation. This includes regulatory analysis and filings before the Florida Public Service Commission

("FPSC" or "Commission") for FPUC, FPUC-Indiantown, FPUC-Fort Meade, Florida Division of Chesapeake Utilities d/b/a ("CFG"), Peninsula Pipeline Company, as well as Delaware and Maryland Public Service Commissions.

Q. Have you ever testified before the FPSC?

A. Yes. I have previously provided written, pre-filed testimony in a variety of the Company's annual proceedings, including the Purchased Gas Adjustment, Docket No. 20170003-GU; the Gas Reliability Infrastructure Program (GRIP) Cost Recovery Factors for FPUC and our sister company, CFG, Docket No. 20120036-GU; and the Swing Service Cost Recovery for FPUC and CFG, Docket No. 20170191-GU, as well as the Limited Proceeding for Hurricane Michael, Docket No. 20190156.

Q. What is the purpose of your testimony in this docket?

A. My testimony will support certain costs on historical and projected data presented in the MFRs listed in Exhibit MN-1. Specifically, I will address the costs and adjustments represented within the MFR schedules for rate base, net operating income ("NOI"), and cost of capital. In addition, I will address the savings related to the acquisition adjustments approved in Order No. PSC-12-0010-PAA-GU, issued January 3, 2012, in Docket No. 20110133-GU ("FPUC Acquisition Adjustment"), and in Order No. PSC-2014-0015-GU, issued in Docket No. 20120311-GU ("Indiantown Acquisition Adjustment"), which are also set forth in my Exhibits MN-2 and MN-3, respectively.

Q. How will you refer to the Company?

A. For clarity, referring to the Florida local distribution company ("LDC") business units as a whole; i.e., Florida Public Utilities Company (Natural Gas Division), Florida Public Utilities Company-Fort Meade, Florida Public Utilities Company-Indiantown Division, and the Florida Division of Chesapeake Utilities Corporation d/b/a Central Florida Gas, I will refer to these entities jointly as "FPUC" or "Company". When referring to an individual LDC system, I will provide the full name associated with that division.

When referring to Chesapeake Utilities Corporation, the parent company, I will refer to it as the "CUC" or the "Corporation.".

RATE BASE

Q. Please describe how the historic year rate base was calculated.

A. For the historic test year, a 13-month average rate base was calculated for the period ending December 31, 2021. MFR Schedule B-2 shows the calculation of the historic test year rate base. Consistent with the Company's last rate case, net plant is defined as the sum of 1) plant in service, plus common plant allocated, 2) construction work in progress, and 3) accumulated depreciation and amortization, common plant accumulated depreciation and customer advances for construction and the 4) acquisition adjustment. Adjusted net plant for the historic test year was $417,759,455. An allowance for working capital, after adjustments, in the amount of $2,278,598, was then added to net plant to calculate total rate base. The 13-month average rate base for the Company, after adjustments, was $420,038,053.

Q. What are the items that are included in net plant that have been allocated from

Florida Common plant to the natural gas operating units?

A. The Company determined that certain plant assets were categorized as "Florida Common" due to their shared utilizations across multiple regulated and/or non-regulated utilities. Florida Common is another way of referring to Florida-based common plant. These assets are detailed on MFR Schedule B-5.

Q. Are there any other items included in net plant that have been allocated to the natural gas operating units?

A. Yes. Similar to items categorized as Florida Common, the Company has also determined that there are plant assets for its parent company, CUC, that are used across all of CUC's business units and therefore, should be allocated to the natural gas business units based on their shared utilization across the multiple regulated and/or non-regulated business units. These assets are also detailed on MFR Schedule B-5, and referred to in my testimony as "CUC Corporate" common plant.

Q. What is the basis for the allocation from common plant to the Utility?

A. The allocation of common plant (Florida and CUC Corporate) to the operating unit, in its simplest form, is based on the percentage of total depreciation expense recorded to the operating company from the parent company. The parent company maintains various allocation methodologies for different accounts. For example, buildings may have a fixed allocation based on usage or time, while vehicles are allocated based on payroll. In order to determine the portion allocated to the natural gas operating units, CUC determined that taking the percentage of the total depreciation charged to the operating unit would be a fair methodology and align with amounts included in the historic test year.

For working capital, allocation methods vary by account, but CUC uses allocation factors based on plant in service, base revenues, and payroll. There was no CUC corporate allocation for working capital.

Q. Does the historic test year accurately reflect rate base for the Company?

A. Yes, the Company has included all adjustments to remove items that were eliminated by the Commission in previous rate proceedings from the historic year ending December 31, 2021. As such, MFR Schedule B-2 for the period ending December 31, 2021, reflects the appropriate historic year rate base. We also made other appropriate adjustments to the historic test year to remove items that do not belong to the natural gas divisions or were otherwise required in past rate proceedings for the Company.

Q. Please explain the adjustments to historic test year rate base included in the MFRs.

A. The adjustments to rate base can be separated into two types: 1) adjustments required by the Commission in the Companies' prior rate cases; and 2) additional adjustments made by the Company. The adjustments required by the Commission include adjustments made to eliminate: 1) plant and its associated reserve for assets used for non-utility operations of $1,443,957; 2) $41 of net plant related to franchise and consent disallowed in a previous rate case; and 3) "goodwill" in the amount of $3,183,612. In addition, the Company made an adjustment to remove plant relating to Flexible Gas Service ("FGS") contracts in the amount of $2,509,598, along with the associated accumulated depreciation of $402,610, as required per the Company's tariff. These amounts are detailed on MFR Schedule B-3.

Q. Please explain the adjustments to the historic test year working capital included in the MFR filing.

A. The working capital adjustments are consistent with those required by the Commission in previous rate case proceedings. These adjustments relate to the cost of capital and other adjustments.

More specifically, the cost of capital adjustments include the elimination of receivables from associated companies of $122,658,697, as well as an adjustment to remove customer deposits in the amount of $10,307,573.

The other adjustments made were to remove: 1) Customer Accounts Receivables related specifically to FGS service customers in the amount of $9,004, as well as Area Extension Program ("AEP") receivables in the amount of $3,178,861; and 2) accounts receivable booked to customer deposits in Florida Common in the amount of $1,027,831. Adjustments were also made to eliminate net under-recoveries associated with the Purchased Gas Adjustment ("PGA"), our Conservation programs, which are recovered through the Conservation Cost Recovery Clause mechanism, as well as Transporter Fuel receivables and receivables associated with the Operating Balancing Account in the amount of $100,966. Another adjustment was made to allocate a portion of the corporate health insurance reserve to the gas operating unit in the amount of $31,667, as well as Interest Accrued in the amount of $214,251. This item, Interest Accrued, was determined using CUC's total interest expense (long-term and short-term debt) allocated proportionally to the business units based on the amount of total debt in the unit's capital structure. The following additional adjustments increased working capital: 1) deferred environmental charges and liabilities in the amount of $5,594,846; and 2) eliminated the impact of Competitive Rate Adjustment in the amount of $47,349. Details of these adjustments and amounts can be found on MFR Schedules B-3a and B-13.

Q. What was the basis for projecting the rate base?

A. The Company did a detailed analysis and projection of planned capital projects, retirements, and other components for the projected years ending December 31, 2022, and December 31, 2023, to project Net Plant. The Company utilized in-house experts in the division, including the AVP of Operation Services, Jason Bennett and Director of Business Planning, Jennifer Clausius, as well as input from other key employees to determine the projects, amounts, and timing of items to be included in Net Plant projections. The Company has planned capital projects required for safety, reliability, replacements, reinforcements, customer growth and other key projects; all have been incorporated into these projections and Witness Bennett describes some of these projects in his testimony. Working Capital balances were projected using either trend factors applied to the thirteen-month average balances for the historic test year of December 31, 2021, or year end balances, as appropriate. Direct projections were utilized for certain balance sheet accounts that do not lend themselves to projections based on trend factors.

Q. What is the amount of the Company's capital additions for the historic test year ending December 31, 2021, and capital budget for the two projected test years ending December 31, 2022, and 2023, respectively?

A. The capital additions for the twelve months ending December 2021 were $44,747,072. The budget amounts for capital additions for the periods ending

December 31, 2022, and 2023 are $35,587,061 and $21,499,956, respectively.

Q. Is it appropriate to include the construction work in progress ("CWIP") planned for the projected test year in rate base?

A. Yes, the Company should be allowed to earn a fair return on capital projects under construction. Costs associated with these projects are all prudently incurred and necessary, and therefore, should be included in rate base for recovery through base rates. Historically, the Commission has allowed construction work in progress to be included in rate base for the Company.[1] These projects are not subject to Allowance for Funds Used During Construction, or "AFUDC," and accordingly, will not receive duplicate recovery on these projects while under construction. With this proceeding, we are asking that the Commission allow us to recover costs associated with ongoing construction, because these projects are critical to maintaining and improving safety, system reliability and ability to meet our customer's needs.

Q. What was the basis for the trend factors used for certain working capital items?

A. The trend factors used were: (a) inflation, (b) customer growth, (c) payroll growth, (d) inflation and customer growth and (e) payroll and customer growth and based on whether the costs were payroll or non-payroll. Trend factors have been applied that are appropriate for each account and consistent with prior rate proceedings. A list of the projection factors used is located on MFR Schedule G2-19e.

Q. How were trend factors applied to working capital?

A. In developing working capital projections, the Company reviewed each balance sheet item, and where appropriate, utilized a trend factor, usually based on history, applied

1 See, for instance, Order No. PSC-2009-0375-PAA-GU, at Schedule 1; and Order No. PSC-2004-1110-PAA-GU.

to the thirteen-month average balance when it was necessary to reflect fluctuations that occur due to payment timing and seasonality. For some accounts, we used the balance that existed at the historic year end, when there were no fluctuations. And for some accounts, such as pension and benefits reserve, we used balances received from external experts. These methods are described on an account by account basis in MFR Schedule G-6.

Q. Please explain how the accounts included in working capital were projected using a direct method and summarize the basis for those projections.

A. Account 1860-Deferred Rate Case: The projection for this account was based on a detailed estimation of expected expenditures necessary to not only prepare this rate proceeding but assist with the proceeding through final order. The total accumulated rate case expense was then amortized over five years. MFR Schedule C-13 and additional testimony contained within this document, includes more details on projected rate case expense.

Account 228.1-Storm Reserve: The projected balance of this account was forecasted to increase by $4,000 over the historic test year of $6,000. Conditions related to storm activity have changed from our last rate proceeding in that Florida is projected to experience an increased number of minor and named storms in the coming years. In addition, the Company's expanded territory footprint means that more of the Company is exposed to the risk of storm damage, which suggests a need to increase in the reserve at this time.

Account 228.2-Accrued Liability Insurance: This account was projected based on detailed analysis of historical activity, known claims with adjustments for any projected impacts to the reserve. This will be further addressed in the testimony of Witness Russell.

Account 228.3-Pension & Post Retirement: The Pension account was projected based on estimates by the Company's actuary and their actuarial assumptions on pension plan expense for the projected test year. The Other Post-Retirement reserve account was based on the historical base year balance. Details are further discussed in the testimony of Witness Russell.

Account 2370-Interest Accrued: CUC accrues interest on its bonds and allocates to the Company, as well as other CUC business units. Interest is calculated based on the debt amount times the cost rate.

Account 2410-Tax Collections Payable: The balance of this account typically does not fluctuate materially from year to year. Tax payments generally match monthly accruals. The Company appropriately projected this account based on the balance at the end of the historical test year.

Account 2520-Customer Advances for Construction: This account contains contracts with customers related to contributions paid that may be refundable at the end of its expiration date, which is four years. At the end of the four year period, a review is performed to determine if the customer met their projected revenues on which their contribution was based. If revenues are met, they receive a full or partial refund of their contribution. The forecast reflects the diminishing balance due to expected refunds at the contract expiration date, with no additional contracts projected.

Q. Is working capital as projected appropriate for computing the projected test year rate base for the period ending December 31, 2023?

A. Yes, the working capital as projected is appropriate for inclusion in rate base for the period ending December 31, 2023. The Company performed an analysis of working capital accounts, reviewed historical methodology used and reviewed expense items related to these accounts to determine the most appropriate factor to use to project working capital.

Q. What is the appropriate adjusted rate base for the projected test year ending December 31, 2023?

A. The appropriate adjusted rate base for the projected test year is $454,887,154, reflecting utility plant (including common) after deductions for accumulated depreciation and amortization, and other adjustments as noted for the historic test year (goodwill, non-utility plant, FGS net plant, Franchise & Consent) plus working capital allowance. This amount is shown on MFR Schedule G1-1. Additional information on capital additions for rate base for the projected test year is provided in the testimony of Witness Bennett.

Q. Are there any adjustments made to the projected test year rate base outside of those made for the historic test year?

A. Yes, the Company made the same adjustments to the projected test year as were made to the historic test year but included additional items due to changes in methodology addressed further herein. In addition to the rate base adjustments previously mentioned in this testimony, the Company also adjusted net plant for the excess construction costs related to the AEP program modification. Details of this program change are reflected in the testimony of Company witness Lake. The investments and accumulated depreciation related to Commission-approved Special

Contracts of the Company have been removed from net plant in lieu of flowing these costs through the cost of service study, as previously done. These contracts function the same as FGS contracts and therefore are also appropriately removed from rate base. The Company's tariff details the rate making treatment regarding FGS, where the incremental capital investment necessary to serve these customers will be removed from rate base. The risk for these contracts, Special and FGS, falls on the Company not the general body of ratepayers. These adjustments are reflected on MFR Schedule G1-4.

The Deferred Rate Case account has been reduced by half of the unamortized rate case expense from working capital, which is consistent with Commission direction in prior rate proceedings.

<u>NET OPERATING INCOME</u>

Q. Please describe how the historic year net operating income was calculated.

A. The Net Operating Income (NOI) was based on the historic test year for the 12 months ending December 31, 2021. This calculation is shown on MFR Schedule C-1. Certain adjustments to reduce NOI are reflected on MFR Schedule C-2. As shown on MFR Schedule C-1, the Company Adjusted Net Operating Income for the historic test year is $19,984,956.

Q. Does the historic test year accurately reflect net operating income?

A. Yes, the Company has included all adjustments to remove items that did not belong ("out of period") in the historic year. Accordingly, the MFR Schedule C-1 for the period ending December 31, 2021, reflects the appropriate historic year net operating income. "Out of period" refers to the adjustments on the Company's books in the historic base year that belongs in another period. Other adjustments were required to the historic year to remove items that do not belong to the natural gas divisions or were otherwise made consistent with Commission decisions in past rate proceedings.

Q. Please explain the items and basis for any adjustments made to the operating income for the historic year included in MFR Schedule C-2 pages 1 and 2.

A. <u>PGA, Swing and Conservation:</u>

Consistent with the prior rate proceeding, PGA and conservation revenues and expenses have been eliminated from both the historic and projected test years. These items are handled in separate dockets and are recovered outside of base rates. As such, they continue to be appropriate for review and approval within those separate proceedings. While swing service was not yet an approved program in the last rate proceeding, this program has the same characteristics as the PGA. As such, swing service related revenues are also eliminated from the historic and projected years, because they are handled in a separate docket outside of the rate proceeding.

<u>Gross Receipts and Franchise Tax:</u>

Gross Receipts tax and Franchise tax revenue and expenses have also been eliminated from the historic and projected test years. Although they are not handled in separate dockets, it is appropriate to remove them. They are a direct pass-through for both revenues and expenses and are excluded from setting base rates as appropriate.

AEP:

Revenues, expenses and working capital related to the Company's AEP have also been eliminated in compliance with Commission Order No. PSC-95-0162-FOF-GU, which states that any costs to extend service to customers that exceed the Company's Maximum Allowable Construction Cost ("MACC") should not be included in the rate base for ratemaking and earnings surveillance report, and likewise, the related surcharge recovery should be excluded from the income statement.

FGS:

FGS revenues and related expenses have been removed from historic and projected test years in accordance with the Company's tariff, and they are excluded from setting base rates. The Company's tariff details the rate making treatment regarding FGS, where the incremental capital investment necessary to serve these customers will be removed from rate base. The risk for these contracts falls on the Company not the general body of ratepayers.

Out of Period Adjustments:

Operating Revenues:

Out of Period Adjustment to revenues for the accrual of the state income tax savings deferred in revenues related to the reduction in state income taxes for the years 2019 to 2020 of $461,552.

Operating Expenses:

Out of Period Adjustments for the increase in expenses related to the adjustments of Covid-19 expenses recorded in 2021 for 2020 of $200,283 approved in Docket No.

202000194, by Order No. PSC-2021-0266-S-PU, which addressed the Company's petition for a regulatory asset for Covid-19 expenses.

<u>Interest Income:</u>

Interest on cash working capital has been removed as this was adjusted in the Florida Division of Chesapeake Utilities last rate proceeding, consistent with Order No. PSC-2010-0029-PAA-GU.

<u>Economic Development Costs:</u>

Economic development costs have been eliminated in accordance with PSC Rule 25-7.042, Florida Administrative Code.

Industry Association Dues, Social Activities and Promotional Expenses:

These expenses have been eliminated from the historic test year as these were eliminated in the Florida Division of Chesapeake Utilities last rate proceeding.

<u>Non-Utility Depreciation Expense:</u>

The Company has removed depreciation expense of $173,088 for a portion of the assets used for non-utility operations from the historic year, which is also consistent with the treatment in the 2008 rate case in Docket No. 080366-GU.

<u>Income Tax Impact:</u>

The effective income tax rate on the adjustments described above has been appropriately included as an additional adjustment to expense in the historic year ending December 31, 2021.

For reference, MFR Schedule C-2 includes a summary of the above adjustments.

Q. Have you calculated the appropriate adjustment in income taxes to reflect the synchronized interest expense related to the adjusted rate base?

A. Yes. The Net Operating Income ("NOI") has been adjusted to reflect the tax effect of synchronizing interest expense to rate base. Consistent with prior Commission practice, the synchronized or calculated interest expense is computed by multiplying the jurisdictional adjusted rate base by the weighted cost of debt included in the cost of capital. This adjustment ensures that the calculated revenue requirement reflects the appropriate tax deduction for the interest component of the revenue requirement calculation. In addition, consistent with our last rate case, the Company has applied an income tax synchronization.

Q. How did you project Operating and Maintenance (O&M) expenses for the projected test year ending December 31, 2023?

A. O&M expenses were projected using the historic year as the starting point, making all necessary adjustments as reflected in this rate proceeding for the historic year and either trending those forward with an appropriate trend factor, or directly projecting the expense using the expertise of internal managers or known items impacting certain expenses as a basis for the projection.

Final projected O&M amounts were reviewed by internal managers and analysts and were determined to be a good estimate for expected recurring prudent costs during the projected test year.

Q. Please explain in more detail the basis for projecting the O&M expenses included in the MFR filing.

A. The O&M expenses for the historic test year ending December 31, 2021, provide the basis for most of the expense items in the projected test year ending December 31, 2023. Each FERC account's details were separated into payroll and non-payroll components for the historic year. All historic adjustments were made to the payroll and non-payroll components to exclude ‘out of period’ items or other items as reflected in the historic year adjustments described in this testimony and shown on MFR Schedule C-2.

Some historic year amounts were then adjusted to normalize the expenses for the purpose of trending historic year accounts to the projected years. Normalization adjustments were made for either one-time, out of period items, reclassifications between FERC accounts, or to increase expenses to post-COVID levels, for a more accurate projection. These adjustments only impacted the projected years’ amounts and were not included for purposes of establishing the historic year expenses included in the NOI for the period ending December 31, 2021. The adjusted historic test year expenses, plus or minus the “normalization” amounts, were then projected by multiplying the normalized 2021 costs by one of several trend factors that were the most reflective of each account and consistent with prior rate proceedings.

Some historic year items that were trended did not reflect the annual amount expected; estimates have been adjusted for specific cost estimates or increases and decreases above and beyond the trended amounts (Over and Under), as shown on MFR Schedule G-2 pages 19f and 19m. Certain expenses were not trended and were projected based on direct cost estimates provided by our internal management. Examples of direct cost estimates include: property insurance, injuries and damages, rate case expense and rent.

The application of trend factors, including over and under items plus the direct projections, produced reasonable and expected results in O&M amounts for the projected test year.

Q. Please explain the items and the basis for any normalization adjustments made to operating expenses for the purpose of trending O&M expenses for the projected test year?

A. Normalization adjustments were made to the historic year in order to arrive at the appropriate expense level by FERC account for projection purposes. We reclassified expenses recorded on the Company's books from O&M to depreciation and vice versa, removed all out of period adjustments, and made one-time adjustments to ensure they were properly classified and aligned in accordance with appropriate FERC accounts. Below are the descriptions of the normalization adjustments made to the historic year for purposes of trending projected test year expenses:

- Covid expenses recorded in 2021 for 2020 - $200,283
- Vehicle depreciation expense not classified to correct FERC - ($252,203)
- Remove non-recurring Covid costs and return expenses to post Covid levels- $577,805
- Annualization of Payroll expenses - $342,034
- Rent expense for elimination of existing lease - ($165,807)
- Elimination of 2021 non-recurring costs related to Employee Benefits expenses - ($215,931)

Q. Please explain the basis of the trend factors used to project O&M expenses for the projected test year.

A. The trend factors used were: (a) inflation, (b) customer growth, (c) payroll growth, (d) inflation and customer growth and (e) payroll and customer growth and based on whether the costs were payroll or non-payroll. Trend factors have been applied that are appropriate for each account and consistent with prior rate proceedings. A list of projection factors used is located on MFR Schedule G2-19e. In addition, known expenses that are increase or decrease to the trended expenses were incorporated and detailed on MFR Schedule G2-19g to 19m. Among the most commonly used trend factors for payroll-related expenses is Payroll and Payroll x Customer Growth, while one of the most commonly used trend factors for non-payroll related expenses is Inflation and Inflation x Customer Growth. We have applied trend factors that are most appropriate for the accounts in question and we have made sure that the applications of these factors have produced reasonable results. The inflation trend factor is based on the average Consumer Price Index ("CPI"). The payroll trend factor is based on historical data and the experience of the Company's Human Resources Assistant Vice President, Witness Rudloff, and her projections of expected payroll increases for both 2022 and 2023. The factors for customer growth, unit (therms) growth and revenues are based on a detailed analysis and the results from revenue related projections used within this rate proceeding. The methodology used to determine the billing determinant and revenue factors for these projections have been provided by and explained in greater detail in the testimony of Witness Taylor from Atrium Economics, LLC.

Trend factors used were consistent with those used in expense projections and in prior rate proceedings.

Q. How did the Company determine the appropriate trend factor for each expense projection?

A. As previously mentioned, all expenses were divided into two components, payroll (if applicable) and non-payroll. The payroll expenses for each account used either the Payroll or Payroll and Customer Growth trend factors. The payroll factor was used on payroll accounts, like 870-Supervision & Engineering and 901-Supervision for Customer Accounts and Collection. All other payroll components used the Payroll and Customer growth factor. This is because the Company expects payroll to increase by not only the expected rate of pay, but also the expected overall number of personnel, as more customers are added. Although it is not a direct correlation, personnel will fluctuate overall by the number of customers the Company serves. The non-payroll component was based on the type of expense and most appropriate trend factor for the account. This is consistent with historically approved trend factors used in prior rate proceedings, and resulted in expected levels of expenses.

Q. Did the Company use any actual data for 2022?

A. No.

Q. Can you explain the basis for some of the expenses outside of those based on historical data trended to the projected test year?

A. O&M over and above adjustments, as well as direct projections, were made to certain accounts outside of trending historical data when management determined that a trend would not adequately reflect expected results. A detailed listing of the over and above adjustments, including direct projections, have been included in the filing under MFR Schedule G-2 19f-19g.

Q. Can you summarize the expense items that were projected on a Direct Basis?

A. Property insurance of $157,658 and injuries and damages of $3,055,772 were based on specific estimates from the Company's insurance broker. The Company proposed to increase the storm reserve accrual to $10,000 per year versus $6,000 approved in the prior rate proceeding to ensure coverage for those business units that do not currently have a storm reserve. This request is addressed within this testimony.

The projected regulatory commission expense (i.e., rate case expense) was based on specific forecasts from consultants and attorneys, as well as the in-house review of appropriate and anticipated costs. These forecasts were based on the assumption that this case will go to a fully litigated hearing. The Company estimates the incremental expenses related to this rate case to be $3,427,575 and is requesting to recover these expenses at a rate of $685,515 per year over a five-year period, which is consistent with the Commission's decisions on this issue in previous FPUC rate cases. NOI has been adjusted by $685,515 for the projected test year. Detailed specifics of these necessary and prudent costs are explained later in this testimony and can be found on MFR Schedule C-13.

The rent expense was projected to be $534,361 and based on the actual cost of the leases in place.

Depreciation and amortization expenses for the year ended December 31, 2023, are projected to be $16,316,662 after adjustments. The detailed projected plant and the applicable depreciation rates approved during the Company's last depreciation study per Order PSC-2019-0433-PAA-GU were used as the basis for depreciation expense. The Company is filing a consolidated natural gas depreciation study in conjunction with this rate proceeding and the depreciation expense should be adjusted after the final depreciation rates have been approved in the study, which is sponsored by Witness Lee. Depreciation was adjusted for the portion of non-utility usage for non-regulated operations including allocated depreciation for FPUC Common assets as well as the Corporate assets of CUC and the portion of expense that will be capitalized. The depreciation expense is shown by plant sub-account on MFR Schedule G2-20 and G2-23.

Amortization expense includes the remaining amortization of regulatory assets and liabilities previously approved by the Commission as well as those we are requesting within this rate proceeding. The amortization is detailed on MFR Schedule G2-21 and G2-24.

Total income taxes for the test year ended December 31, 2023, are projected using the projected taxable operating income less calculated interest expense and other deductions multiplied by the current state and federal tax rates. Adjustments to the resulting amount along with timing differences were estimated by the corporate office of CUC, as elaborated upon in testimony of Witness Reno. The difference between total income taxes and deferred taxes is current income taxes. These calculations are shown on MFR Schedules G2-27 and G2-28 for 2022 and G2-30 and G2-31 for 2023.

There is no Investment Tax Credit ("ITC") amortization remaining for the projected test year and accordingly the projection is zero. Annual ITC balances and amortization details for prior years appear in Schedule B-17.

Q. What was the basis for the storm reserve and expense included in the projected test year?

A. The Company has included a storm accrual expense of approximately $833 a month, or $10,000 a year, which is an increase of $4,000 a year from the initially approved Commission Order PSC-2009-0375-PAA-GU for FPUC natural gas. The Company is requesting an increase to expand coverage by the reserve for FPUC-Ft. Meade, FPUC-Indiantown and Florida Division of CHPK, which currently do not have a provision for storms. The Company perceives the maximum reserve amount of $1,000,000 as approved in FPUC's prior rate proceeding, along with an increase in the current accruals, will be adequate to cover any future expected storms.

Q. What is the basis for the rate case expense included in the projected test year?

A. The Company has projected rate case expense based on specific forecasts including the cost to use consultants to assist in preparation and support of a rate case and the cost for representation and consultation by attorneys and consultants. The Company is not staffed at a level to allow for preparation of rate proceeding, MFRs or the additional rate case related work load required after the MFRs are filed. Internally, the work load has increased since our last natural gas rate case was filed without an offsetting increase in staff, and we now require additional resources beyond the level required in our last gas rate case and current staffing levels. We do not retain expertise in all areas to help facilitate the preparation of a rate case given that we avoid regular rate case filings through cost controls. Instead, we hire the necessary expertise and extra assistance necessary to help us complete the process when we do find a rate proceeding necessary. The Company is utilizing full-time temporary internal staff to assist with the rate case and extra rate case work beyond the normal work load of the regulatory and accounting departments. As previously mentioned, the Company does not retain the internal expertise in all areas necessary for a rate case, because this level of assistance and expertise is not necessary on a day-to-day basis. Therefore, we are utilizing various external consultants to assist us in the areas of legal, preparation of the depreciation study, cost of capital, cost of service, rate design, billing determinants, and tariffs. See MFR Schedule C-13 for more details on these expenses.

The Company included a five-year amortization period for the Company's rate case expense. Use of the five-year amortization period will allow the Company to spread the rate case expense over a slightly longer period of time, which will therefore reduce the impact on customers' bills. The Commission has allowed the Company to use a five-year amortization in the past. Specifically, in Order No. PSC-2014-0517-S-EI, issued in Docket No. 20140025-EI on September 29, 2014, the Commission authorized the Company to use a five-year amortization period for rate case expense. Therein, the Commission recognized that it is appropriate to amortize rate case expense over the period of time between rate case proceedings and then concluded that the five-year period was appropriate for FPUC. It is likewise reasonable to use a five-year amortization period in this proceeding as well, in view of the fact that the time span between the Company's most recent prior rate case proceeding and this filing extends more than six years.

Q. Please describe how the historic test year cost of capital was calculated.

A. For the historic test year, a thirteen-month average cost of capital (consolidated) was calculated for the period ending December 31, 2021, which corresponds to the Company's thirteen-month average rate base and methodology previously approved in prior rate proceedings. The Company specifically identified customer deposits, deferred taxes, regulatory tax liability and ITC, which is zero, for the consolidated gas divisions in developing its capital structure. MFR Schedule D-1 shows the calculation of the historic year cost of capital. The overall weighted cost of capital is 5.81% for the historic year.

Q. Please explain how common equity, long term debt and short-term debt are allocated to the Company.

A. The thirteen-month average total capital as determined from the trial balance for the parent company, CUC at December 31, 2021, was $1,441,229,344. This consisted of $738,921,143 or 51.27% common equity, $518,621,018 or 35.98% long term debt and $183,687,183 or 12.75% short term debt. The Company then applied these same ratios to the Company's rate base of $420,038,053, less customer deposits, deferred taxes and ITC tax credits.

Q. Please explain the adjustments to historic test year capital as reflected on MFR Schedule D-1.

A. There are two types of adjustments made to the capital accounts, both consistent with the last rate proceedings, as well as our Earnings Surveillance reports filed with this Commission. First, the Company eliminated goodwill from the cost of capital, which is an elimination from rate base. Next, common equity in the amount of

$175,666,138, long term debt in the amount of $125,026,847, and short-term debt of $44,282,489 have been adjusted reflect the same ratio to total capital as that of CUC.

Q. Did the Company deviate from the cost of capital methodology and calculation for the projected test year?

A. No, the Company followed the same methodology and calculation based on the projected thirteen-month average rate base, capital components of CUC and adjustments. The projection of the capital components was provided by the Assistant Vice President and Assistant Treasurer Noah Russell.

Q. Please summarize the Company's specific request regarding the acquisition adjustments of FPUC and FPUC-Indiantown previously approved by the Commission.

A. The Company requests of the Commission regarding the acquisition adjustments:

1. Allow the Company to retain and recover the unamortized acquisition adjustments previously approved in Docket Nos. 20110133-GU and 20120311-GU.
2. Continue amortization of the acquisition adjustments over the approved period of time remaining.
3. Remove the requirement to re-evaluate cost savings in order to keep the acquisition adjustments, which will be covered in the testimony of Witness Cassel.

Q. Should the Company be allowed to retain unamortized acquisition adjustments previously approved?

A. Yes. The Commission, by Order Nos. PSC-2012-0010-PAA-GU and PSC-2014-0015-PAA-GU, ordered that the Company's level of cost savings is subject to review in the next rate proceeding and if the cost savings no longer exist, the acquisition adjustment may be partially or totally removed. The Companies have maintained a level of cost savings consistent with that which supported approval of the acquisition adjustments in the first instance. Therefore, the Company should be allowed to keep the acquisition adjustments. Exhibits MN-2 and MN-3 demonstrate that the savings have far exceeded the acquisition premium costs. Witness Cassel provides details supporting the Company's request to retain the unamortized amounts in his testimony.

Q. What level of operating savings has the Company achieved?

A. As shown on Exhibits MN-2 and MN-3, the projected consolidated net cost savings amount to $4,942,677 ($4,462,872 for FPUC and $479,805 for Indiantown) for the projected test year ending December 31, 2023.

Q. How were the operating savings calculated?

A. Although slightly different for each company, the Company applied the same methodology approved in previous dockets to calculate the operating savings. For Indiantown, we utilized a comparison of O&M costs on its prior to the acquisition June 2010 Earnings Surveillance Report (ESR) with the FPUC-Indiantown ESR as of December 31, 2021, adjusted for inflation and growth, Exhibit MN-3. Consistent with its position in Docket No. 20120311-GU, this continues to be the most appropriate data to compare in this instance due to the length of time since its last rate proceeding. Likewise, FPUC compared O&M costs in its prior rate proceeding increased for inflation and growth to projected O&M costs within this filing, as reflected in my Exhibit MN-2.

Q. Does this conclude your testimony?

A. Yes.

GUNSTER

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October 19, 2022

BY E-FILING

Mr. Adam Teitzman, Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: **Docket No. 20220067-GU: Petition for rate increase by Florida Public Utilities Company, Florida Division of Chesapeake Utilities Corporation, Florida Public Utilities Company - Fort Meade, and Florida Public Utilities Company - Indiantown Division.**

Dear Mr. Teitzman:

Attached, for electronic filing, please find the Errata to the Direct Testimony of Michelle Napier, submitted on behalf of Florida Public Utilities Company and the Florida Division of Chesapeake Utilities Corporation.

Sincerely,

/s/Beth Keating
Beth Keating
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cc.(Certificate of Service)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for rate increase by Florida Public Utilities Company, Florida Division of Chesapeake Utilities Corporation, Florida Public Utilities Company - Fort Meade, and Florida Public Utilities Company - Indiantown Division.	DOCKET NO. 20220067-GU FILED: October 19, 2022

FLORIDA PUBLIC UTILITIES COMPANY'S
ERRATA SHEET TO THE DIRECT TESTIMONY OF MICHELLE D. NAPIER

Florida Public Utilities Company, jointly with the Florida Division of Chesapeake Utilities Corporation, Florida Public Utilities Company - Fort Meade, and Florida Public Utilities Company - Indiantown Division, (jointly, "FPUC") hereby submits this Errata Sheet to correct the Direct Testimony of its witness, Michelle Napier, originally filed on May 24, 2022:

Direct Testimony

Witness Name	Page and Line Number	Correction
Michelle Napier	Page 11, Line 8	Change adjusted rate base for the projected test year from "$454,887,154" to "$454,644,434"
Michelle Napier	Page 21, Line 17	Change rent expense of "$534,361" to "$495,790"
Michelle Napier	Page 21, Line 20	Change depreciation and amortization expense from "$16,316,662" to "$16,318,201"
Michelle Napier	Page 27, Line 13	Change projected consolidated net cost savings amount from "$4,942,677" to "$4,522,779"
Michelle Napier	Page 27, Line 13	Change FPUC net cost savings amount from "$4,462,872" to "$4,042,974"

Witness Name	Page and Line Number	Correction
Michelle Napier	Exhibit MN-2, Page 1 of 2, Line "Fuel Savings"	Change Fuel Savings: 2021 from "$1,302,932" to "$1,052,335" 2022 from "$1,342,020" to "$1,032,705" 2023 from "$1,382,281" to "$1,032,705"
Michelle Napier	Exhibit MN-2, Page 1 of 2, Line "O&M Savings"	Change O&M Savings: 2021 from "$5,537,103" to "$5,194,728" 2022 from "$5,427,938" to "$5,363,336" 2023 from "$5,397,601" to "$5,327,279"
Michelle Napier	Exhibit MN-2, Page 1 of 2, Line "Savings"	Change Savings: 2021 from "$7,170,159" to "$6,577,187" 2022 from "$7,100,082" to "$6,726,165" 2023 from "$7,110,006" to "$6,690,108"
Michelle Napier	Exhibit MN-2, Page 1 of 2, Line "Net Savings"	Change Net Savings of: 2021 from "($4,510,877)" to ($3,917,905)" 2022 from "($4,481,997)" to "($4,108,080)" 2023 from "($4,462,872)" to "($4,042,974)"
Michelle Napier	Exhibit MN-2, Page 2 of 2, Insert a line after "O & M"	Insert "Remove Pension Credits" Insert "$306,373" in 2021 Insert "$28,600" in 2022 Insert "$34,320" in 2023
Michelle Napier	Exhibit MN-2, Page 2 of 2, Line "Less Rent which replaces plant, depreciation	Change: 2021 from "$(359,405) to "$(323,403)" 2022 from $(255,499) to "$(219,497)" 2023 from $(452,178) to "$(416,176)"

Witness Name	Page and Line Number	Correction
	expense and real estate taxes in 2009"	
Michelle Napier	Exhibit MN-2, Page 2 of 2, Line "Net 2021 Comparable Costs"	Change "Net 2021 Comparable Costs" to: 2021 from "$22,365,778" to "$22,708,153" 2022 from "$24,864,258" to "$24,928,860" 2023 from "$26,710,986" to "$26,781,308"
Michelle Napier	Exhibit MN-2, Page 2 of 2, Line "2021 compared to last cases inflated for growth and inflation Under Savings/(Over-Additional Costs)"	Change "2021 compared to last cases inflated for growth and inflation Under-Savings/(Over-Additional Costs)" to" 2021 from "$5,537,103" to "$5,194,728" 2022 from "$5,427,938" to "$5,363,336" 2023 from "$5,397,601" to "$5,327,279"

Respectfully submitted this 19th day of October, 2022,

By:____________________

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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing filing has been served by Email this 19th day of October, 2022, upon the following:

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BY MS. KEATING:

Q And, Ms. Napier, you did also cause to be prepared and filed Exhibits MN-1 through 3?

A Yes.

Q Do you have any changes or corrections to those exhibits?

A No, I do not.

Q Okay.

MS. KEATING: Mr. Chairman, I believe that those have already been marked on the staff exhibit list as Exhibits 7 through 9.

CHAIRMAN FAY: Great.

BY MS. KEATING:

Q Ms. Napier, did you prepare a summary of your direct testimony?

A I did.

Q Would you please go ahead and present that?

A Yes.

Q Thank you.

A Afternoon, Mr. Chairman and Commissioners. Thank you for the opportunity to address you today.

My direct testimony provides support for the costs and adjustments within the minimum filing requirements, or MFR schedules, for rate base, net operating income and cost of capital for historical and projected test years. This filing is based on historic base year data for the period ending December 2021, and a projected test year period of December 2023.

The company is requesting to consolidate its four business -- four Florida business units and, therefore, has filed at MFRs on a consolidated basis where possible. The MFR schedules have been prepared in accordance with this commission's specifications and the company's last rate proceedings and earnings surveillance reports. Meaning the company applied the same methodologies and interpretations in this filing as previously filed in FPUC's prior cases with the exception of adjustments.

Adjustments for the historic base year were based on each company's last rate case, a consolidated it based on FPUC for the projected test year.

Historic costs are based on actual costs at year-end 2021, which have been adjusted to appropriately reclass out-of-period items, revenue and expenses that are handled through the clause filings, removal of nonutility costs, special contracts, along with other specified -- specified in MFRs.

The adjusted historic base year provided the foundation for the projected test year. The costs estimated for the projected test year were developed using various methodologies that were, as previously mentioned, in line and approved in prior rate proceedings.

Rate base was projected based on planned capital projects and retirements, while working capital expenses were estimated by either trending the adjusted historic year forward with an appropriate trend factor, or directly projected based on expert estimates and specific information supporting those projections.

The company is also requesting the ability to retain and recover the remaining unamortized acquisition adjustment approved by this commission in 2012. FPUC has maintained the level of cost savings consistent with the Commission's findings in that order, and those savings continue to exceed the amortization of the acquisition premium and on ongoing net benefit to our customers.

In conclusion, Commissioners, our filing was filed without any deficiencies and without one audit finding by your staff on the company's historical costs. Therefore, the historical costs were deemed to be accurate and, thus, provided a good starting point for our projections, which are appropriate -- which are appropriately reflective of costs the company expects to experience in 2023.

Thank you for the opportunity to address you today.

Q Thank you, Ms. Napier.

MS. KEATING: Mr. Chairman, the witness is tendered for cross.

CHAIRMAN FAY: Okay. Great. Thank you.

Mr. Rehwinkel, it looks like you got about two pages of errata on this. Is there an efficient way maybe you could ask the witness to clarify any of these that are of issue for you?

MR. REHWINKEL: Well, the problem is we just got this. It was filed after their testimony was due, and we didn't have a chance to do discovery on it or anything. So part of it is to try to understand what it means, because it didn't come with an explanation --

CHAIRMAN FAY: Okay.

MR. REHWINKEL: -- or the basis for them. So I do have to go through this a little bit.

CHAIRMAN FAY: So even when the numbers go down and everything, you still want a justification for the change of the number on each one?

MR. REHWINKEL: Yes.

CHAIRMAN FAY: Okay. All right. You are welcome.

MR. REHWINKEL: I mean, as we've seen in the last document, the number can be misleading, because it can be a no, going up and down.

CHAIRMAN FAY: That's fine. I just -- yeah, ask you to work with the witness here to maybe move this efficiently so we can get through the testimony.

EXAMINATION

BY MR. REHWINKEL:

Q So -- good afternoon, Ms. Napier.

A Good afternoon.

Q I would ask you to, if you have your errata with you?

A Yes.

Q Okay. And as succinctly as possible, can you give me an idea of why -- what the basis for why things changed starting with the first one on page 11, line eight.

A Okay. On page 11, basically what we've done is we made -- during discovery, we found some things that needed to be changed, like we included things, rent or something that was already -- that was no longer being allocated anymore. So we basically made those adjustments within our -- within the filing, which changed the numbers in my testimony.

Q Okay.
A And those were reflected on OPC POD 56.
Q Okay. So this just reflects the acknowledgment that there were some errors -- it sounds kind of harsh, but when you are dealing with a lot of numbers, not everything is perfect, right?
A Yes, but I wouldn't consider them errors.
Q What's that?
A I wouldn't consider them errors.
Q Okay. The -- so the next item it, the rent expense, that's part of what drove the change in the first item. The third item, depreciation and amortization, what was the reason for that change?
A I believe that was related to the amortization on -- what was that? The amortization of miscellaneous intangible plant.
Q Okay. The consolidated on page 27, line 13, change projected consolidated net cost savings. Tell me about that one. That's changed from 4,942,677 to 4,522,779, what caused that?
A Yes, we were reviewing my Exhibit MN-2, we wanted to make sure that our cost was consistent and comparable and is similar. So as we were working through some items on discovery, we found that there were some things that we needed to adjust on that. So

that's what caused this change -- the changes on anything you see for the net cost savings.

Q Okay. So this is a -- when you call it a net cost savings, did some things go up and some go down?

A Yes. Well, not necessarily. Net just meaning that overall the cost savings.

Q Okay. And this is looks like a $440,000 adjustment?

A 420, I guess, yep.

Q 420?

A About 420, yes.

Q Yeah, I am sorry. So that's a fairly significant item. What was the major driver of what changed there?

A That there was several things that changed. If you will see my revised MN-2, we had -- we adjusted for the pension. We didn't previously -- had adjusted for that, but we did adjust for pension. I think that was the main driver, was the pension.

Q So are you saying these are explained in your revised MN-2?

A Yes.

Q Okay. So we can look at that and tie those -- those changes to these errata numbers?

A Yes.

Q Okay. Would that saying go for the next item, the 4,462 change to 4,042?

A Yes.

Q Okay. And what about the fuel savings, is that explained in another document?

A That's -- all of these are in my MN-2.

Q Okay. So when you say all of these, everything on the rest of this errata?

A Yes.

Q Okay. Well, that's a succinct way of -- that ties it up. So we can -- we can see all of these numbers traced through to on MN-2?

A Yes.

Q Thank you.

On -- could you turn to page six of your direct testimony and go to lines six through eight, please?

A Uh-huh.

Q In this part of your testimony, you are testifying about the appropriateness of the working capital balance that is reflected in the historical MFRs, is that right?

A Yes.

Q Okay. And more specifically, you are testifying that it was a proper and appropriate to

remove what you call a receivable from affiliate companies balance of $122,658,697 in the historical year results?

A Yes.

Q Do you have a copy of MFR B3A with you?

A What MFR?

Q B3. And actually, I am looking on -- it's a Bates page 41 -- 44, and the stamp page is 41?

A Yeah. What is it? B what? I am sorry.

Q It's B3 consolidated, page two of two, and it's MFR page 44 -- FPUC MFR 44, or numbered page 41.

A Okay.

MR. REHWINKEL: Have you located that, Mr. Chairman?

CHAIRMAN FAY: Yep, I have got it. Thank you.

BY MR. REHWINKEL:

Q All right. So the number that you testified to on page -- what did I say, six -- the 122,658,697, do we see that adjustment on line four?

A Yes.

Q And it says, eliminate receivable from associated companies, adjustment amount 122,658,697 is all regulated. And the reason for the adjustment, it says remove from rate base; do I have that right?

A Yes.

Q Can you turn to B13 at Bates 71, or stamped page 68?

A Okay.

Q You have that?

A Uh-huh.

Q Okay. And this is page one of four, and it is for the historical base year 20 -- 12/31/21. And we see this again on line 11, receivable associated companies, same number, 122,658,697?

A Yes.

Q Okay. Would you agree with me that that same adjustment, same type of adjustment, carries through into the test year -- into the test year MFR schedule on G1, page 4A? I'm going to --

A On what other -- what did you say? Does it move -- can you repeat that, please?

Q Yes.

MR. REHWINKEL: Mr. Chairman, I am about to move to MFR G.

CHAIRMAN FAY: Okay.

BY MR. REHWINKEL:

Q So I am asking if you make the same kind of adjustment to remove accounts receivable associated companies from the working capital in the -- in the test year? And this would be G1 page 4A.

A What is it? G1 what?
Q Page 4A, G1.
A G1, page 4A.
CHAIRMAN FAY: That's where I am losing you, Mr. Rehwinkel. Page 4A? Do you have a --
MR. REHWINKEL: Page 4A of 28. It's --
CHAIRMAN FAY: Oh, okay.
MR. REHWINKEL: -- it's Bates 1545, the numbered page 1537.
CHAIRMAN FAY: Perfect. 1537.
THE WITNESS: Okay. It's Bates-stamped 1545?
BY MR. REHWINKEL:
Q Yes. Yes, ma'am.
A Okay. I am there.
Q So on line 3, we see a similar type of adjustment, eliminate receivable from associated companies amount 127,849,224 all regulated, and then the reason for the adjustments says, removed from rate base, dash, equity related; do you see that?
A I do.
Q Okay. And this is the schedule you are also responsible for, correct?
A Yes.
Q Okay. Can you tell the Commission what the phrase equity related means?

A Okay. So basically what we've done is we remove it out of our rate base. And because, you know, FPU doesn't have any debt or stock, or anything, we actually remove -- we remove it, and then we allocate it based on our parent debt to equity ratio.

Q Okay. So let's talk about the nomenclature here. It says removed from rate base. Isn't it true that the 127,849,224, that's a credit balance?

A I don't know if it says removed and it's a debit. It must have been a credit initially, I guess.

Q Because it's in current and deferred assets, you would agree, right there above line one. And it's an unbracketed amount, so that's -- that has to be a credit, right?

A Yes, I would assume so. I don't know for sure.

Q Okay. And it's not removed from rate base. It's being added to rate base, is it not? This balance --

A It appears to be added, yes.

Q Okay. So it says, removed from rate base, but rate base is actually increased 127,849,224 by this adjustment in the test year, right?

A Yes.

Q Okay.

A I would assume that this -- maybe this wasn't titled correctly. Maybe it's not really a receivable but a payable. I don't know. I can't, without looking further into it.

Q In your testimony, you describe it thusly, that you removed a receivable, right?

A If that's what my testimony said, yes.

Q All right. So is your testimony to the Commission that the net credit in rate base was moved to the shareholders equity portion of the capital structure to earn an equity return?

A No, not that we were earning a return on it. Just that that -- since your capital has to match your rate base, we did allocate that based on our debt to equity portion.

Q Why does it say equity related? Does it mean it's -- it was recorded in shareholders equity?

A Well, when you -- we have your -- let me think. So we would have to take out the retained earnings in our -- in this receivable, and then we allocate it to -- let me see -- on the capital structure. Yes. So we would allocate it based on our debt to equity, but it's also adjusted for any, you know, commission adjustments to rate base to make it tie.

Q But a receivable would be an asset on your balance sheet, right? It would be a debit?

A A receivable is usually a debit on the balance sheet.

Q All right. So the true nature of this adjustment is to move a net negative accounts receivable, which means that the balance actually represents an accounts payable to the affiliated companies, correct?

A That's -- like I said, without looking any further, I would assume so, but I don't -- I would have to look into that.

Q Do you have -- do you have before you the Exhibit 117, the interrogatory responses that I was asking Mr. Galtman about? They may be by the water bottle there. I don't know if he was kind enough to leave them for you.

A Thank you. All right.

CHAIRMAN FAY: You can provide the title if he didn't number them?

BY MR. REHWINKEL:

Q Yeah. This is FPUC Response to OPC's 5th Set of Interrogatories. We already gave it a -- do you see that?

CHAIRMAN FAY: On the front page there, there

is a title, description of the document. I don't think he put the numbers on. That's the only reason I was -- and then the title would be helpful. So if you look at the first page, it says -- it should be maybe 20 pages thick.

THE WITNESS: This --

MR. REHWINKEL: Do you mind if I give her --

THE WITNESS: Yeah, because this says ESR equity rates.

BY MR. REHWINKEL:

Q It looks like this. You can have this one.

A Oh, it's this one? Oh, there is no number on it.

Q No. It has a longer title.

A Okay, then I don't have that then. It's not -- it's not here.

MS. KEATING: Can I just confirm that that's the same exhibit that you had Mr. Galtman look at?

MR. REHWINKEL: Yes.

BY MR. REHWINKEL:

Q This may shortcut it. Are you familiar with this document?

A No.

Q You are not? Okay. I won't ask any questions about it.

CHAIRMAN FAY: Okay.

BY MR. REHWINKEL:

Q That was easy.

All right. Your --

MR. REHWINKEL: I gave staff exhibits to pass out, and I think they have a couple.

CHAIRMAN FAY: Mr. Rehwinkel, do they have them organized by each witness, or are you handing them to them as each witness comes up?

MR. REHWINKEL: Yes.

CHAIRMAN FAY: The latter?

MR. REHWINKEL: I'm giving -- we were instructed when to hand them out collated for the witnesses.

CHAIRMAN FAY: Okay. That's fine. I am just trying -- I am trying to see if maybe we need to give our folks direction just as the witness comes up, if they can go ahead and hand these out so we will be ready to go with them instead of --

Mr. Rehwinkel, I have three that would be numbered, and then an sort of an independent sheet. I don't know if that's a -- is that intended to be affixed or its own exhibit?

MR. REHWINKEL: I have two Exhibits. One that I am going to ask her about right now has a short title of FPUC 2021 FPSC Annual Report Excerpts.

CHAIRMAN FAY: Okay.

MR. REHWINKEL: Do you have that document?

CHAIRMAN FAY: Yep. We have marked that as 119.

(Whereupon, Exhibit No. 119 was marked for identification.)

THE WITNESS: Which one is it? I'm sorry.

BY MR. REHWINKEL:

Q It says, FPSC Annual Report Excerpts.

A Okay.

MR. REHWINKEL: Mr. Chairman, I have excerpts, but I also have a few of copies of the fuel documents if anybody needs it, or if they need to be filed for completeness --

CHAIRMAN FAY: Okay.

MR. REHWINKEL: -- after we go through this.

CHAIRMAN FAY: We will work through the excerpts, and then if needed.

MR. REHWINKEL: Okay.

BY MR. REHWINKEL:

Q So, Ms. Napier, you participate in the filing of annual reports to the Commission and its surveillance reports?

A The surveillance reports I do. Not

necessarily the annual reports. They are done by the accounting department.

Q You are not involved moved involved at all in the annual report filing?

A Other than a cursory review.

Q All right. Well, you are familiar with the annual reports that the Commission -- that the company files with the Public Service Commission, right?

A Yes.

Q Okay. And you -- if I could get you to turn, I Bates numbered these Exhibit 119. The first one is an excerpt from FPUC's annual report. And if I could get you to look at Bates page two. It's in the upper right-hand corner of document. Do you see that?

A Yes.

Q There is a cover sheet to the December 31, '21, annual report, and Michael Cassel is shown on the front page, and Mr. Galtman is shown on the second page with responsibility for these; is that right?

A Yes.

Q Okay. And I just want you to turn to Bates pages 4 and 5, and I want to first direct you to Bates page five.

A Five, okay.

Q And get you to go to line 29, accounts payable

to associated companies. Do you see that?

A Yes.

Q And there is a beginning of '21 balance of 91,264,033, and an ending balance of 110,099,346; do you see that?

A Yes.

Q Okay. This is listed under current and accrued liabilities in the annual report, right?

A Yes.

Q Okay. And if we go over to Bates four, on line 26 -- actually, lines 27, I apologize. The title there is Accounts Receivable from Associated Companies. Do you see that?

A Yes.

Q And the beginning and ending balances there are zeros, right?

A Yes.

Q One has got a nothing, and then the other has a zero?

A Yes.

Q If this is the annual report accounting filed with the Commission, can you explain why the MFRs for this similar type of expenses shows them as the removal of an accounts receivable?

A No, I do not.

Q Would you agree that equity, or shareholders equity, is a long-term liability?

A It's equity.

MR. REHWINKEL: And now, Mr. Chairman, I want to ask the witness to turn to MFR F3.

CHAIRMAN FAY: Are we done with 119, Mr. Rehwinkel?

MR. REHWINKEL: Yes, we are.

CHAIRMAN FAY: Okay.

BY MR. REHWINKEL:

Q And let me ask just quickly. Would you accept, subject to check, that if I -- that if we looked at the other three companies, that there would be a positive balance for accounts payable affiliated companies and a zero beginning and ending balance for accounts receivable affiliated companies.

A I can't -- I can't agree with that. I don't know.

Q Okay. Well, let's go to Bates Exhibit 9.

A Bates Exhibit 9. Where is that?

Q I mean, Bates page nine. I apologize.

CHAIRMAN FAY: On 119.

THE WITNESS: Is that -- where are we?

BY MR. REHWINKEL:

Q Yeah, let's finish up with 119.

A We are still in here?

Q Yes, ma'am.

A Oh, okay.

Q Sorry.

A It's Exhibit 9, okay.

Q So if we go to page nine, line 27, we see a zero balance beginning and ending there, right?

A Yes.

Q And this is for Indiantown, right?

A Yes.

Q And then if we turn over to Bates 10, line 29, we see a positive beginning and ending balance and the liabilities?

A Yes.

Q Okay. And if we do the same thing, we go over to -- flip over to 13, and we look on line 27, you see a zero and a zero for the beginning and ending balance?

A Yes.

Q And then on page 14, in the line 29, we see positive beginning and ending balances for Fort Meade?

A Yes.

Q Okay. And then finally, if we go to the last two pages of this exhibit, 18 and 19. On 19 -- well, 18, we see accounts receivable from associated companies zeros beginning and ending, right?

A On line 27 of 18?

Q Actually -- yeah, line 27 on 18.

A Zero, or nothing.

Q And this is for Chesapeake, right?

A Yes.

Q And then finally, on line 29, we see positive beginning and ending balances there, right, for accounts payable to associated companies, right?

A Line 29?

Q Yes, ma'am.

A Yes.

MR. REHWINKEL: Okay. Now we are done with this, Mr. Chairman. I am done with this exhibit.

CHAIRMAN FAY: Okay.

BY MR. REHWINKEL:

Q I want to ask you to turn to MFR F3 if you could.

CHAIRMAN FAY: Mr. Rehwinkel, you can just refer to the Bates numbers on the pages --

MR. REHWINKEL: Okay.

CHAIRMAN FAY: -- the bottom, instead of the right, because I know those fluctuate.

THE WITNESS: You say F3?

BY MR. REHWINKEL:

Q F3. Yes, ma'am. And I want to go to -- this

would be Bates 1458.

MR. REHWINKEL: I apologize, Mr. Chairman. I have got the wrong page here. Let's see.

CHAIRMAN FAY: 1458, you are just referencing the large page on the bottom and the Bates seven more than that, 1465?

MR. REHWINKEL: Yeah, I got the wrong -- I am sorry. I want to go to Bates 1449, the bottom number.

CHAIRMAN FAY: Okay. Yeah, and, Mr. Rehwinkel, if -- just for clarity, are you going to be providing the large bottom number of the page or the FPUC MFR number? Just A little more consistently.

MR. REHWINKEL: It's stamped, what I call stamped 1442 or Bates 1449.

CHAIRMAN FAY: Okay.

BY MR. REHWINKEL:

Q Are you there?

A Yes.

Q Okay. So if I look here on -- and this is for the interim support MFRs, is that right?

A Correct.

Q Yes. And I know Mr. Evern -- Evern -- Everngam?

A Everngam.

Q Everngam, he is shown as responsible there, but the supporting schedule is B3 in the lower left-hand corner, and that's one of your schedules, right?

A Yes.

Q Okay. And if we look on lines 16, receivable from associated companies, it says, eliminate receivable from associated companies, and it shows that 122,658,697 that's in -- on page six of your testimony, right?

A Yes. Uh-huh.

Q Okay. And if we go over to the far right side on that line, it shows that there is a $12,058,569.01 revenue requirement associated with increasing rate base without with that adjustment, would you agree with that?

A It says, average revenue requirement, so I would assume so.

Q Okay. And then if we scroll down to Bates 1456 with the -- on page 1449, this shows on line nine that the interim increase was $7,129,255, is that right?

A Yes, the -- yes.

Q So you would agree that the removal -- the adjustment there on to remove the receivable, which really was to remove a payable, was -- had a greater revenue requirement than the interim rate increase itself, right?

A In looking at these two numbers, yes.
Q All right.

MR. REHWINKEL: So, Mr. Chairman, I would like to ask that the other document that I passed out be given a number for identification purposes. Are we at 120?

CHAIRMAN FAY: Mr. Rehwinkel, I got a few documents here, so give me a title.

MR. REHWINKEL: It says, Cost Free Accounts Payable Calculation.

CHAIRMAN FAY: Okay. So that would be 120.

MR. REHWINKEL: Yes.

(Whereupon, Exhibit No. 120 was marked for identification.)

MR. REHWINKEL: For the record, Mr. Chairman, this is a document that the Public Counsel prepared. It says up in the upper left-hand corner of the first page, Florida Public Utilities Company Consolidated Gas. That's not a document that the company produced.

CHAIRMAN FAY: Okay.

MR. REHWINKEL: And it has a title, it says, Reverse Company Adjustment to Remove Accounts Payable to Associated Companies from Rate Base Using Company Capital Costs on the first page here.

And I want to ask the witness if she can agree with what I have produced here, subject to check, but if she doesn't agree with it, subject to check, I understand.

CHAIRMAN FAY: Okay. That's fine.

So you are comfortable with that, so Mr. Rehwinkel was just stating that it's not a document produced by the utility, and so if you can validate the numbers, great; if you can't, then feel free to say so.

THE WITNESS: I didn't prepare it, so I can't validate over --

BY MR. REHWINKEL:

Q I am just going to ask you, and then you can give me that answer if you want.

If you will look in the total company column, you will see on line one, there is the 127,849,224 that we identified previously on MFR G1. Do you recall that number? That's the test year receivable adjustment.

A And this was where -- where else were you saying this was located?

Q It was in MFR G1 on page 4A of 28.

A MFR G1?

CHAIRMAN FAY: Mr. Rehwinkel, so, just to be clear, are you going to -- would you want the witness to validate the numbers as they correlated to the schedules in the MFRs?

MR. REHWINKEL: I want to ask her about the revenue requirement impact of this, consistent with what we just discussed on the F Schedule, F3.

CHAIRMAN FAY: Okay. So subject to the fact that you can't validate these numbers, if his questions relate to the MF -- the previous scheduled MFRs that were pointed out, are you able to answer those questions?

THE WITNESS: On the F schedule?

BY MR. REHWINKEL:

Q I want to go to the G1.

A You wants to go to the G as projected. Okay so G1, which number? Which --

Q It's page 4A. I forget the Bates. Let's see. Too many windows open here.

CHAIRMAN FAY: I can barely see them on my screen, Mr. Rehwinkel, so --

BY MR. REHWINKEL:

Q Okay. So this is Bates 1537 -- I mean, 1545. Do you see that page?

A Yes.

Q Okay. And you see there on line three, 127,849,224, that adjustment?

A Yes.

Q Okay. And would you agree that that number is in Column E on line one of Exhibit 120?

A Yes.

Q Okay. So if I apply the cost of capital, or the FPUC overall cost of capital, or weighted average cost of capital of 6.43 on line two to that 127,849,224 number and got a operating income required at that rate, and then grossed it up by your revenue expansion factor on page -- on line four, and got a revenue requirement of 11,093,066 that I then adjusted for interest synchronization and taxes, would you -- would you accept, subject to check, that it yields a revenue requirement on a test year basis of 10,502,774?

MS. KEATING: Mr. Chairman.

CHAIRMAN FAY: Yeah, Mr. Rehwinkel, she's not going to be able to validate those numbers. I mean, you are welcome to answer if you feel you can, but to track those numbers -- I mean, I think it's one thing if you want to refer back to the MFR on one or two of these numbers, but to walk --

MR. REHWINKEL: I would get her to decline if she's not comfortable with it, and if she's not that's fine with me.

CHAIRMAN FAY: Okay.

THE WITNESS: Okay. Then I decline.

MR. REHWINKEL: Smart woman. Okay. All right.

CHAIRMAN FAY: Are you done with that exhibit, Mr. Rehwinkel?

MR. REHWINKEL: I am.

CHAIRMAN FAY: Okay.

MR. REHWINKEL: I don't think we will see that exhibit again.

All right. Mr. Chairman, I am ready to move to a completely different subject, do you want to keep going, or is this a good place to stop?

CHAIRMAN FAY: I would like to give our court reporter a break here, so why don't we do -- I have got 3:35 here. So we will be back at 3:45 and start at that time. So make sure to be back and ready then.

(Brief recess.)

CHAIRMAN FAY: All right. If everyone will grab their seats we will get moving.

All right. Ms. Napier, Mr. Rehwinkel, whenever you are ready.

Mr. Rehwinkel, just real quick, I know I've asked you before, but as far as this witness, do you have a general idea of the timeline?

MR. REHWINKEL: I would think maybe 15 minutes.

CHAIRMAN FAY: Okay.

MR. REHWINKEL: Are we ready?

CHAIRMAN FAY: Mr. Rehwinkel, you are recognized.

MR. REHWINKEL: Thank you.

BY MR. REHWINKEL:

Q Hello again. I have a question for you. I guess earlier in cross I was asking about a question and you referred to a revised MN-2, and then I started looking for it and I couldn't find it. But you are saying that you revised your MN-2 based on the errata, is that right?

A We did not submit a revised one.

Q Okay.

A We just submitted the errata.

Q Okay. And so the -- if -- I would take, like Ms. Christensen has done, I would take your MN-2 and I would take your errata and then put those changes on there, and they should -- it should reflect what you have that you just didn't file, is that right?

A That is correct.

Q Okay. All right. So let's look at your Exhibit MN-2, and let me just ask you generally. Would

you agree this exhibit represents your attempt to demonstrate cost savings in O&M since FPUC was acquired by Ches-- CUC?

A Yes.

Q Okay. And then on page one of two of MN-2, you are claiming that there was a $1.502 million sayings, fuel savings in 2021, and that there will be $1.382 million of fuel savings in 2023; is that right?

A Can you repeat those numbers again? I am sorry.

Q Yeah, I actually -- I actually said them wrong. I am glad you asked me that, because I misstated it.

On page -- on page one of two of MN-2, you are claiming that after the errata changes, that there was a $1.052 million of fuel savings in 2021, and that there will be a $1.382 million of fuel savings in 2023?

A Yes.

Q Okay. If there are such fuel savings, would you agree that would largely be due to market fluctuations in the cost of fuel?

A I can't really answer that. Witness Hancock will be able to respond to that.

Q Okay. When I said the cost of fuel, I meant the cast commodity that you --

A Uh-huh.

Q Isn't the cost of purchased gas largely driven by general market conditions?

A That's not my area of expertise.

Q Okay. If the cost of the gas commodity decreased due to the general market conditions, and the company is trying -- is claiming that about a 1.032 million of that in 2023 is justification -- let me strike that and start again.

Is the company seeking to claim that $1.032 million of fuel savings is a justification for including the FPUC acquisition adjustment in rate base?

A Yes.

Q If the company's gas commodity costs increase in 2023 or subsequent years due to general market conditions, will the company be showing that increase in fuel costs as a subtraction or reduction in the justification of the net savings analysis?

A So can you repeat that again so I can understand?

Q Yeah. If the commodity -- if the purchased commodity, gas commodity prices that are borne by customers increase in the future, in 2023 or subsequent years, due to general market conditions, will the company be reflecting that as a detraction from the

analysis of savings that you presented in this case?
A So you are saying if a commodity went up, the fuel savings would decrease?
Q Yes. Would that -- would that undermine the justification for the acquisition adjustment?
A I don't think so.
Q You have made adjustments in your projection of the 2009 -- the carry-forward of the 2009 test year O&M costs, is that right?
A Say it one more time.
Q Well, you have taken the 2009 test year O&M costs and you have brought them forward?
A Yes, I did.
Q But you have also made adjustments to that amount that you brought forward, right?
A I did.
Q One of those is pension cost is removed from O&M because those costs are still being incurred by FPUC, is that right?
A They are still being incurred by FPUC, correct.
Q Is that the reason why you made the adjustment, is because they are still being incurred?
A Well, we made the adjustments -- that's one of the reasons, but it was very significant back in 2009,

which was included in our rate base, so -- I mean, in our base rates. So we were just trying to make sure that we were comparing costs, making the costs similar, and one of those items was the pension.

Q And you removed rate case expense because that cost was fully amortized years ago, is that right?

A Yes. Yes, and it was included in the -- in the 2009 projections.

Q Okay. And on MN-2, page two, on the third line, you show rate case expense of about 241,000, and then further down, you show a line -- you have a line entitled Less Rate Case Expense with an amount of about 493,000, is that right?

A That's correct.

Q Isn't the 493,000 on the less rate case expense line actually more rate case expense?

A Say that again, please.

Q Isn't it -- isn't that additional rate case expense?

A No. This is an actual -- the 492 is what we've put in these projections for FPU. So like I was saying before, we were trying to make sure that the costs were similar to what we had in our 2009 projected test year, and so we removed the rate case expense --

Q Okay. So you --

A -- to make them comparable.

Q Okay. And isn't that rate case expense more than double the 241,000 amount that you show on the -- up above on the third line?

A It's about half.

Q You mean the 241 is about half?

A About half of, yes.

Q Okay. And isn't the company requesting to charge ratepayers for an amount of rate case expense in the current case that is closer to the 493,000 on the less rate case expense line?

A Yes, we are asking for that.

Q And referring back to the top of MN-2, page two, you came up with amounts on an unlabeled line, fourth from the top, of about 16,745,039, do you see that?

A Yes.

Q Okay. And that's for all three of the years, '21, '22 and '23, right?

A Correct.

Q And you multiplied those -- those -- those -- that amount with a growth and inflation factor which increased each year for '21, '22 and '23, right?

A Correct.

MR. REHWINKEL: Mr. Chairman, I think we've passed out additional exhibits for Ms. Napier.

CHAIRMAN FAY: Okay. I have three for Ms. Napier.

MR. REHWINKEL: And one is -- this is P -- I think it's Order 2009-0375, it's a PAA order.

CHAIRMAN FAY: Okay. The large one?

MR. REHWINKEL: I ask that we give that an identification number at least. Is that 121?

CHAIRMAN FAY: Yes.

MR. REHWINKEL: Thank you.

(Whereupon, Exhibit No. 121 was marked for identification.)

BY MR. REHWINKEL:

Q Ms. Napier, do you have that order with you?

A Yes. This is the one the description is the PSC-09-375-PAA.

Q Yes, ma'am?

A Okay.

Q All right. Is this the baseline for the O&M costs that you brought forward to today, this order? Is this the source of that O&M?

A I would -- I would think so, yes.

Q Yes. All right.

MR. REHWINKEL: And then, Mr. Chairman, the next document I would like to put before the witness get -- be given an identification number is the PSC-09-0848 final order.

CHAIRMAN FAY: Okay. 122.

(Whereupon, Exhibit No. 122 was marked for identification.)

MR. REHWINKEL: Do you have that?

CHAIRMAN FAY: Yes.

MR. REHWINKEL: Thank you. This will be 122.

BY MR. REHWINKEL:

Q Ms. Napier, do you have that document?

A Yes.

Q Okay. You would agree that the PAA order was, from 2009, was protested and then it was settled for the black box revenue requirement, right?

A I am not that familiar with it back then.

Q Do you have a general understanding that that's what happened, the PAA order was issued, both parties protested, and then they settled it with a stipulation?

A I was not involved. I am not sure.

Q Okay. So you -- are you unaware of it or are you just not intimately familiar with it?

MS. KEATING: Mr. Chairman, he has asked her this question a couple of times now.

MR. REHWINKEL: I wasn't clear whether she knew of it or she didn't know of it. I guess I could ask it that way.

CHAIRMAN FAY: Do you have specifics about the --

BY MR. REHWINKEL:

Q Yes, I wanted to ask if she's aware that the settlement revenue requirement was 7,969,000, and it was less than the PAA revenue requirement of 8,496,230. No?

A No, I am not aware of.

Q All right.

MR. REHWINKEL: Mr. Chairman, if I could have one minute to consult.

CHAIRMAN FAY: Okay.

MR. REHWINKEL: Thank you for the indulgence, Mr. Chairman.

BY MR. REHWINKEL:

Q Going back to your MN-2 schedule. The items that you removed and under the O&M there, do you see those on --

A Yes.

Q Okay. You would agree that these are costs that are being incurred by FPUC after the acquisition in order to run the company, correct?

A These are costs that are included in the O&M for '21 through '23. Yes.

Q Okay, and those costs will recur, or persist in the test year and beyond, right?

A It's possible.

Q So if the items or amounts you requested in the NOI are approved, those costs would be passed on to customers in rates, these O&M costs, right?

A Yes.

Q And as shown on MN-2, page two, the 2023 FN 2009 projected column, your adjusted 2009 O&M costs for 2023 is 32,108,587 after increases for growth, inflation -- and inflation, is that right?

A Correct.

Q And on the next line below that, you show O&M of 30,949,000 --

A Correct.

Q -- right?

A Yes.

Q And on MN-2, page two, on the line following that, you show for 2023 about $129,000 for flex rate and special contract costs that were not removed in the 2009 projection, correct?

A Correct.

Q In the current 2023 O&M costs, including the flex rate -- the flex rate and costs that you add in is 31,078,216, or about $31 million, is that right?

A Say -- where did you get that number from?
Q All right. I have it somewhere here.
All right. Let's -- I will withdraw that question and just ask you, referring to this page, your projected gross -- gross-up of the 2009 O&M costs do not take into account any potential reductions in O&M costs that might have occurred in the normal course of business over 12 years, is that correct?
A It does not take into consideration -- say it again.
Q O&M costs that might have -- reductions in O&M costs that might have occurred over that period, is that right?
A Well, if there were any reductions already in our projections, they would have been projected forward.
Q But any that actually occurred, or would have occurred, they are not captured in here in this bringing in the number forward, right?
A Not if they kept -- I mean, like I said before, if they already were a reduction in our O&M already, it's already projected in. I guess I am not understanding your question.
Q Okay. Well, the way you projected, you brought this number forward, you didn't take into account any reductions that might have occurred in that

12-year period?

A The 12-year period from 2009 to now?

Q Yes.

A Like I said, any reductions would have already been a cost we've already experienced. And if it was a reduction, then we would have projected that reduction forward.

Q On page -- let's go to your storm cost testimony. On page nine, you discuss the storm reserve, correct?

A On page nine? Yes.

Q Okay. FPUC is asking for an additional -- for the accrual to be increased from $6,000 to $10,000 a month, right?

A Yes.

Q And your testimony suggests that because of the increased storm activity and larger territory since the last rate case, this increase is justified, is that right?

A Correct.

Q You would agree that there is no actuarial analysis to support the need for increase in the storm accrual, correct?

A That is correct, but we have -- FPU is the only one that has a storm reserve at this point. The other territories within Florida do not. So in order to account for any damage that might happen with them during a storm, we felt it was necessary to increase the storm reserve.

Q Do you have your response to interrogatory 38 with you?

MR. REHWINKEL: Mr. Chairman, I passed out a copy of this for convenience, but this is already in the record as 97.

CHAIRMAN FAY: Okay.

BY MR. REHWINKEL:

Q Do you have that with you?

A Yes.

Q This document lists the account balance at the beginning of the year and the end of year for the period 2016 through 2021, correct?

A Correct.

Q And in 2016, you had an ending balance of 772,529,000 -- $772,529, right?

A Correct.

Q And through that year, you used $57,414, or you reduced that balance by that amount for all four divisions, correct?

A It wouldn't be for all four divisions, probably just FPUC.

Q Correct. So the balance was reduced by that amount, 57,414, would you agree with that?
A I don't have a calculator, but --
Q Okay. Subject to check?
A Subject to check.
Q Okay. And in 2017, you had an ending balance of 699,309, and you, accordingly, used $103,220 that year, correct?
A Correct.
Q Okay. And in 2018, you added $6,000 to the starting balance, right?
A Yeah, that looks about right.
Q Okay. In 2019, you used $18,359 for all -- for FPUC, correct?
A That looks about correct.
Q Say again.
A I said that looks about correct.
Q Okay. Thank you.
A I don't have a calculator, so I am not --
Q Yeah. That would -- these questions are all subject to check.
And in 2020, you add $6,000 to the starting balance for that year, right?
A Correct.
Q And the ending balance for 2021 was 655,534,

correct?

A Correct.

Q At no time during the six-year period did the ending balance fall blow $600,000, right?

A That's correct.

Q And the largest debit, or charge to this account, was $103,220 in 2017, right?

A Correct.

Q And you did not need to come in for a rate increase in 2017 due to storm costs, correct?

A That's correct.

MR. REHWINKEL: Mr. Chairman, I think those are all the questions I have. Thank you for your time. Thank you.

CHAIRMAN FAY: Okay. Staff?

MR. SANDY: No cross, Mr. Chair.

CHAIRMAN FAY: Commissioners?

Ms. Keating, redirect?

MS. KEATING: Thank you, Mr. Chairman, just a few questions.

FURTHER EXAMINATION

BY MS. KEATING:

Q First of all, Ms. Napier, if I could direct your attention back to one of the exhibits that Mr. Rehwinkel asked you about, Exhibit 119. These are the

FPUC annual reports excerpts.
A Okay.
Q So what is your role in preparing these reports?
A I don't -- I don't prepare them. The accounting department does.
Q Okay. And who in the -- who would be in charge of preparing these reports?
A That would rely on Witness Galtman.
Q Okay. So Mr. Rehwinkel also asked you a line of questions regarding an adjustment made for accounts receivables --
A Yes.
Q -- do you recall that line of questions?
A Yes.
Q Was that adjustment made consistent with prior rate cases and as directed by the PSC?
A That is correct. We do make those adjustments according to that.
MS. KEATING: Thank you. That's all the redirect I have.
CHAIRMAN FAY: Okay. We will, Ms. Keating, without objection, we will move CEL 7, 8 and 9 into the record.
(Whereupon, Exhibit Nos. 7, 8 & 9 were

received into evidence.)

CHAIRMAN FAY: And, Mr. Rehwinkel, I have 119 through 122.

MR. REHWINKEL: I am only going to move 119. I think the rest are -- I am not going to move 120, and the rest are orders.

CHAIRMAN FAY: Okay.

MR. REHWINKEL: I believe they are already in the record.

CHAIRMAN FAY: All right. Without objection, 119 moved into the record.

(Whereupon, Exhibit No. 119 was received into evidence.)

CHAIRMAN FAY: All right. Ms. Keating, would you like to excuse your witness?

MS. KEATING: Mr. Chair, May Ms. Napier be excused?

CHAIRMAN FAY: She may. Thank you.

MS. KEATING: Thank you.

(Witness excused.)

CHAIRMAN FAY: Okay. And you are welcome to call your next witness.

MS. KEATING: Mr. Chairman.

CHAIRMAN FAY: Yes.

MS. KEATING: FPUC would call Terry Deason to the stand.

Whereupon,

TERRY DEASON

was called as a witness, having been previously duly sworn to speak the truth, the whole truth, and nothing but the truth, was examined and testified as follows:

EXAMINATION

BY MS. KEATING:

Q Good afternoon, Mr. Deason.

A Good afternoon.

Q Would you please state your name and business address for the record?

A Yes. My name is Terry Deason. My address is 4377 NW Torreya Park Road, Bristol, Florida 32321.

Q Okay. On whose behalf are you testifying today?

A I am sorry?

Q On whose behalf are you testifying?

A Oh, I am testifying on behalf of Florida Public Utilities Company.

Q And did you cause to be prepared and filed in this proceeding 16 pages of direct testimony?

A Yes, I did.

Q And do you have any changes or corrections to that testimony?

A No.

MS. KEATING: Mr. Chair, we would ask that Mr. Deason's direct testimony be inserted into the record as though read.

CHAIRMAN FAY: Without objection, show it entered.

(Whereupon, prefiled direct testimony of Terry Deason was inserted.)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

Docket No. 20220067-GU: Petition for rate increase by Florida Public Utilities Company, Florida Division of Chesapeake Utilities Corporation, Florida Public Utilities Company – Fort Meade, Florida Public Utilities Company – Indiantown Division.

Prepared Direct Testimony of Terry Deason

Date of Filing: May 24, 2022

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Terry Deason. My business address is 4377 NW Torreya Park Road, Bristol, Florida 32321.

Q. By whom are you employed and in what capacity?

A. I am self-employed as a Special Consultant specializing in the fields of energy, telecommunications, water and wastewater, and public utilities generally.

Q. Please describe your educational background and professional experience.

A. I have over forty-four years of experience in the field of public utility regulation spanning a wide range of responsibilities and roles. I served a total of seven years as a consumer advocate in the Florida Office of Public Counsel ("OPC") on two separate occasions. In that role, I testified as an expert witness in numerous rate proceedings before the Florida Public Service Commission ("Commission"). My tenure of service at OPC was interrupted by six years as Chief Advisor to Florida Public Service Commissioner Gerald L. Gunter. I left OPC as its Chief Regulatory Analyst when I was first appointed to the Commission in 1991. I served as Commissioner on the Commission for sixteen years, serving as its chairman on two separate occasions. Since retiring from the Commission at the end of 2006, I have been providing consulting services and expert testimony on behalf of various clients, including public service commission advocacy staff, county and municipal governments, and regulated utility companies. I have also testified before various legislative committees on regulatory policy matters. I hold a Bachelor of Science Degree in Accounting, summa cum laude, and a Master of Accounting, both from Florida State University.

Q. Are you sponsoring an exhibit?

A. No.

Q. For whom are you appearing as a witness?

A. I am appearing as a witness for Florida Public Utilities Company ("FPUC") and the Florida Division of Chesapeake Utilities Corporation ("Chesapeake").

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to address the regulatory policy considerations for acquisition adjustments in general and how those policy considerations should be applied to FPUC's request for increased rates in this proceeding, which includes continued recognition of the positive acquisition adjustments associated with the acquisition of FPUC by Chesapeake and the acquisition of Indiantown Gas Company ("Indiantown") by FPUC. (A positive acquisition adjustment of $34,192,493 with a 30-year amortization beginning November 2009 was earlier approved by the Commission for the acquisition of FPUC by Chesapeake in its Order No. PSC-12-0010-PAA-GU. A positive acquisition adjustment of $745,800 with a 15-year amortization beginning August 1, 2010, was earlier approved by the Commission for the acquisition of Indiantown by FPUC in its Order No. PSC-14-0015-PAA-GU.) Based upon regulatory policy considerations and the facts as presented by witness Cassel, I recommend that the Commission again approve the acquisition adjustments which FPUC is requesting in this proceeding.

II. ACQUISTION ADJUSTMENTS OVERVIEW

Q. What is an acquisition adjustment?

A. According to Rule 25-30.0371, F.A.C. Acquisition Adjustments ("the Rule"), an acquisition adjustment is defined as the difference between the purchase price of utility system assets to an acquiring utility and the net book value of the utility assets. A positive acquisition adjustment exists when the purchase price is greater than the net book value. A negative acquisition adjustment exists when the purchase price is less than the net book value.

Q. Is Rule 25-30.0371, F.A.C. Acquisition Adjustments, applicable to electric and gas utilities?

A. Specifically, no; this Rule is applicable to water and wastewater utilities subject to the Commission's jurisdiction. However, the definition of an acquisition adjustment should be the same for all industries regulated by the Commission.

Q. Is there a similar rule on acquisition adjustments applicable to electric and gas utilities?

A. No, there is not. Acquisition adjustments in the water and wastewater industry occur more frequently and have historically been a significant and contentious issue before the Commission. The Rule was first adopted in 2002 to establish a consistent policy upon which parties could rely and help remove some of the controversy surrounding acquisition adjustments. The Commission then made amendments to the Rule in 2010 to provide even more clarity, especially regarding negative acquisition adjustments.

Q. Do you believe that Rule 25-30.0371 provides guidance for the appropriate regulatory treatment of positive acquisition adjustments for natural gas and electric utilities?

A. Yes, it does. The Rule establishes that a positive acquisition adjustment shall not be included in the utility's rate base absent extraordinary circumstances. The Rule further contains a list of factors to be considered which demonstrate whether the "extraordinary circumstances" test is met to allow a positive acquisition adjustment to be included in rate base. These factors include:

- Quality of service to customers;
- Regulatory compliance;
- Rate levels and stability of rates;
- Cost efficiencies; and
- Whether the purchase was an arms-length transaction.

Just as these factors are applicable to a water or wastewater utility acquisition to determine if it is in the public interest, these same factors can also be applicable to an electric or gas utility acquisition.

Q. Should only these factors, and no others, be considered for the appropriate treatment of a positive acquisition adjustment for an electric or gas utility?

A. No, these factors are only a guide. The ultimate test is whether the acquisition is in the public interest such that the positive acquisition adjustment should be allowed in rate base, or in this case, retained in rate base. The Commission should exercise its considerable discretion in this area to encourage acquisitions which are in the public interest and to discourage those which are not. By allowing a positive acquisition adjustment in rate base for an acquisition that is in the public interest, the Commission will encourage such transactions in both the near term and longer term.

Q. Has the Commission addressed positive acquisition adjustments for utilities other than water and wastewater companies?

A. Yes, a good example is the acquisition of the Sebring Utility System by Florida Power Corporation in Docket No. 920949-EU. In that case the Commission used its considerable discretion to conclude that the acquisition was in the public interest. In its Order No. PSC-92-1468-FOF-EU, the Commission stated:

> It is our opinion that this acquisition will benefit all concerned, and thus we will permit Florida Power Corporation to include a "going concern value" for the purchase of the Sebring system in its rate base as a positive acquisition adjustment.

Q. What did the Commission mean by the term "going concern value"?

A. In the context of its Order, the Commission was referring to the premium paid in excess of book value as being attributable to Sebring's going concern value. In the broader context, "going concern value" recognizes that an existing business with customers, revenue streams, and a valued product is often worth more than the net book value of its assets or market value of its individual assets. In accounting terminology, this additional benefit is referred to as the existing business' goodwill.

Q. What do you mean by "goodwill"?

A. In an accounting context, goodwill refers to an intangible asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized.

Q. Is the Commission prohibited from allowing a positive acquisition adjustment that can be attributable to goodwill?

A. No, it is not. Section 366.06, Florida Statutes, only prohibits the inclusion of goodwill or going concern value to the extent it exceeds payments made by the acquiring utility. Therefore, an arm's length transaction to acquire the assets of another utility is a situation where goodwill is potentially eligible for inclusion in rate base because a quantifiable payment has been made. The effect of this statutory provision is to make two points clear: (1) absent an acquisition, a utility's rate base should be based on net book value (original cost less accumulated depreciation); and (2) in the event of an acquisition, the acquiring utility may not increase its rate base by more than it actually paid for the acquired assets.

Q. Can you provide an example of a positive acquisition adjustment being allowed for a gas utility?

A. Yes, perhaps the most relevant cases are the acquisitions of FPUC by Chesapeake in Docket No. 110133-GU and the acquisition of Indiantown by FPUC in Docket No. 120311-GU, which I earlier identified. Based upon its review of the evidence, the Commission allowed the requested acquisition adjustments, but made them subject to review in FPUC's next rate case. Thus, these acquisition adjustments are again before the Commission in FPUC's current rate case.

Q. On what basis did the Commission initially approve the acquisition adjustments resulting from Chesapeake's acquisition of FPUC and FPUC's acquisition of Indiantown?

A. Like the considerations I identified in Rule 25-30.0371, the Commission identified five factors useful in determining whether the acquisitions were in the public interest. The factors identified by the Commission were: (1) increased quality of services; (2) lower operating costs; (3) increased ability to attract capital for improvement; (4) lower overall cost of capital; and (5) more professional and experienced managerial, financial, technical, and operational resources. Based on the favorable outcomes of these factors, the Commission approved the acquisition adjustments, subject to future reconsideration.

Q. Was this the first time the Commission used these five factors to determine whether an acquisition was in the public interest?

A. No, the Commission used these factors as far back as 1990 when the Commission approved a $2.4 million acquisition adjustment in the acquisition of Southern Gas by Peoples Gas in Docket No. 891353-GU.

Q. Did the Commission approve this acquisition adjustment subject to future review?

A. Yes, the Commission made the associated revenues subject to refund in the Company's next rate case. In Peoples next rate case, Docket No. 911150-GU, the Commission made no refunds due to any unrealized benefits of the acquisition and did not make the acquisition adjustment subject to further review in any future proceedings.

Q. Has the Commission made any other policy pronouncements in any other gas company acquisitions?

A. Yes, the Commission has recognized that its acquisition policy should provide an incentive for acquisitions to take place which are in the overall public interest. In its Order No. PSC-07-0913-PAA-GU, approving an acquisition adjustment for AGL Resources' acquisition of Florida City Gas, the Commission stated: "Such an acquisition provides an incentive for stronger companies to purchase weak or troubled companies."

Q. Is the Commission limited to only consider the five factors that have traditionally been used to evaluate acquisitions?

A. No. The Commission has broad discretion to determine whether an acquisition is in the public interest. A good example of this can be found in Docket No. 20170235-EI, involving the acquisition of Vero Beach Utilities ("Vero") by Florida Power & Light ("FPL"). In this case, FPL presented evidence in support of the acquisition and in so doing addressed each of the five factors traditionally considered by the Commission. Instead of relying on these five factors, the Commission found there were other extraordinary factors surrounding the acquisition of Vero by FPL and approved the resulting acquisition adjustment as being in the overall public interest.

Q. Are you suggesting that the Commission should disregard these five factors in its review of the acquisition adjustments in FPUC's current rate case?

A. No, I am merely stating that the Commission has great discretion in determining whether extraordinary circumstances exist and whether an acquisition adjustment is in the public interest. As such, the Commission can consider all five factors, can consider some and not others (giving different weight to different factors), or not consider any of the five factors at all. However, given that the Commission's initial approval of these acquisition adjustments were based on the five factors, it is logical and consistent to look at those same factors in the instant case. Witness Cassel will provide testimony showing that these same five factors continue to show benefits to customers such that the acquisition adjustment should remain in rate base and continue to be amortized consistent with the originally approved amortization schedules.

III. SUBSEQUENT REVIEW

Q. Does Rule 25-30.0371 provide any other guidance relevant to gas utility acquisitions?

A. While this Rule is for water and wastewater utilities, I believe it does provide some guidance. It allows the Commission to modify a positive acquisition adjustment should the benefits justifying the adjustment not materialize. Such a review is not required by the Rule and is at the discretion of the Commission. In addition, the permissible period to conduct such a review is limited to within five years of the order approving the acquisition.

Q. Why is the review permissive and limited to five years?

A. The Commission wanted to give some finality to such decisions and provide reasonable assurances that once approved, a positive acquisition adjustment is not the target of continued litigation. Such assurances are important to encourage utilities to pursue beneficial acquisitions and to mitigate unnecessary regulatory uncertainty. In addition, the Commission recognized that there should be a materiality consideration and thus made any review permissive and not a requirement.

Q. The Commission has routinely required a subsequent review of an initially approved gas company acquisition adjustment, correct?

A. Yes, the Commission has routinely done so, especially when the acquisition was initially considered outside of a general rate proceeding. Through subsequent reviews, the Commission has gained assurances that the initially determined benefits of the acquisition continue and that customer rates are fair and reasonable.

Q. Do you agree with the use of subsequent reviews of acquisition adjustments?

A. Yes, I generally agree when the circumstances call for it. It certainly depends on the facts of each case and the degree to which the Commission is assured that an acquisition is in the public interest. Another consideration would be the amount of time that has elapsed between when the initial acquisition adjustment was approved and when the subsequent review is undertaken. Of course, a subsequent review is not required in all cases, such as the Vero acquisition by FPL that I earlier discussed. Also, subsequent reviews should be balanced with other regulatory policy considerations.

Q. What are some of these other regulatory policy considerations?

They generally fall into three broad categories: 1.) Regulatory certainty and finality; 2.) Incentives for beneficial outcomes; and 3.) Avoidance of retrospective ratemaking.

Q. What do you mean by regulatory certainty and finality?

A. Regulatory certainty refers to a structure where all interested parties can have confidence that decisions are consistent based upon Commission precedence and policy and that similar factual situations will result in the same or essentially the same outcomes. Regulatory finality refers to a recognition that at some point a decision becomes final, not subject to continued litigation, and something upon which all interested persons can base future decisions.

Q. What do you mean by incentives for beneficial outcomes?

A. An essential tool of effective regulation is the use of incentives to help achieve beneficial outcomes. For example, as I earlier discussed, the acquisition of weak or troubled companies by stronger and well-managed companies is a beneficial and desirable regulatory outcome. This would also extend to situations where a company may not be troubled but whose customers would be better served and receive service more efficiently from a larger, well-managed company. Thus, a consistently-applied acquisition adjustment policy with finality is a positive regulatory incentive. At some point, a lack of finality for an acquisition adjustment could promote regulatory uncertainty and thus act as a deterrent to such beneficial acquisitions being undertaken and eventually presented to the Commission for consideration. Policies that deter innovative alternatives from ever being considered and presented to the Commission would constitute a failure of regulation.

Q. What do you mean by retrospective ratemaking?

A. Retrospective ratemaking is the use of new, after-the-fact information, to second guess or reevaluate a prior ratemaking decision. It can colloquially be referred to as "Monday morning quarterbacking." I do not intend to suggest that regulation cannot ever reevaluate prior decisions. Certainly, there can be situations where this is not only appropriate but required to ensure that rates remain fair and reasonable. However, such reevaluations should be the exception, rather than the rule. This is especially true when the only change is the passage of time and more certainty with inputs to well-reasoned decisions that were based on the best information available at the time.

Q. Is the passage of time particularly relevant to subsequent reviews of acquisition adjustments?

A. Yes. An acquisition adjustment usually has an amortization period of from 15 to 30 years or roughly the remaining life of the physical assets being acquired. This is a long timeframe within which many unanticipated changes can occur which could materially impact the benefits initially achieved by an acquisition. Such unanticipated changes, especially if they are beyond the control of management, should not be used to reject a previously approved acquisition adjustment absent other extreme extenuating circumstances. In addition to unanticipated changes, there can be difficulties differentiating acquisition impacts from more routine changes that occur as more time elapses. For example, it can be anticipated that changes will occur in capital markets over time. The magnitude and direction of such capital market changes along with their resulting impacts on a regulated utility's capital structure and overall cost of capital cannot be predicted with precision over the long-term. Given that two of the five factors used to evaluate acquisition adjustments heavily depend on capital markets, i.e., Increased ability to attract capital for improvements and Lower overall cost of capital, it becomes increasingly more difficult to differentiate changes due to an acquisition versus changes due to fluctuations in capital markets. This becomes even more difficult as more time elapses between the initial approval of an acquisition adjustment and the point at which a subsequent review is undertaken.

IV. CONCLUSION

Q. What are your conclusions regarding the previously approved acquisition adjustments resulting from the Chesapeake acquisition of FPUC and the FPUC acquisition of Indiantown?

A. My conclusions are:

- The decision to include or exclude an acquisition adjustment should be based on a determination of public interest and the Commission has great discretion in determining what is in the public interest.
- The acquisition adjustments resulting from Chesapeake's acquisition of FPUC, that was initially approved by the Commission in its Order No. PSC-12-0010-PAA-GU, and the acquisition of Indiantown by FPUC, that was initially approved by the Commission in its Order No. PSC-14-0015-PAA-GU, should be reviewed in the current rate case as contemplated by those Orders.
- While there is no given checklist of factors that must be considered in every case, the five factors that were initially considered should once again be the basis for the Commission's current review.
- Based on these five factors, the testimony of witness Cassel demonstrates that the acquisitions continue to provide benefits sufficient to establish the existence of extraordinary circumstances.
- Using its extraordinary circumstances criterion, the Commission should find the acquisitions to be in the public interest and continue to allow the

unamortized acquisition adjustments to be included in rate base along with the remaining amortizations to be recognized as an above-the-line expense for ratemaking purposes.

- Subsequent reviews of previously approved acquisition adjustments are discretionary, depending on the facts of each case. Imposing a subsequent review of an approved positive acquisition adjustment should only be done when the facts and circumstances require it and should be balanced with other regulatory considerations. These considerations include: 1.) Regulatory certainty and finality; 2.) Incentives for beneficial outcomes; and 3.) Avoidance of retrospective ratemaking.
- The passage of time can complicate subsequent reviews of previously approved acquisition adjustments. It should be noted that approximately ten years have elapsed since the Commission initially approved the Chesapeake/FPUC acquisition. It should also be noted that approximately eight years have elapsed since the Commission initially approved the FPUC/Indiantown acquisition and that less than four years remain on the previously approved amortization schedule for this acquisition.
- Given the totality of the facts and circumstances in this case and the regulatory policies considerations I discuss, I recommend that the acquisition adjustments resulting from the Chesapeake acquisition of FPUC and the FPUC acquisition of Indiantown be approved without the need for additional subsequent reviews.

Q. Does this conclude your testimony?

A. Yes, it does.

BY MS. KEATING:

Q And, Mr. Deason, you had no exhibits with your direct, correct?

A No exhibits. That's correct.

Q Okay. Thank you.

Did you cause to be prepared a summary of your direct testimony?

A Yes.

Q Would you please go ahead and present that?

A I will.

Q Thank you.

A Good afternoon, Commissioners.

My direct testimony addresses acquisition adjustment policy. The decision to include or exclude an acquisition adjustment should be based on a determination of public interest, and the Commission has great discretion in determining what is in the public interest.

Chesapeake's acquisition of FPUC and the acquisition of Indiantown by FPUC were previously approved by the Commission. The orders approving these acquisitions contemplated this subsequent review. While there is no given checklist of that must be considered in every case, the five factors that were initially considered should, once again, be the basis for the

Commission's current review. Based on these five factors, the acquisitions continue to provide benefits, and the Commission should, once again, find the acquisitions to be in the public interest.

The earned amortized adjustments should continue to be included in rate base, along with the remaining amortizations to be recognized as an above-the-line expense for ratemaking purposes.

Subsequent reviews of previously approved acquisition adjustments are discretionary depending upon the facts of each case. Imposing a subsequent review of an approved acquisition adjustment should only be done when the facts and circumstances require it, and should be balanced with other regulatory considerations. These considerations include: One, regulatory certainty and finality. Two, incentives for beneficial outcomes. And, three, avoidance of retrospective ratemaking.

Given the totality of the facts and circumstances in this case, and the regulatory policy considerations I discuss, I recommend that the acquisition adjustments resulting from the Chesapeake acquisition of FPUC, and the FPUC acquisition of Indiantown, be approved without the need for additional subsequent reviews.

This concludes my summary.

Q Thank you, Mr. Deason.

MS. KEATING: Mr. Chairman, the witness is tendered for cross.

CHAIRMAN FAY: Great. Thank you.

MR. REHWINKEL: No questions.

CHAIRMAN FAY: No cross?

Staff?

MR. SANDY: No cross, Mr. Chair.

CHAIRMAN FAY: Okay. Commissioners?

I am presuming no redirect.

We have no exhibits for you, Mr. Deason.

THE WITNESS: No exhibits.

CHAIRMAN FAY: All right. We know it was hard for you to find the place, so we are glad you came. Thanks for being here.

THE WITNESS: I will be back, I think, Mr. Chairman.

CHAIRMAN FAY: Okay. For rebuttal, we will see you then.

THE WITNESS: Yes.

CHAIRMAN FAY: Thank you, Mr. Deason.

THE WITNESS: Thank you.

MS. KEATING: May the witness be excused?

CHAIRMAN FAY: Ms. Keating, yes.

You are recognized for your next witness.

MS. KEATING: Mr. Chairman, FPUC would call Noah Russell to the stand.

Whereupon,

NOAH RUSSELL

was called as a witness, having been previously duly sworn to speak the truth, the whole truth, and nothing but the truth, was examined and testified as follows:

EXAMINATION

BY MR. MUNSON:

Q Good afternoon, Mr. Russell. Could you state your full name for the record?

A My name is Noah Russell.

Q Who do you work for and what's your job there?

A I work for Chesapeake Utilities Corporation as their Assistant Vice-President and Assistant Treasurer.

Q And can you provide your business address for the record, please?

A That would be 100 Commerce Drive, Newark, Delaware.

Q And did you cause in this case to be filed 20 pages of direct testimony?

A Yes, I did.

Q And did you sponsor Exhibits NTR-1 and NTR-2?

A Yes, I did.

Q And did you file an errata sheet on October

19th, 2022?

A Yes, I did.

Q Beyond that, do you have any additional changes to your testimony our exhibits?

A I do not.

MR. MUNSON: At this time, we move Witness Russell's direct testimony into the record as though read, and note that the previously filed exhibits have been marked as Nos. 10 and 11 on the Comprehensive Exhibit List, Mr. Chairman.

CHAIRMAN FAY: Okay. So show that testimony entered.

(Whereupon, prefiled direct testimony of Noah Russell was inserted.)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

Docket No. 20220067-GU: Petition for rate increase by Florida Public Utilities Company, Florida Division of Chesapeake Utilities Corporation, Florida Public Utilities Company - Fort Meade, and Florida Public Utilities Company - Indiantown Division.

DIRECT TESTIMONY AND EXHIBITS OF NOAH RUSSELL

Date of Filing: May 24, 2022

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

A. My name is Noah T. Russell. My business address is 100 Commerce Drive, Suite 200, Newark, DE 19713.

Q. By whom are you employed and in what capacity?

A. I am employed by Chesapeake Utilities Corporation as the Assistant Vice President and Assistant Treasurer.

Q. Please describe your educational background and professional experience.

A. In 2002, I received a Bachelor of Science in Accounting from University of Delaware in Newark, Delaware and am a licensed Certified Public Accountant in Pennsylvania. I have been in my current position as Assistant Vice President and Assistant Treasurer of Chesapeake Utilities Corporation since September 2021. Prior to joining Chesapeake Utilities Corporation, I held the role of Assistant Treasurer at Sunoco Logistics Partners LP, which was a subsidiary of Energy Transfer. Sunoco Logistics Partners LP owned and operated midstream assets that served to transport crude oil, refined products and natural gas liquids and had certain assets that were regulated by the FERC and the respective state public service commission where the assets were located. In my role at Sunoco Logistics, I managed a 6-person team responsible for long-range planning, cash management and governmental reporting. Under my leadership, we consummated over $7 billion of capital market transactions to fund a significant growth capital program. With my support and guidance, the governmental reporting team prepared and filed all FERC Form 6 and 6Q's for Sunoco Logistics.

Q. Please describe your current responsibilities.

A. In my role I am responsible, under the leadership and guidance of Chesapeake Utilities Corporation's Chief Financial Officer, for leading the company's treasury strategy, including enterprise treasury operations, corporate finance and banking relationships, accessing capital and managing the corporate capital structure, investment management activities, insurance/risk management oversight, credit management, as well as providing merger and acquisition diligence and integration support.

Q. How will you refer to the Company?

A. I will refer to the various Florida business entities under the Chesapeake Utilities Corporation umbrella. When referring to the Florida LDC business units as a whole; i.e., Florida Public Utilities Company (Natural Gas Division), Florida Public Utilities Company-Fort Meade, Florida Public Utilities Company-Indiantown Division, and the Florida Division of Chesapeake Utilities Corporation d/b/a Central Florida Gas, I will refer to these entities jointly as "FPUC" or "the Company".

When referring to Chesapeake Utilities Corporation, the parent company, I will refer to it as the "CUC" or the "Corporation."

Q. Have you filed testimony before the Florida Public Service Commission in prior cases?

A. No.

Q. Have you previously provided testimony before other regulatory bodies?

A. No. I have not previously provided testimony before other regulatory bodies.

Q. What is the purpose of your testimony in this proceeding?

A. My testimony will discuss CUC's current capital structure allocation, the various components (short-term debt, long-term debt and equity) and how FPUC has benefited from the structure. I will also be providing testimony on CUC's mitigation of risk through our Insurance Programs. Next, I will discuss changes in CUC's cost of capital and finally, I will provide some detail on the Company's pension expense.

Q. Do you have any exhibits to which you will refer in your testimony?

A. Yes. Exhibit No. NTR-1 which includes various schedules in support of my testimony.

Q. Are you sponsoring any MFRs in this case?

A. Yes. Attached, as Exhibit NTR-2, is a list of MFR's that I am sponsoring.

I. <u>Capital Structure and Financing</u>

Q. What is the Corporation's target capital structure and the components of that structure?

A. CUC's target capital structure is 50%-60% equity as a percentage of total capitalization (including short-term debt). This target capital structure has been approved by the Board of Directors. Over time, we strive to approximate the midpoint of 55% equity to total capitalization. Earnings retained and reinvested in the business partially help the Corporation fund our growth capital construction program. Any capital spend that is in excess of earnings retained is initially funded with short-term debt. As projects come online, we issue additional long-term debt and equity to stay within the target capital range and accordingly, reduce our short-term debt balances.

Q. What is CUC's long-term debt profile?

A. CUC's long-term debt carries the NAIC-2B rating from the National Association of Insurance Commissioners ("NAIC"). The NAIC, through its Securities Valuation Office, has its own credit rating scale that runs from NAIC-1 (lowest risk) to NAIC-6 (highest risk, near or at default). All securities in insurers' portfolios use these designations and their related factors to assess solvency capital requirements. According to the NAIC, NAIC-2B is assigned to high quality obligations with low credit risk. The NAIC-2B rating is equivalent to a BBB/Baa2 investment grade bond rating or above from S&P and Moody's. Page 1 of Schedule 1 shows the correlation between the NAIC, Moody's and S&P ratings hierarchies.

Q. How has the short-term debt financing cost for CUC positively benefitted FPUC since the acquisition?

A. The short-term debt rate for CUC compares favorably to the cost of capital previously available to FPUC on a standalone basis. CUC has a syndicated facility for short-term borrowing, with seven participating banks. CUC may from time to time, as a result of its relationships and access to capital, add additional lines of credit or term loans to meet short-term financing needs. CUC currently maintains a multi-tranche short-term borrowing facility with total capacity of $400,000,000. The two tranches of the facility consist of a $200,000,000 364-day short-term debt tranche and a $200,000,000 five-year tranche, both of which have three (3) one-year extension options. Each tranche of the facility also contains a $100,000,000 accordion provision which gives CUC the ability to increase the size of the facility to $600,000,000. As of December 31, 2021, the pricing under the 364-day tranche of the Revolver does not include an unused commitment fee and maintains an interest rate of 0.70 percent over LIBOR. As of December 31, 2021, the pricing under the five-year tranche of the Revolver included an unused commitment fee of 0.09 percent and an interest rate of 0.95 percent over LIBOR. This pricing is very competitive pricing in the market and comparable to pricing available to many of the publicly traded gas utilities that also have investment grade debt. At the time of the acquisition, FPUC had one committed line of credit for $26 million with pricing based on prime rates. Since the acquisition by CUC, FPUC has seen lower short-term borrowing rates due to the favorable pricing and structure of CUC's short-term debt facilities. These lower short-term rates have translated into approximately $1.4 million cumulative short-term interest savings since the 2009 acquisition.

Q. What is the current and forecasted capital structure of the Corporation?

A. The components of the current capital structure reflect investor sources and uses of capital as follows: common equity; excluding accumulated other comprehensive income, of 49.76 percent, long-term debt (including current maturities) of 35.97 percent and short-term debt of 14.27 percent. The forecasted capital structure at the end of the test year is as follows: common equity; excluding accumulated other comprehensive income, of 56.24 percent, long-term debt (including current maturities) of 37.88 percent and short-term debt of 5.88 percent. As I mentioned earlier in my testimony, over time we strive to approximate 55% equity to capitalization, which is the midpoint of the Board approved range.

Q. Why does the Corporation believe this structure is appropriate?

A. Using a mix of earnings retained in the business, 50-60 percent equity and 40-50 percent debt allows CUC to retain significant access to competitively priced capital to fund future growth projects. Approximately 55 percent of earnings are retained and reinvested in the business. Any growth capital spending above and beyond these amounts are initially funded with our $400 million syndicated revolving credit facility. When projects go into service, we seek to align the permanent financing (long-term debt and equity) with the introduction of service for these projects. This allows us to better align earnings from projects and long-term financing costs. Using this approach, we have continued to see cost effective, competitive pricing across the short-term borrowing facility, long-term debt placements and equity capital markets. This structure also keeps us in compliance under the covenants contained in the revolving credit facility and with all of the private placement senior notes.

Q. **Have FPUC and their customers benefitted from an enhanced ability to attract capital for utility projects at better rates?**

A. Prior to the acquisition, FPUC's existing credit profile, its significant amounts of secured financing, and its inability to access capital markets at attractive rates, impaired its ability to obtain the necessary capital to grow and replace aging infrastructure. As shown on Page 1 of Schedule 2 FPUC had ~$50 million of long-term debt outstanding at a weighted average cost of 7.40% prior to the acquisition. By comparison, CUC had a higher long-term debt rating with access to long-term financing on an unsecured basis with investment grade interest rates (150 to 200 basis points above comparable maturity U.S. treasury rates). Since the acquisition, CUC has effectively managed its balance sheet, issuing $606 million in long-term unsecured debt at an average rate of 3.52 percent. The twelve CUC issuances shown on Page 1 of Schedule 2 have been consummated at attractive rates on an unsecured basis with much less stringent covenants. Since the acquisition, CUC successfully refinanced all of FPUC's Secured First Mortgage Bonds with CUC unsecured senior notes and reduced the overall cost of debt and extended the maturities to finance long-term growth and infrastructure projects. Due to CUC's access to lower cost long-term debt, FPUC has saved approximately $7.6 million in long-term interest expense.

Prior to the acquisition, FPUC's stock price traded in a range of $8.00 to $14.50 from 2006-2008, which can be seen on Schedule 3, with a market capitalization of ~ $75 million.

As seen on Schedule 4 since December 31, 2008, CUC's stock price has increased by approximately 595 percent and now trades between $130-$140 per share. During the same time frame CUC's market capitalization has increased by approximately $2.0 billion. CUC has generated consistent earnings since the FPUC acquisition, which has enabled the Corporation to strategically and competitively access the equity capital market for new issuances from time to time as needed for capital projects.

Q. Has this produced benefits for FPUC's Customers?

A. Yes. FPUC and its customers have benefited from the enhanced ability to attract capital for utility projects at better rates. FPUC has benefited as a wholly-owned subsidiary of CUC to attract debt capital at lower rates and longer terms given CUC's investment grade credit rating (NAIC-2B). In addition, CUC Utilities' short-term revolver facility provides cost effective, competitive financing. Short-term debt capacity has benefited FPUC by providing capital availability for large gas distribution and transmission expansion projects and gas distribution replacement and infrastructure projects (GRIP) over the years during construction before obtaining permanent long-term financing for projects once fully in-service. Since the acquisition, CUC has successfully funded approximately $390 million of FPUC growth projects.

II. Insurance and Risk Mitigation

Q. What resources at CUC are dedicated to insurance?

A. Within the Treasury organization, CUC has one full-time resource dedicated to our insurance programs, which is in addition to the time I spend on this function. Under my guidance and oversight in this area, the Insurance Manager is responsible for preparing all underwriting applications, securing and administering the corporate insurance programs for all divisions and subsidiaries of CUC, engaging with our Broker's team and our carriers, evaluating any potential new types of coverage, maintaining insurance compliance and overseeing claims management. As mentioned above, the Corporation also utilizes an Insurance Broker, who augments our internal capabilities.

Q. What types of insurance coverage does the Corporation carry?

A. The types of insurance carried by CUC can be broken down into three major buckets: casualty, executive risk and property. The casualty program includes workers compensation, commercial general liability and our excess liability coverage. Workers compensation insurance provides wage replacement and medical benefits to employees injured in the course and scope of their employment. Commercial general liability provides coverage to third parties for bodily injury and property damage caused by the business' operations/products. Excess liability coverage encompasses liability coverage in excess of CUC's underlying general liability policies.

CUC's executive risk policies include directors' and officers' liability, crime, employment practices liability, fiduciary and cyber coverages. The Corporation's directors' and officers' policy is standard liability insurance payable to our directors and officers, or to the Corporation itself, as indemnification (reimbursement) for losses or advancement of defense costs in the event an insured suffers such a loss as a result of a legal action brought for alleged wrongful acts in their capacity as directors and officers. The crime coverage addresses loss of money securities and other assets resulting from dishonesty, theft or fraud. Wrongful acts arising from the employment process are covered by the Corporation's employment practices liability policy. Fiduciary coverage protects employee benefit plan fiduciaries against claims, including, but not limited to, a breach of fiduciary duties, negligent administration, careless plan management, poor investment decisions, and improper use of retirement funds. Finally, CUC's cyber coverage protects/indemnifies the Corporation from data breaches and other cyber security issues.

CUC's properties are insured through a broad form property insurance policy. The policy provides expansive coverage for the direct physical loss or damage to the Corporation's properties. In addition to coverage for physical losses, the policy extends coverage for the loss of business income that results from an insured loss.

CUC has also established a self-insurance reserve, with oversight provided by myself and our CFO, to absorb expenses associated with losses incurred from our natural gas operations. Expenses applied to this reserve are those that are not reimbursable by the Corporation's insurance carriers. These expenses may be charges within the deductible level of the applicable policy, charges exceeding the policy limits or charges lying outside of policy coverage (i.e., self-insurance for any physical damage that occurs to our vehicle fleet). Current deductibles on the policies discussed above, which can be applied to the self-insurance reserve, range from $100,000 to $500,000 per occurrence.

Q. How has insurance coverage changed since the last rate case?

A. Since 2009, casualty market rates for U.S. utilities have risen dramatically, while capacity has reduced. Numerous carriers have left the U.S. Power & Utility marketplace. Others have reduced the capacity that they will provide to U.S. Power & Utility insureds. Those who remained in the marketplace have reduced total limits offered and restricted coverages in their offerings, while raising rates in the process.

Q. How does the Corporation ensure that it secures the right amount of coverage at the best cost?

A. With the help of our Insurance Broker, CUC assesses the Corporation's current risks, insurance needs and costs in determining the appropriate level of insurance coverage. The Audit Committee of CUC's Board of Directors reviews the Corporation's insurance coverage, the current insurance environment and related information to ensure it has secured the appropriate level of coverage, given our risk profile and the feedback from our enterprise risk management process, at a reasonable cost. Through the use of internal and external parties (our Brokers, the insurance carriers and the Audit Committee), we have been able to effectively and efficiently manage CUC's insurance programs.

Q. Does CUC take additional steps to ensure that it has the right coverage from the right carriers?

A. Yes. CUC also implements various other strategies to ensure we retain the right amount of coverage at advantageous pricing. The Corporation engages directly with carriers to ensure they know us and understand our business. When possible, CUC also tries to lock in premiums (in terms of rate per dollar of coverage) for longer than one year. We have occasionally been able to do this and most recently were able to do lock in the primary casualty insurance rates for the 2021/2022 and 2022/2023 insurance periods. The Corporation's Insurance Broker frequently goes out to the market and seeks bids from new carriers. The Insurance Broker also provides CUC with peer benchmarking information to help with the assessment around proper levels and types of coverage.

From time to time, the Corporation performs a Request for Proposal ("RFP") for the broker services. During the months leading up to the 2021 casualty insurance program renewal, the Corporation approached various brokers in an attempt to re-configure its casualty insurance program and lower the cost of insurance. Through the RFP process, we identified and changed to a new broker which saved the Corporation approximately $1 million in premiums and locked in the rates (again in terms of the rate per dollar of coverage) for two years.

Q. Has CUC experienced recent insurance cost increases?

A. Yes. Even with the strategies CUC has in place, the Corporation is not immune to increases in insurance premiums. Changes in the premiums are driven by increased exposure due to the continued growth of the Corporation and overall market conditions in the power and utility sector. Over the last five years, CUC has experienced cost increases across all areas of coverage.

Excluding excess liability coverage, primary casualty insurance has experienced a 10 percent increase in premiums over the last 5 years. Throughout the market, there has been a reduction in the number of carriers, driven by industry consolidation. Most recently, our premiums have been positively impacted by the redesign of our liability insurance structure, discussed earlier in my testimony, which reduced premiums by approximately $1 million in 2021. In 2019, excess liability coverage for the power and utility space was impacted by increased industry claims activity and several high-profile claims (i.e. PG&E, Columbia Gas, etc.) which resulted in significant rate increases. This is the primary driver behind the approximate 390% increase in CUC's excess liability premium over the last 5 years. Like the casualty space, there are few key players providing coverage currently, as a result of continued consolidation and several parties declining to offer utility coverage.

Excluding cyber insurance, the Corporation's executive risk policies have also experienced tightening insurance markets with carriers pushing more risk sharing towards clients by requiring higher retention levels and premiums. Due to these factors, we have seen the Corporation's deductible double and the executive risk policy premiums, excluding cyber, increase by approximately 45% over the last five years. The cyber increase in premiums over the same time period has been driven by two factors. In 2018, CUC increased the cyber coverage from $5 million to $10 million which directly contributed to increased premiums. Secondly, cyber overage continues to see increases as overall claims frequency and severity remains high driven by ransomware. Losses have accelerated pricing pressure even on loss free accounts, like the Corporation, with good controls. In discussions with CUC's Insurance Broker, cyber premiums are projected to increase by 75 percent to 100 percent each year for the next few renewals.

For property insurance, existing markets are also not expanding and there are limited new carriers entering this market. Correspondingly, CUC's property insurance premiums have increased on average by 20 percent per year over the past five renewals.

Q. Does the Corporation anticipate insurance will continue to rise?

A. Yes. The Corporation is anticipating its total insurance premiums will continue to rise in the foreseeable future. At a minimum, CUC plans to carry the same levels of insurance coverage for the Corporation's casualty, executive risk and property programs. The Corporation is continuously reviewing our policies, deductibles and limits to make sure we are efficiently and effectively mitigating the risk for CUC and all of its subsidiaries. Going into the 2022 renewals, the Corporation will be evaluating increases to our coverage limits for the directors' and officers' liability, excess liability, cyber liability and property liability. Any increases to these limits would drive increased premiums in future years for CUC. Based on market conditions, continued growth of the Corporation and potential increases to limits, CUC believes total insurance premiums will increase by 20 percent – 30 percent per year, although as discussed above, the rate increases have the potential to be even higher. As it did when the Corporation added cyber insurance within the last five years, the Corporation also continues to evaluate other new potential areas of coverage to further mitigate risk.

Q. Please explain lines 14 and 15 on Schedule D-2 page 1 of 2.

A. Shortly after the FPUC acquisition, CUC re-financed FPUC's long-term debt at more competitive rates and on an unsecured basis. This refinanced debt was issued in the form of CUC unsecured senior notes. The difference in interest rates, or make-whole premium to prepay the FPUC debt early, was treated as part of the acquisition adjustment and established as a regulatory asset that would be amortized over 30 years. The 13-month average balance shown on Line 14 of Schedule D-2 Page 1 of 2 represents the remaining, unamortized portion ending December 31, 2021.

As also addressed in the Testimony of Witness Paul Moul, CUC has entered into Shelf Agreements with Prudential and MetLife, whom are under no obligation to purchase any unsecured debt. These Shelf Agreements allow the Corporation to efficiently issue private placement debt at competitive pricing. In order to put these Shelf Agreements in place, the Corporation incurred administrative and legal fees.

These fees are amortized over a 15-year period. Line 15 of Schedule D-2 Page 1 of 2 represent the amounts deferred for the Shelf Agreements on average (over the last 13 months) as of December 31, 2021.

III. Cost of Capital

Q. What is the primary driver behind the reduction in the Corporation's cost of capital since the last rate case?

A. The primary driver behind CUC's cost of capital reduction is the long-term debt cost rate. As shown below, prior to the announcement and consummation of the FPUC acquisition in 2009, at December 31, 2008, FPUC's weighted average cost of long-term debt was 7.40%.

FPU Debt 12/31/2008 (in thousands)		
	Balance	**Rate**
9.57% due 2018	$ 8,182	9.57%
10.03% due 2018	4,500	10.03%
9.08% due 2022	8,000	9.08%
4.90 % due 2031	13,900	4.90%
6.85% due 2031	14,975	6.85%
	$ 49,557	**7.40%**

Additionally, all of this debt represented **secured** debt, issued in the form of first mortgage bonds. At December 31, 2008, CUC's weighted average cost of long-term debt was 6.33%, comprised solely of **unsecured** senior notes.

CPK Debt 12/31/2008 (in thousands)		
	Balance	Rate
6.91% due 2010	$ 1,818	6.91%
6.85% due 2012	3,000	6.85%
7.83% due 2015	12,000	7.83%
6.64% due 2017	24,545	6.64%
5.50% due 2020	20,000	5.50%
5.93% due 2023	30,000	5.93%
	$ 91,363	**6.33%**

The combined weighted average cost of long-term debt was 6.69% at December 31, 2009. Since the acquisition, CUC has issued $606 million of unsecured senior notes at a weighted average cost of 3.52%.

Chesapeake Issuances since the Merger (in thousands)		
	Original Issuance	Rate
5.68% due 2026	$ 29,000	5.68%
6.43% due 2028	7,000	6.43%
3.73% due 2028	40,000	3.73%
3.88% due 2029	50,000	3.88%
3.25% due 2032	70,000	3.25%
3.48% due 2038	50,000	3.48%
3.58% due 2038	50,000	3.58%
3.98% due 2039	100,000	3.98%
2.98% due 2034	70,000	2.98%
3.00% due 2035	50,000	3.00%
2.96% due 2035	40,000	2.96%
2.49% due 2037	50,000	2.49%
	$ 606,000	**3.52%**

A portion of these proceeds were used to repay FPUC's secured first mortgage bonds early and refinance at more favorable interest rates on an unsecured basis. The new issuances along with the early redemption and refinancing of FPUC's debt have resulted in a reduction in the Corporation's cost of capital, which has resulted in cumulative interest savings of approximately $9.0 million since the 2009 acquisition.

Q. How much of the reduction in the weighted average cost of long-term debt rates is related to changes in market conditions versus the Corporation's execution?

A. Since 2008, the 10-year treasury yield has decreased by 2.21%. Accordingly, as shown below, approximately 65% of the long-term debt cost rate reduction experienced since the last rate case is due to the change in treasury yields. The remaining 35% reduction, or approximately 1.27% of the decline in the weighted average long-term debt cost, can be attributed to the Corporation's execution and access to more competitively priced capital. The Corporation has been successful at attracting and financing its capital expenditure program partially through new unsecured long-term debt at pricing in-line with or above the Corporation's NAIC-2B rating.

FPUC's Cost of Long-term Debt in Last Rate Case	6.96%
Less: Change in 10/30 yr. Treasury yields	-2.21%
Less: Improvement in Long-term Debt Interest Rates because of CUC's Execution	-1.27%
FPUC's Cost-of Debt in Current Rate Case (2023 Test Year)	3.48%

Q. Are there other examples of how CUC has reduced the cost of capital for FPUC and provided access to more competitively priced capital?

A. Yes. As of December 31, 2008, FPUC had access to a short-term line of credit in the amount of $26 million. This represented 26.4 percent of permanent capitalization of $98.4 million as of that date. For CUC, as of December 31, 2008, the Corporation had access to five lines of credit totaling $100 million. This short-term debt capacity represented 46.2 percent of permanent capitalization of $216.4 million as of that date. Additionally, the Corporation's short-term debt interest cost for 2008 and 2007 was 2.79 percent and 5.46 percent, respectively as compared to FPUC's short-term debt interest cost for 2008 and 2007 of 3.5 percent and 6.1 percent, respectively.

Q. Does CUC continue to have access to competitively priced capital?

A. We maintain an effective shelf registration statement with the SEC for the issuance of shares of common stock in various types of equity offerings, including shares of common stock under CUC's At-the-Market equity program, as well as an effective registration statement with respect to the Dividend Reinvestment and Direct Stock Purchase Plan.

CUC has also entered into Shelf Agreements with Prudential and MetLife, two of our current debt holders, whom are under no obligation to purchase any unsecured debt. Under these Shelf Agreements, in the aggregate, these parties have indicated an interest in issuing unsecured senior notes totaling $250 million. These Shelf Agreements expire in mid-2023.

Finally, in August 2021, we entered into a multi-tranche revolving credit facility totaling $400.0 million with multiple participating lenders. The two tranches of the facility consist of one $200.00 million, 364-day short-term debt tranche and a $200.00 million five-year tranche, both of which have three one-year extension options and an accordion feature of $100 million on each facility (totaling $200 million) which can be authorized by the Chief Financial Officer.

The 364-day tranche of the facility expires in August 2022, and the five-year tranche expires in August 2026. Both tranches are available to provide funds for CUC's consolidated short-term cash needs to meet seasonal working capital requirements and to temporarily fund portions of capital expenditures. Borrowings under both tranches of the revolving credit facility are subject to a pricing grid, including the commitment fee and the interest rate charged. The revolving credit facility pricing is adjusted each quarter based upon total indebtedness to total capitalization ratio. As of March 31, 2022, the pricing under the 364-day tranche of the Revolver does not include an unused commitment fee and maintains an interest rate of 0.70 percent over LIBOR. As of March 31, 2022, the pricing under the five-year tranche of the Revolver included an unused commitment fee of 0.09 percent and an interest rate of 0.95 percent over LIBOR.

<u>IV. Pension Expense</u>

Q. How was the projected pension expense derived?

A. The Corporation engaged the Prudential actuary to run projected scenarios of pension expense over the next ten years. Over this period of time, assuming an inclining discount rate and a return on plan assets of 4 percent (based upon the current market environment and future projections), the actuary estimated that the FPUC pension plan expense will range from a credit of $42,900 to an expense of $47,450, or an average expense of $7,500. The Corporation conservatively projected a credit of $42,900 in the rate case for the 2023 test year.

Q. Could you please summarize your testimony?

A. CUC has a strong balance sheet which has enabled it to access competitively priced capital to finance its capital expenditures. The Corporation has cultivated an environment focused on continued earnings growth, management efficiency, and financial discipline to provide reliable and safe energy delivery services to new and existing customers in its service territories.

Through consultation with internal and external experts, peer benchmarking and ongoing risk assessments and monitoring, CUC has implemented the appropriate processes in place to ensure the Corporation is carrying the pertinent and necessary levels of insurance coverage. The Corporation will continue to evaluate new lines of coverage and changes to existing lines of coverage to determine the best ways to mitigate risk as both the utility marketplace and the insurance markets continue to evolve.

Q. Does this conclude your testimony?

A. Yes, this concludes my testimony.

GUNSTER

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October 19, 2022

BY E-FILING

Mr. Adam Teitzman, Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: **Docket No. 20220067-GU: Petition for rate increase by Florida Public Utilities Company, Florida Division of Chesapeake Utilities Corporation, Florida Public Utilities Company - Fort Meade, and Florida Public Utilities Company - Indiantown Division.**

Dear Mr. Teitzman:

Attached, for electronic filing, please find the Errata to the Direct Testimony of Noah Russell, submitted on behalf of Florida Public Utilities Company and the Florida Division of Chesapeake Utilities Corporation.

Sincerely,

/s/Beth Keating
Beth Keating
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cc.(Certificate of Service)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for rate increase by Florida Public Utilities Company, Florida Division of Chesapeake Utilities Corporation, Florida Public Utilities Company - Fort Meade, and Florida Public Utilities Company - Indiantown Division.	DOCKET NO. 20220067-GU FILED: October 19, 2022

FLORIDA PUBLIC UTILITIES COMPANY'S
ERRATA SHEET TO THE DIRECT TESTIMONY OF NOAH RUSSELL

Florida Public Utilities Company, jointly with the Florida Division of Chesapeake Utilities Corporation, Florida Public Utilities Company - Fort Meade, and Florida Public Utilities Company - Indiantown Division, (jointly, "FPUC") hereby submits this Errata Sheet to correct the Direct Testimony of its witness, Noah Russell, originally filed on May 24, 2022:

Direct Testimony

Witness Name	Page and Line Number	Correction
Noah Russell	Page 20, Line 5	Change credit of "$42,900" to "$34,320"
Noah Russell	Page 20, Line 6	Change expense of "$47,450" to "$37,960"
Noah Russell	Page 20, Line 6	Change average expense of "$7,500" to "$6,000"
Noah Russell	Page 20, Line 7	Change projected pension expense of a credit of "$42,900" to a credit of "$34,320"

Respectfully submitted this 19th day of October, 2022,

By: ____________________

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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing filing has been served by Email this 19th day of October, 2022, upon the following:

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BY MR. MUNSON:

Q Mr. Russell, are you prepared to present a summary of you have testimony?

A I am.

Q Please proceed.

A It good afternoon, Commissioners. Thank you for the opportunity to address you today.

The purpose of my direct testimony is to discuss the current capital structural allocation of Chesapeake Utilities Corporation and how Florida Public Utilities Company has benefited from that structure.

My testimony also describes changes in our cost of capital, CUC's mitigation of risks through insurance programs, and finally provides some details on the company's pension expense.

The forecasted capital structure at the end of the test year as follows:

Common equity, excluding AOCI of 56.24 percent, long-term debt, including current maturities, 37.88 percent, and short-term debt of 5.88 percent.

CUC's targeted capital structure as approved by our Board of Directors is 50 to 60 percent of equity as a percentage of total capitalization. Over time, we strive to approximate the midpoint of 55 percent. Using a mix of earnings retained in the business, 50 to 60 percent equity and 40 to 50 percent debt allows CUC to retain significant access to competitively priced capital, and keeps us in compliance with our various debt covenants. CUC has successfully funded over 300 million of FPUC growth using this strategy.

FPUC has benefited as a wholly-owned subsidiary of CUC securing more debt at lower rates, and with better terms, given CUC investment credit rating of NAIC 2B. CUC's access to lower cost of long-term debt has saved FPUC approximately 7.6 million in long-term interest expense.

Lower short-term rates have also translated into approximately 1.4 million of cumulative short-term interest savings since the '09 acquisition.

Beyond the cost savings, access to this additional capital has enabled FPUC to meet the customer demand for natural gas throughout growing areas of Florida without seeking a rate change for more than a decade.

Transitioning to insurance. CUC has implemented a process which consultation with internal and external experts, peer benchmarking and ongoing risk assessment and monitoring to ensure CUC is carrying the necessary types and levels of insurance coverage.

Since the last rate case, the insurance

markets for U.S. utilities have tightened significantly. Numerous carriers have left this sector, while others have reduced limits offered, which has increased deductibles and raised rates in the process.

CUC is not immune to these changes and has experienced carrier turnover, increased deductibles and substantial cost increases across all areas of coverage over the past five years. Insurance premiums are projected to rise for the foreseeable future according to our third-party experts.

Finally, like many entities, CUC engages an actuary to assist with evaluating pension expense. We requested Prudential to generate numerous scenarios of the projected pension expense over the next 10 years assuming an inclining discount rate, which has come to pass in '22, and a return on plan assets of four percent, which is not unlikely given current market conditions. The actuary estimated that FPUC's pension plan expense will range from a credit of $34,000 to an expense of $38,000. Chesapeake has conservatively projected a $34,000 credit in the '23 test year.

This concludes the summary of my testimony, and I would like to thank the Commission for their time this morning.

MR. MUNSON: And, Mr. Chairman, at this time,

would he tender Mr. Us Russell for
cross-examination.
CHAIRMAN FAY: Okay. Great. Mr. Rehwinkel.

EXAMINATION

BY MR. REHWINKEL:

Q Good afternoon, Mr. Russell.

A Good afternoon.

Q Your errata, do you have that with you?

A I do.

CHAIRMAN FAY: Mr. Rehwinkel, real quick, just to interrupt you. Do you have any additional --

MR. REHWINKEL: Exhibits.

CHAIRMAN FAY: -- exhibits?

MR. REHWINKEL: No.

CHAIRMAN FAY: Okay. Just making sure. Thank you.

BY MR. REHWINKEL:

Q Can you, as succinctly as possible, give me an understanding of the first line -- page 20, line five, adjustment, or if you can do them all together, tell me what's going on there?

A Sure, so I can do them all together.

So what happened here was -- so FPUC had a pension plan which stemmed across both the gas and electric parts of the company. When we did the original allocation, we used 65 percent. When we went back and reviewed things later on, we realized that should have been 52 percent. These adjustments are just knocking that allocation down to the appropriate amount that applies to the natural gas division.

Q Okay. So you allocated more to FPUC electric?

A Well, it's a credit, so actually -- it's a credit and expense for the year, so --

Q Okay. All right. On page three of your direct testimony you state: CUC's target capital structure is 50 percent and 60 percent equity as a percentage of total capitalization, parenthesis, including short-term debt. This target capital structure has been approved by the Board of Directors. Did I read that right?

A That's correct.

Q Now, the board approved a target range, is that right?

A They did.

Q And you would agree with me that as of June 30, 2022, the actual CUC equity ratio was about 52.2 percent?

A I don't have that in front of about me, but that sounds close to correct.

Q Okay. Would you agree that the Form 10Q that

I asked Mr. Galtman about would have the appropriate balances of shareholder equity, long-term debt and short-term debt?

A They would at that point in time. Yes.

Q Okay. And that would be -- that -- as he testified, that's the most recent public financial statement provided to the SEC?

A That is the most recent filed with the SEC.

Q Okay. So the Commission could rely on that as the most current actual CUC equity ratio, correct?

A That is the most current actual, but I will say, as my testimony says, we strive to get the 55 percent over time so at that point in time we are not there, but we are still working to move it back up.

Q Okay. On pages three and four, lines 23 through line four on page four of your direct.

A I am sorry, where are you again?

Q Go to page three, starting on line 23, continuing to page four, line four.

A Okay.

Q You testify how you use debt and equity to funds capital additions. Is that a fair characterization of that portion of your testimony?

A We do. We use debt and equity, and we also use earnings retained in the business.

Q Which is equity, right?
A It is equity. Correct.
Q And has Chesapeake ever used debt to make commodity purchases for delivery of gas to customers?
A Could you repeat the question?
Q Has Chesapeake, to your knowledge, ever used debt, long-term debt, to make commodity purchase -- to fund commodity purchases for delivery to customers?
A Not that I am aware of.
Q Is that something you would -- you would ever contemplate CUC would ever do?
A I would think, no, we would not do that.
Q Isn't it true that your NAIC 2B rating from the National Association of Insurance Commissioners, or NAIC, that you discuss on page four, lines six through seven, is based on your actual financial metrics and not your aspirational ones?
A It is based on our current financial metrics, that is correct. But if they were to go lower, the potential to lose that rating is possible.
Q Okay. But you would agree that that kind of rating is only based on what the actual financial metrics of a company?
A What I will say is what our debt providers have told us on the NAIC is that it's kind of a black

box on how they evaluate everything, so --

Q Did you ever get a rating based on what you told the rating agency what you wanted to do?

A We don't have a rating from the rating agencies, so that's all I will say right now.

Q Yeah, I guess a rating entity, like NAIC, they wouldn't rate you based on something you said you wanted to do, would they?

A They would not. That's more when you would work with S&P or Moody's, that tends to happen.

Q Okay. The issuance of short-term debt savings that you describe on page five, lines 14 through 15, is based on financial metrics that included an actual CUC equity ratio over that period of time that was less than 50 percent, correct?

A That is if -- you are referring to lines 11 through 15?

Q Yes, specifically 14 and 15.

A Specifically 14 and 15. That is incorrect. Since the '09 acquisition, if you averaged it out, our equity ratio is north of 50 percent.

Q Okay. Is it in the neighborhood of 50 percent?

A It is, I would say, 52 to 53 percent.

Q Okay. The whole time?

A On average.

Q Okay. The 56.24 percent equity ratio that you mention on page five, line 22, is not an actual ratio -- equity ratio, is it?

A It is a forecasted equity ratio based on what we plan to do.

Q Okay. But it's not actual, right?

A It is not actual at this time.

Q And that number is also of the midpoint of even what the board approved -- the board-approved range, right?

A It is slightly above the midpoint.

Q Can you tell me what regulatory oversight the Florida commission exercises over the CUC board with respect to its decision-making regarding capitalization targets?

A Would you repeat the question?

Q Can you tell me what regulatory oversight the Florida Public Service Commission exercises over the CUC board when that board makes capitalization target decisions?

A What I would say there is we file a financing application every year for what we plan to do within the state of Florida with our equity and debt structure, which gets approved, so -- and within those targets, it would get us to these ranges, and they have approved that year-over-year.

Q And you are saying the Florida Public Service Commission approved the equity target range?

A I am saying the PSC financing equity we submit every year is approved, and that within that are these target ranges. Those ranges are in there, but the equity and debt we say we would like to issue has been approved and would get us to these ranges.

Q You are not testifying that they approve the range that the board --

A No, I am not approving they testify the range. I am saying the amount of equity and debt they say we would be allowed to be issued would get us to these ranges.

Q Would get you within the range?

A Within the range, correct.

Q Okay. The Commission didn't make a decision for -- to approve debt and equity that would place you at the midpoint of that range, did they?

A Not that I am aware of.

Q On page seven, line one through 11, you have described refinancing and debt issuances that total $606 million with estimated interest expense savings of $7.6 million, is that right?

A That is correct.

Q Is that a cumulative number or some kind of annual number?

A That is a cumulative number.

Q Okay. In the interim calculation that is included in MFR F -- in the MFR F schedules, the company used an equity ratio of about 51 percent, would you agree with that?

A I don't have that MFR in front of me. I would have to see it. Do you have it to show it to me?

Q Yeah. We asked one of the other witnesses about that, but let's get it out.

So if you have -- do you have MFR F8 with you? And the Bates number is 1473, and the numbered page is 1466.

A You said 1456?

Q I've already forgotten what I said. Let me check. 1466, or 1473 is the little MFR Bates number.

A All right. I think I am on the same page as you now.

Q Okay. Do you see in the box there in the lower left --

A Uh-huh.

Q -- is shows a 13-month average common equity of 51.27 percent?

A Yes.

Q Okay. Would you accept that that's the equity ratio that the interim rates are based on?

A Yes.

Q If the Commission approves a 55-percent equity ratio for rate setting purposes compared to the 51-percent that is included in current rates, do you know the annual revenue requirement at an ROE of 11.25 that would --

A I don't know.

Q You don't?

A No.

Q Do you know -- do you have an idea, order of magnitude, whether it's more or less than the $7.6 million of interest expense savings that you testified to?

A That's outside of my area of expertise in the rate case.

Q Fair enough.

All of the benefits of the long-term debt issuances that you testified to are based on financial metrics that included an actual CUC equity ratio over that period that was, as you said, in the neighborhood of 50 percent, or a little bit more?

A It was north of 50 percent. I said 52 to 53.

Q The benefits that you describe on page eight of your testimony are derived from actual CUC -- well, let me let you get there.

A Where are you at on page eight?

Q On page eight. The first 11 lines there.

A Are you on page seven or page eight?

Q I think I am on eight. It's -- oh, page seven has this produced benefits for FPUC's customer last line. Line one, answer, yes, and then it goes on. And we -- are you with me?

A I am with you, but there is no numbers in there that quantify that, so I wasn't sure where you were going there.

Q It says on line one, answer, yes. FPUC and its customers have benefited from the enhanced ability to attract capital for utility projects at better rates.

A Correct.

Q FPUC has benefited as a wholly-owned subsidiary of CUC to attract debt capital at lower rates on longer terms given CUC's investment grade ratings, parenthesis, NAIC-2B, close parenthesis. Do you see that?

A Yes.

Q So those -- you are testified-ing benefits that have been enured to the company and its customers

based on the financial strength of your capitalization --

A   Correct.

Q   -- policies, right?

A   Yes.

Q   Okay. So the benefits that you describe here on page eight are derived from actual CUC financial metrics that included an actual equity ratio during that period of time that was, as you described it, just a little bit north of 50 percent, is that correct?

A   Correct.

Q   Do you have, I don't know if they left it for you, a copy of the 10Q? It's Exhibit 118, if there is a handwritten number on it. Galtman might have done you a solid and taken it away.

A   He has always got my back. I don't think it's still here. Thank you, sir.

Q   Are you generally familiar with the 2022 second quarter 10Q?

A   I am.

Q   Did you have some role in producing or reviewing it?

A   I have a reviewing role on this on the debt footnotes and anything around my area as responsibility in treasury, so --

Q Okay. So can I get you to turn to page 10 of this document, and --

MR. MUNSON: I am sorry, you said page 10, the bottom center number there?

MR. REHWINKEL: Yes.

MR. MUNSON: Okay.

MR. REHWINKEL: There is no Bates numbering on it.

BY MR. REHWINKEL:

Q At the top -- well, it's a revenue display broken down by business units on a six months comparative basis, would you agree with that generally?

A This looks like the revenue year, yes.

Q Okay. So I just wanted to ask you, in the -- on the left-hand side of this column, it shows six months into June 30, 2022, and it has regulated energy, business unit revenue numbers, and then unregulated business unit revenue numbers, right?

A Correct.

Q And they sum at the bottom to regulated energy 220,084 million for regulated, and unregulated 154,756,000 --

A Correct.

Q -- is that right?

A Correct.

Q Would it be fair for the Commission to assume that this is generally the revenue split among your regulated and nonregulated business units?

A I mean, that's not my area to say. I am more on the treasury side of things. Like I said, I review the long-term debt footnote, and things like that. This wouldn't be my area of expertise --

Q Okay.

A -- in the queues case.

Q Okay. Can you tell the Commission weather each of these entities that's supported by the parent company capital structure in the same proportions as the overall parent?

A Minus the Marlin debt, which we discussed earlier.

Q Would you say that again?

A I said, minus the Marlin financing we discussed earlier, they all are --

Q Okay.

A -- under the same.

Q So if right now your equity ratio is 52.2 and 47.8, then that equity ratio would be generally applicable to these business units, except for maybe the Marlin?

A Which is pretty smaller, but yes, correct.

Q Okay. All right. Do you have any knowledge about whether the unregulated businesses face more or less competition than the regulated entities?

A That's not my area of expertise. Sorry.

Q In your role as Assistant Treasurer and working with lending agencies, or lending entities, don't you have to have involvement in the risk that the company faces with respect to a lender's willingness to loan?

A Yes.

Q So in that -- in that aspect of your role as Assistant Treasurer, don't you have some general knowledge about what -- about the competitive risk that regulate and unregulated businesses face?

A Well, what I would say we are a team at Chesapeake, so whereas I am lining things up and getting things going, other people within the company are working with it as well to answer those questions and help make sure everyone is aware of the risks involved and whatnot. I can't be master of it all.

Q Maybe one day, right?

A Maybe one day.

Q All right. Let's go to page 28.

A On what?

Q Of the same document --

A All right.

Q -- the 10Q. Since we are talking about the Marlin --

A Sure.

Q -- I would like to ask you -- this now is in your wheelhouse, right?

A Yes, sir.

Q Okay. So this long-term debt schedule, you would agree this shows outstanding long-term debt of CUC, right?

A It does.

Q As of this time?

A Correct.

Q Can you look down the left-hand side of this listing and tell me which interest rate is the lowest among all these debt instruments?

A It would be excluding Marlin, which was a small security financing note, it would be the 2.49 notes, the 50 million.

Q Okay. But including Marlin, Marlin has the lowest interest rate, right?

A Correct, by three basis points.

Q Okay. And Marlin is a nonregulated business entity, right?

A Marlin is nonregulated, and their trailers and trucks backing that loan, and it was a green financing done with one of the banks, so it's a little different than everything else here on the page.

Q Okay. But I think -- don't you testify somewhere else that secured debt is not as good as unsecured debt?

A It is not.

Q Isn't it true that Marlin has benefited the most among in the company from the -- by evidence of the lowest -- its being the lowest cost -- having the lowest cost debt issue in this portfolio?

A I would say, just looking at the paper it looks the lowest cost, but once again, their assets are backing that loan. So from that standpoint, it's not unsecured debt like the rest of it, and you are talking about less than two percent of our total debt.

Q Okay. But isn't that a benefit that signing the CUC capital structure actually to regulated entities provides the company, is that you can get lowest cost financing for competitive entities?

A Repeat the question, please.

Q I will withdraw the question.

Let's go back to page four of the -- this 10Q. I just need to ask you a mechanical question for calculating the equity ratio. I am looking at this

schedule, and so this is the balance sheet. It shows the assets and liabilities?

A Correct. Well this --

Q Well, this is the liability side.

A -- is at liability side.

Q Yeah. So if I was to calculate the equity ratio for CUC, would I add -- I always get this mixed up -- the denominator, the bottom number, right?

A Yeah.

Q Okay. The denominator -- Commissioner Clark remembers me asking about this. The denominator is -- I would add in the June 30, 2022, column 815,701, that's the share -- the stockholders equity, 585,805, that's the long-term debt net of current maturities?

A Uh-huh.

Q And then would I also add in the 21,472, which is the current maturities?

A You would.

Q And then the 137,024, the short-term?

A Correct.

Q Okay. So if I add those numbers, and that's my denominator, the numerator would be the 815,701, right?

A Yes.

Q And then whatever that yielded, if it was

52.28, and then the math was good, that's your equity ratio?

A Correct.

Q Okay. This is not a hypothetical or projected equity ratio, right, that's on page four?

A No. This is actual as of June 30.

Q Okay. Have you provided any testimony in this case, or any evidence, that lenders or investors are willing to loan you money based on an aspirational or projected equity ratio?

A I have not.

Q Have you provided any language from any bond covenants or other binding loan documents that require you to establish and maintain a 55-percent equity ratio?

A We provided, upon OPC request, the language within our debt covenants, but none of them require 55 percent.

Q Okay. If that were the case, if you had such a requirement, the board's approval of a range starting at 50 percent would not be financially prudent, would it?

A It wouldn't make sense.

Q Did the company issue $80 million of debt with a placement with Prudential in the last three weeks?

A That is correct. We did.

Q Do you know what the rate was for that?

A 5.43 percent. So based on the current market, as I am sure everyone is aware of with inflation and whatnot, and fed policy, rates have gone up drastically since the 295s we did earlier this year, and that's how much rates have moved.

Q Now tell me what controls CUC had over that rate?

A What control I have over what the rate gets set at?

Q Yes.

A I have little to no control. That's based on market conditions.

Q Okay.

A So -- but to make a point there, the rate within the rate case is lower than that 5.43, so we are behind the costs on that already.

Q Okay. So let's go to -- I want to move away from -- you can put this away, and I want to talk about acquisition adjustment for a little bit.

On page 15 of your testimony, you state that FPUC had $49,557,000 in debt as of 12/31/2008, with a debt rate of 7.4 percent, is that right?

A Correct.

Q Okay. And as of that same date, Chesapeake

had 91,363,000 in long-term debt at a cost rate of 6.33 percent, right?

A Correct.

Q And if you look at the FPUC table on page 15, the interest rates events a slightly declining trend, would you agree, over time?

A This only has the due dates. I don't know when they were issued based off of this to say if it was declining when they were issued or not.

Q Okay. And if I asked you the same question about Chesapeake's table on page 16?

A You are going to get the same answer.

Q Okay. Looking at the debt issuances since the merger of FPUC and Chesapeake.

A Uh-huh.

Q You would agree that interest rates show a declining cost trend over time, wouldn't you?

A Yes. As I state in my testimony, the treasury has continued to decline over this period of time.

Q Okay. And interest rates on corporate debt financing from 2009 through 2021, after recovery from The Great Recession, decrease due to general market conditions, would you agree with that?

A That is correct. But the company also benefited from the fact we got more favorable spreads above the treasury on these offerings.

Q Based on your actual financial metrics?

A Yeah. If you look at what the 10-year -- how much the 10-year treasury declined over this time versus where we priced at, there is additional decline in that pricing, which would be based on Chesapeake's strong financial profile.

Q You would agree that interest rates are influenced primarily by market conditions, correct?

A They tend to follow them.

Q And you would agree that many companies prudently refinance debt, or issue new debt at interest rates that were lower due to market conditions during that same period, right?

A That would be correct, but they also took advantage of lower rates on their short-term debt as well.

Q Okay. Would you agree that there was nothing extraordinary about any company obtaining debt financing at the very attractive interest rates that appeared in the post 2009 period through 2021?

A No. I disagree with that, because like I said, while the treasury did decline, the performance of our company indicates where they price that offering at. So if you are better profiled company, you are going to get better spread pricing, which leads to a lower overall all-in coupon rate. So better profiled companies with stronger balance sheets would have lower rates than companies with worse off balance sheets, so --

Q So would it be fair to say they did just -- they did even better?

A I would agree with that.

Q Okay. Even home buyers were able to obtain mortgages at very attractive rates during that period, right, because of general market conditions?

A I mean, based on what I read in articles, yes. To fully opine on that, I am not in the mortgage world, so --

Q You haven't provided evidence in your testimony regarding what interest trait FPUC could have refinanced its debt at on a stand-alone basis during that time, have you?

A I have not. But FPUC was already financially strained at the time of the acquisition, and they were doing secured debt offerings versus our nonsecure debt offerings, so that was a benefit to the FPUC customers.

Q Okay. Is it your testimony that because the parent company, Chesapeake, was able, due to prevailing general market conditions, to refinance debt or issue

new long-term debt during the 2009 to 2021 period at lower interest rates than the previous embedded costs of long-term debt, that that, in some way, justifies inclusion of the FPUC acquisition adjustment in rate base?

A Could you repeat that?

Q I could. Let me see if I can simplify it.

Isn't your testimony that CUC's ability to access the debt market at the lower rates that were in effect between 2009 and 2021 justify the acquisition adjustment, or support justification of the acquisition adjustment in rate base?

MR. MUNSON: Mr. Chairman, I am sorry. There is a number of things in there that -- I mean, it's a compound question. There are multiple misstatements of the previous testimony. Can we maybe get that question rephrased?

CHAIRMAN FAY: The compound component I don't have much of a concern necessarily, just can you -- can you narrow it in for him?

MR. MUNSON: Thank you.

MR. REHWINKEL: Well, I -- can I have the question read back? I mean, I thought --

CHAIRMAN FAY: Yeah.

MR. REHWINKEL: -- it was pretty succinct.

CHAIRMAN FAY: Sure. Well, I -- Mr. Rehwinkel, that's because you are a very smart individual, but it was a complex question. So we will have them read it back for you and then if we can clean it up.

(Whereupon, the requested portion of the record was read by the court reporter.)

CHAIRMAN FAY: Mr. Munson, I think, to a certain extent, it's a simplified question. If he is not able to answer it because of some form of speculation or beyond your knowledge, that's fine.

MR. MUNSON: Thank you.

THE WITNESS: I am going to go with it's beyond my knowledge. I wasn't here for the acquisition adjustment when we -- with the company when that happened, so I don't want to overspeak or speak out of turn.

BY MR. REHWINKEL:

Q Okay. So let me ask it this way: Is your testimony that the -- the financing -- well, I will strike that. I will just leave it at that.

If Chesapeake has to issue new long-term debt in the future at higher financing costs due to general market conditions, should that be a basis for the Commission to look unfavorably on the inclusion of an

acquisition adjustment in rate base?

A I don't believe so. I mean, the entity -- FPUC, prior to the acquisition, would be in the same boat we would be in based on market conditions.

MR. REHWINKEL: All right. Well, Mr. Chairman, those are all the questions I have for Mr. Russell. Thank you for your time.

THE WITNESS: Thank you.

CHAIRMAN FAY: Okay. Great.

Staff?

MR. SANDY: No cross.

CHAIRMAN FAY: Okay. Commissioners?

All right. Mr. Munson, redirect?

MR. MUNSON: No redirect. Thank you, Mr. Chairman.

CHAIRMAN FAY: All right. Let's -- without objection, we would enter Exhibits CEL 10 and CEL 11 without objection, Mr. Rehwinkel?

MR. REHWINKEL: No objection. No exhibits for me.

CHAIRMAN FAY: Okay.

(Whereupon Exhibit Nos. 10-11 were received into evidence.)

CHAIRMAN FAY: And we will -- Mr. Munson, would you like to excuse the witness?

MR. MUNSON: I would. Thank you, Mr. Chairman.

THE WITNESS: Thank you.

CHAIRMAN FAY: Great.

All right. So we are coming right up on five o'clock. What I would like to do is adjourn for the day, but just provide clarity for tomorrow when we come back.

We do have -- for FPUC, we do have availability of all the remaining witnesses for tomorrow, correct? We don't need to take anyone out of order?

MS. KEATING: So actually, I was going to beg your indulgence and ask that we do take a witness out of order.

CHAIRMAN FAY: Okay. Which witness?

MS. KEATING: Ms. Parmer, we would ask that she go next.

CHAIRMAN FAY: Okay. So we would take her up first thing this morning.

Mr. Rehwinkel, any objection to that?

MR. REHWINKEL: We don't. I just would like to alert the parties and the Commission that Mr. Smith has a very tight window that will run out at the end of the day. He has an inextricable

commitment tomorrow --
CHAIRMAN FAY: Okay.
MR. REHWINKEL: -- I mean, on Thursday, so we will just play it by ear, but I would like to be able to work with the staff and the company and the Commission to accommodate him if it looks like we are going to have trouble there.
CHAIRMAN FAY: Okay. I appreciate you putting us on notice and letting staff know. I mean, I think there is a probability we will get through everybody tomorrow, but assuming we don't, we will be, you know, conscious to the fact that he is unavailable at any point on Thursday.
MR. REHWINKEL: Okay. Thank you.
CHAIRMAN FAY: Uh-huh. All right. With that, I think we have some stipulations, staff, that we would go ahead and put in the record before we leave today.
So I have Issues 8, 19 and 20, and that's excluding some of the potential stipulations that were stated earlier, is that inclusive of --
MS. CRAWFORD: Correct. And that was identified as 114 on the Comprehensive Exhibit List. We just need to make sure that the Commissioners have voted to approve those

stipulations, if that's your will to do so.
CHAIRMAN FAY: Okay. And the parties feel comfortable with the stipulation language, have had time to review?
MS. KEATING: We do.
CHAIRMAN FAY: Okay. Ms. Christensen?
MS. CHRISTENSEN: Yes, we are fine with the --
CHAIRMAN FAY: Okay. Great.
So I would -- I would show those stipulations approved without objection. Okay. With that, those stipulations are approved by the Commission.
And then let me take make sure we don't have anything else before we adjourn tonight, Mr. Sandy or Ms. Crawford.
MR. SANDY: Nothing from staff this evening, Mr. Chairman.
CHAIRMAN FAY: Okay. We will plan to begin tomorrow at 9:30 a.m., and let -- Ms. Crawford, go ahead.
MS. CRAWFORD: Yeah. Just real quick. We are going to work with the parties to make sure we have clear logistical plan on how to address the MFR issue. I don't know that we are quiet there yet, but we will be discussing that, and will have a plan for you in the morning.

CHAIRMAN FAY: Okay. And I think this -- I think Mary Anne had offered hard copies. And if that's a solution for us, that's fine with me to have that available if that simplifies it. So we can -- you can let us know if that's an issue, but otherwise, FPUC has a copy of those available on your end, correct?

MS. KEATING: Yes, we do.

CHAIRMAN FAY: Okay. All right. Just to make surely Jennifer doesn't have anything else before we adjourn.

MS. CHRISTENSEN: Can I -- Commissioner, can I get confirmation. You said 9:30 start time tomorrow?

CHAIRMAN FAY: Yes, it would be 9:30 tomorrow. And if you could, just make sure before you leave, just to work with our staff as far as the timeline as to how we can take folks up tomorrow. I think you stated for the record you have Mr. Smith, but --

Okay. With that, we are adjourned. Thank you.

(Transcript continues in sequence in Volume 3.)

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 31st day of October, 2022.

Debbie R Krick

DEBRA R. KRICK
NOTARY PUBLIC
COMMISSION #HH31926
EXPIRES AUGUST 13, 2024