

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

DOCKET NO. 20240099-EI

Petition for rate increase by Florida
Public Utilities Company.

PROCEEDINGS: HEARING

COMMISSIONERS
PARTICIPATING:

CHAIRMAN MIKE LA ROSA
COMMISSIONER ART GRAHAM
COMMISSIONER GARY F. CLARK
COMMISSIONER ANDREW GILES FAY
COMMISSIONER GABRIELLA PASSIDOMO SMITH

DATE: Tuesday, July 1, 2025

TIME: Commenced: 4:15 p.m.
Concluded: 4:55 p.m.

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

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

PREMIER REPORTING
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4 32301; appearing on behalf of Florida Public Utilities
5 Company (FPUC).

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7 CHRISTENSEN, ESQUIRE, OFFICE OF PUBLIC COUNSEL, c/o The
8 Florida Legislature, 111 West Madison Street, Room 812,
9 Tallahassee, Florida 32399-1400, appearing on behalf of
10 the Citizens of the State of Florida OPC).

11 ROBERT SCHEFFEL WRIGHT and JOHN T. LaVIA, III,
12 Gardner Law Firm, 1300 Thomaswood Drive, Tallahassee,
13 Florida 32308, appearing on behalf of the City of
14 Marianna, Jackson County Board of County Commissioners
15 and the Jackson County School Board.

16 SUZANNE BROWNLESS, ESQUIRE, FPSC General
17 Counsel's Office, 2540 Shumard Oak Boulevard,
18 Tallahassee, Florida 32399-0850, appearing on behalf of
19 the Florida Public Service Commission (Staff).

20 SAMANTHA CIBULA, ESQUIRE, Florida Public
21 Service Commission, 2540 Shumard Oak Boulevard,
22 Tallahassee, Florida 32399-0850, Advisor to the Florida
23 Public Service Commission.

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

2 CHAIRMAN LA ROSA: All right. Well, good
3 afternoon. Today is still July 1st, about 4:20,
4 and I will go ahead and call this hearing to order.

5 Staff, will you go ahead and please read the
6 notice?

7 MS. BROWNLESS: Yes, sir.

8 By notice issued on June 17th, 2025, this time
9 and place has been set for a final hearing in
10 Docket 2024099-EI. The purpose of this hearing is
11 set forth more fully in the notice.

12 CHAIRMAN LA ROSA: Great. Thank you.

13 Let's go ahead and take appearances, start
14 with FPUC.

15 MS. KEATING: Apologies, I thought you said
16 OPC.

17 CHAIRMAN LA ROSA: No, sorry.

18 MS. KEATING: Beth Keating with the Gunster
19 Law Firm here this afternoon for Florida Public
20 Utilities.

21 CHAIRMAN LA ROSA: Okay. OPC.

22 MS. CHRISTENSEN: Patty Christensen with the
23 Office of Public Counsel. I would also like to put
24 an appearance for Walt Trierweiler, the Public
25 Counsel.

1 CHAIRMAN LA ROSA: All right. City of
2 Marianna, Jackson County, Jackson County School
3 Board.

4 MR. WRIGHT: Thank you, Mr. Chairman. Robert
5 Scheffel Wright on behalf of the City of Marianna,
6 Jackson County Board of County Commissioners and
7 the Jackson County School Board in this case. I
8 would like to also enter an appearance for my law
9 partner, John T. LaVia, III.

10 Thank you.

11 CHAIRMAN LA ROSA: Great. Thank you.

12 MS. BROWNLESS: Suzanne Brownless on behalf of
13 staff.

14 MS. CIBULA: Samantha Cibula, Commission
15 Advisor.

16 CHAIRMAN LA ROSA: All right. Let's go ahead
17 and are there any preliminary matters that need to
18 be addressed, staff?

19 MS. BROWNLESS: Yes, sir.

20 The parties have agreed to a stipulation and
21 settlement agreement, which we refer to as the 2025
22 settlement, which disposes of all issues in the
23 docket.

24 The parties have also agreed to place the
25 prefiled testimony of all witnesses and exhibits

1 into the record.

2 CHAIRMAN LA ROSA: Let's address prefiled
3 testimony.

4 MS. BROWNLESS: All parties have agreed to
5 excuse the following witnesses, and the prefiled
6 testimonies of these witnesses have been stipulated
7 to by all parties: Michael Galtman, Noah Russell,
8 Nicholas Crowley, Kim Estrada, Vikrant Gadgil,
9 Devon Rudloff-Daffinson, Wraye Grimard, William
10 Haffecke, Michelle Napier and John Taylor.

11 We would ask that the prefiled testimony of
12 these witnesses be moved into the record at this
13 time.

14 CHAIRMAN LA ROSA: Great. Excellent. And the
15 listed prefiled testimony will be moved into the
16 record without objection.

17 (Whereupon, prefiled direct testimony of
18 Michael Galtman was inserted.)

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

Docket No. 20240099-EI

Petition for rate increase by Florida Public Utilities Company, Electric Division

Prepared Direct Testimony of Michael Galtman

Filed: August 22, 2024

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

A. My name is Michael D. Galtman. 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, the corporate parent of Florida
Public Utilities Company, as Senior Vice President and Chief Accounting Officer.

Q. Please describe your educational background and professional experience.

A. In 1997, I received a Bachelor of Science in Accounting from Rutgers University in
Camden, New Jersey and I am a licensed Certified Public Accountant in
Pennsylvania. I have been in my current position as Senior Vice President and Chief
Accounting Officer of Chesapeake Utilities Corporation since April 2019. Prior to
joining Chesapeake Utilities Corporation, I held various accounting leadership roles,
including the role of Chief Accounting Officer 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 are regulated by the FERC and the
respective state public service commission where the assets were located.

1 **Q. Please describe your current responsibilities.**

2 A. As the Chief Accounting Officer, I have responsibility for the accounting functions
3 of Chesapeake Utilities Corporation, the parent company of Florida Public Utilities.
4 In my role, I have responsibility for all accounting functions of the company
5 including general accounting, business unit accounting, SEC reporting, accounting
6 policy and tax. Additionally, I have responsibility for financial planning and
7 analysis and the strategic modeling departments.

8 **Q. How will you refer to the Company?**

9 A. When referring to the Florida Public Utilities Company Electric Division, I will refer
10 to it as "FPUC" or "the Company". When referring to Chesapeake Utilities
11 Corporation, the parent company, I will refer to it as "CUC" or the "Corporation."

12 **Q. Have you filed testimony before the Florida Public Service Commission**
13 **("Commission") in prior cases?**

14 A. Yes. I have provided written, pre-filed testimony in FPUC's COVID-19 Docket No.
15 20200194-PU and testified in Docket No. 20220067-GU.

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

17 A. I will provide an overview of the Corporation's accounting and finance functions.
18 Additionally, I will provide support for certain schedules of historical data and
19 projected data represented in the MFRs listed in my Exhibit MG-1. Historical
20 amounts presented in the respective MFRs listed in Exhibit MG-1 reflect results
21 from the books and records of the Corporation and FPUC and were prepared under
22 my supervision and direction. More specifically, I will address administrative and
23 general ("A&G") expenses and the allocation methodology for recording expenses to

1 FPUC along with general A&G cost changes that have been implemented since
2 FPUC was acquired by the Corporation, along with the benefits tied to those
3 changes.

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

5 A. Yes. Exhibit MG-1, which was prepared under my supervision and direction.

6 **Q. Are you sponsoring any MFRs in this case?**

7 A. Yes. I am sponsoring the MFRs listed in Exhibit MG-1.
8

9 **ORGANIZATION OVERVIEW**

10 **Q. Can you briefly describe how the Company's Accounting group is organized?**

11 A. Currently, at CUC, the accounting department is broken up into five areas. The
12 Controller's Group is responsible for corporate, business unit and fixed asset
13 accounting. Additionally, the Controller's Group is responsible for annual financial
14 reporting to the FERC and the respective state commissions for the Corporation's
15 regulated business units. The SEC Reporting Group is responsible for quarterly and
16 annual SEC reporting, accounting policy and technical accounting research. The
17 Financial Planning and Analysis Group is responsible for budgeting, forecasting and
18 the financial planning component of the strategic planning process, oversight of
19 expense allocations and internal and management reporting. The Strategic
20 Modelling Department is responsible for modelling all of our potential acquisitions
21 and large capital investment projects. The Corporate Tax Department is responsible
22 for income tax compliance and strategy for CUC and all of its subsidiaries.
23

1 **Q. Has the organization of this unit changed since the last rate proceeding?**

2 A. Yes. The Accounting organization has continued to expand its capabilities since the
3 prior rate filing. CUC is a publicly traded company which is listed on the New York
4 Stock Exchange. The Corporation is continuously investing in regulated
5 infrastructure to meet increased customer demand, focused on providing a high level
6 of customer service and ensuring safe and efficient operations. As a result of this
7 growth, CUC is considered a large accelerated filer, which is subject to accelerated
8 SEC reporting timelines and internal control requirements as defined under the
9 Sarbanes-Oxley Act. Additionally, the accounting and disclosure requirements have
10 continued to evolve as well as the internal control considerations under the Sarbanes-
11 Oxley Act. In order to comply with the various regulations, the Corporation
12 regularly reviews staffing levels, processes and technology to ensure compliance
13 with the applicable regulations. Since 2015 the Financial Accounting Standards
14 Boards issued a total of 108 accounting standard updates. While not all of these
15 updates resulted in accounting or procedural changes for the Corporation, each one
16 still required the team to review and evaluate any potential impact. Many of these
17 new accounting standards resulted in significant ongoing evaluations and disclosure
18 changes, including revenue from contracts with customers (Topic 606) and leases
19 (Topic 842). In the area of taxation, we have seen a significant number of federal tax
20 laws implemented since 2015, including the Tax Cuts and Jobs Act of 2017, the
21 Coronavirus Aid, Relief and Economic Security (CARES) Act of 2020, the
22 Infrastructure Investment and Jobs Act (IIJA) of 2021 and the Inflation Reduction
23 Act (IRA) of 2022. In addition to federal changes, the Corporation has also seen a

1 number of state tax changes in the various jurisdictions it operates in, including
2 Florida.

3 **Q. Do you expect the Accounting organization to change in the future?**

4 **A.** Yes. Accounting, disclosure and tax requirements that impact CUC and FPUC are
5 expected to continue to change in the future. For example, in 2023 the SEC adopted
6 new rules on the disclosure requirements related to cybersecurity risk and segment
7 reporting. Additionally, the SEC has proposed changes to the disclosures around
8 climate related risk and disaggregation of income statement expenses, which are
9 being considered for implementation. As new developments occur, the Corporation
10 assesses its resource needs to ensure its ability to comply with new regulations and
11 effectively manage the related cost impacts that result in any associated accounting,
12 disclosure or tax changes.

13 **Q. What benefits are derived by the Company and its customers from CUC's**
14 **service of these functions?**

15 **A.** There are several benefits achieved by the evolution and growth of the Accounting
16 function. The Company has been able to file its financial reports and tax returns
17 accurately and timely and maintain an effective internal control environment for
18 compliance with the Sarbanes-Oxley Act. Additionally, the centralized model for
19 accounting resources has allowed the Company to maintain an appropriate level of
20 workload for staff members and provide additional technical resources as regulatory,
21 accounting and tax requirements change. In my opinion, being part of a broader
22 accounting organization provides greater opportunities for employee development,
23 provides additional resources to handle employee attrition when it occurs, and

1 increases the Company's ability to retain and attract employees. Finally, with an
2 effective control environment and a strong history of accurate accounting records,
3 we have been able to work with our external auditors to achieve an audit fee that has
4 grown at a slower than normal pace when compared to the industry average.

5

6 **HISTORICAL AND PROJECTED DATA**

7 **ADMINISTRATIVE & GENERAL EXPENSES (A&G)**

8 **Q. Generally, please explain the accounting of A&G costs?**

9 A. A&G costs are either directly recorded to the Company or the Company is allocated
10 a portion of A&G expenses for groups that are performing services shared across
11 business units. Allocations are reviewed annually, or as significant changes occur, to
12 ensure expenses are appropriately allocated to the respective business units. The
13 calculation of allocations to the Company are explained in greater detail below.

14 **Q. Please describe what types of expense are included in A&G expenses.**

15 A. A&G expenses include employee salaries and benefits, office supplies, third-party
16 administrative services (e.g. legal services, human resource consulting, financial
17 statement audits, etc.), insurance, advertising and the applicable facilities costs
18 associated with office locations. Additionally, A&G expenses include pension and
19 benefits costs associated with the Company, as addressed by Witness Rudloff.

20 **Q. Please describe what functional areas are included in A&G expenses?**

21 A. A&G expenses include accounting and finance, human resources, communications,
22 marketing, information technology ("IT"), legal, corporate governance,
23 governmental affairs, internal audit, regulatory affairs, security, safety, and other

1 management functions. A&G expenses also include costs associated with the
2 Corporation's board of directors, external audit fees, insurance, employee benefits,
3 and expenses associated with pension and other postretirement benefit plans.

4 **Q. What benefits are derived by FPUC and its customers from the Corporation's**
5 **service of these functions?**

6 A. FPUC benefits from expanded, more sophisticated functions and services provided
7 by the centralized corporate functions. These expanded functions and services,
8 which include finance, legal, human resources, information technology,
9 communications, governmental affairs, corporate governance, internal audit,
10 security, certain business development and expanded management support functions,
11 as well as increased access to capital, have increased FPUC's quality of service by
12 enhancing customer engagement, obtaining more accurate and relevant business and
13 market information and providing reliable and more efficient service to its
14 customers. These resources and capabilities also enable FPUC to address newly
15 emerging, complex business issues. With the help of CUC's corporate office, FPUC
16 has also been able to address expanded business and compliance needs for IT
17 infrastructure and security, accuracy in accounting and financial data, adoption of
18 new regulations by the federal and state governments, and employee training and
19 retention. All of these benefits have enabled FPUC to provide outstanding service to
20 its customers and to benefit from increased access to capital in order to maintain
21 improve and expand their operations.

22 **Q. How are A&G expenses allocated to FPUC?**
23

1 A. The Corporation's cost accounting policy is to allocate costs to the business units
2 that either incurred the cost directly or benefit from the cost being incurred. The
3 Corporation's Cost Accounting Manual (CAM) documents the current allocation
4 practices and methodologies utilized to account for all Operations and Maintenance
5 expenses including A&G expenses. The CAM further describes the application of
6 these practices and methodologies through CUC's accounting processes, as well as
7 recording and reporting through CUC's financial information systems. Specifically,
8 as it relates to A&G expenses, amounts are recorded by FPUC in one of the
9 following ways: (a) direct assignment of costs or (b) allocation of the cost of shared
10 functions and services to business units receiving the benefit of such functions and
11 services. Whenever it is possible and practical, A&G expenses are directly assigned
12 to the business unit incurring such cost. An example of direct assignment of A&G
13 costs is an external audit fee associated with auditing FPUC's annual report on
14 FERC Form No. 1 filed with the Commission. The audit fee directly attributable to
15 the FERC Form No. 1 for FPUC is recorded based on the specific costs attributable
16 for the audit. A&G expenses that cannot be directly assigned are allocated to CUC's
17 business units that receive a benefit from such functions and services.

18 **Q. Please explain how indirect A&G expenses incurred are allocated.**

19 A&G expenses incurred by CUC are allocated among all of the Corporation's
20 businesses receiving benefits from such services. The Corporation utilizes various
21 methodologies in the allocation of costs, depending on the type of expense. These
22 methodologies are designed to reflect the relative size and benefit of each business
23 unit receiving the shared functions and services. The allocation methodologies may

1 include metrics like payroll, profitability, adjusted gross plant, adjusted capital
2 expenditures and/or the specific level of effort or focus, among others, in
3 determining the allocation basis. CUC reviews and updates the allocation basis at
4 the beginning of each fiscal year and, at times, adjusts the methodology during the
5 year if a change in circumstances is warranted.

6 **Q. Please explain further how A&G expenses are allocated.**

7 A. A&G expenses are segregated by departments in order to record and track expenses.
8 To the extent the expenses are being incurred to support multiple business units of
9 CUC, the Corporation utilizes an allocation process to segregate costs between the
10 applicable business units benefiting from the services provided. As part of the
11 process to determine the appropriateness of the allocation, departments are first
12 reviewed to consider whether the costs apply to all of CUC's business units or
13 should be specifically allocated to selected business units. For example, expenses to
14 support CUC's electric distribution, natural gas transmission and natural gas
15 distribution operations should only be allocated to CUC's regulated business units as
16 these expenses reflect the expenses incurred to comply with regulated operations of
17 the respective public service commissions or the FERC. To the extent costs are
18 being incurred to support CUC's unregulated business units, for example the
19 Unregulated Accounting department, these expenses would not be considered for
20 allocations to regulated business units, including FPUC's operations. Generally,
21 CUC's corporate departments use one of the following three allocation methods:
22 modified Distrigas, task-based, and capital expenditure-based.

23

1 The first method is the modified Distrigas formula, which is based on a FERC-
2 approved formula attempting to weight various aspects of each of the business units
3 to calculate the appropriate allocation. This formula incorporates three equally-
4 weighted factors: gross plant, operating income before interest and income taxes (as
5 opposed to net revenues) and labor costs. The formula uses operating income before
6 interest and income taxes to eliminate volatility in commodity pricing, which would
7 be reflected in revenues. Examples of departments using the modified Distrigas
8 formula include accounting and finance, IT network, data and desktop maintenance
9 and support, human resources, internal audit, security, safety, facilities and
10 communications.

11 The second method is the task-based allocation, which considers the department's
12 functions and assigns for each function the level of effort or focus to each business
13 unit receiving its service. CUC utilizes the task-based method to allocate the costs
14 associated with, for example, the audit committee, project specific IT departments,
15 management/leadership, treasury, accounts payable, regulatory affairs and specific
16 IT systems. Based on the specific nature of these services, the task-based allocation
17 method provides the most reasonable reflection of the benefits received by each
18 business unit.

19 The third method is the capital expenditure-based allocation, which allocates costs
20 based on capital expenditures in each business unit. Costs associated with corporate
21 governance, the Corporation's Board of Directors, and investor relations, all of
22 which are closely related to our growth, are largely driven by capital expenditures,
23 and thus are allocated using the capital expenditure-based method.

1 **Q. How does CUC ensure a fair distribution of its corporate costs to all of its**
2 **business units, including its unregulated businesses?**

3 A. Chesapeake reviews and updates the allocation basis at least annually or when a
4 significant change occurs to CUC's overall business or corporate functions. For
5 example, in December 2023, CUC acquired Florida City Gas. As a result, the
6 allocations to CUC's business units were adjusted to reflect the acquisition. Every
7 business unit benefiting from a particular department is allocated a portion of the
8 cost associated with that department, using a consistent methodology. CUC also
9 reviews the relative size of each business unit, measured by adjusted capital
10 expenditures, operating income before interest and income taxes, adjusted gross
11 plant and payroll expenses, and compares it to the overall corporate cost being
12 allocated to that business unit to assess the reasonableness of the allocation.

13 **Q. How do A&G expenses for the 2025 Projected Test Year compare to the**
14 **Benchmark Year?**

15 A. The A&G variances between the 2025 projected test year and the calculated
16 benchmark year are presented on MFR C-37. A&G expenses for the historic base
17 year exceeds the benchmark by \$1,046,326. This increase was driven by higher
18 payroll and employee benefits costs to ensure compliance with various regulatory
19 requirements, expanded technology costs to meet customer demand and protect
20 against cybersecurity attacks, and increased employee development and recruiting
21 needs. The increase was also driven by a general increase in the cost of property and
22 liability insurance plans, a requested increase in the storm reserve accrual, a
23 requested increase in the self-insurance reserve accrual to account for historical and

1 projected claims, and increased rate case expenses associated with this rate filing.
2 These increases were partially offset by a decrease in pension expense, which
3 reflects projected market assumptions. Additional details related to the cost increases
4 can be found in the testimony of Witnesses Gadgil, Napier, Rudolph and Russell.
5 For more details on the drivers for the increases compared to the benchmark, see
6 MFR C-41 (2025).

7 **Q. What is FPUC's A&G expense budget for the 2025 test year?**

8 A. The projected A&G expense of FPUC's operations, as detailed on MFR C-7 (2025)
9 for the 2025 test year, is \$8.8 million. This amount represents an increase of \$2.4
10 million compared to the 2023 adjusted historic test year, which includes \$0.4 million
11 of an increase that can be attributed to inflation and growth.

12 **Q. How was A&G expense for FPUC's operations calculated for the 2025 test**
13 **year?**

14 A. The calculation for A&G expenses detailed in MFR C-7 (2025) for FPUC's
15 operations was initially based on book expense recorded for the year ended
16 December 31, 2023. These expenses were then analyzed and adjusted for non-
17 recurring items included in 2023 results or partial year expenses which are projected
18 to be recurring in future periods.

19 **Q. What are examples of A&G expense for FPUC's operations expenses which**
20 **were directly projected for the 2025 projected test year?**

21 A. Additional expenses that were directly projected for the 2025 projected test year are
22 detailed on MFR C-7 (2025) page 7 and 8. As discussed earlier, certain expenses
23 related to FPUC's insurance plans, a requested increase to the self-insurance and

1 storm reserve accruals and a requested increase for rate case expenses associated
2 with this regulatory filing were included in expenses for the 2025 projected test year.
3 Additional details can be found in the testimonies of Witnesses Gadgil, Napier,
4 Rudloff and Russell.

5 **Q. Are these costs, including the allocated A&G costs, a legitimate and necessary**
6 **cost of providing service to FPUC's customers?**

7 A. Yes. A&G expenses for the 2025 test year include only the A&G costs that are
8 projected to be incurred in supporting FPUC's operations. The overall A&G costs in
9 the 2025 projected test year are projected based on historical costs, recent trends and
10 additional costs associated with increased business needs, which are necessary to
11 continue providing outstanding, safe and reliable service to FPUC's customers. The
12 projected costs include incremental costs as appropriate to address regulatory
13 changes, increased insurance expense given market conditions, to ensure protection
14 from cyber threats, to ensure the Corporation's information technology systems
15 operate efficiently and provide a high level of customer service to FPUC's
16 customers.

17 **Q. Please provide specific examples on how the expanded corporate A&G**
18 **functions provided by CUC benefit FPUC's customers?**

19 A. Expanded corporate A&G functions have benefited FPUC and its customers in many
20 different ways. Chesapeake's Enterprise Health and Safety team was formed in 2022
21 to support the Company's implementation of a risk-based Enterprise Safety Program
22 focused on standardization and continuous improvement. The Enterprise Health and
23 Safety Team provides subject matter expertise in the areas of governance, incident

1 prevention initiatives, identifying key performance indicators for awareness
2 campaigns, monitoring and maintaining OSHA recordkeeping, and establishing an
3 enterprise safety recognition program.

4 In 2023, the Enterprise Health and Safety team implemented a safety data
5 management system, or SDMS, which streamlined the recording and tracking of
6 safety incidents, near misses and safety observations, and provides reporting for
7 compliance, insurance and management purposes. The system provides data essential
8 in creating safety action plans for continuous improvement and safety training across
9 the entire company.

10 Another example of the expanded corporate A&G functions that will benefit FPUC
11 is CUC's CIS implementation, which is expected to be completed in 2024. The
12 project will provide a comprehensive solution for CUC's regulated business units,
13 including FPUC's operations and is focused on the following areas: customer data
14 management, billing and invoicing, meter data management, service orders and work
15 flow management and reporting and analytics. Utilizing a consistent technology
16 platform across the Corporation's regulated businesses will increase operating
17 efficiency, ensure ongoing regulatory compliance and improve customer satisfaction.

18 As the parent company of FPUC, the Corporation's management team and Board of
19 Directors bring increased oversight of FPUC's businesses and the management of its
20 operations. The Corporation's management is comprised of individuals with several
21 decades of energy and utility industry experience. In particular, CUC's President
22 and Chief Executive Officer, who also serves on the Board of Directors, has over 30

1 years of experience in the energy industry and has served in leadership positions for
2 several energy-based associations and organizations.

3 Additionally, a combination of different backgrounds, skills, experiences and
4 perspectives enables the Board, as a whole, to provide effective oversight of our
5 business operations, assess and respond to the ever-evolving business landscape, and
6 develop opportunities that contribute to societal advancement and create sustainable
7 long-term shareholder value. This includes backgrounds, skills and experiences as
8 disclosed in our Proxy Statement filed with the SEC in 2024, such as regulated
9 energy industry experience, strategic planning and development, human capital
10 management, community stewardship, accounting and finance, technology and cyber
11 security, and others. CUC is governed by a diverse Board, which supports a culture
12 of diversity and inclusion which represents the communities we serve. Four
13 independent directors of the Board, as well as CUC's Chief Executive Officer, have
14 in-depth knowledge of the Florida economy and market and have established
15 relationships with colleagues and members of the community throughout Florida.
16 All of these examples of the expanded corporate functions and services that have
17 allowed FPUC to continue its effort to enhance customer experience, improve
18 employee education, and develop strategies, all of which are for the direct benefit of
19 our customers.

20 **Q. Why is it important that FPUC operations be allowed to recover the costs**
21 **associated with corporate A&G through base rates?**

22 **A.** The corporate A&G functions are an integral part of FPUC's ability to support its
23 operations, comply with legal, regulatory and other statutory requirements, finance

1 the necessary capital required to maintain and grow its business, provide superior
2 customer service, address complex financial and business issues and ensure the
3 appropriate level of management oversight. As previously mentioned, many of the
4 A&G functions previously performed directly by FPUC were combined with or
5 transferred to CUC's corporate office following the merger in 2009. This enabled us
6 to leverage administrative resources across CUC's regulated operations, ensure
7 quality and efficiency in operating processes and increase access to technical
8 resources to support FPUC's natural gas customer base. Having A&G functions
9 reside at the corporate level allows the FPUC operations to focus on its day-to-day
10 business of providing safe and reliable natural gas service to its customers. By
11 receiving support from the corporate office, FPUC is able to utilize expanded
12 resources, increasing its capability to provide a higher level of customer service,
13 increased efficiency, and an increased ability to handle more complex and
14 challenging business and compliance matters.

15 **Q. Are you testifying to any other over and under adjustments on MFR C-7**
16 **(2025)?**

17 **A.** Yes. The additional over and under adjustments I'm testifying to are detailed on
18 MFR C-7 (2025) pages 7 and 8.

19 **Q. Please discuss the adjustments being made related to Distribution Expenses -**
20 **Operation?**

21 **A.** In connection with the new customer information system, FPUC will expand its
22 processes and automation related to Field Service Management. The incremental
23 payroll costs reflect the expanded level of service that will be provided to support the

1 new Field Service processes. Additional details related to this project are described
2 within Witness Estrada's testimony.

3 **Q. Please discuss the adjustments being made related to increase the Customer**
4 **Accounts and Business Information Systems (BIS) expenses**

5 A. Yes, Witness Estrada, Witness Gadgil, and I will address these changes. Salaries for
6 customer service employees and IT professionals in the BIS departments that were
7 capitalized to the new CIS in 2023 are for positions that are being filled in 2024
8 related to operating and maintaining the new CIS system. The Company did not hire
9 or backfill positions in 2023 in anticipation of the need for more experienced
10 resources upon completion of the CIS project, which requires a higher level of
11 customer service experience in order to manage the expanded customer service and
12 field service offering that the new CIS will provide. In addition to these increases in
13 Customer Accounts expenses, these same factors are also impacting account
14 customer service expenses and BIS expenses in account 920.

15 **Q. Please provide support for the increase in expenses associated with expanded**
16 **safety initiatives at FPUC.**

17 A. FPUC has continued to expand its processes and use of technology to support safe
18 and reliable operations. Safety is a critical component of our operations and our
19 highest priority as it relates to both our customers and our employees. For example,
20 as mentioned earlier, the Company implemented a new Safety Data Management
21 system in 2023, which streamlined the recording and tracking of safety incidents,
22 near misses and safety observations and provides reporting for compliance, insurance
23 and management reporting. Additionally, there are additional costs associated with

1 additional employee resources, uniforms and supplies to continue to improve our
2 safety efforts.

3 **Q. Please provide support for the increase in Employee Pension & Benefits expense**
4 **from the adjusted 2023 historic year.**

5 A. The increase in employee pension & benefits expense compared to the adjusted 2023
6 historic year is primarily related to increased employee benefits associated with the
7 increased payroll cost described above. This increase is offset by a decrease in
8 pension expense associated with the FPUC pension plan, which is based on an
9 updated valuation from its third-party actuary, which accounts for current market
10 conditions and estimates expense in accordance with Generally-Accepted
11 Accounting Principles (GAAP).

12 **Intercompany Accounts Receivable / Accounts Payables**

13 **Q. Please explain the accounting for intercompany accounts receivable / accounts**
14 **payable.**

15 A. CUC manages financing needs for its business units at the parent level, which is
16 further discussed in Witness Russell's testimony. As a result, debt and equity
17 financing needs to fund operating and capital needs are generally executed with CUC
18 as the borrower (in the case of debt) or issuer (in the case of equity). There are no
19 arrangements where FPUC is either a borrower under any third-party lending
20 agreement (short- or long-term) or has issued equity to third-party investors.
21 Therefore, FPUC does not have short-term debt, long-term debt or common stock
22 recorded on its financial statements. Instead, FPUC participates in a centralized cash
23 management program along with CUC's other operating subsidiaries. Under this

1 program, daily cash management is centrally managed at the parent level for FPUC
2 and all other subsidiaries.

3 **Q. Does FPUC have its own financial statements for its operations even though it**
4 **participates in CUC's centralized cash management program?**

5 A. Yes, operating results for FPUC's electric division are recorded to its specific
6 financial statement in the CUC general ledger. For example, customer billings,
7 operating expenses and capital investment needs that are specific to FPUC are all
8 recorded on FPUC's financial statements with the general ledger. However, because
9 the cash transactions associated with FPUC's operations are ultimately paid for or
10 collected by CUC, intercompany payable or receivable accounts are utilized within
11 CUC's general ledger to track cash activity executed on behalf of FPUC.

12 **Q. Is it appropriate to exclude the Intercompany Accounts Receivable / Accounts**
13 **Payable balance from working capital?**

14 A. Yes, it is appropriate to exclude these balances from FPUC's working capital
15 balances. As noted above, FPUC is not the party to any third-party debt arrangement
16 or has issued common stock to a third-party investor. As a result, funding needs for
17 FPUC's operations are provided by CUC via the intercompany accounts. In order to
18 account for this activity, Intercompany Accounts Receivable and Intercompany
19 Accounts Payable balances are recorded to track the activity specific to FPUC. If
20 FPUC's funding needs were not provided by CUC, FPUC would need to issue debt
21 or common stock to third-parties to meet its cash needs. These amounts would be
22 recorded as debt or equity within FPUC's financial statements and excluded from
23 working capital. Under CUC, this is being accomplished through the centralized

1 cash management program. For this reason, it is appropriate to exclude these
2 balances from FPUC's working capital balance.

3 **Q. Is the Intercompany Payable balance an interest free source of capital?**

4 A. No. In order to calculate the cost of capital, the Company reduces its investment in
5 rate base after adjustments by direct funding sources such as customer deposits,
6 deferred income tax and regulatory tax liability. The net amount is allocated to cost
7 of capital based on the parent company's debt and equity ratio. This methodology
8 was approved in FPUC's recent gas case in Commission Order No. PSC-2023-0103-
9 FOF-GU in Docket No. 20220067-GU. We continue to believe that a parent
10 company's ability to invest in a regulated utility subsidiary is of vital importance, in
11 the public interest, and should not be penalized.

12 **Q. Does this conclude your testimony?**

13 A. Yes.

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

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

1 Docket No. 20240099-EI: Petition for rate increase by Florida Public Utilities Company

DIRECT TESTIMONY AND EXHIBITS OF NOAH RUSSELL

Filed: August 22, 2024

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

3 A. My name is Noah T. Russell. My business address is 100 Commerce Drive, Suite
4 200, Newark, DE 19713.

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

6 A. I am employed by Chesapeake Utilities Corporation as the Assistant Vice President
7 and Assistant Treasurer. I was also appointed by the Board of Directors in 2023 to
8 serve as a member of the Corporation's Employee Benefits Committee.

9 **Q. Please describe your educational background and professional experience.**

10 A. In 2002, I received a Bachelor of Science in Accounting from University of
11 Delaware in Newark, Delaware and am a licensed Certified Public Accountant in
12 Pennsylvania. I have been in my current position as Assistant Vice President and
13 Assistant Treasurer of Chesapeake Utilities Corporation since September 2021.
14 Prior to joining Chesapeake Utilities Corporation, I held the role of Assistant
15 Treasurer at Sunoco Logistics Partners LP, which was a subsidiary of Energy
16 Transfer. Sunoco Logistics Partners LP owned and operated midstream assets that
17 served to transport crude oil, refined products and natural gas liquids and had certain
18 assets that were regulated by the FERC and the respective state public service
19 commission where the assets were located. In my role at Sunoco Logistics, I
20 managed a six-person team responsible for long-range planning, cash management

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1 and governmental reporting. Under my leadership, we consummated over \$7 billion
2 of capital market transactions to fund a significant growth capital program. With my
3 support and guidance, the governmental reporting team prepared and filed all FERC
4 Form 6 and 6Q's for Sunoco Logistics.

5 **Q. Please describe your current responsibilities.**

6 A. In my role I am responsible, under the leadership and guidance of Chesapeake
7 Utilities Corporation's Chief Financial Officer, for leading the Corporation's finance
8 and financial shared services teams. The finance function includes enterprise capital
9 planning, treasury operations, corporate finance and capital allocation, banking
10 relationships, accessing capital and managing the corporate capital structure,
11 investment management activities, insurance/risk management oversight, credit
12 management, shareholder services, as well as providing merger and acquisition
13 diligence and integration support along with acquisition financing. CUC's financial
14 shared services team is responsible for the accounts payable, payroll and
15 procurement functions for the entire organization.

16 **Q. How will you refer to the Company?**

17 A. When referring to the Florida Public Utilities Company Electric Division, I will refer
18 to it as "FPUC" or "the Company". When referring to Chesapeake Utilities
19 Corporation, the parent company, I will refer to it as "CUC" or the "Corporation."

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

22 A. I have filed testimony and testified in Docket No. 20220067-GU.
23

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

2 A. Yes, I have also filed testimony in other rate case proceedings before the public
3 service commissions of Delaware and Maryland.

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

5 A. My testimony will discuss CUC's current capital structure allocation, the various
6 components (short-term debt, long-term debt and equity) and how FPUC has
7 benefited from the structure. I will also be providing testimony on CUC's mitigation
8 of risk through our Insurance Programs.

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

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

12 **Q. Are you sponsoring any MFRs in this case?**

13 A. Yes. Attached, as Exhibit NTR-2, is a list of MFRs that I am sponsoring.
14

15 **I. Capital Structure and Financing**

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

18 A. CUC's target capital structure is 50 percent-60 percent equity as a percentage of total
19 capitalization (including short-term debt). This target capital structure has been
20 approved by the Board of Directors. Over time, we strive to approximate the
21 midpoint of 55 percent equity to total capitalization. Earnings retained and
22 reinvested in the business partially help the Corporation fund our growth capital
23 construction program. Any capital spend that is in excess of earnings retained is

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1 initially funded with short-term debt. As projects come online, we issue additional
2 long-term debt and equity to stay within the target capital range and accordingly,
3 reduce our short-term debt balances. Occasionally, when large projects take longer
4 than projected, that has resulted, in our capital structure falling below the target
5 capital structure for a brief period before resuming within the target range. Exhibit
6 No. NTR-1 Schedule 1 shows CUC's equity as a percentage of total capitalization
7 for 2014-2023 based on balances at December 31. As the chart shows, the
8 Corporation has consistently achieved our targeted range with only occasional dips
9 due to larger projects. Most recently, as further discussed below, the Corporation
10 had achieved an equity to total capitalization ratio of 53 percent as of September 30,
11 2023, just prior to the Florida City Gas acquisition. Since the acquisition, the
12 Corporation has already moved this ratio from approximately 47 percent to above 48
13 percent and is on a path to quickly restore within the target range to 50 percent (in
14 the test year) and proceed towards the midpoint.

15 **Q. Why is the parent company capital structure being utilized for the rate case?**

16 A. Funding needs for CUC, its divisions and its operating subsidiaries are managed
17 centrally at the parent level which is also discussed in Witness Galtman's testimony.
18 As such, FPUC does not issue debt or equity directly. As a result, any funding needs
19 for FPUC are recorded via intercompany accounting that does not differentiate
20 between debt and equity proceeds. Since the original source of funding for
21 intercompany borrowings is derived from the equity issuances or debt financing at
22 the parent level, FPUC utilizes CUC's capital structure to determine the rate of

1 return in this proceeding. Use of CUC's overall capital structure also ensures FPUC
2 benefits from a lower cost of capital and has access to capital as needed.

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

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

14 **Q. What types of short-term debt arrangements does CUC use as temporary**
15 **financing for capital expenditures?**

16 A. CUC has a syndicated revolver facility for short-term borrowing with six
17 participating banks. CUC may, from time to time, as a result of its relationships and
18 access to capital, add additional lines of credit or term loans to meet short-term
19 financing needs. CUC currently maintains a multi-tranche short-term borrowing
20 facility ("Revolver") with a total capacity of \$450,000,000. The two tranches of the
21 facility consist of a \$250,000,000 364-day short-term debt tranche and a
22 \$200,000,000 five-year tranche, both of which have three (3) one-year extension
23 options. The facility also contains a \$150,000,000 accordion provision, which gives

1 CUC the ability to increase the size of the facility to \$600,000,000. As of June 30,
2 2024, the pricing under the 364-day tranche of the Revolver includes an unused
3 commitment fee of 0.10 percent and maintains an interest rate of 0.90 percent over
4 the Secured Overnight Financing Rate ("SOFR") plus a 10-basis point credit
5 adjustment. As of June 30, 2024, the pricing under the five-year tranche of the
6 Revolver included an unused commitment fee of 0.10 percent and an interest rate of
7 1.10 percent over SOFR plus a 10-basis point credit adjustment. This pricing is very
8 competitive in the market and comparable to pricing available to many publicly
9 traded electric utilities that also have investment grade debt.

10 **Q. What is the historic test year 2023 and projected test year 2025 capital structure**
11 **of the Corporation?**

12 A. The components of the historic test year capital structure reflect investor sources and
13 uses of capital as follows: common equity (excluding accumulated other
14 comprehensive income) of 51.74 percent, long-term debt (including current
15 maturities) of 40.79 percent, and short-term debt of 7.47 percent. However, prior to
16 consummating the Florida City Gas acquisition, as of September 30, 2023, the
17 Corporation had moved closer to its target capital structure with the equity to total
18 capitalization ratio at approximately 53 percent, bringing the 13-month average to
19 52.5 percent as of September 30, 2023. This highlights the Company's commitment
20 to maintaining 55 percent equity to total capitalization as its target capital structure.
21 The projected capital structure at the end of the test year is as follows: common
22 equity (excluding accumulated other comprehensive income) of 50.04 percent, long-
23 term debt (including current maturities) of 44.31 percent, and short-term debt of 5.65

1 percent. But, again, as a Corporation, we strive to approximate 55 percent equity to
2 capitalization, which is the midpoint of the Board-approved range.

3 **Q. Why is accumulated Other Comprehensive Income (“OCI”) excluded from the**
4 **capital structure?**

5 A. The accumulated OCI must be eliminated from the capital structure for rate-setting
6 purposes, because none of the accounting entries that affect accumulated OCI have
7 anything to do with financing the rate base (i.e., they do not generate or consume any
8 cash). OCI instead arises from other sources, including: Minimum Pension Liability
9 ("MPL"), unrealized gains and losses on securities available for sale, interest rate
10 swaps, and other cash flow hedges.

11 **Q. Why does the Corporation believe its target capital structure is appropriate?**

12 A. Using a mix of earnings retained in the business, 50-60 percent equity and 40-50
13 percent debt allows CUC to retain significant access to competitively priced capital
14 to fund future growth projects. Approximately 55 percent of earnings are retained
15 and reinvested in the business. Any growth capital spending above and beyond these
16 retained amounts are initially funded with our \$450 million syndicated Revolver.
17 When projects go into service, we seek to align the permanent financing (long-term
18 debt and equity) with the introduction of service for these projects. This allows us to
19 better align earnings from projects and long-term financing costs. Using this
20 approach, we have continued to see cost effective, competitive pricing under the
21 Revolver, long-term debt placements and equity capital markets. This structure also
22 keeps us in compliance under the covenants contained in the Revolver and with all of
23 the private placement senior notes.

1 Q. **Have FPUC and their customers benefitted from CUC's ability to finance**
2 **capital for utility projects at competitive rates?**

3 A. Yes. CUC consistently finds access to low-cost long-term debt, short-term debt and
4 equity financing. As shown on Exhibit No. NTR-1, Page 1 of my Schedule 3, CUC
5 has effectively managed its balance sheet, issuing \$1.1 billion in long-term
6 unsecured debt over the past 8 years. Over this same period, the weighted average
7 interest rate was 4.97 percent. Rates have increased only in recent years resulting in
8 a blended cost of 5.90 percent. Given current Treasury forward rates, the Corporation
9 continues to evaluate the potential acceleration into 2024 of a portion of the long-
10 term debt issuances forecasted in 2025. The 16 CUC issuances shown on Exhibit
11 No. NTR-1, Page 1 of my Schedule 3 have been consummated at attractive rates on
12 an unsecured basis.

13 As I mentioned earlier in my testimony, CUC's Revolver provides cost-effective,
14 competitive financing. Short-term debt capacity benefits FPUC by providing capital
15 availability for utility projects during construction before obtaining permanent long-
16 term financing for projects once fully in service. In August 2024, the Corporation
17 was able to successfully upsize the Revolver by \$75 million, to \$450 million, and
18 extend the maturity dates for the 364-day and 5-year tranches to August 2025 and
19 August 2029, respectively. This was a very successful outcome, as CUC was able to
20 increase the size of the facility, extend the maturity and keep existing pricing due to
21 the Corporation's strong balance sheet, track record around successful execution of
22 our growth plans, and reputation amongst the bank group.

1 As seen on Exhibit No. NTR-1, Schedule 4, since December 31, 2015, CUC's stock
2 price has increased by approximately 103 percent and has traded between \$86 and
3 \$119 per share over the last 12 months. CUC has generated consistent earnings over
4 this period of time, enabling the Corporation to strategically and competitively
5 access the equity capital market, as needed, for new issuances associated with
6 increased capital investment.

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

8 A. Yes. We maintain an effective shelf registration statement with the Securities
9 Exchange Commission ("SEC") for the issuance of shares of common stock in
10 various types of equity offerings, including shares of common stock that can be
11 issued under an overnight equity offering or an At-the-Market equity program, as
12 well as an effective registration statement with respect to the Dividend Reinvestment
13 and Direct Stock Purchase Plan.

14 CUC has also entered into Shelf Agreements with Prudential and MetLife, two of
15 our current long-term debt holders, who are under no obligation to purchase any
16 unsecured long-term debt. Under these Shelf Agreements, in the aggregate, these
17 parties have indicated an interest in issuing unsecured senior notes totaling \$255
18 million. These Shelf Agreements expire in the first quarter of 2026.

19 Finally, as mentioned earlier in my testimony, CUC has a multi-tranche Revolver
20 totaling \$450,000,000. The 364-day tranche of the facility (\$250,000,000) expires in
21 August 2025, and the five-year tranche (\$200,000,000 million) expires in August
22 2029.

1 **Q. How do current Treasury rates compare to the overall cost rate for long-term**
2 **debt included in MFR schedules D-4a?**

3 A. As shown on Exhibit No. NTR-1, Page 1 of Schedule 5, current Treasury rates for 3,
4 5, 7 and 10-year durations remain elevated and slightly below the rate on MFR
5 Schedule D-4a, 25 supplemental. Also, the Treasury rates on Schedule 5 represent
6 the risk-free rate of interest. If CUC were to place any new long-term debt, the all-in
7 rate would include a spread that supports the Corporation's NAIC-2B rating. In
8 addition, as the Corporation works towards the equity to total capitalization ratio of
9 55 percent, CUC expects the NAIC 2B to adjust accordingly, although there is
10 typically a delay.

11 **Q. How will these elevated 10-Year Treasury rates impact CUC's long-term debt**
12 **rate?**

13 A. With any new issuance, these elevated treasury rates will drive the average rate for
14 long-term debt above the 4.51 percent included in the test period on MFR Schedule
15 D-4a, 25 supplemental and, therefore, increase our weighted average cost of debt and
16 weighted average rate of return.

17 **Q. Have any adjustments been made to CUC's long-term debt included in MFR**
18 **Schedules D-4a?**

19 A. Yes. The Company has included Schedule D-4a for each year in the filing and a
20 Schedule D-4a Supplement for each year. Schedule D-4a calculates the cost of debt
21 using the traditional consolidated cost of debt. Schedule D-4a Supplement includes
22 an alternate calculation of the cost of debt. As witness Crowley also discusses, the
23 proceeds from the \$550 million senior notes priced on October 31, 2023, were used

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1 predominantly to finance the acquisition of Florida City Gas. Of that \$550 million,
2 \$300 million of these senior notes have maturities of seven years or less. Most
3 economic forecasts suggest short-term and long-term debt rates will decline from
4 recent high levels over the next several years, but stay elevated above recent
5 historically low interest rates that existed pre- and post- COVID. CUC will have the
6 opportunity to refinance a portion of the debt at a time when rates are forecasted to
7 slightly decline. With a portion of these proceeds used to finance the acquisition
8 during a period of elevated interest rates and considering the overall operational
9 benefits across the entire enterprise, the Company is requesting the use of MFR
10 Schedules D-4a supplement. This calculation of the long-term debt interest rate only
11 includes approximately 21 percent of these senior notes to determine the overall
12 long-term interest rate for purposes of this rate case filing. The rates calculated in the
13 D-4a supplement are carried forward into a Schedule D-1a supplement, which
14 calculates the average cost of capital, and to Schedule A-1 Supplement that
15 calculates the revenue requirement using this rate. Thus, for FPUC's electric
16 division, the calculation of the interest rate only includes the 21 percent of these six
17 notes that relates to funding overall operations. By using this methodology, the
18 revenue requirement for FPUC in this proceeding is reduced by approximately
19 \$500,000. As these notes expire or are refinanced, the new notes will return to the
20 Company's traditional calculation of debt as shown on MFR Schedules D-4a. If,
21 however, the Commission does not approve this methodology, we request the cost of
22 debt, cost of capital and the revenue requirement used for ratemaking purposes be
23 those provided in Schedules D-1a, D-4a, and A-1.

1 **II. Insurance and Risk Mitigation**

2 **Q. What resources at CUC are dedicated to insurance?**

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

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

13 A. The types of insurance carried by CUC can be broken down into three major
14 buckets: casualty, executive risk and property. The casualty program includes
15 workers' compensation, commercial general liability and excess liability coverage.
16 Workers' compensation insurance provides wage replacement and medical benefits
17 to employees injured in the course and scope of their employment. Commercial
18 general liability provides coverage to third parties for bodily injury and property
19 damage caused by the business' operations/products. Excess liability coverage
20 encompasses liability coverage in excess of CUC's underlying general liability
21 policies.
22 CUC's executive risk policies include directors' and officers' liability, crime,
23 employment practices liability, fiduciary and cyber coverages. The Corporation's

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

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

17 **Q. Does directors' and officers' liability insurance benefit our customers?**

18 A. Yes. Directors & Officers ("D&O") insurance provides benefits to multiple
19 stakeholders including customers, employees, creditors, vendors, shareholders, and
20 regulators. Without D&O insurance, the Corporation's assets are at risk. It provides
21 coverage for lawsuits brought by other parties. A D&O policy mitigates this risk by
22 covering the legal fees and other costs the Corporation may incur as a result of such
23 a suit.

1 Additionally, many officers and non-employee directors would refuse to accept a
2 position with a company that doesn't have a D&O policy and refuses to purchase
3 one. Establishing an appropriate D&O insurance policy for officers and non-
4 employee directors, serves to attract and retain qualified candidates with the
5 necessary experience and skillsets to provide oversight and governance around the
6 changing environment that impacts all of the Corporation's business units.

7 **Q. How has insurance coverage changed since the last rate case in 2014?**

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

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

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

1 increase given the benchmarking we have reviewed and the Corporation continues to
2 grow.

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

5 A. Yes. CUC also implements various other strategies to ensure we retain the right
6 amount of coverage at advantageous pricing. The Corporation engages directly with
7 carriers to ensure they know us and understand our business. When possible, CUC
8 also tries to lock in premiums (in terms of rate per dollar of coverage) for longer than
9 one year. We have occasionally been able to do this and most recently were able to
10 lock in the primary casualty insurance rates for the 2023/2024 and 2024/2025
11 insurance periods. The Corporation's insurance broker frequently goes out to the
12 market and seeks bids from new carriers. The insurance broker also provides CUC
13 with peer benchmarking information to help assess proper levels and types of
14 coverage. The Corporation also maintains relationships with former and prospective
15 brokers and engages with them from time to time. Finally, the Corporation continues
16 to evaluate alternative risk instruments and markets (i.e., London, Bermuda) as
17 possible vehicles for obtaining insurance savings. To date, CUC has structured its
18 insurance program in the most cost-effective manner considering all of these factors.
19 From time to time, the Corporation performs a Request for Proposal ("RFP") for
20 broker services. The last RFP process was carried out during the months leading up
21 to the 2021 casualty insurance program renewal, and the Corporation approached
22 various brokers in an attempt to re-configure its casualty insurance program and
23 lower the cost of insurance. Through the RFP process, we identified and changed to

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1 a new broker, which saved the Corporation approximately \$1 million in premiums
2 for the 2021/2022 insurance period.

3 **Q. In spite of these savings, has CUC experienced recent insurance cost increases?**

4 A. Yes. Even with the strategies CUC has in place, the Corporation is not immune to
5 increases in insurance premiums. Changes in insurance premiums are driven by
6 increased exposure due to the continued growth of the Corporation, fewer insurance
7 carriers, and overall market conditions in the power and utility sector. Over the last
8 five years, CUC has experienced cost increases across all areas of coverage.
9 Excluding excess liability coverage, primary casualty insurance has experienced a
10 six percent increase in premiums over the last five years. Throughout the market,
11 there has been a reduction in the number of carriers, driven by industry
12 consolidation. Most recently, our premiums have been positively impacted by the
13 redesign of our liability insurance structure, discussed earlier in my testimony, which
14 reduced premiums by approximately \$1 million in 2021. In 2019, excess liability
15 coverage for the power and utility space was impacted by increased industry claims
16 activity and several high-profile claims (i.e. PG&E, Columbia Gas, etc.) which
17 resulted in significant rate increases. At the same time, CUC's excess liability carrier
18 at that time decided to cease coverage of utilities, forcing CUC to utilize an
19 alternative carrier. These are the primary drivers behind the approximate 425 percent
20 increase in CUC's excess liability premium over the last five years. Like the
21 casualty space, few key players currently provide coverage due to continued
22 consolidation and several parties declining to offer utility coverage. Most recently,
23 the wildfire exposure that many carriers (which are structured in the form of mutual

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1 insurance companies) have been exposed to is being passed along in the form of
2 global industry increases. This trend is expected to continue into the foreseeable
3 future.

4 Excluding cyber insurance, the Corporation's executive risk policies have also
5 experienced tightening insurance markets with carriers pushing more risk sharing
6 toward clients by requiring higher retention levels and premiums. Due to these
7 factors, we have seen the Corporation's deductible double and the executive risk
8 policy premiums, excluding cyber, increase by approximately 70 percent over the
9 last five years.

10 The increase in cyber insurance premiums over the same time period has been driven
11 by two factors. In 2018 and 2023, CUC increased its cyber coverage from \$5 million
12 to \$10 million and then \$10 million to \$15 million respectively, which directly
13 contributed to increased premiums. Secondly, cyber coverage continues to increase
14 as overall claims frequency is increasing and severity remains high driven by
15 ransomware. Losses have accelerated pricing pressure even on loss-free accounts,
16 like the Corporation, with good controls. These two factors have directly contributed
17 to the 218 percent increase in premiums over the last five years. In discussions with
18 CUC's insurance broker, cyber premiums are expected to remain elevated for the
19 next few renewals.

20 For property insurance, existing markets are also not expanding and there are limited
21 new carriers entering this market. This particular line of coverage has also been
22 impacted by losses in storm impacted states, furthering escalating premium

1 increases. Correspondingly, CUC's property insurance premiums have increased on
2 average by 17 percent per year over the past five renewals.

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

4 A. Yes. The Corporation is anticipating that its total insurance premiums will continue
5 to rise in the foreseeable future. At a minimum, CUC plans to carry the same levels
6 of insurance coverage for the Corporation's casualty, executive risk and property
7 programs. The Corporation is continuously reviewing our policies, deductibles and
8 limits to ensure we efficiently and effectively mitigate the risk for CUC and all of its
9 subsidiaries. Any increases to the limits carried for any of the Corporation's policies
10 would drive increased premiums for CUC in future years. Based on market
11 conditions, continued growth of the Corporation and potential increases to limits,
12 CUC believes total insurance premiums will increase by approximately 15 percent to
13 25 percent per year, although as discussed above, the rate increases have the
14 potential to be even higher. In addition to securing higher limits because of growth,
15 the Corporation also continues to evaluate other new potential areas of coverage to
16 mitigate risk further (similar to the Corporation adding cyber insurance coverage
17 within the last five years). Therefore, Schedule C-7 (2025) p. 8 includes an increase
18 for Account 924 -Property Insurance for 2025 of \$78,149 and for Account 925-
19 Injuries and Damages for 2025 of \$244,020.

20 **III. Self-Insurance**

21 **Q. Does FPUC have a Self-Insurance reserve?**

22 A. Yes. FPUC has a self-insurance reserve, with oversight provided by our CFO and
23 me, to absorb expenses associated with losses incurred from our electric operations.

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1 Furthermore, the Corporation has an internal policy, Exhibit No. NTR-1 Schedule 6,
2 it uses to document what types of expenses can be booked against the self-insurance
3 reserve liability. Expenses applied to this reserve are those that are not reimbursable
4 under current insurance policies. These expenses may be charges within the
5 deductible level of the applicable policy, charges exceeding the policy limits or
6 charges lying outside of policy coverage (i.e., self-insurance for any physical damage
7 that occurs to our traditional vehicle fleet). Current deductibles on the policies
8 discussed above, which can be applied to the self-insurance reserve, range from
9 \$100,000 to \$500,000 per occurrence. In addition to the types of cost mentioned
10 above, the self-insurance reserve may include increased premium costs incurred by
11 the Corporation to secure adequate property, casualty and liability coverage that are
12 in excess of those embedded in our base rates or test year for rate proceedings that
13 end in a settlement.

14 **Q. Can you explain the reason for the self-insurance reserve adjustment?**

15 A. Yes. The current annual expense recorded for a self-insurance reserve for FPUC has
16 been short of the actual claims. In addition, there were changes to the deductible
17 limits for the workers' compensation policy that necessitate an increase for the
18 reserve. To determine the shortfall, we analyzed claims for three years for FPUC. A
19 three-year average was used to account for today's increasing insurance market and
20 to accurately account for the higher deductibles for workers' compensation which
21 have only been in place for the last few years. The adjustment is the total of the
22 shortfall, or excess of the average claims, compared to the annual expense and the
23 changes due to the workers' compensation limits.

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1 **Q. Are you supporting any adjustments to operating expenses for the self-**
2 **insurance reserve?**

3 A. Yes. I am supporting an adjustment on Schedule C-7 (2025) page 8, which relates to
4 the self-insurance reserve.

5 **Q. Can you explain the reason for this self-insurance?**

6 A. Yes. As mentioned earlier in my testimony, the current annual expense recorded for
7 the self-insurance reserve for FPUC has been short of the actual claims. Plus, CUC
8 has experienced changes to the deductible limits for the workers' compensation
9 policy that would increase the reserve. The self-insurance adjustment is increasing
10 the self-insurance reserve to account for this shortfall. The total adjustment is
11 \$189,342.

12 **Q. Please explain lines 25 and 26 on Schedule D-4a page 1 to 6.**

13 A. Shortly after the FPUC acquisition, CUC refinanced FPUC's long-term debt at more
14 competitive rates and on an unsecured basis. This refinanced debt was issued in the
15 form of CUC unsecured senior notes. The difference in interest rates, or make-whole
16 premium, to prepay the FPUC debt early was treated as part of the acquisition
17 adjustment and established as a regulatory asset that would be amortized over 30
18 years. The 13-month average balance shown on Line 25 of Schedule D-4a Page 1 to
19 6 represents the remaining, unamortized portion ending December 31, 2023,
20 December 2024 and December 2025, respectively.

21 CUC has also entered into Shelf Agreements with Prudential and MetLife, neither of
22 which is obligated to purchase any unsecured debt. These Shelf Agreements allow
23 the Corporation to efficiently issue private placement debt at competitive pricing. In

1 order to put these Shelf Agreements in place, the Corporation incurred administrative
2 and legal fees. These fees are amortized over a 15-year period. Line 26 of Schedule
3 D-4a Page 1 to 6 represent the amounts deferred for the Shelf Agreements on
4 average (over the last 13 months) as of December 31, 2023, December 2024 and
5 December 2025, respectively.

6 **Q. Can you please summarize your testimony?**

7 A. CUC has a strong balance sheet which has enabled it to access competitively-priced
8 capital to finance its capital expenditures. The Corporation has cultivated an
9 environment focused on management efficiency and financial discipline to provide
10 reliable and safe energy delivery services to new and existing customers in its service
11 territories. The Corporation's growth has enabled the Company to avoid continual
12 rate increases for customers over the years, despite a challenging economic
13 environment. The Corporation has not been in before the FPSC on a repeated basis
14 despite ever increasing costs.

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

21 **Q. Does this conclude your testimony?**

22 A. Yes, this concludes my testimony.

1 (Whereupon, prefiled direct testimony of
2 Nicholas Crowley was inserted.)

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Docket No. 20240099-EI: Petition for rate increase by Florida Public Utilities Company-
Electric Division

Date of Filing: August 22, 2024

Exhibits:	Exhibit NAC-1	Resume
	Exhibits NAC-2-36	Cost of Capital Results

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1 Pre-filed Direct Testimony
2 Of
3 Nicholas A. Crowley

4 **1. Introduction**

5 **Q. Please state your name, affiliation, and business address.**

6 A. My name is Nicholas Allen Crowley. I am a Vice President at Christensen Associates
7 Energy Consulting, LLC (“CA Energy Consulting”). My business address is 800
8 University Bay Drive, Madison, Wisconsin, 53705.

9 **Q. On whose behalf are you submitting this testimony?**

10 A. I am submitting this pre-filed direct testimony before the Florida Public Service
11 Commission on behalf of Florida Public Utilities Company.

12 **Q. Please describe your education and experience.**

13 A. I have a Bachelor of Science in economics and a Master of Science in economics from
14 the University of Wisconsin-Madison. I began working at Christensen Associates
15 Energy Consulting in 2016. Prior to joining this consulting group, I was an Economist
16 in the Department of Pipeline Regulation at the Federal Energy Regulatory Commission
17 (“FERC”), where I assisted with energy industry benchmarking, the incentive regulation
18 of oil pipelines,¹ and the review and evaluation of natural gas pipeline rate cases. In
19 these regulatory roles, I worked extensively with utility energy data and financial
accounting data used for the development of cost of capital studies, among other

¹ Five-Year Review of the Oil Pipeline Index. Issued: December 17, 2015. 153 FERC ¶ 61,312.

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1 analytics related to utility rate filings. My curriculum vitae is contained within
2 Appendix I as Exhibit NAC-1.

3 **Q. Have you previously testified before the Florida Public Service Commission or**
4 **other state regulatory commission?**

5 A. I have not testified before the Florida Public Service Commission (“Florida PSC”) prior
6 to this engagement. However, I have testified on behalf of utilities in both the United
7 States and Canada. Most recently, I testified regarding cost of capital on behalf of
8 Alpena Power Company in Michigan.² I have also testified in Massachusetts and
9 Alberta, Canada.^{3,4,5} I have authored reports on electric and gas utility cost of capital that
10 were filed in the Caribbean and in the state of Wisconsin.⁶ In addition to cost of capital
11 testimony, my work includes incentive regulation framework evaluations, cost-of-
12 service analysis, marginal costs studies, and rate design. My reports have been filed
13 before regulatory authorities in the United States and Canada.⁷

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² Direct Testimony of Nicholas A. Crowley, Case No. U-21488, December 11, 2023.

³ Direct Testimony of Nicholas A. Crowley, D.P.U. 23-80 and D.P.U. 23-81, August 17, 2023.

⁴ Direct Testimony of Mark E. Meitzen, Ph.D., and Nicholas A. Crowley, D.P.U. 20-120, November 13, 2020; and Rebuttal Testimony of Mark E. Meitzen, Ph.D., and Nicholas A. Crowley, D.P.U. 20-120, April 23, 2021.

⁵ Determination of the Third-Generation X Factor for the AUC Price Cap Plan, Mark E. Meitzen, Ph.D. and Nicholas A. Crowley, MS, January 20, 2023.

⁶ For Grand Bahama Power Company, in 2018 and again in 2021. Also, for St. Croix Gas Company, located in western Wisconsin, in 2019.

⁷ For example, *Methodology and Cost Estimates for Generation and Transmission Services, 2021-2029*, Prepared for Newfoundland and Labrador Hydro, November 15, 2018.

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1 **Q. How will you refer to the Company?**

2 A. When referring to the Florida Public Utilities Company Electric Division, I will refer to
3 it as “FPUC” or “the Company.” When referring to Chesapeake Utilities Corporation,
4 the parent company, I will refer to it as “CUC” or the “Corporation.”

5 **Q. Please provide an outline for this testimony.**

6 A. Following this introduction, my testimony is organized in sections, as follows:

2. Purpose and Overview of Testimony
3. Fundamentals of Cost of Capital
4. Monetary Policy, Interest Rates, and Macroeconomic Performance
5. Cost of Debt Analysis
6. Cost of Equity Estimation Methods
7. Cost of Equity Results
8. Capital Structure Analysis
9. The Weighted Average Cost of Capital
10. Summary and Conclusions

7 **2. Purpose and Overview of Testimony**

8 **Q. What is the purpose of your pre-filed direct testimony?**

9 A. The purpose of my direct testimony is to present evidence and provide a
10 recommendation regarding the cost of capital faced by Florida Public Utilities Company
11 (“FPUC,” or “the Company”). The cost of capital study described in this testimony
12 consists of an assessment of the Company’s projected capital structure and carrying cost
13 on outstanding long- and short-term debt, as well as my recommendations with respect
14 to the required return on equity. I discuss the Company’s recent financial history and
15 financial projections through test year 2025 including, in particular, the weighted
16 average cost rate of long-term debt which, reflects Chesapeake Utilities Corporation’s

1 recent acquisition of Florida City Gas and ongoing need for incremental debt issues in
2 order to underwrite FPUC's rate base.

3 **Q. Have you prepared exhibits which support your testimony?**

4 A. Yes. I am sponsoring Exhibits NAC-1 through NAC-36, which are appended to this
5 testimony and can be found in Appendix II.

6 **Q. Please describe the Florida Public Utility Company's operations.**

7 A. FPUC, a wholly-owned subsidiary of Chesapeake, operates 3,154 miles of natural gas
8 distribution mains across 25 counties in Florida, serving approximately 96,000
9 customers. Additionally, FPUC owns and operates electric utility assets in five counties
10 in northeast and northwest Florida, distributing electricity to approximately 33,000
11 customers.

12 **Q. Briefly, what are the analyses you have conducted and what factors have you
13 considered that support your recommended ROE for FPUC in this proceeding?**

14 A. This testimony reports the results of an evaluation of FPUC's cost of debt, as well as a
15 recommendation for the company's allowed rate of return on equity (or "recommended
16 ROE"). The cost of debt analysis consists of a review of FPUC's short-term and long-
17 term debt issuances and cost rates. The recommended ROE is obtained by applying cost
18 of capital methods to Moderate-Sized Electric Utilities and Natural Gas Distribution
19 Utilities. These results were compared with small Non-Utility Companies with moderate
20 risk profiles. The sample entities provide a broad base of equity market experience of
21 utilities and comparable low-risk non-utilities operating on the North American
22 continent. This overall cost of equity estimate is obtained by applying four cost of equity

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1 methods including capital asset pricing model ("CAPM"), discounted cash flow
2 ("DCF"), risk premia, and an assessment of realized market returns.

3 **Q. Please summarize your recommendation with respect to the overall rate of return**
4 **for the Company.**

5 A. I recommend that the Florida Public Service Commission authorize the Company the
6 opportunity to earn a rate of return on equity with a mid-point of 11.30 percent. The
7 Company's projected 13-month average capital structure for 2025 consists of 37.91
8 percent long-term debt at an attenuated embedded debt cost rate of 4.51 percent.
9 Chesapeake's actual embedded cost of long-term debt is 5.21 percent, but the Company
10 has requested recovery of a reduced cost rate to lessen the requested overall rate of
11 return. The Company's capital structure also consists of 4.83 percent short term debt at a
12 cost rate of 5.81 percent, and 42.82 percent common equity at my recommended ROE of
13 11.30 percent. The regulatory capital structure also contains customer deposits at a cost
14 rate of 2.2 percent, as well as deferred taxes and regulatory tax liabilities at zero cost.
15 The weighted average cost of capital ("WACC") using these values is 6.89 percent. A
16 summary table is shown below.

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Table 1: Weighted Average Cost of Capital Results for FPUC (2025)

<u>EXHIBIT NAC-1</u>				
FLORIDA PUBLIC UTILITIES COMPANY				
OVERALL RATE OF RETURN REQUIREMENTS				
<u>WEIGHTED AVERAGE COST OF CAPITAL: REGULATORY CAPITAL STRUCTURE</u>				
13-MONTH AVERAGE, TEST YEAR 2025				
Capital Component	Outstanding Balances	Capitalization Share	Cost Rate	Weighted Average Cost Rate
Long-Term Debt	\$56,888,413	37.91%	4.51%	1.71%
Short-Term Debt	\$7,255,028	4.83%	5.81%	0.28%
Preferred Stock	\$0	0.00%	0.00%	0.00%
Common Equity	\$64,253,557	42.82%	11.30%	4.84%
Customer Deposits	\$4,001,097	2.67%	2.20%	0.06%
Deferred Taxes	\$13,206,708	8.80%	0.00%	0.00%
Regulatory Tax Liability	\$4,448,275	2.96%	0.00%	0.00%
ITC at WACC	\$0	0.00%	7.98%	0.00%
Total	\$150,053,078	100.00%		6.89%
<u>WEIGHTED AVERAGE COST OF CAPITAL: CONVENTIONAL CAPITAL STRUCTURE</u>				
STATED ON A CONSOLIDATED BASIS				
13-MONTH AVERAGE, TEST YEAR 2025				
Capital Component	Outstanding Balances	Capitalization Share	Cost Rate	Weighted Average Cost Rate
Long Term Debt	\$1,331,883,955	44.31%	4.51%	2.00%
Short-Term Debt	\$169,856,296	5.65%	5.81%	0.33%
Preferred Stock	\$0	0.00%	0.00%	0.00%
Common Equity	\$1,504,318,384	50.04%	11.30%	5.65%
Total	\$3,006,058,635	100.00%		7.98%

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1 **Q. Please provide a summary of the results of your cost of equity analysis.**

2 A. Table 2, below, provides a summary of the results of the cost of equity analysis.

3 **Table 2: Summary of Recommended Return on Equity (2025)**

COST OF EQUITY ESTIMATES, U.S. EQUITY MARKET-LISTED ENTITIES			
METHODOLOGY	Estimates		
	Low	High	Average
Discounted Cash Flow			
Mid-Sized Electric Utilities	9.37%	9.77%	9.57%
Gas Distribution Utilities	9.55%	12.08%	10.81%
Capital Asset Pricing Model			
Mid-Sized Electric Utilities	10.39%	11.61%	11.18%
Gas Distribution Utilities	10.14%	11.31%	10.72%
Low Risk Non-Utility Companies	10.10%	11.63%	11.29%
Risk Premia Model			
Mid-Sized Electric Utilities			10.52%
Gas Distribution Utilities			9.90%
Low Risk Non-Utility Companies			11.39%
Realized Market Returns, Rolling 10-Yrs			
<u>For 2013-2023</u>			
Mid-Sized Electric Utilities			11.52%
Gas Distribution Utilities			13.21%
Low Risk Non-Utility Companies			9.89%
Recommended Return on Equity	10.43%	12.21%	11.30%

1 **3. Fundamentals of Cost of Capital**

2 ***3.1 Definitions***

3 **Q. Please define what is meant by “cost of capital.”**

4 A. The cost of capital is the underlying rate used by investors to discount and value the
5 expected benefit flows obtained from holdings of financial assets and is also referred to
6 as the discount rate. The cost of capital is the compensation required by investors for
7 postponing consumption, for expected inflation, and for exposure to capital risks of
8 various dimensions, where such risks are, on the one hand, general to macroeconomies
9 and financial markets but also specific to the underlying investment vehicles used to
10 underwrite capital.

11 **Q. What are the elements of a firm’s capital structure?**

12 A. A firm’s capitalization consists of a mix of debt and equity. Corporate debt can take the
13 form of lines of credit and notes with banks and commercial lenders, mortgages, and
14 debenture bonds. Equity (or, common equity) of private entities, such as electric utilities
15 like FPUC, refers to the net accumulated value of contributed capital by equity investors.
16 At a general level, equity is in the form of common and preferred stock, and includes the
17 accrual of retained earnings, where investors, through the purchase of stock, assumes a
18 share in the ownership of a corporate entity. In some cases, debt instruments can
19 participate in equity returns and may also have rights of conversion to common stock.

20 **Q. What is a firm’s weighted average cost of capital (“WACC”)?**

21 A. The overall cost of capital, often referred to as the WACC and expressed in percentage
22 terms, incorporates the pool of financing vehicles used by the utility to underwrite and

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1 fund the capital that it employs in the provision of services to the public. The WACC is
2 the composite weighted cost of the financing vehicles including short-term debt, long-
3 term debt such as mortgage bonds, preferred stock, and common stock. These financing
4 vehicles constitute the financial contracts between lender and equity investors, and the
5 firm including government entities and private companies.

6 **Q. What does the term “long-term debt” mean in the context of utility capital?**

7 A. Long-term debt includes mortgage bonds, debentures, and long-term notes. The interest
8 on the principal amount of a bond, or the coupon rate on the share of preferred stock,
9 defines the level of compensation. Often, the interest rate is a predefined annual rate that
10 remains fixed over the term of the debt instrument. However, long-term debt instruments
11 may incorporate other provisions that provide for more complete contracting by
12 managing uncertainty through risk sharing between the debt holders (lenders) and issuers
13 (borrowers). These provisions can include adjustments to the rate of interest to reflect
14 contemporary market conditions and rates of inflation, call provisions, participation in
15 the earnings of the firm, conversion rights, and voting rights in the management of the
16 firm.

17 **Q. What is meant by “short-term debt”?**

18 A. Short-term debt includes credit lines or promissory notes with commercial banks.
19 Commercial terms may clarify that interest is to be paid monthly on the outstanding
20 daily balance in the case of lines of credit, or quarterly in the case of a promissory note.
21 The rate of interest applied to the outstanding balance can be tied to the interest rate on
22 obligations of some widely known financial market vehicle—say, the Secured Overnight

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1 Funding Rate (“SOFR”), or the Federal Funds rate, or the prime rate of commercial
2 banks—which also varies daily or monthly.

3 **Q. What is common equity, and how does it differ from debt instruments?**

4 A. Common stock property rights are somewhat different from other financial obligations
5 because, as owners of the firm, the returns to shareholders are residual, following the
6 compensation to other resources employed by the firm including debt obligations and
7 preferred stock. Common equity is essentially compensated last, and bears the burden of
8 much of the business, regulatory, and financial risks of investor-held entities. For this
9 reason, common equity is typically more costly than other forms of financial
10 instruments.

11 **Q. How are debt and equity securities exchanged between investors?**

12 A. As with many other markets, capital markets have primary and secondary dimensions.
13 Primary markets are the institutions and processes that facilitate the initial sale of the
14 financial obligations of the firm to investors, whereas secondary markets are structured
15 market processes that provide the means by which investors can purchase and sell
16 existing rights including shares of stock and debt obligations, as well as an array of
17 financial options to hedge, and to speculate on, financial risks. In general, equity markets
18 are more liquid than fixed income markets, meaning that sales and purchases of equities
19 can be made more quickly than specific bond securities.

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1 **Q. What determines a firm's cost of capital?**

2 A. The cost of capital is determined by several factors including the demand for capital, the
3 supply of savings across macroeconomies, expectations of inflation by capital market
4 participants, and, for specific investments, perceptions of risks harbored by investors.

5 The demand for capital is determined by expectations of future levels of economic
6 activity, while expected inflation is driven largely by monetary policy over the relevant
7 timeframe. Perceptions of risk, in turn, cover many dimensions of uncertainty including
8 future performance of individual investments and macroeconomies, and policy of
9 governing authorities regarding fiscal expenditures. To investors (savers) who hold
10 financial assets, expected benefits are in the form of future cash flows including interest
11 payments, dividend payments, market appreciation, and return of principal. When
12 investors supply funds to entities such as utilities and public entities (e.g., government
13 bonds), not only are they postponing consumption by foregoing value otherwise
14 obtained from alternative expenditures, they are also exposing funds to the potential
15 devaluation from ongoing inflation as well as to various uncertainties and risk attending
16 future cash flows. Investors are willing to incur these risk factors only if they are
17 adequately compensated. In brief, the cost of capital—the discount rate stated in nominal
18 terms—increases with rising demand for capital, with expectations of higher rates of
19 inflation, and with heightened perceptions of risk. As a practical matter, risk is arguably
20 the key contributing factor for the estimation of the cost of capital.

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Q. What risks drive a firm's cost of capital and how do these risks interact with the required return on investment?

A. In addition to macroeconomic risks that affect all firms in the market, including a nation's institutional stability, public policy, and climate issues, a firm's risk profile also consists of idiosyncratic factors associated with specific capital resources, such as sector risks, supply chain issues, management capabilities, and technological change. Expectations of future financial conditions of the specific company also constitute idiosyncratic risks. In debt markets, investors will re-price downward the bonds of a private company should the current financial condition or perceived risk level of the company suddenly decline. The decrease in the company's current condition, reflected as reduced interest coverage, then causes the expectation of the future condition of the company also to decline.⁸ Similarly, expectations of deteriorating earnings growth diminish investor demand for the firm's common equity shares at a given price. The decline in prices reflects a requirement by investors for a higher rate of return.

Q. What are the institutions that participate in capital markets?

A. Market participants, including lenders and holders of common and preferred stock, supply capital as investors, while borrowers, including public and private entities and common stock-issuing companies, constitute the demand side of capital markets. Commercial banks, credit unions, finance companies, capital exchanges, private equity funds, and investment banks serve as intermediaries that provide the institutional means

⁸ Bond prices and discount rates, in the form of the interest rates or bond yields (and yield to maturity), move in opposite directions; bond yields increase as bond prices decline, and decrease as bond prices rise.

that facilitate the interaction and linkage of the supply and demand sides of capital markets, focused on financing. These functions essentially include lending, borrowing, and the issuance of equity vehicles. Banks and credit unions borrow (and store) financial assets that in turn are invested in the form of debt and, to a lesser extent, equity.

Q. Why must the cost of capital be estimated rather than observed directly?

A. While the market prices of other inputs including labor, materials, and energy can be easily verified, the cost of capital—essentially, the price of capital—is not easily discerned, thus requiring estimation through the cautious application of analytical methods. The cost of capital reflects expectations of future risks and returns, which consistently change and cannot be directly observed. However, the cost of capital is generally positive even in the absence of inflation and risks, as savers require compensation for foregoing the right to use the funds saved for current consumption of goods and services. This is a reflection of the time value of money.

3.2 Legal and Institutional Foundations for Return on Equity

Q. What are the legal and institutional foundations for a utility's allowed return on equity?

A. Statutory and legal guidelines for the regulation of a utility's *fair rate of return* in North America are delineated in key decisions by authorities in Canada and the United States. The statutory principles of rate of return for public utilities rest substantially with two decisions of the Supreme Court of the United States. In the *Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia* case (262 U.S. 679, 1923), the U.S. Supreme Court set forth its view on fair rate of return, as follows:

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1 “...A public utility is entitled to such rates as will permit it to earn a return on
2 the value of the property which it employs for the convenience of the public
3 equal to that generally being made at the same time and in the same general
4 part of the country on investments in other business undertakings which are
5 attended by corresponding risks and uncertainties; but it has no constitutional
6 right to profits such as are realized or anticipated in highly profitable
7 enterprises or speculative ventures. The return should be reasonably
8 sufficient to assure confidence in the financial soundness of the utility and
9 should be adequate, under efficient and economical management, to maintain
10 and support its credit and enable it to raise the money necessary for the
11 proper discharge of its public duties. A rate of return may be reasonable at
12 one time and become too high or too low by changes affecting opportunities
13 for investment, the money market and business conditions generally.”

14 For capital committed by public utilities, a second landmark decision of the U.S.
15 Supreme Court echoed the “Bluefield” decision and expanded upon the fair return
16 standard for capital committed to public utilities. This second decision is the *Federal*
17 *Power Commission v. Hope Natural Gas Company* case (320 U.S. 391, 1944); a relevant
18 passage of the decision, referred to as *Hope*, is as follows:

19 From the investor or company point of view it is important that there
20 be enough revenue not only for operating expenses but also for the
21 capital costs of the business. These include service on the debt and
22 dividends on the stock[...] By that standard the return to the equity
23 owner should be commensurate with return on investments in other
24 enterprises having corresponding risks. That return, moreover, should
25 be sufficient to assure confidence in the financial integrity of the
26 enterprise, so as to maintain its credit and attract capital.

27
28 These longstanding decisions provide a more-or-less universally accepted framework for
29 determining the fair rate of return on capital committed by investors to public service.⁹ In

⁹ In the Permian Basin Area Rate Cases (390 U.S., 747, 1968), the U.S. Supreme Court stressed that:

“the court must determine whether the order may reasonably be expected to maintain financial integrity, attract necessary capital, and fairly compensate investors for the risks they have assumed, and yet provide appropriate protection to the relevant public interests, both existing and foreseeable. The court’s responsibility is not to supplant the Commission’s balance of these interests with one more nearly to its liking, but instead to assure itself that the Commission has given reasoned consideration

1 these decisions, the U.S. Supreme Court codified, in clear and well understood
2 terminology, benchmarks for setting fair and equitable prices for utility services,
3 including electricity, while also providing a fair rate of return on the capital provided by
4 investors. Though reaching back many years, these decisions are relevant and thus often
5 cited within utility regulation. To this day, they serve as the cornerstone for the
6 determination of rate of return and remain relevant for setting cost-based utility rates.
7 The immediate challenge for regulators, regulated utilities, and interested parties to rate
8 setting proceedings is to operationalize these principles in contemporary regulatory
9 processes.

10 *3.3 Financial Market Efficiency, Capital Valuation, and Utility Cost of Capital*

11 **Q. How do market expectations affect a firm's cost of capital?**

12 A. Expected market returns inform investors' required rate of return. Under the assumption
13 of efficient markets, competition inherent to U.S. and selected worldwide financial
14 markets implies that the prices of common shares (share prices) and bonds reside at
15 levels that reflect the opportunity cost of capital. As an example, assume that the
16 perceived risks attending the expected returns to common shareholders of Firm A are
17 equivalent to those of Firm B and other firms. If the share prices of Firm A imply an
18 expected market return of 10 percent, while the prices of Firm B and other firms of
19 comparable risks suggest (allow) market returns of 13 percent, the market price of Firm
20 A will fall to a level that provides a basis for market returns of just 13 percent,

to each of the pertinent factors.”

1 prospectively. A price that allows for a 10 percent prospective market return is
2 insufficient in the presence of opportunities for a market return of 13 percent on
3 alternative investments of comparable risk. Essentially, the 13 percent market rate of
4 return on investment alternatives constitutes the opportunity cost of capital. In short,
5 equivalent and comparable risks translate directly into comparable market rates of
6 return, as expected. This is the cost of capital of common shareholders in the firm.

7 **Q. How is the cost of capital expressed in financial markets?**

8 A. Whereas the cost of skilled labor, materials and supplies, and inputs (including fuel)
9 employed in the provision of utility services are expressed in money terms, the cost of
10 capital is expressed as an interest rate, typically shown as an annual percentage of
11 investment. This means that the costs of the capital resources employed by FPUC,
12 including generation equipment, power delivery systems such as transformers and lines,
13 meters, trucks and vehicles, computer systems, software, office facilities and buildings,
14 inventory and stores, and land—essentially, the rate base of FPUC—are reflected as
15 annual carrying charges. The cost of capital for FPUC is referred to as the required rate
16 of return (percent) on the capital resources committed by investors to FPUC, where
17 capital is valued at either original cost or fair value.¹⁰

¹⁰ For the determination of setting retail utility prices in the U.S. and elsewhere, the regulatory convention is to value the capital of public utilities at original cost. Other measures of capital value including fair value and trended original cost have been applied, particularly during eras of high rates of inflation and under circumstances where original cost measures cause distortions in the relevant costs and prices of complementary or substitute inputs.

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1 **3.4 Regulation, Demand for Capital, and Capital Attraction**

2 **Q. In general, why do utilities require resources from capital markets?**

3 A. The cost of capital concept may also be interpreted from the perspective of internal
4 investments and the demand for resources. Regulated utilities accommodate, by law, the
5 ongoing and steadily rising demand for services, which involves the expanding
6 employment of resources, capital in particular. Senior managers of firms, as agents for
7 the ownership or controlling interest of the entity such as shareholders or a local
8 municipality, are responsible for ensuring that the expected internal returns on
9 incremental capital committed by the firm are equivalent to the cost of capital to the
10 firm—i.e., investors' rate of return requirements. The adequacy of the internal returns on
11 incremental investment by electric utilities to fund capital at full opportunity costs,
12 however. This is highly dependent upon the soundness of the regulatory governance
13 structure to ensure that the utility has the opportunity to obtain sufficient revenues,
14 which in turn provide adequate returns on incremental investment in new facilities.

15 **Q. What are the consequences of a mismatch in a utility's cost of capital and its**
16 **allowed rate of return?**

17 A. Public utilities such as FPUC utilize and employ substantial levels of capital resource
18 inputs to provide utility services. In general, the flow of revenues less the costs of non-
19 capital inputs to the firm, such as operating expenses, provides a level of dollar returns to
20 capital, in the form of operating income. If the level of income matches expectations,
21 investors realize returns equivalent to the overall cost of capital. When the rate of return,
22 set by regulators, leads to inadequate returns to capital or to the expectation that returns

1 to capital are likely to be insufficient, utility managers are understandably reluctant to
2 make investments in infrastructure. Indeed, when the expansion of capital resources
3 occurs under a regulatory requirement including the obligation to serve, the absence of
4 adequate returns may be interpreted to implicitly constitute the confiscation of the
5 capital. Under these regulatory conditions, the utility is forced to provide services that
6 involve new investment, even though adequate returns are not obtainable. The result can
7 be a failure of capital attraction by the utility, and the confiscation of capital of
8 investors—a direct result of the inherent efficiency of competitive capital markets.

9 **Q. Please explain further what is meant by a “confiscation of capital” of investors.**

10 A. If the utility’s allowed rate of return is below its cost of capital, equity share prices can
11 be significantly bid down, giving rise to a sharp decline in the market capitalization of
12 the firm. The result is a wealth transfer from shareholders, as investors, to retail
13 consumers. In short, the capital of investors can be confiscated as a consequence of
14 compromised regulatory outcomes. Further, the regulatory governance structure,
15 particularly where the utility has binding service requirements and constraints, causes a
16 breach of fairness criteria and leads to a failure of the utility to satisfy capital attraction
17 standards where capital can be raised at fair and equitable terms. Essentially, higher
18 costs of debt interest charges result from the reduced credit standing in view of the lower
19 levels of interest coverage.

20 **Q. How do capital costs differ for utilities, relative to other industries?**

21 A. A utility and its managers can find themselves, as a result of service requirements,
22 forced to invest in real physical assets that are uneconomic from the perspective of the

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1 firm and its constituent investors, should the return on ongoing investments fall short of
2 the cost of capital. Given that the cost of capital is the minimum rate of return that must
3 be earned on physical assets to justify their acquisition, the regulator must be mindful of
4 the allowed rate of return levels and implement regulatory procedures that provide the
5 utility with an acceptable opportunity to realize returns, on the margin, that satisfy the
6 cost of capital—i.e., a rate of return equivalent to that realized on investments of
7 comparable risks. In the context of a binding regulatory constraint, and other regulatory
8 requirements such as obligations to serve, it is sufficient, but also necessary for the
9 required rate of return on incremental investment to adequately satisfy the opportunity
10 cost of funds. For this reason, the regulator should set the allowed rate of return equal to
11 the cost of capital so that the utility may satisfy its capital needs and service customers at
12 fair prices.

13 **Q. Why is it important for the regulator to set the utility's cost of capital using**
14 **empirical measurements, rather than "rules of thumb"?**

15 A. Investments and capital expansion are undertaken by utilities without inappropriate and
16 unfair wealth transfers between consumers and shareholders if, and only if, the allowed
17 rate of return is set at levels which are equal to the cost of capital. Whereas setting
18 allowed returns below the cost of capital constitutes a wealth transfer from investors to
19 utility customers, if the allowed rate of return is *greater* than the cost of capital,
20 investors' opportunity costs are more than achieved. Any excess earnings over and
21 above those required to service debt capital accrue to equity holders, resulting in a rise in
22 share prices. In such a scenario, a wealth transfer occurs from electricity consumers to

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shareholders. Therefore, setting the allowed rate of return equal to the cost of capital is the only policy that ensures commitment of necessary investments to satisfy utility service requirements while also providing fair and equitable returns to investors.

4. Monetary Policy, Interest Rates, and Macroeconomic Performance

Q. How does the United States Federal Reserve Bank's monetary policy influence cost of capital in the market?

A. Monetary policy has major influence on the cost of capital through the cost rates for various categories of financial assets and in the form of risks associated with financial assets, as incurred by the holders of those assets. Monetary policy is carried out through several channels and, as exercised by the United States Federal Reserve System, has a marked impact on interest rates worldwide.

Q. Please provide a brief history of recent monetary policy.

A. Modern monetary history includes three broad policy changes including the abrupt U.S. abandonment of the gold standard in 1971, and the institution of money supply targeting beginning in late-1979. Abandonment of the gold standard facilitated floating exchange rates across major economies. Money supply targeting, exercised through open market operations, are responsible for significant reductions in price inflation across the western economies during the 1980s and, subsequently, in many emerging markets during the time between the late 1990s and approximately 2005. In addition, nations unconstrained by the limits of gold reserves had leeway to address the presence of substantially reduced liquidity across western economies brought on by the global financial crisis

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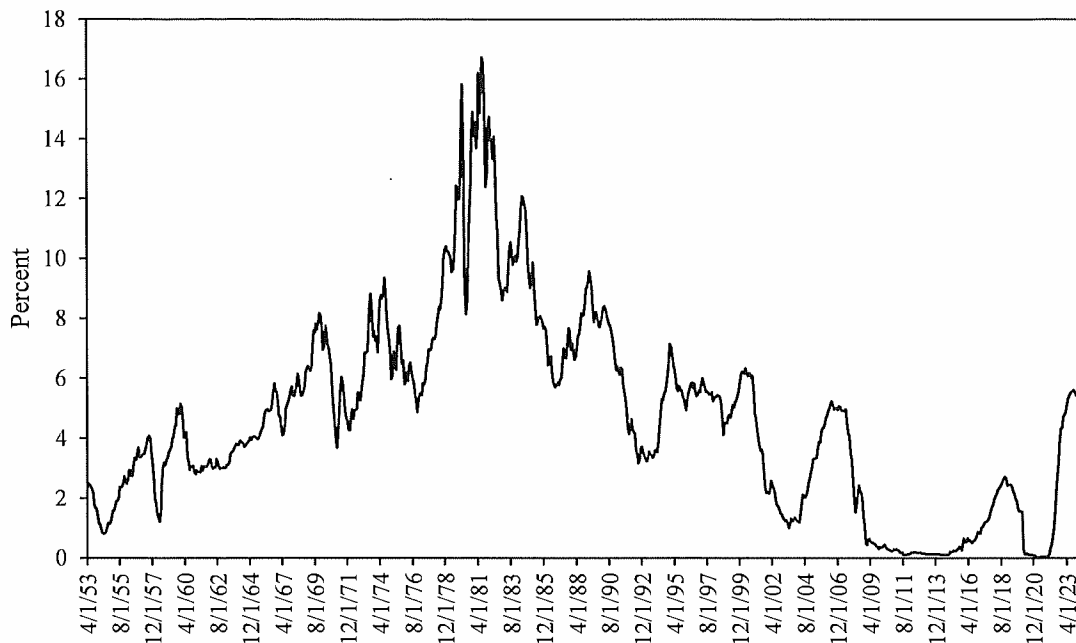
1 through the implementation of quantitative easing monetary policy between 2008 and
2 2015. This resulted in the vast expansion of money supply aggregates.

3 **Q. How have yields on short-term U.S. Treasury debt changed over time?**

4 A. Shown in Figure 1 are yields on short-term U.S. Treasury debt since 1950. As displayed
5 in the figure, short-term interest rates—proxied by yields on 90-day U.S. Treasury
6 Bills¹¹—reached slightly above 16 percent during the second half of 1981. As a
7 consequence of the exceptionally high financing costs, aggregate demand and overall
8 price inflation was substantially reduced, as expectations of future price inflation were
9 anchored downward by the early 1990s. Often referred to as the great moderation, the
10 period of money supply targeting and discretionary control of interest rates prevailed as
11 the central monetary policy through late-2007, manifested in rising interest rates as real
12 economic activity accelerated, and decreasing interest rates as economic activity slowed.

11 Interest rates on short-term debt are highly correlated such that yields on short U.S. T-Bills serves as a proxy for other short-term investments including (until recently), LIBOR and short-duration commercial paper.

Figure 1: Yields on Treasury Bills of 90-Day Duration (1953-2023)

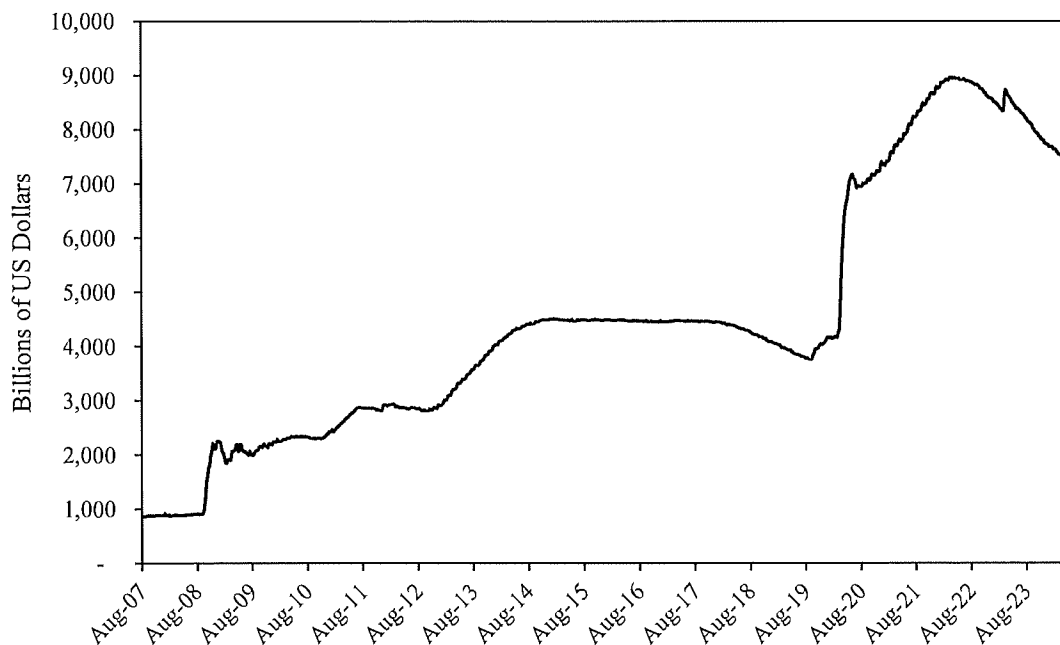


The deep recession of 2008-2009 ushered in abrupt policy changes, including a sudden sharp drop in short-term interest rates to near zero in early-2008. Evidence suggests that, all else equal, low real interest rates can contribute significantly to increased economic activity, at least under normal conditions. Under recessions and other conditions of economic and social stresses, economic agents hold comparatively high balances of cash and cash equivalents as precautionary savings,¹² essentially acting as insurance to manage uncertainty and risk. To the extent that comparatively low interest rates precipitate higher rates of aggregate demand including household consumption (services, non-durable and durable goods) and business investment, the level of overall economic activity can rise, without major increases in overall price inflation.

¹² Reference James Tobin, *Liquidity Preference and Behavior Toward Risk*, Cowles Foundation and *Review of Economics and Statistics*, 1958.

1 The Federal Reserve's policy to reduce interest rates in 2008 was supplemented with
2 quantitative easing, a vast expansion of money supply in the form of cash equivalents.
3 Quantitative easing was exercised through open market operations whereby the U.S.
4 Federal Reserve purchased sizable quantities of financial assets, concentrated in mid-
5 term U.S. Treasury securities. Such expansion of quantity aggregates, first implemented
6 on a large scale by the U.S. Federal Reserve beginning in 2011, was instrumental in
7 returning western economies to near full employment, following the depths of the world
8 recession, 2007-2009/10. The Federal Reserve's balance sheet holdings from 2007
9 through 2023 are provided in Figure 2.

10 **Figure 2: Balance Sheet Assets of the U.S. Federal Reserve (2007-2023)**



11
12 Viewed with respect to the long-term post war history, 2009 ushered in an era of
13 anomalous conditions: attenuated economic growth with a sizable gap between real
14 potential economic output, coupled with fairly high levels of household stress and

1 uncertainty. Under these conditions, economic agents are willing to hold large
2 precautionary balances (cash and equivalents). U.S. personal savings rates—percent of
3 household disposable income—increased approximately 2-4 percent during the late-
4 1990s to 2007, increased again to 7 percent between 2010 and 2019, spiked during the
5 pandemic, and then fell following distribution of the Covid-19 vaccines. Under these
6 conditions, sizable increases in monetary aggregates are absorbed as additional
7 precautionary savings balances. Not until expenditures by households and private
8 business sectors return to normal does economic activity return to near the level of
9 potential output. Where precautionary balances are unusually high, the return of
10 confidence in macroeconomic performance can translate into a much higher level of
11 aggregate demand. In turn, price inflation can rise significantly, particularly in the
12 absence of a corresponding increase in aggregate supply.

13 In the first year of the Covid-19 pandemic, the federal government deployed widespread
14 resources in the form of the Paycheck Protection Program and direct payments to U.S.
15 citizens. At the same time, the Federal Reserve lowered interest rates to zero and began a
16 new round of quantitative easing in an effort to avoid a financial panic. Shortly
17 thereafter, global conflict arose in the form of Russia's invasion of Ukraine, which
18 shocked grain and energy markets not just in Europe, but around the world. These
19 developments contributed to the inflation of 2022 and 2023, which peaked in June 2022
20 at an annual rate of 9.1 percent, as measured by the BLS Consumer Price Index. While
21 certain inflation drivers declined in the first half of 2024, the global political landscape
22 remains highly uncertain, with the ongoing wars in Ukraine and in the Middle East.

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1 Beginning in the late-1980s and early-1990s, Federal Reserve monetary policy was
2 centered on setting interest rates at levels that translated into ongoing price inflation of
3 2.0 percent. Essentially, the Federal Reserve would set short-term interest rates, executed
4 through open market operations, at levels which maintained overall price inflation near
5 this 2.0 percent level. However, recent experience has somewhat altered the forward-
6 looking perspective of inflation, leading to higher interest rates and great concern with
7 regard to international energy markets. As stated by Federal Reserve Chairman Powell
8 during the Federal Reserve's annual 2023 conference:¹³

9 It is the Fed's job to bring inflation down to our 2 percent goal, and we
10 will do so. We have tightened policy significantly over the past year.
11 Although inflation has moved down from its peak—a welcome
12 development—it remains too high [...] Since last year's symposium,
13 the two-year real yield is up about 250 basis points, and longer-term
14 real yields are higher as well—by nearly 150 basis points. Beyond
15 changes in interest rates, bank lending standards have tightened, and
16 loan growth has slowed sharply [...] At upcoming meetings, we will
17 assess our progress based on the totality of the data and the evolving
18 outlook and risks. Based on this assessment, we will proceed carefully
19 as we decide whether to tighten further or, instead, to hold the policy
20 rate constant and await further data.

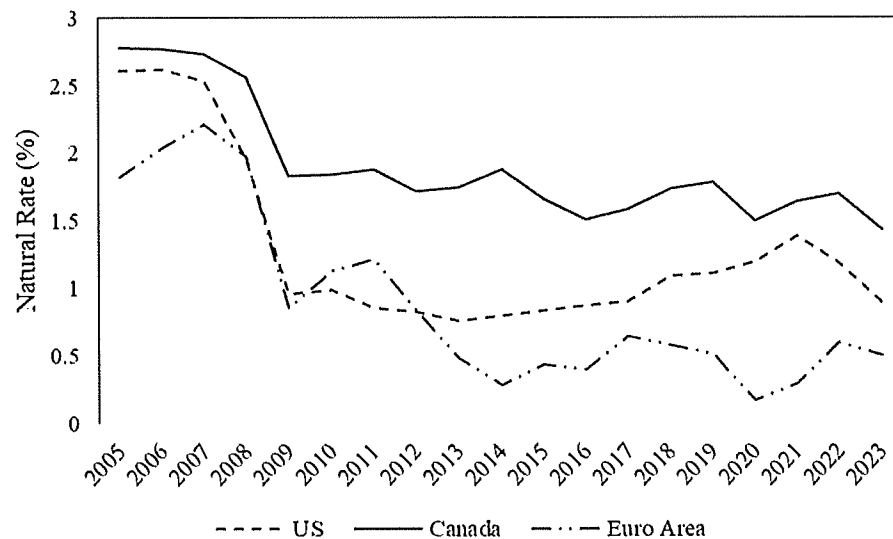
21 Chairman Powell's signal that inflation is the predominant concern of the Federal
22 Reserve indicates that the federal funds rate is unlikely to be reduced substantially in the
23 near term.
24 To combat the rise of inflation, Fed Chair Jerome Powell and the Federal Reserve began
25 hiking interest rates in March 2022. Over the following 16 months, the Fed raised rates

¹³ Chairman Jerome Powell, *Inflation: Progress and the Path Ahead*, delivered at the Structural Shifts in the Global Economy, policy symposium sponsored by the Federal reserve Bank of Kansas City, August 25, 2023.

11 times, to a range of 5.25 percent to 5.50 percent. The current interest rate environment consists of the highest rates in the past 22 years. This rapid increase in rates has strong implications for equity cost of capital, as very low risk bonds now provide a relatively high return by historical standards.

Chairman Powell has stated that the neutral rate of interest may be rising,¹⁴ where the neutral rate is defined as the rate of interest which prevails at a non-inflationary full employment level of aggregate output. As mentioned, estimates clearly suggest the neutral rate has declined significant in the most recent years, as shown in Figure 3, below. However, estimates of this rate have notched up in recent months.

**Figure 3: Trends in the Natural Rate of Interest
U.S., Western Europe, and the U.K.¹⁵**



¹⁴ <https://www.brookings.edu/articles/the-hutchins-center-explains-the-neutral-rate-of-interest/>

¹⁵ Holston, Laubach, and Williams. 2023. "Measuring the Natural Rate of Interest after COVID-19," Federal Reserve Bank of New York Staff Reports, no. 1063, June.

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1 **Q. How does fiscal policy influence capital markets?**

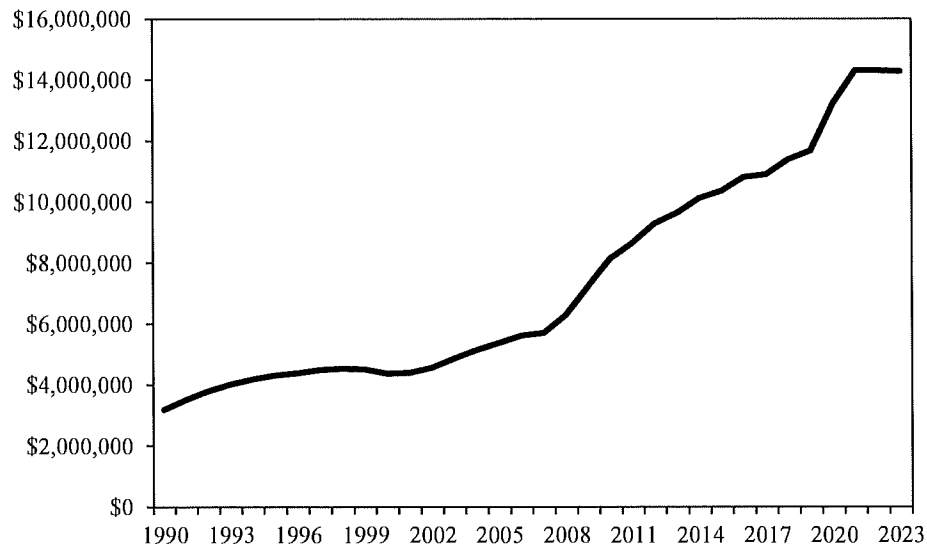
2 A. Fiscal policy also affects private investment positions, not just within the United States
3 but internationally. Increased deficit spending in the United States, along with natural
4 fluctuations in funding needs relative to tax revenue, requires the Treasury department to
5 issue debt securities in the form of Treasury bills and bonds. These debt issuances are
6 considered to be among the most secure bonds available in the global marketplace,
7 providing a near risk-free security for investors. As a result, large issuances of U.S. debt
8 securities, particularly when issued at higher rates, can result in “crowding out” of other
9 investment instruments.¹⁶ Competition with Treasury securities can create challenges for
10 private sector firms to attract capital. In addition, demand for capital by the U.S.
11 Treasury has been met with somewhat muted enthusiasm in recent auctions.¹⁷ Figure 4
12 depicts the growth of U.S. public debt, in 1990 dollars, showing that the real value of
13 U.S. debt has grown nearly five-fold in the past three decades. In nominal terms, the
14 U.S. Congressional Budget Office projects U.S. *deficit* levels will reach \$\$1.6 trillion in
15 2024 and increase up to \$2.6 trillion by 2034.¹⁸ Although the myriad consequences of
16 this escalation of debt is difficult to predict, economic principles clearly herald an
17 increase in real interest rates, leading to a challenging environment for private
18 investment.

¹⁶ *Macroeconomics*, Gregory Mankiw, Seventh Edition, 2009, p. 69.

¹⁷ <https://www.bloomberg.com/news/articles/2024-05-28/treasuries-steady-before-debt-auction-rush-and-inflation-data>

¹⁸ <https://www.cbo.gov/publication/59710>

Figure 4: Real Value of U.S. Public Debt (in 1990 Dollars)



Heightened government spending by the U.S. and western economies is expected to continue. A component of increased spending arises from recent policy initiatives by the U.S. and Western Europe proposing to embark on a major structural overhaul including large scale investment focused on:

- climate change mitigation, particularly as it relates to electric utility operations;
- improved efficiency in transportation sectors;
- further development of human capital within the labor force;
- advanced information technologies; and,
- much improved access to information systems in less developed regions.

1 **Q. Could you please summarize how monetary and fiscal policy affect utility cost of**
2 **capital?**

3 A. Consideration of the factors discussed above portend substantial demand for capital,
4 elevated risk-free interest rates, relative to recent history, and a sustained rate of inflation
5 above 2.0 percent in the coming years.¹⁹ Taken as a whole, the above considerations
6 suggest that, on balance, interest rates and the risk-adjusted cost of capital during the
7 2024-2026 years likely understate aggregate demand and related conditions that are
8 likely to prevail over near-term future years; namely:

- 9 • comparatively low natural rate of interest, as viewed with respect to
10 recent decades;
- 11 • monetary policy that faces continued inflationary pressures, making it
12 difficult to bring average inflation to 2.0 percent; and,
- 13 • considerable demand for capital, particularly in light of contemporary
14 long-term demand for renewable resources; infrastructure; and challenges
15 containing the secular rise in the primary deficits across developed
16 western economies.

17
18
19

¹⁹ The relevant three factors can be summarized as *very high levels of precaution balances of cash and equivalents; major expansion of fiscal expenditures in the U.S. and Western Europe to fund investment in public goods; and Flexible Inflation Targeting.*

1 **5. Cost of Debt Analysis**

2 ***5.1 Long-Term Debt Issuances***

3 **Q. Please define the term “long-term debt.”**

4 A. Generally speaking, long-term debt refers to the outstanding debt obligations with a
5 duration beyond one year. At one time, the long-term debt of the U.S. corporate sector
6 including public utilities consisted largely of corporate bonds held directly by investors,
7 and long-term loans with commercial banks. Over the past two decades, however, an
8 array of non-bank intermediaries including finance companies, broker/dealers, insurance
9 companies, pension funds, ETFs, mutual funds, private investment pools, and asset-
10 backed securities supplement these conventional sources and, these days, provide much
11 of the long-term debt used by corporate organizations and private companies, both in the
12 U.S. and abroad.

13 **Q. What is the benefit of issuing long-term debt to fund long-term investments?**

14 A. Lending by intermediaries constitutes private placement, in lieu of new debt issues sold
15 broadly within primary security markets. Like other utilities, Chesapeake and operating
16 utilities including Florida Public Utilities Company are taking advantage of the larger
17 range of borrowing opportunities to underwrite its investment in long-term physical
18 assets. The advantages are twofold. First, underwriting costs including legal fees, and
19 charges for security registration are dramatically reduced. Second, execution time is
20 significantly reduced, allowing parties to the transaction—e.g., an insurance company
21 and a public utility—to better facilitate new debt issues within the larger schedule of
22 other primary market offerings. Third, provisions of new issues, such as secured

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1 collateral, and the schedule for paying down the principal can be more easily tailored to
2 the needs of the parties, particularly borrowing entities such as utilities.

3 **Q. What are the costs associated with issuing and holding long-term debt?**

4 A. The carrying charge rate for long-term debt is determined on a weighted average basis
5 across the outstanding balance of individual issues, measured on a 13-month basis. For
6 each issue, the charge rate (or interest rate) includes coupon interest charges on the
7 outstanding principle plus the amortization of the issuance costs incurred at the time of
8 origination. The total charges are adjusted for requisition costs and the maintenance of
9 fees on shelf agreements.

10 **Q. What are the existing long-term debt obligations of FPUC?**

11 A. For test year 2025, FPUC's long-term debt consists of the 22 outstanding issues of
12 promissory notes of Chesapeake, with durations ranging from two to twenty years. In
13 accordance with internal financial policy, Chesapeake has put in place fairly long-
14 duration notes during recent years, as both nominal and real interest rates were
15 remarkably low, when viewed with respect to the longer-term history of U.S. financial
16 markets. For example, during the years late-2013 through early-2022, Chesapeake
17 originated eleven new promissory note issues, raising a total of \$600 million at face
18 interest rates from as low as 2.49 percent to a high 3.98 percent, with times to maturity
19 between 15-20 years. For reference, the yield on outstanding issues included within
20 Moody's Baa Bond index range from 3.16 percent to 5.46 percent for this period,
21 averaging 4.39 percent. Notes at interest rate levels have specific retirements schedules.

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1 The outstanding principal on long-term debt issued in late-2023 is reduced by nearly 80
2 percent, as only a modest share of the late-November issues are attributable to FPUC's
3 electric operations.

4 **Q. What is the context of FPUC's debt cost rates?**

5 A. As a consequence of the rapid tightening of monetary policy, short- and long-term
6 interest rates rose dramatically worldwide beginning in the spring of 2022. As a result,
7 most of Chesapeake's long-term debt issues originating in late-November 2023, used
8 predominantly to finance its acquisition of Florida City Gas, have relatively short terms
9 to maturity—seven years or less. Chesapeake—and financial markets, generally
10 speaking—anticipates that over years 2026—2030, both short- and long-term interest
11 rates will decline from recent high levels. Chesapeake will then be in the position of
12 largely supplanting the comparatively high-cost issues of late-November 2023 with
13 lower cost long-term debt. Moreover, in fairness to its retail electricity customers, only a
14 modest share (21 percent) of the comparatively high-cost rate promissory notes of late-
15 November 2023 are used to determine the overall cost rate for long-term debt
16 attributable to FPUC's electric operations.

17 **Q. Why is FPUC's requested cost of long-term debt lower than Chesapeake's**
18 **consolidated cost of long-term debt?**

19 A. FPUC requests recovery of an attenuated cost of long-term debt relative to Chesapeake's
20 actual embedded cost of long-term debt. The Company has removed from the long-term
21 debt interest rate calculation a portion of long-term debt costs associated with
22 Chesapeake's purchase of Florida City Gas Company ("Florida City Gas"). With a

portion of these proceeds used to finance the acquisition during a period of elevated interest rates and considering the overall operational benefits across the entire enterprise the Company is requesting the inclusion of approximately 21 percent of these senior notes to determine the overall long-term interest rate for purposes of this rate case filing. By removing a portion of these costs from the cost rate requested for recovery, FPUC has reduced its requested long-term debt cost recovery, and, consequently, the Company's overall requested WACC rate.

Q. Please provide FPUC's long term debt cost rates for the historical, current, and test period years.

A. FPUC's long-term debt cost rates for the three reporting years, historical (2023), current (2024), and test period (2025) are presented in Table 3. These cost rates are based on FPUC's supplemental schedules, which have adjusted the actual Chesapeake cost of debt downward. As discussed above, FPUC has requested recovery of an attenuated cost of long-term debt to reflect only a portion of the debt costs associated with the purchase of Florida City Gas. The actual cost of debt incurred by Chesapeake is, in fact, higher than the cost rates in this table.

Table 3: FPUC's Requested Long-Term Debt Cost Recovery Rates (2025)

Long-Term Debt Cost Rates	
Historical Year (2023)	3.64%
Current Year (2024)	4.12%
Projected Test Year (2025)	4.51%

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1 **5.2 Short-Term Debt Issuances**

2 **Q. What is the definition of “short-term debt?”**

3 A. Short-term debt refers to outstanding debt with less than one-year maturity. Short-term
4 debt can include short-term loans and revolving credit facilities with commercial banks
5 and non-bank financial intermediaries, as well as commercial paper, and possibly short-
6 term repurchase agreements.

7 **Q. How is short-term debt employed?**

8 A. Short-term debt is integral to financial operations, both day-to-day cash management and
9 near-term financial planning. Driven by the variation the revenues and cash outlays,
10 outstanding balances of short-term debt can vary considerably. In the case of electric and
11 gas utilities, flows of revenues are highly sensitive to short-term variation in energy
12 demand, in turn determined by weather. Near-term cash underwrite near-term resource
13 inputs including wages and salaries, operating expenses including invoices for outside
14 services, and the immediate cash requirements of ongoing construction, can vary
15 considerably by day, month, and season. Short-term debt can also be used to bridge
16 long-term external financial events including the issuance of common stock and long-
17 term debt.

18 **Q. What is the condition of FPUC’s short-term debt liabilities?**

19 A. The short-term debt of Chesapeake consists of a multi-tranche lending facility with a
20 borrowing limit of \$250 million for the first-tier tranche (364 day). The second-tier
21 tranche (5-year) borrowing limit is \$200 million, providing a total of \$450 million in
22 short-term revolving credit for general use. In addition, the facility has accordion

1 features, providing an additional \$150 million borrowing capacity. In summary,
2 Chesapeake has \$600 million of short-term and medium-term debt capacity under
3 current arrangements in place with major lending institutions.

4 **Q. What are the terms of FPUC's short-term debt?**

5 A. The commercial terms of Chesapeake's short-term debt include use-of-facility and non-
6 use commitment fees. The use-of-facility interest charges on "draw down" amounts are
7 based on the Secured Overnight Financing Rate ("SOFR"), as published daily by the
8 Federal Reserve Bank of New York. The first-tier tranche interest charges equal the
9 daily SOFR interest rate plus 90 basis points, whereas charges for draw-down amounts
10 on the second-tier tranche is set according to the daily SOFR interest rate plus 110 basis
11 points. Commitment fees on unused capacity is equal to 10 basis points, for both first-
12 and second-tier tranches.

13 **Q. How do the terms of FPUC's short-term debt align with current conditions in debt**
14 **markets?**

15 A. At this writing, the contemporary outlook calls for the FOMC policy rate of 5.25-5.50%
16 to, most likely, reduce the policy rate by just a single step of 25 basis point through the
17 end of 2024. This Federal Reserve policy outlook underlies Chesapeake's expectations
18 and is reflected in the short-term debt cost rate for test year 2025. Stated on a 13-month
19 weighted average basis, the charge rate for Chesapeake's short-term debt was 5.35% for
20 2023, rising to 6.42% for the current year 2024, and is expected to decline to 5.81% for
21 test year 2025.

1 **6. Cost of Equity Estimation Methods**

2 **Q. What is the basis for FPUC's cost of equity estimations?**

3 A. The cost of common equity is based upon the observed market experience of the
4 common equity shares of samples of companies traded on U.S. financial markets. It is
5 useful to reiterate three essential points that were mentioned above. First, the cost of
6 equity of the firm—opportunities costs incurred by investors in the firm—is a function
7 of perceptions of risk, the demand for and supply of capital, and expectations of
8 inflation. Second, the cost of common equity of the firm is equal to the opportunity cost
9 of capital incurred by common shareholders of the firm contemporaneously, though the
10 experience of long-term history guides the assessment of opportunity costs. Third, the
11 cost of equity of the firm is equal to the expected market rate of return on alternative
12 investments of comparable risks available to shareholders—i.e., the opportunity cost of
13 capital—within a contemporary timeframe.

14 **Q. How does the cost of equity recommendation methodology differ from the**
15 **approach used to determine the cost of debt?**

16 A. In the case of debt, both the market price and future expected cash flow returns to
17 capital, in the form of dividend payments, are observable by inspection. Thus, the net
18 expected yield to maturity, which reflects the opportunity cost of capital to holders of
19 debt, can be determined directly. This is the market rate of return, ex ante. For purposes
20 of determining the overall utility rate of return, the cost rate of long-term debt is that
21 which is set at the time of issuance in primary financial markets.

1 In contrast, expectations of investors about the prospective cash flows and market
2 returns on common equity cannot be observed. Cost of equity must be discerned through
3 the proper and careful application of well-established financial frameworks. Also, the
4 allowed equity rate of return is typically set according to the current and expected cost of
5 capital, though much of the equity investment was committed in many years past. That
6 is, the cost of equity may change over time as market conditions change, even though the
7 original equity contribution has been in place for some time.

8 **Q. What are the cost of equity estimation models used in this study?**

9 A. In order to develop our recommendation for the rate of return on equity for FPUC, I
10 apply four cost of capital methods. These estimation procedures include variants of the
11 constant growth Discounted Cash Flow model (DCF), and the Capital Asset Pricing
12 Model (CAPM). These classical approaches are commonly recognized within modern
13 finance theory and are readily utilized for purposes of capital valuation. The results of
14 these two formal models of the cost of capital are augmented by an assessment of Risk
15 Premia analysis and Realized Market Returns for utility and non-utility companies of
16 comparable risks.

17 **Q. Please describe the Discounted Cash Flow (“DCF”) model in further detail.**

18 A. The constant growth Discounted Cash Flow model was originally developed by Myron
19 Gordon in 1957 and was broadly applied during the following decades. In its classic,
20 one-stage form, the derived DCF model defines the cost of capital as the sum of the
21 adjusted dividend yield, and expectations of future growth in cash flows to investors,

including dividends and future appreciation in share prices. The classic DCF model is as follows:

$$K_{e,j} = \frac{D_{0,j} (1 + E(g_j))}{P_{0,j}} + E(g_j)$$

with,

$K_{e,j}$ = cost of equity capital for asset j

$D_{0,j}$ = current dividends per common share for asset j

$E(g_j)$ = expected growth in future cash flow returns to investors in asset j

$P_{0,j}$ = current price per common share for asset j

The one-stage form of the DCF approach is elegant and intuitively tractable. As shown above, the model includes two terms, a mathematical result derived from the general form of discounted present value, as applied to a series of benefits over time characterized by uniform growth. A cursory review of historical returns on equities suggests that differences in the observed internal returns to capital, as well as expectations of future returns as expressed by security analysts, contribute to realized market appreciation as well as to the total returns to capital. It is plausible that the expected path of future returns harbored by investors may assume a pattern of non-constant growth.

Q. Please explain the Capital Asset Pricing Model (“CAPM”).

A. The Capital Asset Price Model (CAPM) was developed by William Sharpe (1961) and John Lintner (1964). CAPM was derived from mean-variation analysis and, in particular, portfolio selection developed by H. Markowitz (1952). The derived CAPM shows how

the valuation of a financial asset (price) is based upon two components: risk-free returns and an adjusted risk-based return. Surrogates for risk-free returns can be observed directly in capital markets, including market returns on short- and intermediate-term debt. As a general rule, the cost rates and market returns on government debt obligations serve as appropriate surrogates.

The adjusted risk-based return is based upon three factors: 1) the covariation of the returns of the asset and that of markets for risky assets, 2) the statistical variance of returns of the market for risky assets, and 3) the difference between expected overall returns on risky assets, and risk-free returns. The third parameter is referred to as the excess return and is equal to the difference between the overall returns to risky assets for equity markets as a whole and the risk-free return rate. The CAPM is shown below:

$$K_{e,j} = r_{free} + \beta_j * (r_{market} - r_{free})$$

with,

$K_{e,j}$ = cost of equity capital for risky asset j, stated in percentage terms

r_{free} = risk-free rate of return

β_j = asset beta; the ratio of the covariation between risky asset j and the market as a whole and the variance of market returns

r_m = expected rate of return on equity markets, as a whole

Q. What are the assumptions supporting the DCF and CAPM approaches to estimating the cost of equity?

A. The determination of the cost of equity capital faces two overarching assumptions, as follows:

- both approaches are forward looking and thus the results are highly dependent upon useful estimates of investor expectations about future market performance.
- the underlying assumptions for DCF and CAPM include, among other things, an efficient market and rational behavior of investors such that all opportunities for above- and below-normal returns to capital are exhausted on an expected value basis. In short, capital markets value financial assets at the implied opportunity costs of capital, given investor perceptions of risk.

Q. What is the “Risk Premia” approach to estimating the cost of equity?

A. The underlying concept of the risk premia approach is that differences in perceptions of risks among financial assets such as equities and debt are revealed in differences between the historical market returns. The historical differences between equity and debt returns, referred to as risk premia, serve as a surrogate for the compensation for risk over future timeframes. When combined prospectively with the expected cost of short-term debt, risk premia provide a useful benchmark to gauge the underlying cost of equity capital. The immediate application of the Risk Premium approach is codified as follows:

$$K_{e,j} = r_{free}^{st} + rp_{int-st} + rp_{m-nit} + rp_{y-m}^{CAPM} + rp_{free}^{size}$$

with,

$K_{e,j}$ = cost of equity capital for risky asset j, stated in real terms

r_{free}^{st} = risk-free rate of return, for a short-term asset

rp_{int-st} = risk premium for intermediate-term asset relative to a short-term

asset

rp_{m-int} = risk premium for equity market m relative to an intermediate-term

asset

rp_{y-m}^{CAPM} = risk premium for industry y with respect to equity market m, where y

refers to the relevant industry sample²⁰

Q. What are the potential drawbacks or pitfalls of the Risk Premia approach?

A. Application of the Risk Premia approach contains two potential pitfalls:

- The opportunity cost of common equity capital, stated in nominal terms, is sensitive to the demand for and supply of capital; and,
- Risk premia among debt and equity instruments are also sensitive to expected inflation. Thus, risk premium analysis must account for expected inflation in the future. That is, the underlying rate of inflation and conditions of the historical period over which risk premia are estimated must match those of the expected conditions of the relevant period over which the common equity recommendation is being applied, and over which retail electricity prices are being set.

²⁰ Cost of capital can be highly specific to industry, and it thus appropriate to incorporate this factor to account for industry-specific risks, generally speaking. However, the selection process incorporated within the immediate analysis implicitly normalizes for industry specific risks by concentrating on a sample of electric and gas utilities. Hence, the factor for industry specific risks is zero.

Q. Please describe how “Realized Market Returns” are used in the return on equity recommendation.

A. Measurements of Realized Market Returns and risk metrics are increasingly used as a basis to assess plausible returns in the future. As discussed, efficient markets suggest that all financial assets are priced at levels such that the expected future returns of individual assets are equivalent to the underlying opportunity cost. Thus, if historical returns guide expectations of future returns, historical returns provide a useful benchmark and, within reasonable bounds, reflect the opportunity cost of capital. In this respect, the Realized Market Returns methodology can be viewed as a market-based approach of Comparable Earnings, and thus fully satisfies the Bluefield and Hope criteria. More specifically, realized market return for a period is defined as:

$$R_{j,t-(t-1)} = (P_{j,t} + D_{j,t-(t-1)} - P_{j,t-1}) / P_{j,t-1}$$

with,

$R_{j,t-t-1}$ = market return realized within the interval $t - t-1$, for financial asset j

$D_{j,t-t-1}$ = dividends paid during the interval $t - t-1$, for financial asset j

$P_{j,t,t-1}$ = market value of financial asset j , at t and $t-1$

The successful application of this fourth approach is identification and measurement of historical returns in a manner that reasonably reflects expectations of investors with respect to the contemporary outlook.

1 **Q. Why are realized market returns useful for supporting a cost of equity**
2 **recommendation?**

3 A. Observed historical returns and future expected returns of financial assets are ordered
4 according to risks. This ordering is a natural and inevitable result of competitive
5 financial markets: because risk is costly, higher costs must be offset by higher returns.
6 While it is not based upon an explicit model, the analysis of the risk among classes of
7 risky assets provides a means to infer the underlying opportunity cost of capital.

8 **7. Cost of Equity Results**

9 ***6.1 Data and Proxy Group Selection***

10 **Q. What is the general approach to your cost of equity analysis?**

11 A. The cost of capital estimates draw on the universe of private companies listed with U.S.
12 capital markets, including the NASDAQ Stock Market (“NASDAQ”) and New York
13 Stock Exchange (“NYSE”), as a starting point from which to select comparable risk peer
14 groups of utilities and non-utility companies. Once selected, the cost of common equity
15 is estimated for the peer group sample companies. A distinguishing factor of
16 comparability is market size. As discussed above, empirical evidence convincingly
17 demonstrates that the cost of capital rises as the relative capitalization of firms declines,
18 other factors held constant.

19 **Q. What are the sources of data for the cost of equity study?**

20 A. The cost of equity study utilizes data from several information sources including
21 Morningstar, Kroll, Value Line, UBS Financial Services, the Center for Research in
22 Securities Prices (“CRSP”), Yahoo Finance, Trading Economics, and Zacks Financial

1 Services. For the selected entities, an array of financial data, business descriptions and
2 classifications, excerpts from financial statements, historical price experience, and
3 various diagnostic statistics of interest are reported by these data sources. Specifically,
4 common equity shares of the comparable risk entities are traded on the NASDAQ and
5 NYSE exchanges. NASDAQ and NYSE listings constitute large shares of worldwide
6 equity markets, along with commensurate levels of transaction liquidity. Movements and
7 performance of the indexes for the North American markets often parallel movements of
8 share prices reflected within other world indexes, though differences are observed as a
9 result of currency exchange rate movements, unanticipated random social and physical
10 events within regions, and significant changes in expectations of economic performance
11 across various regions worldwide.

12 **Q. Please describe the selection process for the utility proxy group.**

13 A. To obtain cost of equity estimates for FPUC, it is necessary to look to a group of
14 publicly traded companies (“Utility Proxy Group”) for comparable estimates that can be
15 utilized to determine the Cost of Equity for the Company. The cost of capital methods
16 used herein coupled with evidence from international cost of capital studies suggest that,
17 particularly for contemporary capital markets with high levels of international capital
18 flows, selection according to observable market and financial risk metrics are the
19 predominant selection criterion. Line of business appears to have only a modest level of
20 relevance to cost of capital once market and financial criteria are satisfied. Thus, it is
21 appropriate, for determining the allowed return on equity, to draw samples from a broad
22 range of business fields once comparable risk criteria are satisfied. The cost of capital

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1 study utilizes two common-business- line samples (electric and gas), adhering to
2 standard regulatory practices. In addition, cost of equity estimates were developed for a
3 separate sample of low-risk non-utility entities for comparison purposes.

4 From the U.S. market portfolio, I developed two utility company samples and a sample
5 of moderately-sized, comparable risk non-utility companies. The first sample, Moderate-
6 Sized Electric Utilities (Sample 1), is limited to retail electricity service providers that
7 have modest yet significant levels of market participation and, as a matter of business
8 line, parallel FPUC. The second utility sample is referred to as the Gas Distribution
9 Utilities (Sample 2), and is composed of retail natural gas service providers in the U.S.

10 Our studies demonstrate that, as a practical matter, the level of capital risks and thus the
11 opportunity cost of capital is comparable for the two samples. For purposes of
12 comparing the equity rate of return requirements of FPUC, the study compares the gas
13 and electric utility results with a third U.S. sample, referred to as Comparable Risk Non-
14 Utility Companies (Sample 3).

15 **Q. What is the universe of firms used to select the utility proxy group?**

16 A. To determine Sample 1, the study begins with a review of the sector including 75
17 electric utility and electric energy companies. From this initial selection, 15 electric
18 utility companies are selected for potential use in cost estimation. Some of these 15
19 companies are also engaged in non-electric retail business lines including natural gas
20 services, and such activities provide moderate contributions to the total return on capital.
21 It is virtually impossible these days to assemble a sizable set of electric companies that

1 are exclusively retail electric utilities—sometimes referred to as a pure play. However,
2 Sample 1 electric utilities comprise entities where electric power supply and delivery is
3 the dominant share of business activity. Non-utility activities should not matter in a
4 measurable way, providing that such activities are of modest scale; indeed, endeavors to
5 diversify risk over alternative business lines may reduce variation in earnings in internal
6 cash flow though not necessarily variation in market returns. Variation in overall
7 investment risk, and thus the cost of capital may not increase, at least measurably.
8 Sample 1 electric utilities range from less than \$1.0 billion (Unitil) to over \$12.1 billion
9 (Evergy) in total capitalization for year-end 2023, with similar differences in operating
10 revenues and total net plant.

11 **Q. What criteria was used to select the proxy group from the universe of publicly**
12 **traded electric utilities?**

13 A. I have followed a set of criteria that selects a group of companies that reflect the FPUC's
14 operations, while allowing for an assessment of risk through the use of market data. As
15 such, I have selected my proxy group based on the following criteria:

- 16 • Equity Participation in total capital;
- 17 • Consistent quarterly dividends;
- 18 • Market capitalization below \$30 billion;
- 19 • Positive long term earnings growth forecasts from at least two sources;
- 20 • Investment grade issuer ratings from S&P and Moodys;

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- 1 • *CAPM Beta* which, as discussed above, is the ratio of the covariation of the
2 market returns of a specific stock of a company and the market as a whole,
3 and the statistical variance of the returns of the market; and,
4 • *Variation in Market Returns measured as the* coefficient of variation in
5 monthly market prices. To a lesser extent, abrupt changes and suspension of
6 dividends has impact on realized returns.

7 These criteria above resulted in the following Utility Proxy Group of 15 companies.

8 While moderate in size by U.S. standards, the Sample 1 electric utilities reflect a
9 comparatively broad size range.

10 **Q. What was the criteria used to determine the proxy group for gas utilities?**

11 A. The selection process for the U.S. Gas Distribution Utilities (Sample 2) is similar to
12 methodology used to determine Sample 1 (Moderate-Sized Electric Utilities): a sample
13 is first drawn on the bases of market liquidity and business line. The initial set of natural
14 gas utilities and energy companies includes 18 entities. From this initial draw,²¹ six gas
15 distributors were retained for the analysis. The gas distribution utilities range in size
16 from approximately \$1.66 billion (Northwest Natural Holding Company) to well over
17 \$15.0 billion (Atmos Energy Corporation). For 2023, the natural gas utilities have
18 similar unadjusted CAPM betas (0.76) as the selected electric utilities (0.83) and

²¹ The U.S. natural gas industry includes many regional and national distributors of liquid propane and specialty industrial gas products and services, such as Penn Octane Corporation, Suburban Propane Partners, and Continental Fuels Inc.

1 somewhat lower variation in market returns (0.116) compared to the electricity utility
2 sample (0.159).

3 **Q. How were the comparable non-utility companies selected?**

4 A. The comparable risk non-utility companies (Sample 3) were drawn from across non-
5 utility economic sectors excluding financial services, providing that market
6 capitalization was less than \$2 billion and average market beta was less than unity.
7 These criteria netted some 75 entities. The study methodology preferred for entities of
8 Sample 3 to finance their respective balance sheets with some level debt, though several
9 entities within Sample 3 are financed exclusively with equity. The selection screen
10 required equity participation, CAPM beta information, variation in market returns, and
11 variation in earnings per share—e.g., internal business and financial risk—obtained 14
12 entities which together constitute the comparable risk non-utilities.

13 ***6.2 Capital Asset Pricing Model Results***

14 **Q. What are the basic principles of the CAPM approach to estimating the cost of**
15 **equity?**

16 A. The CAPM model involves three inputs including estimates of the risk-free cost of
17 capital, expectations of future returns to equity markets as a whole, and CAPM beta, the
18 ratio of the covariance of share prices/market to the variance of overall market returns.
19 Consistent with theory and conventional practice, it is appropriate to match up the risk-
20 free rate of interest with the duration of investment undergoing capital valuation. The
21 physical facilities of FPUC, like that of all electric utilities, are unusually long-lived
22 compared to capital assets in other industries. Accordingly, for the cost of capital study,

1 the risk-free rate is set equal to the forward-looking dividend yields on 30-year U.S.
2 Treasury Securities (constant maturity). Specifically, the risk-free rate is equal to the
3 average monthly yield on 30-year U.S. Treasury securities (constant maturity) for two
4 timeframes including 2013-2023 and 2021-2023, observed in monthly frequency.
5 Estimates of future returns for equity markets (i.e., overall market return) are based on
6 historical realized returns for U.S. markets, measured in real terms. Once estimated, the
7 observed real rate of return for equity markets is adjusted upwards for expected inflation
8 of 2.46 percent.²² Real rates of return are calculated as the arithmetic average of annual
9 returns over two timeframes, 1970 through 2023, and 1990 through 2023. These results
10 are then adjusted to account for current expectations of inflation.

11 **Q. From what source are the CAPM betas used in this analysis obtained?**

12 A. The CAPM betas for the selected electric utilities, gas distributors and comparable risk
13 non-utility companies are culled from Morningstar and Yahoo Finance. Morningstar
14 estimates CAPM betas in monthly frequency over five years. Estimated betas are then
15 adjusted for central tendency based on the methodology pioneered by Marshall Blume.
16 For this study, CAPM estimates of the cost of equity use the average of the estimated
17 betas over the five years 2019-2023.

18 **Q. Please provide the results of your CAPM analysis.**

19 A. CAPM estimates of the cost of equity can be found in Table 4, below.

²² The cost of equity study takes note of contemporary expectations of inflation of the investment community, as measured by the difference in the long-term yields between constant maturity and Treasury Inflation protection security, of 2.46 percent.

Table 4: CAPM Results

Sample 1: Moderate-Sized Electric Utilities				
	Cost of Equity Capital, Unadjusted	Risk-Free Rate	Market Beta, Adjusted	Expected Market Return
Low	10.39%	3.39%	0.97	10.63%
High	11.61%	4.31%	1.00	11.62%
Weighted Average	11.18%	3.85%	1.01	11.13%
Sample 2: Natural Gas Distribution Utilities				
	Cost of Equity Capital, Unadjusted	Risk-Free Rate	Market Beta, Adjusted	Expected Market Return
Low	10.14%	3.39%	0.93	10.63%
High	11.31%	4.31%	0.96	11.62%
Weighted Average	10.72%	3.85%	0.94	11.13%
Sample 3: Small Non-Utilities				
	Cost of Equity Capital, Unadjusted	Risk-Free Rate	Market Beta, Adjusted	Expected Market Return
Low	10.10%	3.39%	0.93	10.63%
High	11.63%	4.31%	1.00	11.62%
Weighted Average	11.29%	3.85%	1.02	11.13%

6.3 Discounted Cash Flow Results

Q. Over what time period is the DCF methodology applied in this study?

A. The *Discounted Cash Flow* methodology is applied to the moderate-sized electric utilities (Sample 1) and gas distribution utilities (Sample 2). DCF cost estimates are based on investor expectations reflected in the market prices of the two samples during May of each year, 2021-2023. That is, under the assumption of efficient markets, the study anticipates that investors “price in” relevant information including perceptions of risks and expectations for future market performance. This multiple sample approach covering three contemporary years is carried out for each of the selected electric utilities and gas distributors which together constitute Samples 1 and 2. For each year’s draw of prices, investors have available multiple years of historical financial data including the

1 earnings, internal cash flow, and dividend experience up through and including
2 December of the previous year. The discounted cash flow analysis, as applied in the
3 current study, is the classic constant growth expectations methodology, where
4 expectations are based on historical experience.²³

5 **Q. What are the results of the discounted cash flow analysis for electric utilities?**

6 A. The derived form of the discounted cash flow model consists of the dividend yield for
7 the forward year plus estimates of the expectations for near- and long-term change
8 (growth) in cash flows, with both terms expressed as percent values. Results of the
9 discounted cash flow analysis, as applied to the moderate-sized electric utilities (Sample
10 1) and gas distribution utilities (Sample 2) are shown in Table 5, below. As shown, the
11 unadjusted DCF estimates for the Moderate-Sized Electric Utilities (Sample 1) range
12 from 8.45 percent to 10.79 percent.

23 Because of inherent challenges associated with gauging the long-term path of cash flows, the methodology underlying the current study does not generally apply multi-stage DCF procedures, for assessment of capital investment within small sovereign regions.

1

Table 5: Electric Utility DCF Results (2021-2023)

<u>2021</u>			
	Dividend Yield	Expected Growth in Cash Flows	Unadjusted Cost Rate
Low	2.98%	5.15%	8.45%
High	3.66%	7.39%	10.73%
Weighted Average	3.36%	6.33%	9.69%
<u>2022</u>			
	Dividend Yield	Expected Growth in Cash Flows	Unadjusted Cost Rate
Low	3.12%	5.39%	8.93%
High	3.94%	7.26%	10.79%
Weighted Average	3.42%	6.35%	9.77%
<u>2023</u>			
	Dividend Yield	Expected Growth in Cash Flows	Unadjusted Cost Rate
Low	3.10%	5.28%	8.51%
High	3.93%	6.80%	10.60%
Weighted Average	3.53%	5.84%	9.37%

2

3 **Q. Please provide the results of the DCF analysis of gas utilities.**

4 A. The risk profiles of the natural gas distribution utilities (Sample 2) closely parallel the
5 profiles of the moderate-sized electric utilities. Accordingly, the cost of equity estimates
6 of the two samples are similar in the case of the gas distributors. Unadjusted DCF cost
7 estimates range from 8.48 percent to 13.75 percent and on a weighted average basis,
8 9.55 percent to 12.08 percent. Presented below are the discounted cash flow estimate for
9 the gas distribution utilities (Sample 2).

Table 6: Gas Utility DCF Results (2021-2023)

<u>2021</u>			
	Dividend Yield	Expected Growth in Cash Flows	Unadjusted Cost Rate
Low	2.40%	7.64%	10.29%
High	3.13%	10.86%	13.75%
Weighted Average	2.78%	9.30%	12.08%
<u>2022</u>			
	Dividend Yield	Expected Growth in Cash Flows	Unadjusted Cost Rate
Low	2.42%	7.63%	10.27%
High	3.09%	10.45%	13.32%
Weighted Average	2.77%	9.19%	11.96%
<u>2023</u>			
	Dividend Yield	Expected Growth in Cash Flows	Unadjusted Cost Rate
Low	2.85%	4.95%	8.48%
High	3.81%	6.78%	9.91%
Weighted Average	3.09%	6.45%	9.55%

6.4 Risk Premia Analysis Results

Q. What is basis for conducting a risk premia analysis to assess the cost of utility capital?

A. The risk premia analysis is based on the conceptual foundation that risks implicit in financial assets including common equity are differentiated according to risks, across various asset classes. Because investors are generally risk adverse, competitive capital markets ensure that the returns are positively correlated with perceptions of risks and risky asset are ordered according to risk differences among asset classes. The starting point for risk premium analysis is a baseline real cost of capital for risk free assets. Differences in realized returns among financial assets provide the means to estimate the

1 cost of capital for financial assets of interest: energy utilities situated in the United
2 States.

3 **Q. What is the methodological approach of the risk premia analysis?**

4 A. The risk premia analysis includes the baseline cost of capital for short-term risk free
5 assets, differential return on intermediate term U.S. Treasury securities and short-term
6 risk free assets, the differential return on long-term U.S. Treasury securities and
7 intermediate term securities (U.S. Treasury), and the differential return on U.S. equity
8 markets with reference to long-term U.S. Treasury securities, and adjustment for risk
9 differences between energy utilities and the overall returns on equity market as a whole.

10 **Q. Please provide the results from the risk premia analysis.**

11 A. Table 7, below, shows the risk premia analysis for the electric, gas, and non-utility
12 samples. As shown, the risk premia analysis cost of equity analysis obtains highly
13 similar results for the three sample groups of electric utilities, gas distribution utilities,
14 and small moderate-risk non-utilities. The risk premia cost of equity estimates align
15 with, and thus tend to reinforce, the cost of equity estimates obtained through the other
16 cost of capital tools including CAPM, DCF, and realized market returns.

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Table 7: Risk Premia Analysis Results

	Equity Returns		Real Returns on US Treasury Debt		
	<u>L-Cap</u>	<u>S-Cap</u>	<u>LT US Debt</u>	<u>InT US Debt</u>	<u>T-Bills</u>
2014	11.39%	1.66%	24.62%	3.77%	0.02%
2015	-0.73%	-12.02%	-0.67%	1.89%	0.02%
2016	9.54%	22.04%	1.38%	1.29%	0.20%
2017	19.42%	16.96%	6.36%	1.25%	0.79%
2018	-6.24%	-17.04%	-0.54%	1.53%	1.80%
2019	28.88%	19.52%	12.09%	6.29%	2.14%
2020	16.26%	0.18%	15.19%	7.38%	0.45%
2021	26.89%	34.98%	-5.08%	-2.53%	0.04%
2022	-19.44%	-5.67%	-26.73%	-9.72%	1.43%
2023	24.23%	5.36%	3.16%	4.59%	4.97%
Average	11.02%	6.60%	2.98%	1.57%	1.19%
Overall Financial Markets			Utility Sector Return Requirements		
			Electricity	Natural Gas	Low-Risk Non-Utilities
Approximate Baseline Real					
Return, Risk Free		1.53%	1.53%	1.53%	1.53%
Expected Inflation		2.46%	3.98%	3.98%	3.98%
Differential Cost of Capital for Asset Classes					
Intermediate Term U.S.					
Treasury Securities		0.05%	4.03%	4.03%	4.03%
Long-Term U.S. Treasury					
Securities		1.40%	5.43%	5.43%	5.43%
Risk Premia for Equity Market					
Asset Class		5.83%	11.27%	11.27%	11.27%
Total Return, Equity Capital		11.27%	10.52%	9.90%	11.39%

2

1 ***6.5 Realized Market Returns Analysis***

2 **Q. Why have you included a realized market returns analysis in your cost of capital**
3 **study?**

4 A. Realized Market Returns are wholly consistent with fair rate of return statutes and are
5 not burdened with the circularity arguments associated with the use of realized book
6 returns as the basis for the cost of equity capital. Otherwise referred to as historical
7 returns or comparable earnings, realized returns serve as plausible estimates of the cost
8 of equity, providing that the returns reflect competitive financial market experience with
9 adequate liquidity, and second, are measured over an appropriate timeframe. For this
10 cost of equity study, realized returns are reported for the three samples including electric
11 utilities, gas distribution companies, and comparable risk non-utilities. The total market
12 returns include dividends.

13 **Q. What have been the realized market returns for each sample group over recent**
14 **years?**

15 A. Historical realized returns for the three samples are estimated for overlapping ten-year
16 timeframes ending 2020-2023, as shown below. Historical market returns are
17 summarized in the following table.

Table 8: Realized Market Returns, 2013-2023²⁴

<u>Market Returns: Year Ending 10-Year Averages</u>				
	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
<u>Moderate Sized Electric Utilities</u>				
Average Across the Sample	11.57%	12.22%	11.52%	9.65%
2013-2023 Average Unadjusted				11.52%
<u>Natural Gas Utilities</u>				
Average Across the Sample	13.71%	12.81%	12.88%	8.95%
2013-2023 Average Unadjusted				13.21%
<u>Small Non-Utility Companies (5-year avg)</u>				
Average Across the Sample	11.70%	18.49%	-21.60%	17.43%
2013-2023 Average Unadjusted				9.89%

8. Capital Structure Analysis

Q. How does the capital structure of the Company factor into the determination of the appropriate Return on Equity?

A. All else equal, a higher debt ratio increases investor risk. For this reason, companies with high debt levels face a higher required return on equity by investors relative to comparable firms with lower debt ratios. Under such circumstances, an upward adjustment to the estimated cost of equity is required, assuming the firm has a higher proportion of debt than the sample of utilities used to undertake the cost of equity analysis. In the case of FPUC, an adjustment is not required, as FPUC's capital structure is balanced and similar to the sample.

²⁴ The averages for each of the three samples are weighted by market capitalization of the members of each respective sample.

1 **Q. Have you provided exhibits related to FPUC's proposed capital structure?**

2 A. Yes. Exhibits NAC-2 through NAC-9 set forth the capital structure on an overall
3 consolidated and regulatory basis for test year 2025 and for historical and current
4 periods, 2023 and 2024 respectively. In keeping with regulatory standards set by the
5 Florida Public Service Commission (FPSC), the regulatory capital structure (and the
6 conventional capital structure also) for each period is stated on a 13-month average
7 basis.

8 **Q. What is the capital structure of Chesapeake Utilities Corporation?**

9 A. The consolidated capital structure of Chesapeake Utilities Corporation over recent years
10 reveals remarkably consistent year-over-year balance across debt and equity components
11 as revealed in Table 9, below.

12 **Table 9: Debt-to-Equity Ratio, Chesapeake Utilities Corporation²⁵**

<u>Year</u>	<u>Debt/Equity Balance</u>
2021	1.01
2022	0.95
2023	1.10
2024	1.06
2025	0.96
*Year end capital structure	

13

14 As shown, the debt-to-equity ratio for the consolidated year-end capital structure holds
15 within the range of 0.95 to 1.10 over years 2021 through 2025, even as the total invested
16 capital has increased by over twofold, reflecting the acquisition of Florida City Gas. The
17 narrow range of debt/equity variation over these years reflects sound financial

²⁵ Table data based on the Company's Minimum Filing Requirement Sheet D-2.

1 management carried out in accordance with defined policy, contributing to the
2 realization of consistent interest coverage. The end result is financial flexibility, enabling
3 the Company to finance new issues of long-term promissory notes and put in place
4 short-term debt lending facilities on favorable terms, lowering the carrying charges on
5 FPUC's rate base as paid by retail customers.

6 **Q. What is FPUC's regulatory capital structure?**

7 A. FPUC's regulatory capital structure reflects similar levels of stability within the debt and
8 equity components. Across other capital items, for example, accumulated deferred
9 income taxes and regulatory tax liability attributable to FPUC's electric operations,
10 FPUC has experienced some variability over years 2023 to 2025. In the case of deferred
11 income taxes, balances decline from \$22 million in 2023 to \$13 million in 2025.
12 Component weights for the regulatory capital structure used to underwrite the rate base
13 of electric operations can be found in Table 10.

1 **Table 10: Capitalization Shares (13-month Average), Regulatory Capital Structure**
2 **for FPUC's Electric Operations²⁶**

Capital Component	2023	2024	2025
Long-Term Debt	29.84%	34.40%	37.91%
Short-Term Debt	5.47%	6.62%	4.83%
Preferred Stock	0.00%	0.00%	0.00%
Common Equity	37.84%	37.80%	42.82%
Customer Deposits	3.37%	3.18%	2.67%
Deferred Taxes	19.30%	14.27%	8.80%
Regulatory Tax Liability	4.19%	3.72%	2.96%
ITC at Zero Cost Rate	0.00%	0.00%	0.00%
ITC at Overall Cost Rate	0.00%	0.00%	0.00%
Total	100%	100%	100%

3
4 The debt-to-equity ratios of the regulatory and consolidated capital structures are, by
5 design, highly similar: stated on 13-month average basis, the debt-to-equity ratio of the
6 regulatory capital structure varies between 0.93 and 1.10 for years 2023/25.

7 **9. The Weighted Average Cost of Capital**

8 **Q. Please explain the weighted average cost of capital approach used by FPUC in this**
9 **filing.**

10 A. The weighted average cost of capital of FPUC's Northeast and Northwest divisions is
11 based on Chesapeake Utilities Corporation's consolidated capital structure, consisting of
12 long-term debt, short-term debt, and common equity. The outstanding balances of these
13 conventional components of capital are scaled to the rate base used by FPUC to provide
14 electricity services and coupled with specific elements of FPUC's balance sheet

²⁶ Table data from D-1a, 23 supplement; D-1a, 24 supplement; D-1a, 25 supplement.

1 attributable to electricity operations, including customer deposits, regulatory tax
2 liabilities, accumulated balances of deferred income taxes and investment tax credits.
3 The result is a regulatory capital structure, where the total of the components closely
4 approximates the rate base of FPUC's electric operations.

5 **Q. What is FPUC's current overall weighted average cost of capital?**

6 A. FPUC's WACC can be expressed in terms of a regulatory capital structure and a
7 traditional capital structure. Using the regulatory capital structure, which includes
8 customer deposits, deferred taxes, and regulatory tax liabilities, the requested WACC
9 recovery rate is 6.89 percent. The requested WACC rate is lower than Chesapeake's
10 actual incurred WACC because of the Company's attenuated long-term debt cost
11 recovery (see Section 5 of this testimony for further discussion). If FPUC requested
12 recovery of its actual cost of long-term debt (5.21 percent), the WACC would be higher
13 than what is shown in this table. Using a conventional capital structure, the WACC is
14 7.98 percent. Table 11, below, provides additional details.

Nicholas A. Crowley, Witness

Case No. 20240099-El

August 22, 2024

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Table 11: FPUC's Weighted Average Cost of Capital, Test Year 2025

<u><i>EXHIBIT NAC-1</i></u>				
FLORIDA PUBLIC UTILITIES COMPANY				
OVERALL RATE OF RETURN REQUIREMENTS				
WEIGHTED AVERAGE COST OF CAPITAL: REGULATORY CAPITAL STRUCTURE				
13-MONTH AVERAGE, TEST YEAR 2025				
Capital Component	Outstanding Balances	Capitalization Share	Cost Rate	Weighted Average Cost Rate
Long-Term Debt	\$56,888,413	37.91%	4.51%	1.71%
Short-Term Debt	\$7,255,028	4.83%	5.81%	0.28%
Preferred Stock	\$0	0.00%	0.00%	0.00%
Common Equity	\$64,253,557	42.82%	11.30%	4.84%
Customer Deposits	\$4,001,097	2.67%	2.20%	0.06%
Deferred Taxes	\$13,206,708	8.80%	0.00%	0.00%
Regulatory Tax Liability	\$4,448,275	2.96%	0.00%	0.00%
ITC at WACC	\$0	0.00%	7.98%	0.00%
Total	\$150,053,078	100.00%		6.89%
WEIGHTED AVERAGE COST OF CAPITAL: CONVENTIONAL CAPITAL STRUCTURE				
STATED ON A CONSOLIDATED BASIS				
13-MONTH AVERAGE, TEST YEAR 2025				
Capital Component	Outstanding Balances	Capitalization Share	Cost Rate	Weighted Average Cost Rate
Long Term Debt	\$1,331,883,955	44.31%	4.51%	2.00%
Short-Term Debt	\$169,856,296	5.65%	5.81%	0.33%
Preferred Stock	\$0	0.00%	0.00%	0.00%
Common Equity	\$1,504,318,384	50.04%	11.30%	5.65%
Total	\$3,006,058,635	100.00%		7.98%

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1 **10. Summary and Conclusions**

2 **Q. What is FPUC's cost of debt issuances?**

3 A. Chesapeake's consolidated actual long-term debt rate is 5.21 percent, but the Company
4 has requested recovery of a reduced rate. FPUC requests recovery of an attenuated long-
5 term debt issuance cost of 4.51 percent. The Company's short-term debt issuances carry
6 a cost of 5.81 percent.

7 **Q. What is your recommendation for FPUC's allowable return on equity?**

8 A. Using four methodologies across three relevant sample groups, I estimated a required
9 return on equity of 11.30 percent, with a reasonable band of 10.43 percent to 12.21
10 percent based on the estimation method standard deviations. Given these results, I
11 recommend an allowed return on equity of 11.30 percent.

12 **Q. What is FPUC's weighted average cost of capital?**

13 A. Given the cost of debt, the required return on equity, and FPUC's capital structure, the
14 Company's WACC is 6.89 percent assuming the attenuated cost of long-term debt.

15 **Q. Does this conclude your pre-filed direct testimony?**

16 A. Yes.
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1 (Whereupon, prefiled direct testimony of Kim
2 Estrada was inserted.)

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

Docket No. 20240099-EI: Petition for rate increase by Florida Public Utilities Company-

Electric Division

Direct Testimony of Kim Estrada

Date of Filing: August 22, 2024

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1 **I. Introduction**

2 **Q. Please state your name and business address.**

3 A. My name is Kim Estrada. My business address is 500 Energy Lane, Dover,
4 Delaware, 19901.

5 **Q. By whom are you employed, and what is your position?**

6 A. I am employed by Chesapeake Utilities Corporation (“CUC” or the “Corporation”)
7 as Director of Customer Care Operations. CUC is the parent company of Florida
8 Public Utilities Company (“FPUC”). As the Director of Customer Care Operations,
9 I am responsible for leading our regulated utilities’ customer experience strategy and
10 operations, which include all contact center operations, billing and payment services,
11 field service management including credit and collections operations, as well as
12 customer experience areas of focus such as strategy, systems, quality, training,
13 workforce management and overall focus on customer satisfaction.

14 **Q. Please describe your educational background and professional experience.**

15 A. I graduated from Eckerd College in St. Petersburg, Florida, with a Bachelor of
16 Science in Business Administration. I began my utility career over 35 years ago with
17 a Florida investor-owned utility. I held positions progressing in responsibility,
18 including Facility Services, Legal Services, Bulk Power and Wholesale Marketing,
19 Residential and Commercial Marketing, Energy Technology Resource Center, New
20 Construction, Corporate Relations/Foundation, Commercial Customer Experience
21 and Energy Services and Customer Solutions and Business Customer Experience. I
22 joined CUC in April 2023 as the Director of Customer Care Operations.

1 **Q. Have you ever testified before the Florida Public Service Commission**
2 **(“Commission”)?**

3 A. No.

4
5 **II. Purpose of Testimony**

6 **Q. What is the purpose of your testimony?**

7 A. My prepared direct testimony will cover how CUC understands customers’ evolving
8 expectations for electric services, and I will address CUC’s efforts to develop and
9 implement a strategy to provide excellent service to our customers and how this
10 translates to benefits for FPUC’s customers in Florida. CUC has focused on people,
11 processes and technology to transform our business into a best-in-class customer-
12 centric organization. These primary improvements are in the following areas:

- 13 1. Customer Care Center
14 2. Customer Billing and Payment
15 3. Field Service Management
16 4. Customer Communications
17 5. Miscellaneous Improvements

18 In addition, while I am not sponsoring any exhibits, I am sponsoring certain
19 information in the MFR C-7 schedule pertaining to accounts, namely 588.1, 901 and
20 920.

21 **III. Customer Care Improvements**

22 **Q. What improvements did CUC make in the Customer Care Centers?**

1 A. In 2022, CUC implemented a new best-in-class phone platform called Five9. The
2 Five9 platform provides operational flexibility through easy updates to our call flow
3 options and messaging for inbound contacts. The platform allows us to blend
4 customer contacts and deliver their call to the appropriately skilled agent via a single
5 dashboard that drives efficiency and provides insight into customer communication
6 channel preference and channel effectiveness. We also gained functionality in
7 securing additional customer feedback regarding reasons for the inquiry to identify
8 opportunities to reduce the need for customer contact. We leverage scripted options
9 within the application to strengthen our emergency call handling further. These
10 would include safety messaging and key questions related to electric emergencies.
11 In addition to this functionality, we integrated our virtual call back, workforce
12 management system, call recording, quality systems and performance dashboards
13 into this single program. This reduces risks associated with vendor management and
14 provides a more holistic view of the contact center's performance. By collecting the
15 information, we can leverage additional data points for analysis to validate our
16 initiatives and strategy.

17 **Q. Do these improvements impact FPUC's customers directly?**

18 A. Yes, all the benefits described above benefit FPUC's electric customers.

19 **Q. What plans does CUC have to improve the customer billing and payments**
20 **systems?**

21 A. In May 2023, CUC kicked off the largest business transformation project in its
22 history. The project will replace two existing billing and payment platforms that are
23 at end-of-life expectancy with one streamlined system, including the customer

1 information system historically utilized by FPUC. The new system will allow the
2 customers to experience improvements in the timing and accuracy of billing and to
3 increase the number of customers who receive paperless bills and make electronic
4 payments. Additionally, this foundational system provides the robust platform to
5 allow future enhancements that could include a customer portal, customer
6 notification and preference management, and additional self-service functions such
7 as virtual assistant and payment arrangement enhancements.

8 **Q. What are the expected benefits of the future enhancements to the customer**
9 **billing and payments system?**

10 A. The customer portal will allow residential and commercial customers, including all
11 FPUC customers, to complete many functions, including viewing and downloading
12 their bills, view usage and payment history, make payments at any time and have the
13 ability to start and stop their service.

14 The customer notification and preference management system will allow customers
15 to set channel and contact preferences for outbound communications for billing and
16 payments, and marketing, which will allow the customer to control how and when
17 the Corporation contacts them.

18 Additional expected self-service functionality includes the availability of a virtual
19 assistant, which would be a life-like, conversational, non-transactional chatbot
20 providing a unique, interactive and personal way for users to get answers and
21 assistance 24/7. Other self-service improvements may include payment arrangement
22 enhancements to expand our payment portfolio, such as digital wallet solutions, and
23 to provide customers enrolled in auto-pay the flexibility of requesting customized

1 payment arrangements, including offering them a flexible number of arrangement
2 days.

3 **Q. Has CUC implemented any improvements to its field service management**
4 **system?**

5 A. As part of the aforementioned business transformation project, an improved field
6 service management system will be implemented simultaneously. The new system
7 will provide us with the ability to consolidate customer information, automate
8 service order processing and exception reporting, as well as the ability to see
9 multiple accounts associated with the same customer. This system will enable us to
10 improve our scheduling functionality and dispatching of work orders, as well as
11 improve our adherence to scheduled appointments. In addition to the new system,
12 the Corporation is structuring an organization to provide an enhanced focus on the
13 delivery of field services with a goal of improving the customer's experience. This
14 new team structure will align field services goals with overall business objectives
15 and strategies. This centralized focus will benefit FPUC customers by providing
16 additional focus on planning and scheduling, and improved field service coordination
17 including proactive service interaction communications with customers.

18 **Q. What is the staffing model for these projects?**

19 A. CUC staffed the project team with existing team members. We also partnered with
20 IBM, a leading integrator of customer information and field service management.
21 Under this staffing, the portion of the CUC project team and vendor expenses are
22 capitalized as part of the project. Once the new systems are implemented, CUC team
23 members will focus on enhancing the systems, implementing additional

1 functionality, and supporting the business units as subject matter experts (SMEs) to
2 ensure the systems are fully leveraged to best serve our customers. The
3 organizational structure post-go-live will include lead project team members
4 transitioning into process owner roles within the business. These roles will drive
5 continuous improvements by identifying process changes, optimizing current
6 processes, and providing business-focused operational support. Additionally, team
7 members serving on the project as SMEs in areas such as billing, payments,
8 customer service or operations will return to a role in the business that leverage their
9 SME expertise as well as their newly gained system knowledge from the project.
10 These resources will be the key team members to deliver the aforementioned future
11 enhancements. These continued enhancements are necessary in large part due to the
12 ever-increasing expectations and demands of customers. The Corporation's
13 continually evolving strategy focused on excellence in customer service, coupled
14 with CUC's goal of providing customers with effortless customer experiences that
15 meets their needs in the way they choose has been foundational to the Corporation's
16 success.

17 **Q. How will the Corporation handle expenses associated with these systems?**

18 A. Once we take the systems live, expenses for regular operating work will be charged
19 to expense, while expenses for work on new system enhancements will continue to
20 be capitalized. Allocation of these costs among the business units is made based on
21 number of customers.

22 **Q. What improvements have been made regarding Customer Communications?**

1 A. An improvement by the newly formed field service management organization, CUC
2 is planning to provide proactive communications prior to fieldwork being done in
3 communities by automated outbound calls, postcards and/or door hangers. Also, in
4 partnership with the Corporation's Strategic Communications and Marketing team,
5 we continuously refresh key messaging across multiple channels, such as websites,
6 social media and bill messaging. The areas of focus include safety, reliability,
7 conservation programs, storm preparation information and billing and payment
8 services.

9 **Q. Are there any other miscellaneous improvements you would like to share?**

10 A. Yes. Two key new improvements are:

- 11 • In 2022, CUC implemented a Voice of the Customer (VOC) platform. This
12 program allows us to gather direct customer feedback via post-call and email
13 surveys, identify trends and develop plans to deliver improvements in the
14 areas customers find most beneficial.
- 15 • In 2023, CUC began a new strategic focus that will enable the Corporation to
16 focus on the customer's experience. This initiative is called the Service
17 Excellence Strategy and it provides the blueprint for actualizing our
18 commitment to improved customer service by focusing on the quality of
19 service across every touchpoint. By embracing this strategy, we will elevate
20 our service standards, encourage innovation, and consistently exceed
21 customer expectations.

- 1 • Both of these initiatives allow us to leverage the gathered information from
2 surveys and strategy research to better understand our customer's experience
3 and draw meaningful insights that will guide future improvements.

4 **Q. Does this conclude your testimony?**

5 **A. Yes.**

1 (Whereupon, prefiled direct testimony of
2 Vikrant Gadgil was inserted.)

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1 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

2 Docket No. 20240099-EI: Petition for rate increase by Florida Public Utilities Company,
3 Electric Division

4 Prepared Direct Testimony of Vikrant Gadgil

5 Filed: August 22, 2024

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

7 A. My name is Vikrant A. Gadgil and my business address is 500 Energy Lane, Dover
8 Delaware 19901.

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

10 A. I have been employed by Chesapeake Utilities Corporation as the Senior Vice
11 President and Chief Information Officer (“CIO”) since 2015. In this capacity, I am
12 responsible for leading the Information Technology (“IT”) team, as well as the
13 development and implementation of the strategy for supporting and enhancing our
14 technology platforms, including data networks and cybersecurity, telephony,
15 computing infrastructure, business systems and applications, for all businesses under
16 the Chesapeake umbrella, including Florida Public Utilities Company.

17 **Q. Describe the scope of your responsibilities.**

18 A. The IT function team is staffed by approximately 40 employees and is responsible
19 for the holistic, complete support of 1300+ employees, multiple contractors, and all
20 functions and business units at Chesapeake Utilities Corporation across multiple
21 physical sites. The key responsibilities of the IT function include ensuring a reliable,
22 available, and secure communication network, maintaining customer data security,
23 enabling data analytics tools and services, and supporting business applications

1 across all corporate functions including, but not limited to, billing, financial systems,
2 work order management, human resource information systems, geographic
3 information systems, Outage Management, email, and office productivity tools.

4 **Q. Please describe your educational background and professional experience.**

5 A. Prior to joining Chesapeake Utilities Corporation, I held the position of Deputy CIO
6 and was the Senior Director for Global Project Management Office and Information
7 Security at Vishay Intertechnology, Inc., a Fortune 1000 company. Prior to joining
8 Vishay Intertechnology, Inc., I held various leadership positions in IT with Procter &
9 Gamble and Ecolab, Inc., which are leading global companies.

10 I have over 30 years of experience in the IT industry. I hold a Bachelor of
11 Engineering degree in Electrical Engineering from the National Institute of
12 Technology, India and an MBA from the Indian Institute of Management – Calcutta
13 India.

14 **Q. How will you refer to the Company?**

15 A. When referring to the Florida Public Utilities Company Electric Division, I will refer
16 to it as “FPUC” or “the Company”. When referring to Chesapeake Utilities
17 Corporation, the parent company, I will refer to it as “CUC” or the “Corporation.”

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

20 A. Yes, I have filed testimony in Docket No. 20220067-GU.

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

22 A. No, I have not.

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

1 A. My testimony will discuss the following topics:

2 (i) Technology advancements implemented since the Company's last rate case;

3 (ii) Planned new technology implementation; and

4 (iii) Improvements in cyber security.

5 **Q. Are you sponsoring any MFRs in this case?**

6 A. Yes. I have attached as Exhibit VG-1 is a list of Minimum Filing Requirements that I
7 co-sponsored.

8

9 **IT SERVICE LEVELS**

10 **Q. Please provide an overview of the changes in IT that the Corporation has**
11 **implemented in recent years to the benefit of the Company's customers.**

12 A. Consistent with the ever-evolving technological landscape and changing needs of our
13 businesses, the Company has strengthened its IT software, computer and
14 telecommunications hardware, and network infrastructures to include necessary
15 additional functionalities, as well as to ensure key financial, billing and other
16 systems can be maintained in a safe manner without interruption even as we increase
17 our use and reliance upon these key systems. IT has also increased its staffing, as
18 well as the expertise of its staff, to address increased external risks, largely
19 associated with cyberattacks, and to meet increasing demands for service.

20 Since its acquisition in October 2009, FPUC has benefited significantly from CUC's
21 enhanced IT infrastructure as it has enabled FPUC to provide better customer service
22 through: (1) its enhanced website; (2) more secure customer billing and enhanced
23 protections for customer personal information; (3) deployment of technology to

1 enable employees to work remotely, which, among other things, provided necessary
2 flexibility and resilience in operations during the COVID-19 pandemic; and (4)
3 implementation of a compliance management system by using IFS AB, a leading
4 enterprise software company and leading provider of enterprise resource planning
5 solutions. In addition, CUC's technology enhancements have ensured that FPUC has
6 the most accurate and timely financial information available as necessary for
7 strategic planning and critical business decisions.

8 The technology landscape continues to evolve at a rapid pace in order to keep up
9 with continually changing customer, employee, and stakeholder expectations. The
10 availability, reliability and performance of our technology infrastructure is key to the
11 regular operations of all of CUC's business units, but also is key to our ability to
12 address emergency events, as well.

13
14 **TECHNOLOGY ADVANCEMENTS**

15 **Q. What are some of the areas in which the Corporation has deployed newer,**
16 **advanced technologies and applications?**

17 A. Digital transformation is critical to the core operations of all CUC's business units.
18 CUC is constantly investigating new ways to incorporate the power of data and
19 communications technology to improve services and increase efficiency for our
20 customers. Since 2013, the key technology developments impacting CUC and its
21 businesses have involved the expansion of mobile computing, the emergence of
22 smartphones, network upgrades, enhanced social media and an expanded number of
23 platforms, predictive analytics, and hyper-converged infrastructure. In addition, our

1 bandwidth requirements on wireless and wide area networks have increased to keep
2 up with the upgrades in our capabilities and tools.

3 Cyber security is critically important for data and information security as well as
4 operational reliability. Threat actors include, among others, nation states, organized
5 criminals driven by profit motive, as well as opportunistic attackers. The goals of
6 the threat actors can include extortion through threat of data infiltration or
7 ransomware, interrupting operations through attacking the network and computing
8 infrastructure by deleting data or conducting “denial of service” attacks. As I discuss
9 later in my testimony, these threats are very real and present significant risks not
10 only to the Corporation as a whole, but to our customers as well. Defending against
11 this threat requires a complete toolkit, necessitating investments in tools, personnel,
12 training, and implementation of best practices. Critical tools include email filters,
13 firewalls, intrusion detection and prevention systems, end point protection, a modern
14 remote access infrastructure, security infrastructure including a SIEM and many
15 others. The Corporation has made and continues to make prudent investments in all
16 these areas.

17 After an initial upgrade to VOIP CISCO telephony, we have since migrated to a
18 Cloud-based call center platform called Five9, which manages inbound and
19 outbound calls in customer care, provides automated workflows and other
20 capabilities. As will be discussed in detail in Company witness Estrada’s testimony,
21 this upgrade provides improved call flows, which provides a better customer
22 experience and improved call center effectiveness when responding to spikes in call
23 volumes. Additionally, we have upgraded the Itron meter data management system

1 and the software used to keep the system current. Both of these upgrades are critical
2 components for FPUC to complete its monthly meter readings.

3 **Q. Would you please discuss some of the technology investments made to keep up**
4 **with the increased expectations of customers?**

5 A. CUC and its business units are focused on fulfilling our obligation to our customers
6 to ensure safe and reliable service, while maximizing the customer experience. To
7 fulfill that obligation, we must maintain a strong IT foundation. Our Customer
8 Service and Field Operations departments are especially dependent on high-speed
9 communications and access to information and data, so it is imperative that we keep
10 up with technology. CUC's IT function holds certain key expectations as it relates to
11 our technology infrastructure, including, among other things, the ability to achieve
12 higher availability, improved data security, and overall improvement in infrastructure
13 resilience. FPUC has continued to make the necessary investments to provide the
14 secure foundation required of technology. One of the investments CUC has made to
15 the benefit of FPUC, is in a Tier 3 data center. A Tier 3 data center is designed to
16 provide a higher uptime and redundancy for critical components of CUC's corporate
17 network. This data center is physically maintained behind several layers of limited
18 access doorway, next to a control room that is manned 24 hours per day, seven days
19 a week, all year, with camera access to monitor the room. This includes redundant
20 climate control, uninterrupted power supply, an on-site backup generator, locked
21 cabinets, and multipath data access redundancy. We have enhanced our core server
22 infrastructure in the data center by upgrading it to the Dell-EMC VxRail hyper-
23 converged appliance, which is the next generation of virtualized server environment.

1 This upgrade provides a higher level of reliability, uptime and scalability of the
2 server infrastructure. This upgrade also supports the growing data volumes required
3 for existing and growing customer base and is critical to continue providing reliable
4 services.

5 Additionally, we have setup a disaster recovery and co-location site with a third-
6 party vendor, Tierpoint, who is a leading data center provider. This site is essential
7 to providing operational continuity at a backup site in the event of a failure of our
8 primary data center. This alternative physical site ensures that our core and critical
9 applications, such as dispatch systems, will continue to operate in an emergency.
10 For further protection, FPUC has also implemented a data replication service called
11 Zerto. This system ensures that our customer and operational data is protected in the
12 event of data loss resulting from catastrophic events, such as a malicious ransomware
13 attack.

14 **Q. Would you please discuss the changes that CUC has made, since FPUC's last**
15 **rate case, as it relates to FPUC's Customer Information System ("CIS")?**

16 A. The existing CIS ("ECIS") for FPUC was migrated to a hosted solution with a third-
17 party vendor, Vertex. This third-party hosted solution also enables the Company to
18 provide a more consistent level of uninterrupted support.

19 **Q. Why was this migration necessary?**

20 A. The on-premises IBM AS400 that hosted the CIS had reached "end of life". AS400
21 mid-range systems were introduced in 1988 and have become obsolete and difficult
22 to support internally in terms of staffing and maintenance support and providing the
23 reliability and uptime requirement for a core critical system such as billing.

1 **Q. Is the Vertex system the final solution for the issues you have identified?**

2 A. No. The Corporation is currently implementing a new CIS system that is based on
3 the SAP platform. SAP is a global leader in enterprise applications and business
4 applications. We are replacing the legacy ECIS system with an advanced SAP
5 solution for our CIS and Field Service Management ("FSM"). This initiative is
6 driven by the necessity to address the obsolescence of our current platforms and to
7 significantly upgrade our field service processes.

8 This new SAP system will bring many benefits, including an enhanced customer
9 experience, by streamlining interactions and ensuring seamless service delivery. The
10 customer experience will be further bolstered by the implementation of a new
11 customer portal, making it easier for customers to access information and services.
12 We are implementing a modern field service management solution replacing a
13 manual paper-based process and aim to improve the effectiveness of our service
14 operations. The SAP FSM solution will enable better scheduling, real-time updates,
15 and more efficient resource allocation, resulting in quicker and more reliable service
16 for our customers. With cybersecurity threats becoming increasingly sophisticated, it
17 is imperative to safeguard our customer data. The new SAP solution will incorporate
18 state-of-the-art security measures to protect sensitive information and ensure
19 compliance with industry standards and regulations. In addition to enhancing
20 security, the new system will provide robust data management capabilities, ensuring
21 the integrity and confidentiality of customer information. This will build greater trust
22 and confidence among our customers. This project represents a significant
23 investment that will benefit our customers and establish a solid IT platform for the

1 Corporation's future. By adopting the latest technology, we are not only addressing
2 current challenges but also positioning ourselves for long-term success and
3 sustainability. SAP's product is a modern platform that will also include logging and
4 auditing, improved data security, and will allow us to build future capabilities.

5 The new system is scheduled to go live in August 2024 and will be followed by three
6 months of hypercare to ensure a smooth transition and address any issues that may
7 arise post-implementation. A modern billing system based on SAP RISE cloud
8 architecture brings numerous enhancements that include improved security,
9 comprehensive logging and controls and advanced functionalities designed to elevate
10 the customer experience. These features not only streamline operations but also lay
11 the groundwork for a more sophisticated and responsive customer service framework
12 in the future.

13 The additional costs for the CIS implementation are consistent with the industry
14 benchmarks as was determined during the selection process. These costs are
15 incremental and cannot be entirely offset by savings from retiring the old legacy
16 platform. The old legacy platform has lower operating costs but is inflexible and has
17 limited features. As such, it brings associated risks with reliability, inflexibility and
18 challenges with data security. Retaining the legacy platform therefore would lead to
19 higher costs in the future.

20 **Q. Why is another CIS installation necessary?**

21 A. The later version of the ECIS product from Vertex, which we are replacing, was
22 based on newer technology in 2012. This product is called ECIS+. To date, ECIS+
23 is not as mature as expected and the support from the product vendor has fallen short

1 of our expectations. Pending our anticipated future upgrade, we continue to support
2 the legacy ECIS product by making spot upgrades where possible and implementing
3 customized solutions when necessary. However, the ECIS product is an obsolete
4 product that has many deficiencies. Due to the older technology, making changes to
5 the product is difficult and expensive. The availability of support both internally and
6 externally is difficult since talent to support this product is scarce.

7 **Q. Has the Corporation made other changes in IT that ultimately benefit FPUC?**

8 A. Yes. Since the acquisition of FPUC, we have upgraded the IT organization as well as
9 the customer service organization to be able to support the implementation of a
10 modern CIS system, which is demanding in terms of internal resources and change
11 management. As mentioned earlier, we have upgraded the IT and customer service
12 organizations to add key leadership and technical positions. We are also going
13 through a rigorous process to select a modern, secure and industry-standard platform
14 by utilizing industry expertise.

15
16 **CYBER SECURITY**

17 **Q. Would you provide some background on the cyber security risk?**

18 A. Yes. Since 2013, cybersecurity has emerged as a significant concern that can
19 adversely impact all organizations and industries. Ransomware has become a
20 commercial business for threat actors, with double extortion tactics now being used
21 against organizations. In a double extortion attack, the victim's sensitive data is
22 exfiltrated in addition to encrypting the data to give the attacker additional leverage.
23 According to a report by Sonicwall, a leading provider of firewall and next

1 generation cybersecurity solutions, ransomware was up 151% in the first part of
2 2021 compared to the prior year¹.

3 The impact of ransomware is also getting costlier, with the average remediation costs
4 approaching nearly \$1.4 million in 2021, as per a report by SOPHOS, a British
5 security software and hardware company.² Threat actors have become more
6 sophisticated, better funded and their numbers have grown. Affiliate programs
7 involving cybercriminal organizations and syndicates carry out targeted attacks
8 against organizations frequently, as seen in the Colonial Pipeline ransomware attack
9 in 2021.³ The energy industry, as a key part of the country's critical infrastructure, is
10 a prime target. Advanced persistent threats have become a daily reality for energy
11 companies. Modern cybercriminals spend significant amounts of time dissecting and
12 eventually infiltrating their target, sometimes even going as far as writing custom
13 malware for the software used by the target organization. This occurred with the
14 2020 Solarigate attack in which nation-state threat actors installed malware on
15 SolarWinds software that was then passed to SolarWinds' infrastructure management
16 customers around the world. In addition, the so-called "darkweb" has become the
17 primary location where criminal organizations sell stolen corporate information,
18 personally identifiable information, or zero-day exploits to be used in future attacks -
19 - all under the cover of anonymity. The number and type of threat actors continue to
20 increase. A strong and prudent cybersecurity posture is essential to ensure
21 operational reliability and resilience to serve our customers.

¹ <https://www.sonicwall.com/medialibrary/en/infographic/2021-mid-year-update-sonicwall-cyber-threat-report.pdf>

² [The State of Ransomware 2022 – Sophos News](#)

³ <https://www.tsa.gov/news/press/testimony/2021/07/27/pipeline-cybersecurity-protecting-critical-infrastructure>

1 **Q. Has the Company made any changes in its systems regarding cyber security?**

2 A. Yes. The three basic tenets of cyber security are confidentiality, integrity and
3 availability. We have made prudent investments around these tenets in an effort to
4 strengthen our IT technology foundation including investments in data centers, core
5 server infrastructure, and upgraded data networks. Cybersecurity concerns require
6 investments that are incremental to foundational investments. We follow industry
7 frameworks including NIST and ONG-C2M2 (Capability Maturity Model) and have
8 made investments in technology and tools, personnel, policies, employee education,
9 monitoring, and vulnerability management.

10 **Q. What other steps has the Corporation taken to improve its cyber security**
11 **environment?**

12 A. We invested in security educational tools to ensure our employees can recognize and
13 appropriately respond to the latest phishing attempts. We have also created a
14 Cybersecurity team, staffed with multiple analysts who maintain “eyes on” the
15 environment. CUC has also taken the following steps to further secure the
16 environment:

- 17 • Formed a Critical Incident Response Team as a key part of our governance;
- 18 • Deployed key technology such as email gateway and data loss prevention, which
19 secures sensitive information to provide industry leading protection;
- 20 • Procured endpoint detection & response technology to provide crucial visibility into
21 what traverses our environment;
- 22 • Engaged an industry leading company to engage in managed detection & response.
23 Managed detection and response (MDR) is an outsourced service that provides

1 organizations with threat hunting services and responds to threats once they are
2 discovered;

3 • Invested in identity and access management solutions in response to the credential
4 theft campaigns, which have accelerated over the course of the COVID-19
5 pandemic;

6 • Implemented a vulnerability management program to proactively identify
7 vulnerabilities in our enterprise. This program leverages a NIST-approved suite of
8 tools; and

9 • We are implementing key cloud-based tools to further enhance our cyber security
10 posture. This includes ZSCALER Zero trust VPN solution and Web Proxy, Darkweb
11 monitoring, Splunk SIEM and Threat intelligence product.

12 Each of these actions has benefited CUC's business units in Florida, as well as its
13 business units in other states.

14 **Q. Are there any other changes that the Company made to support the new cyber**
15 **security environment?**

16 A. Yes. FPUC has benefited from CUC's establishment of key leadership and specialist
17 positions within the Business & Information Services organization to keep up with
18 evolving technologies and capabilities. In the past 7 years, the Corporation has
19 established the following positions:

20 • Chief Information Officer, which is my current role, is part of the company
21 leadership and oversee all aspects of the IT function including governance, IT
22 operations and IT project delivery;

- 1 • Assistant Vice President of Enterprise Applications with responsibility for all
2 business applications, data analytics and IT projects;
 - 3 • Director of Infrastructure with responsibility for data and voice networks, data center
4 operations and IT infrastructure operations;
 - 5 • Director of Information Security with responsibility for cyber security;
 - 6 • Help Desk Manager with responsibility for supporting all end users and providing IT
7 services;
 - 8 • Patching administrators who ensure that all software applications and devices in the
9 Company are patched to the acceptable level and reduce vulnerability to a
10 cyberattack;
 - 11 • Cyber Security analysts that report into IT monitor the network, perform triage of
12 incidents and support user education;
 - 13 • Manager of IT Compliance and Control, who is a key to ensure reporting on key IT
14 controls, identifying gaps and following up on the gaps to ensure closure and
15 maintain a strong control environment;
 - 16 • IT Compliance and Control Analyst to assist with the above activities.
- 17 The Manager and analyst positions are being added in 2024 to ensure robust
18 governance and adherence to IT General Controls (ITGC) and cybersecurity
19 standards. The positions will perform continuous gap assessments, ensuring real-
20 time identification, and mitigation of compliance issues. They will be responsible for
21 developing and tracking detailed action plans to address any identified compliance
22 gaps, ensuring timely and effective remediation.
- 23 The positions will cover over 30 different areas, including but not limited to:

- 1 • Patching Policy and Procedures: Ensuring all systems are updated and compliant
- 2 with the latest security patches.
- 3 • Event Log Management: Monitoring and managing event logs to detect and
- 4 respond to potential security incidents.
- 5 • Baseline Configuration Compliance: Ensuring systems are configured according
- 6 to approved baseline configurations to prevent security vulnerabilities.
- 7 • Privileged Access Management: Managing and monitoring privileged access to
- 8 critical systems to prevent unauthorized access.
- 9 • Change Management: Overseeing change management processes to ensure all
- 10 changes are documented, tested, and approved.
- 11 • Access Reviews: Conducting regular reviews of user access rights to ensure
- 12 compliance with the principle of least privilege.

13 **Q. What technology investments is the Company prioritizing in the near future to**
14 **enhance security, efficiency and overall operations?**

15 A. Our technology investment strategy is based on the objective of improving customer
16 service, protecting the business against cyber threats, securing customer data,
17 improving IT controls through IT service management modernization and improving
18 core administrative and operational processes through an enterprise-wide Enterprise
19 Resource Planning (ERP) system that will integrate with the CIS system being
20 implemented.

21 Second, we're upgrading our IT Service Management infrastructure. This
22 investment will bolster our asset discovery capabilities, streamline patch

1 management, and strengthen overall IT controls, ultimately enhancing our customer
2 service quality.

3 Additionally, we're initiating the implementation of a comprehensive ERP system.
4 This will replace outdated, difficult-to-support platforms that pose potential security
5 risks. The new ERP system will integrate and streamline our core finance, project
6 management, asset management, and procurement processes. Beyond operational
7 efficiencies, this investment is expected to optimize our workforce needs and reduce
8 future costs.

9 These initiatives form the core of our technology modernization program, designed
10 to fortify our security posture, increase operational efficiency, and deliver reliable
11 service to our customers.

12 **Q. Have the investments in the IT function been prudent?**

13 A. Yes, absolutely. As I have described, they have been necessary and prudent to stay
14 current with technology advancement in a number of areas and to protect our
15 systems, and customers, from sophisticated cyberattacks by a wide variety of bad
16 actors.

17 **Q. Does this conclude your testimony?**

18 A. Yes.

1 (Whereupon, prefiled direct testimony of Devon
2 Rudloff-Daffinson was inserted.)

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

Docket No. 20240099-EI: Petition for rate increase by Florida Public Utilities Company
Electric Division

Prepared Direct Testimony of Devon Rudloff-Daffinson

Date of Filing: August 22, 2024

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1 **I. Introduction**

2 **Q. Please state your name and business address.**

3 **A.** My name is Devon Rudloff-Daffinson. My business address is 208 Wildlight
4 Avenue, Yulee,
5 Florida, 32097.

6 **Q. By whom are you employed, and what is your position?**

7 **A.** I am employed by Chesapeake Utilities Corporation (“CUC” or the “Corporation”)
8 as the Assistant Vice President of Human Resources, which is Florida Public
9 Utilities Company’s corporate parent.

10 **Q. Please describe your educational background and professional experience.**

11 **A.** I received a Bachelor of Arts degree in Psychology from Florida State University and
12 have been in the energy industry for 34 years. I have 30 years of experience in
13 Human Resources (“HR”), as well as my Senior Professional Human Resources
14 (“SPHR”) certification and SHRM-SCP certification (Society of Human Resources
15 Management - Senior Certified Professional). I have been in HR leadership roles for
16 over 25 years and was promoted to Assistant Vice President in 2015.

17 **Q. Have you ever testified before the Florida Public Service Commission (“FPSC”**
18 **or “the Commission”)?**

19 **A.** Yes. I provided testimony for Florida Public Utilities Company (“FPUC”) in Docket
20 No. 20220067-GU.

21 **II. Purpose of Testimony**

22 **Q. What is the purpose of your testimony?**

23 **A.** My testimony will discuss the following topics:

Docket No. 20240099-EI

- 1 • Company values and culture
- 2 • Organizational structure
- 3 • Total Compensation/Total Rewards
- 4 • Team Incentive Plan (“TIP”)
- 5 • Employee Engagement
- 6 • Training and Development
- 7 • Talent acquisition market and challenges

8 **Q. Are you sponsoring any exhibits with your testimony?**

9 **A.** No.

10 **III. Company Values and Culture**

11 **Q. Please describe the Corporation’s Values and Culture.**

12 **A.** Consistent with the enterprise-wide organizational construct of the Corporation, our
13 compensation philosophy recognizes that our employees perform the most critical
14 role in ensuring that all our business units provide safe, reliable and efficient service
15 to all of our customers. Our compensation philosophy is an important part of our
16 corporate culture and mirrors our corporate values:

17 **CARE:** We put people first, both our customers and our employees. As
18 such, safety is at the core of everything we do. We focus on building
19 trusting relationships, as well as fostering a culture of equity, diversity and
20 inclusion with a sense of belonging for all employees. We strive to make a
21 meaningful difference everywhere we live and work.

1 **INTEGRITY:** We tell the truth. Moral and ethical principles drive our
2 decision-making every day, and we do the right thing every day, even
3 when no one is watching.

4 **EXCELLENCE:** We know we can achieve great things together. As
5 such, we hold each other accountable to do the work that makes us better
6 every day. Our mindset is to never give up and to strive to achieve
7 excellence in everything we do.

8 Consistent with this philosophy, the Corporation's compensation philosophy is to
9 reward employees by providing pay and benefits that are competitive in comparison
10 to the rest of the utility industry, as well as general industry (non-utility) employers,
11 in order to attract, retain and motivate talented employees who are qualified to
12 perform the functions needed by the Corporation for the ultimate benefit and safety
13 of our customers. This philosophy enables the Corporation to meet and exceed its
14 obligations to provide safe, reliable and affordable service to its customers. Our
15 corporate culture ensures our employees know we care and recognize their value.
16 Our commitment to cultivating an environment of innovation, embracing varied and
17 diverse perspectives and nurturing our personnel with a spirit of collaboration has
18 earned us the honor of being recognized as a Top Workplace for twelve consecutive
19 years and Top Workplace USA in 2021, 2022 and 2023.

20 Another way we show our care and gratitude to our employees is through our
21 Chesapeake Cares Program that focuses on employee morale and providing a
22 satisfying work environment. We regularly conduct events focused on employee fun
23 and fellowship. We recognize our employees' contributions with a reward and have a

1 recognition program geared toward continuous growth and career development
2 within the Company.

3

4 **IV. Organizational Structure**

5 **Q. What is the organizational construct of CUC?**

6 **A.** In 2019, there was a change in the President and Chief Executive Officer (“CEO”)
7 role for Chesapeake Utilities Corporation. Jeffrey Householder was appointed to this
8 position. Under his leadership, the Corporation has instituted an enterprise-wide
9 approach to gain efficiencies, implement best practices, maintain consistency and
10 compliance, reduce costs and be the best in class with a safety mindset in everything
11 we do. A key to this approach has been the implementation of structural changes
12 designed to better enable our businesses that operate on similar platforms to view
13 and leverage best practices implemented by sister entities within the Corporation. To
14 accomplish this, Mr. Householder appointed a Chief Operating Officer to oversee all
15 businesses. Within that structure, there are Directors and General Managers to
16 oversee the regulated and unregulated entities. This enterprise-wide concept has
17 allowed CUC to gain standardization and efficiencies throughout the organization.
18 This new structure better facilitates our ability to accomplish our corporate mission:
19 “We deliver energy that makes life better for the people and communities we serve.”
20 Consistent with these organizational changes to effect enterprise-wide efficiencies
21 and the implementation of best practices, we have implemented a holistic approach
22 in compensation to ensure we attract and retain the best employees through a
23 competitive compensation and benefits package. Our employees are our most critical

1 resource when it comes to providing safe and reliable service to our customers. We
2 like to say that our employees are the creative and powerful heart of our Corporation.

3

4 **V. Total Compensation/Total Rewards**

5 **Q. What are the components of the Corporation's total compensation/Total**
6 **Rewards package?**

7 **A.** CUC offers the following components as part of our total compensation and Total
8 Rewards package: competitive salaries, annual incentive performance plans called
9 TIP (Team Incentive Plan), sign-on bonuses, driver incentives, relocation assistance,
10 health, dental and vision plans, 401(k) plans, flexible spending accounts, paid time
11 off and sick leave. Our medical plan options include a health savings account
12 option, a prescription plan, and a health advocate offering for our employees. In
13 addition, our 401(k) retirement plan, includes a Roth 401(k) savings plan option. We
14 also have a stock purchase plan. Additionally, we provide life insurance, with
15 optional supplemental life insurance, as well as Short Term and Long-Term
16 Disability Insurance. We provide an employee assistance program (EAP), tuition
17 reimbursement, volunteer opportunities, our "Aspiring Scholars" scholarship
18 program, as well as special rewards and recognition programs. We also offer
19 flexible and hybrid work schedules.

20 We also provide nine paid holidays annually, paid bereavement leave, and paid jury
21 duty leave. We have health and wellness initiatives and related programs. We also
22 provide candidate referral incentives, a mentorship program, and talent development
23 offerings, along with employee resource groups. Given the growing risks of cyber

1 scams and identify theft, we also offer free identity theft protection for our
2 employees.

3 **Q. Have you seen a change in expected base pay?**

4 **A.** Yes. Traditionally, CUC has budgeted for a 3%, merit-based increase for annual
5 base pay adjustments in order to be competitive and aligned with the market. This
6 has occurred during the last decade. However, in 2024, in order to remain
7 competitive, CUC increased the merit increase budget to 3.5% base pay adjustments.
8 In some positions, there were additional increases applied due to job market
9 challenges in filling select roles.

10 **Q. Does CUC provide a pension plan for its employees?**

11 **A.** The Corporation does not have a corporate pension plan. However, CUC does offer
12 a retirement savings plan through a traditional 401(k) provider and a Roth 401(k).
13 There is also an “automatic deferral feature” in the plan. If the employee does not
14 specifically elect an alternate deferral amount (including zero), the Corporation will
15 automatically withhold 6% from the paycheck each pay period and deposit that
16 amount into the selected plan as a salary deferral. CUC also provides a match to the
17 employee contribution up to 6% of salary. To be fully vested in the matching
18 contribution, the employee will have to complete two years of service.

19 **Q. Has CUC conducted a compensation study since FPUC’s last rate case?**

20 **A.** Yes. The market for both technical and professional employees in the energy
21 industry has, understandably, changed in the years since Florida Public Utilities filed
22 a rate case. Recognizing this, the Corporation engaged a third-party vendor, Willis,
23 Towers & Watson, to help us evaluate the labor market and benchmark our

1 compensation and benefit programs against the external market. There were a few
2 job titles and salaries that needed adjustments. Overall, however, the results
3 indicated that our total employee compensation was comparable to the market at the
4 time of the study.

5 **Q. How does CUC review the level of compensation for its executive officers?**

6 A. Compensation of the Corporation's named executive officers, including the CEO,
7 Executive Vice Presidents, Senior Vice Presidents, and Vice Presidents reporting to
8 the CEO, is reviewed by the Compensation Committee of CUC's Board of Directors.
9 The Compensation Committee engages an outside consulting firm, F.W. Cook, to
10 review executive compensation in the market and recommend potential adjustments
11 to the Board of Directors. Annually, each February, the Compensation Committee
12 reviews the base salaries of the named executive officers based on a market analysis
13 prepared by the third-party compensation consultant. If approved by the Board of
14 Directors, any changes recommended in February would be effective in April. This
15 review includes both base salary and incentive compensation. Both are generally
16 considered part of normal compensation and required for us to be competitive in the
17 market. It is usual and customary in our industry to have a base salary and a bonus
18 that is tied to meeting corporate, operational and financial targets. Our customers
19 benefit from having good leadership that focuses on the safety of our operations,
20 reliability of service, maintaining financial stability, and reaching stakeholder goals.
21 Having fair and competitive total compensation is a critical part of attracting top
22 talent to lead our organization.

1 **Q. Has the Corporation reviewed its executive officer compensation compared to**
2 **the market?**

3 **A. Yes, Institutional Shareholder Services Inc. (“ISS”) provided the Corporation with**
4 **an analysis evaluating the CEO’s pay. ISS determined that our CEO’s total pay is**
5 **within a reasonable range when compared to peer companies, as it is slightly below**
6 **the total median pay given to CEOs at the other peer companies over the past three**
7 **years.**

8 **Q. Have you seen an increase in Human Resources jobs and salaries?**

9 **A. Yes. In the last test year, the HR department was smaller in size. We have grown in**
10 **recent years due to expanding roles and responsibilities. During COVID-19, the**
11 **importance of the HR function was recognized globally. With increasing demands**
12 **and challenging job markets, HR has had to restructure and add new positions to best**
13 **serve our customers. In the last test year, the HR department consisted of**
14 **geographical representatives that handled all HR functions. With the restructuring of**
15 **the organization in 2019, mentioned above, and having an “enterprise wide**
16 **approach” HR restructured to have this same approach. We added specialized**
17 **functions, such as talent acquisition, talent development, benefit management,**
18 **Compensation, Employee Engagement, Employee Relations, Labor Relations to**
19 **name a few. We introduced an LMS (Learning Management System). We structured**
20 **our Human Resources Business Partners (HRBP) to cover a larger scope of the**
21 **business, instead of a territory based on geography. For example, we have an HRBP**
22 **that handles all of Electric, another one that handles all of Customer Care, all of**

1 Natural Gas, etc. We have found that this structure helps to serve our employees
2 better.

3 As a Company, we have always focused on the safety of our employees. Covid-19,
4 however, highlighted that safety concerns can look different depending upon the
5 threat and has reinforced our focus on ongoing employee safety on a day-to-day
6 basis, whether our employees work in the field or in an office. In spite of the Covid-
7 19 decline in cases, employee safety has always been, and will continue to be an
8 ongoing priority for the HR department.

9 **VI. Team Incentive Plan**

10 **Q. Please describe the Team Incentive Plan (TIP).**

11 A. CUC's TIP is our established bonus program based on overall team performance of
12 achieving safety and operational goals. It's a multi-tiered program that is paid out in
13 March if certain operational objectives are met in the previous year. These objectives
14 include safety observations and the recording of any safety-related "near misses."
15 Employees are encouraged to take pictures of "near misses" and submit them so that
16 we all can learn from them and prevent accidents and injuries. The program also
17 encourages participation in an employee engagement survey, acknowledges the
18 number of recognitions given out through our Gratitude platform, which I describe
19 below, as well as the total volunteer hours served companywide. In addition, credit
20 is given for the identification of cyber security phishing campaigns, training hours
21 completed in The Grove, and participation in our Learning Management System.
22 We have found that when our incentive plans tie to safety, the awareness of safety
23 increases while our incidents decrease. Our commitment to safety is an enterprise-

1 wide goal. All employees are required to attend monthly safety meetings as part of
2 the TIP goals.

3

4 **VII. Employee Engagement**

5 **Q. What has CUC's approach been to employee engagement and creating a sense**
6 **of belonging for employees?**

7 A. We believe our people are our greatest asset and strength. Our approach to attracting,
8 developing, and retaining a diverse workforce of exceptional talent is anchored in a
9 philosophy that prioritizes personal growth and engagement. Our Corporation fosters
10 an environment where people are valued, respected and empowered to succeed. We
11 are committed to having a Sense of Belonging for all employees with an empowering
12 culture, which is key to achieving our mission. We want every team member to feel
13 like they belong and can succeed here. This allows everyone to bring their creative
14 ideas and authentic self to work which inspires innovation, creativity and Company
15 growth.

16 Our Company fosters an environment where people are valued, respected, and
17 empowered to succeed.

18 One way that CUC creates the Sense of belonging is through our Employee Resource
19 Groups.

20 Employee Resource Groups (ERGs) involve employees who voluntarily organize
21 around a particular identity, shared background or other interest aligning with the
22 mission, vision, and values of Chesapeake Utilities. ERGs enable team members to
23 share perspectives and experiences, advocate for common interests and provide

1 recommendations that support key business objectives. They are a great place to
2 build experiences and skills through mentorship, leadership opportunities and
3 training. They also offer opportunities to participate in community outreach and
4 advocacy. CUC has 10 ERG's and employees are invited to participate in any of
5 them that are of interest. The 10 ERG's include: Veterans, Women in Energy; Black
6 Employee Network. SPARC, Wisdom Seeker's & Sharers; DiverseAbilities; EPIC;
7 Pride; Hope; Green.

8 In addition to the above engagement offerings, CUC also introduced a recognition
9 platform, call Gratitude, where employees can recognize each other on an internal
10 enterprise-wide platform. Employees can earn and give "points" and can redeem
11 them for items they can purchase on the platform. This has been well received and is
12 a great way to recognize efforts, and special recognitions such as birthdays and job
13 anniversaries and other milestones.

14 We also offer Health and Wellness Initiatives, as part of our Engagement offerings.
15 We have Elevate Your Wellness offerings, which are held monthly and open to all
16 employees. They cover various topics such as "Navigating and Establishing
17 Workplace Friendships," and "Boundaries" and "Stress Management." We offer
18 weekly Quick Fit sessions, which are 15 minutes in duration every Tuesday at noon
19 for a brief exercise. This is available to all employees and is well received.

20 Employee Engagement is vital to retention and happy and productive employees.
21 We want to foster an environment where employees want to stay with Chesapeake
22 and grow with us. We call it the "secret sauce" of our culture where we are like
23 "family." Another engagement offering is called GrassRoots. This is a monthly

1 webinar where employees share their story and show pictures of their life. It's a
2 wonderful way to get to know our Chesapeake family members better and find out
3 how much we have in common. This is well received by employees. If an employee
4 cannot attend the live event, it is recorded and housed in The Grove LMS for future
5 viewing.

6 **VIII. Training and Development**

7 **Q. Please describe the training and development opportunities at CUC.**

8 A. As part of our engagement survey, employees mentioned that they would like more
9 training and leadership development and personal growth opportunities. In response,
10 we have rolled out an enterprise-wide Learning Management System ("LMS") that
11 we call The Grove, which I mentioned previously. This new LMS has also been an
12 effective response to the current job turnover rate for the industry, as well as a means
13 to address an aging utility workforce. There are many leadership development and
14 training opportunities in The Grove. For instance, we have weekly "Wednesday
15 Webinars" that include various elective or required training offerings. CUC also
16 offers virtual live events, onsite and in-person training events, and recorded on-
17 demand training sessions to accommodate various learning styles and preferences.
18 In addition to mandatory curriculum, such as leadership curriculum, compliance
19 training, harassment awareness, and others, there are many elective training
20 opportunities such as the "We Speak" public speaking academy, leadership
21 development courses, emotional intelligence coaching courses, and effective
22 communication courses.

1 We have partnered with vendors, like McLean to put some of their training curricula
2 in our LMS platform so that employees have a single source for their training needs
3 and do not have to log into various websites. We continue to add to our learning
4 library in The Grove. In addition to training and development opportunities, every
5 employee utilizes The Grove to attend their monthly safety meetings. All our
6 monthly ERG meetings, mentioned above, are also listed in The Grove. We offer
7 Wednesday Webinars every week covering various training topics such as
8 Situational Leadership, Emotional Intelligence, and 'Communicating More
9 Effectively by understanding the DiSC Behavior styles. We also include topics such
10 as Harassment Awareness, and Mastering Difficult Conversations, to name a few.

11

12 **IX. Talent Acquisition Market and Challenges**

13 **Q. What is the current job market like for the Corporation?**

14 A. As the Commission is aware, the Covid pandemic resulted in a significant shift in
15 employment trends. For CUC, we are now challenged to find qualified applicants,
16 particularly in areas such as lineman, senior lineman and apprentice roles. Prior to
17 Covid, finding qualified applicants was somewhat less challenging and our biggest
18 issue was the loss of existing employees for higher paying jobs in other states, like
19 California and New York. Today, we still experience employee attrition and
20 challenges in talent acquisition for FPUC.

21 **Q. Are there still challenges associated with talent acquisition?**

22 A. Yes. In this competitive job environment, the Corporation has found that potential
23 new hires expect a higher base salary, along with incentives, in excess of what we

1 have historically offered. Many also require “signing” bonuses and compensation
2 for relocation. Applicants for many office roles also expect to work remotely or use a
3 hybrid work schedule model. As such, we have had to adjust to these new
4 expectations to remain competitive. In addition, positions that were once easy to fill
5 are now more difficult and costlier to fill. There are some roles for which we have
6 difficulty finding qualified applicants. To address these challenges, we have
7 structured a Talent Acquisition department and hired recruiters to specialize in
8 recruiting efforts. We partner with many local agencies, and online vendors so that
9 our job postings reach applicants that may not be searching on a utility website to
10 apply for a role. As a result, we have adjusted to the market challenges and are
11 receiving more applications. Our recruiters quickly respond to qualified applicants
12 to start the process, and we currently have a historic low average time-to-fill of only
13 36 days. The industry standard is about 60 days to fill. Our recruiting team must
14 respond quickly to qualified applicants in order to secure top talent. They also are
15 creative in their approach and use professional platforms, such as Linked In, to see if
16 there is interest in one of our job openings that match their background. We realize
17 that many talented individuals, with unique skill sets and experience, may not be
18 looking for a job right now. We have found success in these creative outreaches.

19 **Q. Does this conclude your testimony?**

20 **A.** Yes, it does.

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1 (Whereupon, prefiled direct testimony of Wraye
2 Grimard was inserted.)

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Before the Florida Public Service Commission

Docket No. 20240099-EI: Petition for rate increase by Florida Public Utilities Company

Prepared Direct Testimony of Wraye Grimard

Filed: August 22, 2024

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

A. My name is Wraye Grimard. My business address is 3879 East Eagle Trail, Hernando, Florida 34442. I work for Pierpont and McLelland, LLC. I have provided consulting, regulatory, and tariff support for Florida Public Utilities Company (“FPUC” or “Company”) since May 2017.

Q. Please describe your professional experience.

A. I have over forty years of experience in the energy industry with a focus on federal and state regulatory, rates, and tariff matters. Prior to retiring in 2017, I worked for TECO Energy (“TECO”). At TECO, I was responsible for developing and managing SeaCoast pipeline’s intrastate pipeline services and regulatory matters, as well as TECO’s subsidiary, Peoples Gas System’s (“PGS”) transportation service programs. I oversaw and managed the evolution of PGS’s operating tariffs since 2000. I have testified before the Florida Public Service Commission (“FPSC”) for several matters related to fuel clause filings, tariff modification requests, and in rate case filings. Since 2017, I have consulted and participated in the modification and consolidation of the Company’s four natural gas operating tariffs.

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

A. The purpose of my testimony is to present and support the tariff modifications proposed as part of the Company’s rate case filing. My testimony will describe the

1 proposed modifications to i) the Company's Miscellaneous Service Charges, ii) rate
2 schedules, iii) certain customer riders, and v) non-rate related tariff changes proposed
3 by the Company in this proceeding.

4 **Q. Are you sponsoring any exhibits in this proceeding?**

5 A. Yes. I am sponsoring Exhibit No. WG-1, which is a comparison of the Company's
6 current and proposed Miscellaneous Service Charges. I am also sponsoring minimum
7 filing requirement ("MFR") Schedule E-13b, which is the derivation of the individual
8 of each Miscellaneous Service Charge, as well as MFR Schedule E-14, which is both
9 the complete proposed Tariff Volume 1 (the "clean tariff") and the legislative (red-
10 line) version of the tariff. These exhibits were prepared by me or under my direction.

11 **TARIFF FORMAT**

12 **Q. Please describe the format changes made to the tariff.**

13 A. The proposed tariff has been reformatted to provide breaks and section numbers for
14 the applicable sections. For instance, the Technical Terms and Abbreviations, Rules
15 and Regulations, and Rate Schedule sections have been assigned section numbers
16 5.000, 6.000, and 7.000, respectively.

17 **MISCELLANEOUS SERVICE CHARGES**

18 **Q. Please describe the proposed changes to the Company's Miscellaneous Service**
19 **Charges.**

20 A. In general, the Company is proposing increases to each of its existing tariff
21 Miscellaneous Service Charges. Exhibit No. (WG-1) provides a comparison of the
22 Company's current and proposed Miscellaneous Service Charges. As outlined in the
23 Company's MFRs, a cost-of-service study was performed using operations, customer

1 service, and accounting data to determine the Company's cost to provide each service
2 for which a Miscellaneous Service Charge was proposed. The Company is not
3 proposing changes to the returned check charge (that is established by Florida Statute)
4 or the late payment charge.

5 **Q. Is the Company proposing any new Miscellaneous Service Charges?**

6 A. No.

7 **RATE SERVICE CHANGES**

8 **Q. Is the Company proposing to revise its tariff consistent with the rate**
9 **modifications?**

10 A. Yes. Consistent with the rate design sponsored by Witness Taylor, the Company has
11 made proposed rate adjustments. The Company is submitting proposed revisions to its
12 tariff as required in both legislative (red-lined) and final format. See MFR Schedule
13 E-14.

14 **Q. Please describe the changes to the Company's rate schedules.**

15 A. The Company has recalculated its base rates and the associated rate schedules have
16 been modified to include the Company's proposed base rates.

17 **Q. Are there any other changes?**

18 A. Yes, as described in the testimony of Witness Haffecke, the Company is proposing to
19 close one of its under-utilized rate classes, the Standby Service tariff. In addition, the
20 Company is proposing to close the Non-Firm Energy Program (Experimental)
21 schedule due to the lack of use as well. This is also described in Witness Haffecke's
22 testimony.

23

1 **CLAUSES AND SURCHARGES**

2 **Q. Is the Company proposing to introduce any new customer riders?**

3 Technology Rider

4 A. Yes. The Company is proposing a new rider that is designed to recover technology
5 costs. The details of the Technology Cost Recovery Rider can be found in Witness
6 Napier's testimony.

7 **NON-RATE RELATED TARIFF CHANGES**

8 **Q. Please describe changes to non-rate related tariff language requested by the**
9 **Company in this docket.**

10 A. Underground Cost Differential

11 The Company proposes to modify the existing underground cost differential language
12 consistent with Section 25-6.115 of the Florida Administrative Code.

13 **MINOR REVISIONS**

14 **Q. Briefly describe changes to the tariff the Company characterizes as editorial,**
15 **corrections, and clarifications.**

16 A. Specifically, the Company has reformatted the headers and footers on each tariff page
17 to break each tariff section into a numerical sequence. This will enable the Company
18 to make future changes to the tariff and to renumber the tariff sheets more efficiently.

19 **Q. In your opinion, are the Company's proposed changes to the miscellaneous rates,**
20 **clauses and surcharges just and reasonable?**

21 A. Yes. The rates modifications proposed by the Company are just and reasonable and
22 result in each customer moving toward a more uniform contribution to costs associated
23 with providing the service(s) requested.

Docket No. 20240099-EI

1 **Q. Does this conclude your testimony?**

2 **A. Yes.**

1 (Whereupon, prefiled direct testimony of
2 William Haffecke was inserted.)

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1 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
2 Docket No. 20240099-EI: Petition for rate increase by Florida Public Utilities Company-
3 Electric Division
4 Direct Testimony of William Haffecke
5 Date of Filing: August 22, 2024

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1 **I. Introduction**

2 **Q. Please state your name and business address.**

3 A. My name is William Haffecke. My business address is 208 Wildlight Ave., Yulee,
4 FL 32097.

5 **Q. By whom are you employed, and what is your position?**

6 A. I am employed by Chesapeake Utilities Corporation (“CUC” or “Corporation”) as the
7 General Manager of Florida Operations.

8 **Q. Please describe your educational background and professional experience.**

9 A. I have over 30 years of experience in the utility business. I have a B.S degree in
10 Business Administration as well as a B.S. in Human Resources Management.

11 **Q. Have you ever testified before the FPSC?**

12 A. No.

13 **Q. Please identify the witnesses testifying on the Company’s behalf and their areas**
14 **of expertise.**

15 A. In support of its request for rate relief, the Company is submitting the “Investor-
16 owned Electric Utility Minimum Filing Requirements” (“MFRs”), as required by
17 Commission Rule 25-6.043, Florida Administrative Code (“F.A.C.”), and revised
18 tariff sheets. I will provide an overview and testimony on operation-related issues.
19 In addition to my testimony, we are submitting the testimony of the following
20 witnesses:

21 **Kim Estrada, Director of Customer Care Operations**, will provide testimony
22 regarding the Customer Care team and the improvements made in that area since the
23 prior rate case.

1 **Mr. John Taylor of Atrium Economics** will provide testimony regarding the cost
2 of service study, rate classification changes, projected billing determinants and rate
3 design.

4 **Mr. Michael Galtman, Senior Vice President and Chief Accounting Officer,**
5 will provide testimony on general accounting issues, as well as corporate and
6 business unit allocation methods.

7 **Mr. Nick Crowley of Christensen Associates Energy Consulting, LLC.,** will
8 provide testimony on the appropriate cost of capital and return on equity for the
9 Company.

10 **Mr. Noah Russell, Assistant Vice President and Assistant Treasurer,** will
11 provide testimony supporting CUC's current capital structure allocation, the various
12 components (short-term debt, long-term debt and equity) and address how FPUC has
13 benefited from the structure, as well as testimony addressing Chesapeake's Insurance
14 Programs.

15 **Ms. Wraye Grimard, Pierpont & McClelland** will provide testimony on the
16 changes being made to the tariff.

17 **Ms. Michelle Napier, Director Regulatory Distribution,** will provide testimony on
18 certain accounting adjustments made to expenses and why they were appropriate.
19 She will also provide testimony in support of the Company's interim rate filing.

20 **Ms. Devon Rudloff-Daffinson, Assistant Vice President Human Resources,** will
21 provide testimony on the Company's compensation plans and employee engagement
22 activities.

1 **Mr. Vikrant Gadgil, Vice President and Chief Information Officer,** will provide
2 testimony on the Company's Business Information Services activities and the
3 investments made, specifically in cybersecurity, in that area in recent years that have
4 benefitted FPUC's customers.

5 **Q. What is the purpose of your testimony?**

6 A. First, I provide an overview of Florida Public Utilities Company - Electric Division's
7 ("FPUC" or "Company") request, discuss the Company's need for rate relief, and
8 identify the key drivers behind that need, as well as the various steps taken by the
9 Company to avoid and delay requesting a rate increase. Next, I will provide
10 information on the drivers of the case that fall under my responsibility and tariff
11 changes that I am supporting. Finally, I will provide an overview of certain
12 miscellaneous topics such as rate case expense, MFR benchmarking, and future
13 changes to the typical bill.

14 **Q. Are you sponsoring any exhibits with your testimony?**

15 A. Yes. A summary of those Exhibits follows:
16 Exhibit WH-1 is a list of Minimum Filing Requirements ("MFR") that I am
17 sponsoring or co-sponsoring. WH-2 has been developed for informational purposes
18 and ease of reference and identifies which Company witnesses support the respective
19 MFR schedules. I am also providing Exhibit WH-3 which provides the temporary
20 service cost changes that are being made in the tariff to reflect current costs and
21 Exhibit WH-4 which provides the changes to the construction and conversion costs
22 in the tariff which have also been updated for current costs.

23

1 **II. Overview and Background**

2 **Q. Please give a general overview of the Company.**

3 A. Florida Public Utilities Company was originally incorporated in 1924. Its official
4 name became Florida Public Utilities Company in 1927. On October 28, 2009,
5 FPUC was acquired by Chesapeake Utilities Corporation, a Delaware corporation.
6 CUC also operates the Florida Public Utilities Natural Gas Division in Florida, as
7 well as unregulated energy businesses, including Eight Flags generating station.
8 With the acquisition of Florida Public Utilities Company in 2009, CUC expanded its
9 energy presence throughout the State of Florida. FPUC is headquartered at 208
10 Wildlight Avenue in Yulee, FL 30297. The Company serves approximately 33,100
11 residential, commercial and industrial customers in four counties within the State of
12 Florida.

13 **Q. What level of rate relief is the Company seeking in this proceeding?**

14 A. Using a projected test year ending December 31, 2025, the Company is seeking an
15 increase in its base rates of \$12,593,450. This increase is necessary to allow FPUC to
16 earn a fair return on our investment. The request is an overall increase of
17 approximately 12.8%. On an annual basis, the total proposed increase is below the
18 compounded inflation rate of 34.74% (see MFR C-40) since the projected test year in
19 FPUC's last rate case of September 30, 2015. The Company is proposing a return on
20 equity of 11.3% that generates an overall midpoint rate of return of 6.89%. In
21 accordance with Rule 25-6.140, F.A.C., Test Year Notification, we have notified the
22 FPSC that we have selected the twelve-month period ending December 31, 2025, as
23 the appropriate projected test year for our petition to increase our rates and charges.

1 The resulting revenue increase would allow the Company the opportunity to earn a
2 fair return on its investments, cover its cost of service, and attract the necessary
3 capital for system reliability improvements, customer growth, and service
4 enhancements detailed in this proceeding.

5 **Q. Is the Company also seeking Interim Rate Relief?**

6 A. Yes. Using the methodology authorized by the Commission, the Company has
7 calculated that, pending a decision on final rates, it requires an annual interim relief
8 of \$1,812,869 based on the historical test year ending December 31, 2023. The
9 specific calculation supporting the interim rate request will be covered in the
10 testimony of Witness Napier.

11 **Q. Why is FPUC requesting rate relief at this time?**

12 A. FPUC has made every effort to delay this request for as long as possible. However,
13 our business is capital intensive and requires significant, long-term investments to
14 enable us to continue to provide safe and reliable service to our customers. The
15 Company has also been impacted by cost increases in excess of inflation and
16 customer growth, as well as a need for additional staffing and programs to continue
17 providing an appropriate level of service to our customers. Therefore, timely and
18 sufficient revenues are critical to allow us to earn a fair rate of return, which will
19 enhance our ability to attract capital to use for these investments, which, in turn, will
20 ensure we are able to continue providing service to our customers at the high level
21 they expect and deserve.

22 **Q. When was the last rate relief requested by FPUC's Electric Division?**

1 A. FPUC's last rate relief request was filed on April 28, 2014.¹

2 **Q. Is the Company currently earning a reasonable rate of rate of return?**

3 A. No. The following chart shows the Company's achieved Rate of Return ("ROE") as
4 of December 31, 2023, as well as the projected ROE at the end of 2025:

Entity	Current ROE	Projected 2025 ROE
FPUC-Electric	3.34%	-3.00%

5
6 **Q. What are the key drivers underlying FPUC's need to seek rate relief at this**
7 **time?**

8 A. There are three primary drivers causing the Company to seek relief at this time:

9 1. **Investment** – The last rate case filing included plant and construction work in
10 process of \$117,072,969. Base rates were adjusted for investment of \$13,520,303 in
11 the limited proceeding Docket No. 20170150-EI and by \$18,573,911 in the
12 Hurricane Michael Docket No. 20190156-EI for a total of \$149,167,183. The
13 projected investment in this filing is \$261,142,793 or an increase of \$111,975,610, in
14 its total capital spend since the last rate proceeding. The capital spend in this case
15 excludes the amount of capital projected for the SPP docket. Therefore, the total
16 capital FPUC is actually spending is even higher than the \$261 million stated above.
17 A significant portion of these investments are tied to improvements in reliability by
18 way of the purchase and renovation of substations, as well as increased costs
19 associated with safety regulations imposed by federal agencies, such as the National
20 Electrical Safety Code ("NESC") and the North American Electric Reliability

¹ Docket No. 20140025-EI.

1 Corporation (“NERC”), and the investment in a new Customer Information System
2 (“CIS”). Additional descriptions of these projects will be provided later in my
3 testimony. These improvements are coupled with the increase in depreciation
4 expense resulting from the additional capital installed over the period of time since
5 the Company’s last rate case. As a result, the Company has exhausted its ability to
6 find additional cost-saving measures that would enable it to further delay a request
7 for an increase without impacting compliance, safety, and service to our customers.

8 **2. Economy and Additional Costs** – Like most companies, costs for FPUC continue
9 to trend upward in a variety of areas, in spite of our best efforts to keep expenses
10 down. Many of these cost increases are beyond the control of the Company. This
11 has further contributed to a significant decline in the rate of return in our electric
12 operations. The Company believes the proposed 2025 test year will accurately reflect
13 the economic conditions in which the Company’s electric operations will be
14 operating during the first twelve months that the new rates will be in effect.
15 Therefore, this period is appropriate for rate-setting purposes. We have also faced
16 unprecedented historical events, such as the COVID-19 pandemic, that have had a
17 significant, unfavorable impact on earnings since our last rate proceeding due to
18 supply chain shortages and increased prices. Although growth has played a smaller
19 role in the Company’s electric service territories, the construction and housing
20 markets have grown at a historically high pace in some areas and this extraordinarily
21 aggressive construction market has arrived at a time of 40-year high inflation.
22 Together, these supply chain shortages and historic inflation have driven increased
23 prices on everything from labor and fuel to materials and insurance, placing

1 additional downward pressure on our returns. The need for additional cyber-security
2 to protect both customer data and Company data is also a significant driver behind
3 the need for a rate increase. This will be discussed in more detail in Company
4 Witness Gadgil's testimony. Additionally, as will be discussed in Witness Russell's
5 testimony, insurance costs are increasing at a rate higher than inflation and growth.
6 When coupled with the length of time since the last rate case, and the increased costs
7 discussed above, it has become necessary to seek a rate increase that will provide the
8 Company with an opportunity to earn a fair rate of return on our investments,
9 maintain solid financial integrity, and continue to provide safe and reliable electric
10 service to our customers.

11 **3. Customer Expectations** – Electric system reliability is of the utmost importance
12 to both the Company and our customers. Additionally, customers expect to have
13 accessibility to their data, as well as information regarding estimated and faster
14 restoration times. In order to keep pace with customer expectations in terms of online
15 access to their account, as well as online access to customer care, we must reinforce
16 our system and install equipment that will allow the Company to provide the
17 services, information and data. The Company has invested in a new CIS, as
18 discussed in the testimony of Company witnesses Estrada and Gadgil, in order to
19 meet our customers' higher expectations. While the new CIS will support the higher
20 customer expectations, it also requires a significant investment and a higher level of
21 technical and software related support costs.

22 **Q. Are there specific increases in expenses that are contributing to the Company's**
23 **request for a rate increase?**

1 A. Yes. There are other expense increases on Schedule C-7 page 7 and 8 of the MFR's.
2 This schedule lists the appropriate witness responsible for each of these adjustments.
3 The expense increases I am testifying on will be described in Section III of this
4 testimony.

5 **Q. What steps has the Company taken to avoid or delay this request?**

6 A. The Company has implemented several cost-containment measures that have
7 successfully limited cost increases, thereby enabling the Company to delay seeking a
8 rate increase for almost 10 years. Additionally, since the acquisition of FPUC by
9 CUC, the Company has been able to take advantage of the stronger financial posture
10 of CUC to obtain debt to fund capital additions at lower rates. Taking these interim
11 steps for efficiency outside of a full rate proceeding has also allowed the Company to
12 avoid pursuing multiple rate cases and thereby additional rate case expense.

13 **Q. What other efforts have been implemented by the Company to avoid or delay a**
14 **rate increase?**

15 A. The Company has embarked on the aggressive promotion and utilization of its
16 Commission-approved Energy Conservation programs to advance Florida's public
17 policies regarding energy efficiency and carbon reduction, which has also helped our
18 customers in terms of overall affordability. Additionally, the Company works with
19 local governments within our service territories to attract new customers that will
20 provide revenue streams that can assist with offsetting capital expenditures.

21 **Q. What other relief is the Company requesting in this proceeding?**

22 A. First, FPUC requests a variance from the 13-month average computation for our
23 substantial addition in substations which I will support later in this testimony,

1 Second, the Company is requesting a change in recovery of tree trimming and pole
2 inspection expenses that have been removed from the SPP clause because they were
3 in the base rates in Docket No. 20140025-EI that will be discussed by Witness
4 Napier. Third, the Company is requesting a variation on the calculation of the cost
5 of debt which, we believe, benefits our customers which will be discussed by
6 Witness Russell. In addition, the Company is requesting some tariff changes. A
7 technology rider will be discussed by Witness Napier, while I will address
8 consolidation of Standby and GSLD1 tariffs, closing of all lighting classes, except
9 for the Light Emitting Diode (LED) tariff, as well as closing of the Non-Firm Fuel
10 Tariff detail later in this testimony. I am also supporting the increases in
11 miscellaneous service charges, the forecast of the 2025 projection for GSLD
12 customers, the new construction deposit charges, and the temporary service charges
13 which were simply increased to reflect current costs. Other formatting tariff changes
14 will be discussed by Witness Grimard.

15

16 **III. Operation Related Topics**

17 **A. Purchase and Refurbishment of Substation Assets**

18 **Q. Is the Company planning to acquire additional substation assets?**

19 A. Yes. The Company is planning to acquire four substations and a transmission line
20 located in our Northwest Florida territory.

21 **Q. Why is the Company proposing this purchase?**

22 A. Purchasing these substation assets will allow FPUC to update aging equipment,
23 while providing direct benefits to our customers. These updates will help improve

1 reliability and bring these assets up to current standards. FPUC currently pays FPL
2 fees annually in distribution charges, because the interconnection point between the
3 Companies is located at the low voltage side of the transformers. This distribution
4 charge will drop substantially after the interconnection point is relocated to the high
5 side of the transformers. This reduction in costs will be passed through to FPUC's
6 customers through reduced purchased power costs and a reduced fuel factor.

7 **Q. What is the proposed timing of the purchase and upgrade of these assets?**

8 A. The purchase of the assets is planned to occur in November 2024, and the upgrades
9 of the assets will begin in early 2025 and be completed by the end of 2025.

10 **Q. Will there be O&M costs associated with the purchase and upgrades of this**
11 **equipment?**

12 A. Yes. FPUC will need to add a technical resource (IMC Technician) to perform and
13 coordinate O&M activities for these assets. With the addition of this resource, there
14 will be other expenses such as equipment and tools to allow for this work. Outside
15 contractors will also be utilized as necessary to perform maintenance activities.

16 **Q. Are there other substation additions included in this filing?**

17 A. Yes, in addition, the Company is replacing aging equipment and rebuilding for safety
18 and regulatory compliance on its Northeast substations, JL Terry and AIP. These
19 amount to approximately \$9 million.

20 **B. Variance from 13-Month Average for Substation Additions**

21 **Q Are you proposing changes to the traditional use of the 13-month average**
22 **approach for capital installations?**

23 A. Yes, I am supporting this proposed change.

1 **Q. Please explain why you are proposing a change to the 13-month average**
2 **approach for the capital installations.**

3 A. The Company is making critical investments in substations for resiliency and
4 reliability. However, these substation investments will continue into 2025.
5 Allowing the Company to use a full-year approach would reduce the need for
6 additional rate relief shortly after implementation of rates resulting from this rate
7 case.

8 **C. Other Reliability and Safety Upgrades**

9 **Q. Why are reliability and safety upgrades important?**

10 A. The safety of our customers and employees is of paramount importance to the
11 Company. To ensure that customers are not subjected to electrical hazards, the
12 Company follows all applicable codes and regulations. Nevertheless, our employees
13 and contractors that operate and maintain the Company's electric system are exposed
14 to hazards on a routine basis simply by virtue of our business. We are implementing
15 new technology and manufacturing methods that provide better safeguards compared
16 to antiquated/obsolete equipment, which enhances the safety of our employees and
17 our customers. The efforts to modernize our system also have the benefit of ensuring
18 that the Company's electric system is more reliable for our customers. This is
19 reflected in the SADI and SADI reliability numbers for both of our service areas.
20 Combined SAFI for both service territories has improved 9.72% at the end of the 2nd
21 quarter of 2024 when compared to 2023 and the combined SADI has improved
22 11.29% for this same time period. These improvements have resulted in a clear
23 benefit to our customers and are the result of the Company's continued focus on

1 ensuring its system is capable of providing the high level of service and safety our
2 customers, and employees, expect and deserve. A notable example of this benefit is
3 demonstrated by, Hurricane Debby, which recently hit the Company's Northeast
4 region. Even with winds gusting to 50 mph on a heavily vegetated island, very few
5 customers were impacted and those that did experience an outage were restored
6 within a few hours, or less. In addition to the safety benefits for our employees, this
7 system will benefit our customers with reduced outage times.

8 **Q. Why is FPUC proposing to install a two-way communication system?**

9 A. The installation of a two-way radio system will help improve safety for both
10 employees and the public. This system will also help expedite outage restoration
11 times.

12 **Q. What is the system that this proposed two-way radio system is replacing?**

13 A. Currently the Company does not have a two-way radio system and relies solely on
14 cellular telephones to communicate with field personnel. This can be problematic,
15 especially during storm restoration if cellular communication is lost when cell towers
16 are damaged.

17 **Q. Could you please elaborate on how the two-way radio system will expedite
18 storage restoration?**

19 A. Yes, a two-way radio system will allow dispatchers and/or management to guide
20 crews directly to outages and assist with switching activities. Employees will have
21 the ability to communicate with each other when additional help is needed or for
22 tools/material needs. Additionally, two-way radio communication between field
23 crews will ensure employees working on an affected circuit are in a safe position

1 before energizing the circuit. Presently, these activities are performed by visual
2 confirmation if cell service is not available, which requires driving out to the
3 impacted circuit. Another added safety benefit with a two-way radio system is to
4 broadcast messages regarding the closing of any protective device (i.e. fuse, breaker,
5 recloser, etc.) to ensure no one is performing work on the circuit.

6 **Q. What is the timeframe for installing the two-way radio system?**

7 A. FPUC intends to begin the installation of this system in 2024 and complete the
8 project in 2025.

9 **Q. What is the estimated cost for this installation?**

10 A. FPUC estimates the cost of this installation to be \$1.3M.

11 **Q. What are some of the other capital expenditures for reliability projected in this**
12 **case?**

13 A. The Company has several other projects that should increase the system reliability.
14 They are installation of a new 75MVA transformer, installation of self-healing
15 equipment that will detect which sections of the system have outages and can
16 minimize outage times to customers, the rebuild of an existing substation and
17 installation of substation 69KV loop and switch. Each of these will provide
18 improved reliability for FPUC customers.

19 **Q. Are there capital expenditures related to safety and security?**

20 A. Yes, the Company is removing failing manholes, replacing live front equipment, and
21 replacing unjacketed underground cable. In addition, cameras are being added at
22 substations and offices.

23

1 **Q. Could you explain what live front equipment is?**

2 A. Yes. Typically, traditional pad-mounted dead front equipment used in underground
3 installations uses wire and connections on the high voltage side of the equipment that
4 are insulated. When working with this type of equipment, it is treated as non-
5 insulated providing an extra layer of safety protection. With live front equipment,
6 used in underground installations, the connections made on the high voltage side of
7 the equipment are not insulated exposing workers to the un-insulated connections.
8 Additionally, these un-insulated connections are exposed to the conditions inside the
9 equipment creating additional vulnerabilities due to wildlife contact and
10 contamination. Working on uninsulated live front equipment can be performed in a
11 safe manner, but this does not provide the extra layer of safety protection that exists
12 with pad-mounted dead front equipment. Additionally, the reliability and general
13 safety to the public increases with dead front equipment as the potential risk of
14 exposure to wildlife or foreign objects to un-insulated connections contained inside
15 live front equipment is eliminated.

16 **Q. Could you explain whatunjacketed underground cable is?**

17 A. Yes. The unjacketed underground cable referenced is used for the installation of high
18 voltage underground cable. Although the actual high voltage cable is insulated, this
19 cable uses a concentric neutral consisting of several bare copper conductors that are
20 wrapped around the insulated high voltage cable. The concentric neutral on
21 unjacketed underground cable is not insulated and exposed to the elements when
22 installed. Over time, this exposure results in the deterioration of the concentric
23 neutral, which is critical to the reliability of the conductor and the safe operation of

1 the equipment to which it is connected. New jacketed underground cable provides
2 another layer of insulation over the concentric neutral, which protects it from
3 exposure to the elements, making the conductor more reliable and helps ensure the
4 safe operation of the equipment to which it is connected.

5 **Q. Why is it so critical to remove the live front equipment andunjacketed**
6 **underground cable?**

7 A. As described above, the removal of this equipment provides improved reliability,
8 safe operation, worker safety, and reduces exposure risks to the general public.
9 Both reliability and safety are critical fundamentals for FPUC operations.

10 **Q. Are you asking to include costs for security cameras?**

11 A. Yes. Security cameras provide both security and increased compliance at FPUC
12 operations offices and electrical substations. It has become increasingly more
13 important to have the ability to monitor conditions at offices and substations to
14 ensure security at these locations. This will allow prompt response should conditions
15 indicate that outside resources are attempting to cause harm to employees or
16 equipment.

17 **Q. Are there specific adjustments you are providing testimony on related to the**
18 **Over/Under adjustments in Schedule C-7 (2025)?**

19 A. Yes, there are. As shown on C-7 p. 7 and 8 (2025) other witnesses are also
20 addressing some of these adjustments. I will discuss those within my zone of
21 responsibility.

22 **Q. Why are CUC's Supervisor of Engineering department's duties being**
23 **restructured to include more time to the electric division?**

1 A. For safety and reliability, additional duties have been added to this position related to
2 substation maintenance, planning, additional vegetation management, transmission
3 and distribution relay modifications, and monitoring feeder loading.

4 **Q. Can you explain why there are additional costs related to damage prevention?**

5 A. The CUC Damage Prevention department is spending more time on the electric
6 division. Additional costs are being spent to provide a more active presence on the
7 website and local activities to reinforce the need to call 811 and follow up when
8 damages occur.

9 **Q. Why are you adding costs for the S&P Global Platts package?**

10 A. The electric division uses “Platts” for forecasting costs related to purchased power
11 agreements with other generators and, therefore the costs are a necessary cost of
12 business.

13 **Q. Why are there adjustments to increase Fuel, Conservation and Storm
14 Protection Plan (SPP) costs when clause costs are not included in base rates?**

15 A. In the MFRs, all clause expenses are included on MFR Schedule C-7 and
16 subsequently removed in MFR Schedule C-2 so they are not reflected in base rates.
17 The adjustments simply adjusts the amounts to the recent estimates, but there is no
18 impact on base rates.

19 **Q. Why is the Company adding an Electric Line Operation Supervisor in both the
20 Northeast and Northwest Territory?**

21 A. In order to remain in compliance with the Company’s O&M policies, ensure the
22 safety of employees and customers, adequate supervision of field employees is
23 required. The addition of a supervisor in both the NE and NW territories will allow

1 the managers to focus more on strategic activities while the supervisors support field
2 crews.

3 **Q. Why are inventory costs increasing since COVID?**

4 A. COVID not only caused price increases on goods and materials, but also resulted in
5 an inventory shortage, which has consequently caused much longer delivery times
6 for critical materials and components necessary for the operation and maintenance of
7 the electric system.

8 **Q. Is there a need for security system service and plan monitoring, as included in
9 the Company's request?**

10 A. Yes. The addition of security systems at FPUC's substations and Operations Centers
11 will provide additional security for our equipment, better protect the public, and help
12 deter theft that could lead to reliability issues on our system. As a result, we expect
13 that it will also contribute to our ongoing compliance with the NERC CIP standards.
14 Schedule C-7 page 8 reflects that increases in expenses for the monitoring of these
15 added cameras.

16

17 **IV. Tariff Changes**

18 **Q. What tariff related changes are you supporting?**

19 A. I am supporting the elimination of Standby Rates and the Experimental Non-firm
20 Energy Tariff. I am also supporting changes to the Hurricane Michael recovery tariff
21 for industrial customers, the LED lighting changes, the changes in the tariff for
22 miscellaneous service charges, new construction deposits, and temporary service
23 charges.

1 **Q. How were the miscellaneous service charges, new construction deposits, and**
2 **temporary service charges determined?**

3 A. The Company used the same type of costs used in the last rate case to calculate the
4 charges in this case and simply updated the rates to recover the current costs. The
5 resulting miscellaneous service charges are provided as an exhibit to Witness
6 Grimard's testimony. The temporary service charges and new construction deposit
7 amounts are provided in Exhibit WH-3 and WH-4, respectively.

8 **Q. Why is the Company proposing elimination of Standby rates?**

9 A. The Company is continually evaluating its business, including its tariffs to make sure
10 they are appropriate, meet our customer's needs, consistent with current regulatory
11 requirements, as well as effective and well-utilized in service to our customers. In
12 that regard, the Standby tariff currently has only one customer, a large customer that
13 switched to Standby from the GSLD1 tariff in 2012. Our experience with the
14 customer's requests over time, however, indicate that the customer is truly more
15 appropriately served under the GSLD1 tariff based upon routine requests for power
16 beyond that contemplated by the Standby tariff. The Standby tariff specifically
17 provides that customers served under this tariff must be self-generators that require
18 service only for back-up or maintenance service, and not regular, supplemental
19 power. Upon moving this customer to the more appropriate rate class, no customers
20 will be taking service under the Standby tariff, and since the Company has had no
21 other requests for Standby Service over the life of the tariff, we believe it is
22 administratively efficient to close this tariff.

23 **Q. Does FPUC plan to continue the Non-Firm Energy tariff going forward?**

1 A. No. The intent of the Non-Firm Energy tariff was to provide some pricing benefits to
2 our two industrial customers to incent them to purchase more power from the grid on
3 a consistent basis, thereby increasing overall load factor and reducing purchased
4 power costs for our general body of ratepayers. While both of the target customers
5 did increase purchases somewhat, the increased purchases were not to the extent
6 necessary to achieve the overall pricing benefits contemplated. Ultimately, since
7 purchases under the Non-Firm Energy tariff did not reduce the peak hour of the
8 month on which the demand portion of the bill is calculated, this cost was still
9 included in the regular monthly purchased power billing, which is passed directly
10 through to the general body of the rate payers. As such, the Non-Firm Energy tariff
11 did not perform as expected and provides no notable benefit to the Company or its
12 general body of customers. Therefore, we have concluded it should be eliminated.

13 **Q. Why is the Company closing lighting classes other than Light Emitting Diode**
14 **(LED) class?**

15 A. The Company can no longer obtain parts for the old lighting technology and many
16 manufacturers no longer produce the old HID lights. Therefore, it is necessary to use
17 LED lighting moving forward which allows utilization of more energy efficient and
18 reliable lighting.

19 **Q. Why is the Company changing the proposal for recovery of Hurricane Michael**
20 **costs for GSLD1 customers?**

21 A. Historically, the bills for these customers have been manually generated but are
22 going to be automated with the implementation of the new CIS system. The GSLD1
23 base rates are calculated using KW and KVar. Other recovery mechanisms are based

1 on KWH. The Company is proposing to move the other mechanisms to a KW unit
2 of measure. These changes will be presented in the Company's future clause
3 projection dockets. The Hurricane Michael surcharge is the only remaining
4 surcharge with a KWH unit of measure. Therefore, due to the small number of
5 industrial customers, we are proposing a flat rate recovery methodology, as
6 authorized in Docket No. 20190156, for industrial customers. This will have no
7 impact on the total recovery of the surcharge.

8

9 **V. Miscellaneous**

10 **Q. What is the amount of rate case expense proposed to be included in this rate**
11 **proceeding?**

12 A. On MFR Schedule C-10 which is being supported by Witness Napier, the Company
13 is requesting a total rate case expense of \$1,530,907 to be amortized over a period of
14 four years at \$382,727 annually.

15 **Q. Has the Company prepared a benchmarking analysis as part of this filing?**

16 A. Yes, MFR Schedule C-37 presents a benchmark analysis that shows an overall
17 increase over benchmark of \$40,887. Reasons for the increases are discussed in
18 MFR Schedule C-41 and in the testimony Witnesses Galtman and Gadgil.

19 **Q. Does the Company anticipate changes that will provide additional relief for**
20 **customers after the implementation of any rate increase approved in this**
21 **proceeding?**

1 A. Yes, we do. Specifically, the rider for Hurricane Michael recovery will expire at the
2 end of 2025. Therefore, the customers can expect to see a bill reduction beginning
3 on January 1, 2026.

4 Also, because the Company has not filed the 2025 fuel projection at the time of this
5 filing, the 2024 rates were used for the typical bills. These 2024 rates were based on
6 2024 costs and a large under-recovery due to the high fuel costs in 2021 and 2022.
7 This under-recovery will be fully recovered in 2024 and thus, the 2025 fuel factors
8 are expected to be lower. In addition, the Company has just entered a new purchase
9 power agreement that should also reduce power costs in 2025. These fuel changes,
10 coupled with the future savings from the substation changes and the eventual
11 elimination of the Hurricane Michael surcharge, should offset a portion of the
12 proposed rate increase.

13 **Q. Does this conclude your testimony?**

14 A. Yes.
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1 (Whereupon, prefiled direct testimony of
2 Michelle Napier was inserted.)

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1 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

2 Docket No. 20240099-EI: Petition for rate increase by Florida Public Utilities Company

4 Prepared Direct Testimony of Michelle Napier

5 Filed: August 22, 20247 **Q. Please state your name and business address.**8 A. My name is Michelle D. Napier. My business address is 1635 Meathe Drive, West
9 Palm Beach, Florida 33411.10 **Q. By whom are you employed and in what capacity?**11 A. I am employed by Chesapeake Utilities Corporation (“CUC”) as the Director,
12 Regulatory Affairs.13 **Q. Can you please provide a brief overview of your educational and employment**
14 **background?**15 A. I received a Bachelor of Science degree in Finance from the University of South
16 Florida. I have been employed with Florida Public Utilities Company (“FPUC” or
17 “Company”) since 1987. Over the course of my employment at FPUC, I have
18 performed various roles and functions in accounting, including General Accounting
19 Manager, before moving to the regulatory department in 2011. As previously stated,
20 I am currently the Director, Regulatory Affairs and in this role, my responsibilities
21 include directing the regulatory activities for all of CUC’s regulated distribution
22 companies. This includes regulatory analysis and filings before the Florida Public
23 Service Commission (“FPSC” or “Commission”) for FPUC Natural Gas and
24 Electric, Peninsula Pipeline Company, as well as regulatory analysis and filings

Witness Napier

1 | Page

1 before Delaware and Maryland Public Service Commissions for our business units
2 that operate in those states.

3 **Q. Have you ever testified before the FPSC?**

4 A. Yes. I have previously provided written, pre-filed testimony in a variety of the
5 Company's annual proceedings, including the Purchased Gas Adjustment, Docket
6 No. 20170003-GU; the Gas Reliability Infrastructure Program (GRIP) Cost
7 Recovery Factors for FPUC, Docket No. 20120036-GU; and the Swing Service Cost
8 Recovery for FPUC, Docket No. 20170191-GU, the Limited Proceeding for
9 Hurricane Michael, Docket No. 20190156-EI, as well as the FPUC Gas Rate Case,
10 Docket No. 20220067-GU.

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

12 A. My testimony will support certain costs on projected data presented in the Minimum
13 Filing Requirements ("MFR") listed in my Exhibit MDN-1. Specifically, I will
14 address the costs and adjustments represented within the MFR schedules for interim
15 rate relief, rate base, net operating income ("NOI"), and cost of capital. In addition, I
16 will address other requests in this case related to storm reserves, rate case expense
17 and the technology rider.

18 **Q. Are you sponsoring any exhibits with your testimony?**

19 A. Yes. Exhibit MDN-1 is a list of MFRs that I am sponsoring or co-sponsoring and
20 were prepared under my supervision and direction.

21 **REVENUE REQUIREMENT**

22 **Q. What is the revenue increase requested by FPUC in this proceeding?**

23 A. FPUC is requesting a permanent increase in the electric rates and charges for its

1 consolidated electric operation in the amount of \$12,593,450 in order to cover the
2 deficiencies in revenue for the projected test year ending December 31, 2025. In
3 accordance with Rule 25-6.140, F.A.C., Test Year Notification, we have notified the
4 FPSC that we have selected the twelve-month period ending December 31, 2025 as
5 the projected test year for our petition to increase our rates and charges. FPUC is also
6 requesting an interim increase in the electric rates and charges for its consolidated
7 operations in the amount of \$1,812,869 based on deficiency in revenues for the
8 historic year ended December 31, 2023.

9 **Q. How did you derive the projected revenue requirement for the December 31,**
10 **2025 test year?**

11 A. The derivation of the revenue requirement and projected revenue deficiency is
12 summarized on MFR Schedule A-1. In summary, the 2025 revenue requirement is
13 determined by multiplying the projected test year rate base by the required rate of
14 return to arrive at the operating income required. This required operating income is
15 then compared to the projected test year ended December 31, 2025 operating
16 income, shown on MFR Schedule C-1, using our existing billing rates and charges
17 multiplied by our projected billing determinants and our operating expenses. Any
18 deficiency in operating income is then expanded using the revenue expansion factor
19 to arrive at the additional revenue required to realize a fair rate of return on rate base.
20 This required increase amounts to an additional \$12,593,450 in annual electric rates
21 and charges. The required rate of return is 6.89% as shown on Schedule D-1a. The
22 projected rate base is \$150,053,096 and is provided in MFR Schedule B-1.

23

1

2 **INTERIM RATE RELIEF**3 **Q. Is the Company seeking interim rate relief in this proceeding?**

4 A. Yes, the Company is seeking interim rate relief because, as of the historic test year,
5 FPUC is not earning a sufficient return on its investments to provide the Company
6 the opportunity to earn a fair rate of return. Without appropriate rate relief, this
7 under-earning will hinder the Company's ability to continue to provide efficient,
8 reliable service to the communities and customers it serves. With the length of the
9 rate case process, interim rates will mitigate our negative earnings posture until final
10 rates can be put in place. While the Company has successfully worked to control
11 costs and expenses, as evidenced by the fact that the Company has not filed for a
12 base rate increase in almost a decade. The impact of inflation on the cost of materials
13 and labor since the last base rate proceeding has put negative pressure on the
14 Company's returns. Utilizing the methodology authorized in Section 366.071,
15 Florida Statutes, the Company has calculated the required annual interim rate relief
16 of \$1,812,869 based on the historical test year ending December 31, 2023. The
17 Company is below the range of reasonableness on rate of return as calculated in
18 accordance with Section 366.071(5) and without rate relief, is projected to continue
19 to experience declining returns.

20 **Q. How did you derive the revenue deficiency used in your interim rate relief**
21 **calculation?**

22 A. The calculation of the 2023 revenue deficiency is summarized on the minimum filing
23 requirements (MFR) Schedule G-1, Line 8, with an interim rate relief of \$1,812,869.

1 The interim rate relief revenue requirement is determined by multiplying the average
2 December 31, 2023, rate base by the required rate of return as stated in Section
3 366.071(5)(b)(2) of the Florida Statutes, which provides the operating income
4 required. This required operating income is then compared to the 2023 operating
5 income from the achieved rate of return, as stated in Section 366.071(5)(b)(1) which
6 is the rate of return earned by the utility with appropriate adjustments, to determine
7 the Company's revenue deficiency. The Company's adjustments are detailed on
8 Schedules G-3, G-5 and G-8. The deficiency in operating income is expanded using
9 the revenue expansion factor of 1.3477, see Schedule G-18 for the calculation of the
10 revenue expansion factor, to arrive at the additional revenue required to realize a fair
11 rate of return on rate base. The Company's required rate of return is 4.95% as is
12 shown on Schedule G-19a in the MFR, and the December 31, 2023, rate base is
13 \$116,666,956 as provided in Schedule G-2. The Company's interim rate relief
14 requirement is based on its average rate base investment, as allowed in
15 366.071(5)(a), since this amount represents the actual used and useful plant
16 providing service to customers. In determining the required rate of return for interim
17 rates, the Company followed the parameters prescribed in 366.071(5)(b)(2) including
18 using the minimum range of the last authorized rate of return on equity established in
19 the most recent individual rate proceeding. The impact of interim rate relief, stated in
20 percentage terms as an increase on base rates and charges, is approximately 7.39% as
21 reflected on Schedule G-20.

22 The Company asks that the Commission allow us to collect appropriate interim rates
23 pending the effective date of the final order in this proceeding. We recognize that, in

1 accordance with Section 366.071, F.S., any approved interim increase will be subject
2 to refund with interest upon the outcome of these proceedings. FPUC therefore
3 requests that the Commission allow the Company to secure the requested amount
4 through corporate undertaking, in lieu of a bond. FPUC, through its parent CUC, has
5 sufficient liquidity, ownership equity, profitability, and interest coverage to
6 guarantee any potential refund as reflected by our financial statements, which are
7 incorporated in the MFR Schedules F-1 and F-2.

8 **Q. Have any adjustments been made to interim schedule G-8 that aren't included**
9 **in Schedule C-1 (2023)?**

10 A. Yes. The Company had revenue from a special contract in 2023 that expired in
11 November 2023. Since that revenue does not apply to the period interim rates will
12 be in effect, we have removed that revenue in Schedule G-8.

13 **Q. How has the Company applied the requested interim rate relief to the rate**
14 **classes?**

15 A. On Schedule G-20 the total requested interim rate relief is divided by total revenues
16 by rate class (customer charge and energy charge) in order to calculate a percentage
17 increase for each rate class. That percentage increase is then multiplied by the
18 customer and energy charge for each individual class to derive at the dollar increase
19 per class to be charged during the interim rate period. This dollar increase is divided
20 by annual therm sales to calculate the per therm increase to be charged to each class
21 during the interim rate period.

22 The proposed interim rates by class are shown in MFR Schedule F-9.

23

1 **Q. Is the Company proposing any changes to the Service Charges in this filing?**

2 A. No, not for the interim period. We are requesting some changes in the final Service
3 Charges, as addressed in the testimony of Witness Grimard.

4

5 **RATE BASE**

6 **Q. What is the amount of rate base included in the projected test year December**
7 **31, 2025, as a basis for determination of revenue requirement?**

8 A. As set forth in MFR Schedule B-1, rate base is \$150,053,096. The rate base is
9 comprised of two main sections, Net Plant and Working Capital.

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

11 A. The Company did a detailed analysis and projection of planned capital projects,
12 retirements, and other components for the projected years ending December 31,
13 2024, and December 31, 2025, to project Net Plant. The Company utilized in-house
14 experts in the division, including the General Manager, Florida Operations,er,
15 William Haffecke, Manager of Electric Operations, Mark Cutshaw and Director of
16 Finance, Stephanie Keithley, as well as input from other key employees to determine
17 the projects, amounts, and timing of items to be included in Net Plant projections.
18 The Company has planned capital projects required for safety, reliability, storm
19 protection plan, infrastructure replacements, customer growth and other key projects;
20 all have been incorporated into these projections and Witness Haffecke describes
21 some of these projects in his testimony. Working Capital was projected using either
22 trend factors or year end balances, as appropriate. Direct projections were utilized

1 for certain balance sheet accounts that do not lend themselves to projections based on
2 trend factors.

3 **Q. What is the amount of the Company's capital additions for the historic test year**
4 **ending December 31, 2023, and capital budget for the two projected test years**
5 **ending December 31, 2024, and 2025, respectively?**

6 A. The capital additions, including allocations of common plant, for the twelve months
7 ending December 2023 were \$9,061,642. The budget amounts for capital additions
8 for the periods ending December 31, 2024, and 2025 are \$37,648,477 and
9 \$51,605,279, respectively.

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

12 A. Yes, CWIP is a component of FPUC's Net Plant, so the Company should be allowed
13 to earn a fair return on capital projects under construction. Costs associated with
14 these projects are all prudently incurred and necessary, and therefore, should be
15 included in rate base for recovery through base rates. Historically, the Commission
16 has allowed construction work in progress to be included in rate base for the
17 Company. The Company has removed any construction work in progress projects
18 that are accruing "AFUDC" in MFR Schedule B-1, and therefore, the Company will
19 not receive duplicate recovery on these projects while under construction. With this
20 proceeding, we are asking that the Commission allow us to recover costs associated
21 with ongoing construction, because these projects are critical to maintaining and
22 improving safety, system reliability and ensuring our ability to meet our customer's
23 needs.

1 **Q. What are the items that are included in net plant that have been allocated from**
2 **Florida Common to the Electric operating unit?**

3 A. As in previous rate proceedings, the Company determined that certain Plant Assets
4 were categorized as Florida Common due to their shared utilizations between
5 Florida's multiple regulated and/or non-regulated utilities. The allocation is based on
6 the Modified Distrigas for Florida business units, which allocates to the utility its
7 share of the total for plant, payroll, customers or earnings. These assets are detailed
8 on Schedule B-8 under Florida Common Plant.

9 **Q. What are the items that are included in net plant that have been allocated from**
10 **CUC to FPUC?**

11 A. The Company also determined that certain Plant Assets of CUC should be allocated
12 to the Company due to their shared utilizations between multiple regulated and/or
13 non-regulated utilities. These assets consist mainly of common area space in office
14 buildings used for corporate personnel, computer and communication equipment,
15 and other general plant accounts. The allocation is also based on a Modified
16 Distrigas method for all CUC business units and allocates to the utility its share of
17 the CUC total for plant, payroll, customers or earnings. These assets are detailed on
18 Schedules B-7 and B-8 under Corporate Common Plant.

19 **Q. Please describe how working capital was projected for the projected test year**
20 **ending December 31, 2025?**

21 A. In developing working capital projections, the Company reviewed each balance sheet
22 item, and where appropriate, utilized a trend factor, usually based on history. For
23 some accounts, we used the balance that existed at the historic year end, when there

1 were no fluctuations. This basis produced a better projection. And for some accounts
2 that did not lend itself to a pure trend, we directly projected their balances based on
3 history or estimates received from external experts, such as pension and benefits
4 reserve.

5 **Q. Is working capital as projected appropriate for computing the projected test**
6 **year rate base for the period ending December 31, 2025?**

7 A. Yes, the working capital as projected is appropriate for inclusion in rate base for the
8 period ending December 31, 2025. The Company performed an analysis on working
9 capital accounts, reviewed historical methodology used and reviewed expense items
10 related to these accounts to determine the most appropriate factor to use in projecting
11 working capital.

12 **Q. What is the appropriate adjusted rate base for the projected test year ending**
13 **December 31, 2025?**

14 A. The appropriate adjusted rate base for the projected test year is \$150,053,096,
15 reflecting utility plant (including Florida Common & Corporate Common) after
16 deductions for accumulated depreciation and amortization, and other adjustments as
17 noted for the projected test year (non-utility plant, CWIP accruing AFUDC) plus
18 working capital allowance. This amount is shown on MFR Schedule B-1. Additional
19 information on capital additions for rate base for the projected test year is provided
20 in the testimony of Witness Haffecke.

21 **Q. Please explain all adjustments included in rate base for the projected test year**
22 **included in the Company's submitted MFRs.**

23 A. We have made the following adjustments:

1 Removed Non-Utility Assets

2 The Company has removed plant and its reserve for a portion of the assets used
3 and/or shared with other non-utility operations, consistent with the treatment
4 approved by Order No. PSC-2008-0327-FOF-EI. The adjustment to net plant
5 decreased rate base by \$5,730.

6 Clause Under-Recoveries Set at Zero

7 Consistent with that same Order, PSC-2008-0327-FOF-EI, fuel and conservation
8 under-recoveries were eliminated and estimated at zero at December 31, 2025.
9 Therefore, no adjustment was made.

10 Unamortized Rate Case Expense

11 The Deferred Rate Case account has been reduced by the unamortized rate case
12 balance from working capital, which is consistent with Commission direction in
13 Order PSC-2023-0103-FOF-GU in our gas rate proceeding. The reduction amounted
14 to \$1,331,206 as shown for December 31, 2025 in Schedule B-1. However, the
15 Company believes it is more appropriate to remove one half of the unamortized rate
16 case balance from working capital, which had been a long standing policy of the
17 Commission for FPUC, even though the Commission had not taken that approach
18 with other utilities. In the Company's 1993 rate case, Order No. PSC-1994-0170-
19 FOF-EI at pg. 10, for its electric division, the Commission addressed this same issue.
20 In that case, the Commission acknowledged that it had, in several prior cases for
21 other utilities, removed rate case expense from working capital. The Commission
22 nonetheless recognized that:

1 We believe that the company should be given the opportunity to
2 recover prudently incurred costs. Not including the unamortized
3 portion of rate case expense in working capital is a partial
4 disallowance. It is analogous to allowing depreciation expense, but
5 not allowing a return on rate base. Rate case expense is a cost of
6 doing business not unlike other administrative costs. Further, PSC
7 rules, such as the MFR rule, influence the level of rate case expense.

8 The Commission therefore concluded:

9 . . . if it is determined that rate case expense is prudent and
10 reasonable, the company should be allowed to earn a return on the
11 unamortized balance. Rate case expense is a necessary expense of
12 doing business in the regulated arena.

13 Also, in the Commission's final order in the 2007 FPUC Electric rate case, Order No.
14 PSC-2008-0327-FOF-EI, page 33, issued in combined Dockets Nos. 20070300-EI
15 and 20070304-EI, states:

16 Our practice in prior rate cases, including FPUC's is to allow one-
17 half of the rate case expense in Working Capital. Based on the
18 above, we find that the appropriate balance of deferred debit rate
19 case expense to be included in Working Capital is \$303,400.

20 That decision is also consistent with Commission Order No. PSC-2004-0369-AS-EI,
21 issued in the 2003 FPUC Electric rate case, Docket No. 20030438-EI.

22 We acknowledge that the Commission reached a different conclusion in our recent
23 rate case consolidating our natural gas divisions in Docket No. 20220067-GU;

1 however, we still believe this approach is appropriate for our electric division, which
2 is substantially smaller than our natural gas sister companies.

3 In addition, FPUC is not staffed at a level to allow for preparation of rate
4 proceedings, MFR's, or the additional rate case related workload required after the
5 MFRs are filed nor does the Company have the expertise in all areas required to
6 facilitate the preparation of a rate case. As a result, FPUC hires the expertise and
7 extra assistance as necessary to complete this process. The Company believes this is
8 a more cost-effective approach than increasing staff to completely handle the rate
9 case internally and benefits our customers by having lower operation and
10 maintenance expenses on a recurring basis. Therefore, the Company deems it
11 appropriate to include one half of the unamortized rate case balance in working
12 capital and earn a return.

13 If allowed to include one half the unamortized rate case in working capital, this would
14 increase rate base by \$665,603 and the revenue requirement by \$45,860.

15 Removal of SPP-Related Expense in Rate Base

16 In 2019, the Florida Legislature passed Section 366.96, F.S. that requires public
17 electric utilities to file a Storm Protection Plan ("SPP") with the Commission and
18 allows them to petition for cost recovery annually through a Storm Protection Plan
19 Cost Recovery Clause ("SPPCRC"). The SPP is handled in a separate docket,
20 SPPCRC, outside of the base rate proceeding and is reviewed and approved within
21 that docket.

22 The plant investment related to the SPP accrues interest and since no interest earning
23 costs are supposed to be in rate base, the projected test year included adjustments for

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1 net plant related to the Company's SPP. FPUC has decreased rate base by
2 \$31,297,633 for the projected test year ending December 31, 2025.

3 Removal of CWIP

4 According to FPSC Rule 25-6.0141 F.A.C., FPUC has removed CWIP accruing
5 AFUDC. This investment pertains to the implementation of the new corporate-wide
6 SAP Customer Billing System, which is expected to be in service third quarter of
7 2024. As noted above, no interest earning/bearing costs should be in rate base and
8 therefore, FPUC has removed \$731,263 in December 31, 2025.

9 Removal of Storm Restoration Costs

10 Lastly, FPUC was approved to recover and amortize storm restoration costs,
11 including interest, related to Hurricane Michael in 2019, Docket No. 20190156 by
12 Order No. PSC-2020-0347-AS-EI. This resulted in a reduction in rate base of
13 \$3,769,633 for December 31, 2025.

14 No other adjustments were made to rate base and all of the above adjustments are
15 reflected on MFR Schedule B-2.

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

18 A. Yes, the Company made the same adjustments to the projected test year as were
19 made to the historic test year but included additional rate base of \$4,803,241 to
20 reflect the substation purchases and renovations in 2025 being in-service for a full
21 year. The details regarding these substations will be discussed in more detail in the
22 testimony of Witness Haffecke.

23

1 **NET OPERATING INCOME and OPERATING EXPENSES**

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

3 A. The Net Operating Income (NOI) was based on the historic test year for the 12
4 months ending December 31, 2023 on the Company's books. This calculation is
5 shown on MFR Schedule C-1. Certain adjustments to NOI are reflected on MFR
6 Schedule C-2. As shown on MFR Schedule C-1, the Company Adjusted Net
7 Operating Income for the historic test year is \$4,468,646.

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

9 A. Yes, the Company has included all adjustments to remove items that did not belong
10 in the historic year. Accordingly, the MFR Schedule C-1 for the period ending
11 December 31, 2023, reflects the appropriate historic year net operating income.
12 Other adjustments were required to the historic year to remove items that do not
13 belong to the electric division or were otherwise made consistent with Commission
14 decisions in past rate proceedings.

15 **Q. Please explain the items and basis for any adjustments made to the operating**
16 **income for the historic year included in MFR Schedules C-2 and C-3.**

17 A. Eliminate Fuel and Conservation:

18 Consistent with prior rate proceedings, the fuel and conservation revenues and
19 expenses, as well as their respective net under recoveries, have been eliminated from
20 both the historic and projected test years. These items are handled in separate
21 dockets outside of the base rate proceeding and are appropriate for review and
22 approval within those separate proceedings.

23 Eliminate Franchise and Gross Receipts Tax:

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

5 Economic Development Costs:

6 Expenses have been reduced for the lower of 5 percent of the economic development
7 costs in compliance with 25-6.0426 F.A.C. . This amount was under the maximum
8 adjustment of .225% of the gross revenue.

9 Storm Recovery:

10 As previously discussed, FPUC was approved to recover and amortize storm
11 restoration costs, including interest, related to Hurricane Michael in 2019, Docket
12 No. 20190156, by Order No. PSC-2020-0347-AS-EI. Therefore, the Company has
13 removed the revenues and expenses associated with interest earning storm recovery
14 to avoid duplicate recovery.

15 Remove Storm Protection Plan Cost Recovery:

16 The revenues and expenses related to the SPPCRC have been eliminated from NOI.
17 The SPPCRC is handled in a separate docket outside of the base rate proceeding and
18 are reviewed and approved within that docket. In this case, we are requesting an
19 adjustment in addition to the adjustment to remove the SPPCRC costs in the filing.
20 In the most recent 2025 Projection filing, \$975,504 was removed from projected tree
21 trimming and inspection costs because they were included in base rates within the
22 2015 rate case. The Company is now proposing that all tree trimming and inspection
23 costs be removed from base rates and included in their entirety in the SPP filing. If

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1 approved, the true-up calculation filing for the SPPCRC with the PSC would be
2 adjusted to remove the deduction for base rate costs. If not approved, our rate
3 request would need to be increased to cover the additional \$975,504 that would
4 remain in base rates.

5 EEI Dues:

6 FPUC is a member of Edison Electric Institute (“EEI”), an association that represents
7 all U.S. electric utilities. A portion of the dues paid to EEI represent lobbying and
8 are not recoverable. Therefore, FPUC has reduced expenses for these lobbying
9 expenses of \$7,500.

10 Depreciation Expense:

11 The Company has removed the appropriate depreciation expense related to plant
12 adjustments mentioned above and has been appropriately reflected in the MFR
13 Schedules.

14 PSC Assessment:

15 Taxes Other Than Income (“TOTI”) for the PSC Assessment was calculated on the
16 related adjustments described above and has been appropriately reflected in the
17 schedules.

18 Income Tax Impact:

19 The effective income tax rate on the adjustments described above has been
20 appropriately calculated and included as an additional adjustment to expense in the
21 historic year and projected test years.

22 For reference, MFR Schedules C-2 and C-3 include a summary of the above
23 adjustments and amounts.

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

3 A. Yes. The NOI has been adjusted to reflect the tax effect of synchronizing interest
4 expense to rate base and the related income tax synchronization. Consistent with
5 prior Commission practice, the synchronized or calculated interest expense is
6 computed by multiplying the jurisdictional adjusted rate base by the weighted cost of
7 debt included in the cost of capital. This adjustment, which amounts to \$5,950,
8 ensures that the calculated revenue requirement reflects the appropriate tax deduction
9 for the interest component of the revenue requirement calculation.

10 **Q. How did you project Operating and Maintenance (O&M) expenses for the**
11 **projected test year ending December 31, 2025?**

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

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

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

22 A. The O&M expenses for the historic test year ending December 31, 2023, provide the
23 basis for most of the expense items in the projected test year ending December 31,

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1 2025. Each FERC account's details were separated into payroll and non-payroll
2 components for the historic year. All historic adjustments were made to the payroll
3 and non-payroll components to exclude out-of-period items, if any, or other items as
4 reflected in the historic year adjustments described in this testimony and shown on
5 MFR Schedule C-2.

6 Some historic year amounts were then adjusted to normalize the expenses for the
7 purpose of trending historic year accounts to the projected years. Normalization
8 adjustments totaling \$82,877 were made to exclude depreciation expense that had
9 been charged to FERC operation and maintenance accounts for vehicles because all
10 depreciation is recorded in this filing as depreciation expense. These adjustments
11 only impact the projected year's amounts and were not included for purposes of
12 establishing the historic year expenses included in the NOI for the period ending
13 December 31, 2023. The adjusted historic test year expenses, plus or minus any
14 "normalization" amounts, were then projected by multiplying the normalized 2023
15 costs by one of several trend factors that were the most reflective of each account
16 and consistent with prior rate proceedings.

17 Some historic year items that were trended did not reflect the annual amount
18 expected; estimates have been adjusted for specific cost estimates or increases and
19 decreases above and beyond the trended amounts (Over and Under Adjustments), as
20 shown on MFR Schedule C-7. Certain expenses were not trended and were
21 projected based on direct cost estimates provided by our internal management.
22 Examples of direct cost estimates include: pension, property insurance, injuries and
23 damages, and rate case expense.

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

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

6 A. The trend factors used were: (a) inflation, (b) customer growth, (c) payroll growth,
7 (d) revenues, (e) inflation and customer growth and (f) payroll and customer growth
8 -- and were based on whether the costs were payroll or non-payroll. Trend factors
9 have been applied that are appropriate for each account and consistent with prior rate
10 proceedings. A list of projection factors used is located on MFR Schedule C-7. In
11 addition, known expenses that are an increase or decrease to the trended expenses
12 were incorporated and detailed on MFR Schedule C-7 as well. Among the most
13 commonly used trend factors for payroll-related expenses is Payroll and Payroll x
14 Customer Growth, while one of the most commonly used trend factors for non-
15 payroll related expenses is Inflation and Inflation x Customer Growth. We have
16 applied trend factors that are most appropriate for the accounts in question, and we
17 have made sure that the applications of these factors have produced reasonable
18 results. The inflation trend factor is based on the average Consumer Price Index
19 ("CPI"). The payroll trend factor is based on historical data and the experience of the
20 Company's Human Resources Assistant Vice President, Witness Rudloff, and her
21 projections of expected payroll increases for both 2024 and 2025. The factors for
22 customer growth, unit (kWh) growth and revenues are based on a detailed analysis
23 and the results from revenue related projections used within this rate proceeding. The

1 methodology used to determine the billing determinants and revenue factors for these
2 projections have been provided by, and explained in greater detail in, the testimony
3 of Witness Taylor from Atrium Economics, LLC.

4 Trend factors used were consistent with those used for expense projections in prior
5 rate proceedings.

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

8 A. As previously mentioned, all expenses were divided into two components, payroll (if
9 applicable) and non-payroll. The payroll expenses for each account used either the
10 Payroll or Payroll and Customer Growth trend factors. The payroll factor was used
11 on payroll accounts, like 560-Supervision and Engineering. All other payroll
12 components used the Payroll and Customer growth factor. This is because the
13 Company expects payroll to increase by not only the expected rate of pay, but also
14 the expected overall number of personnel, as more customers are added. Although it
15 is not a direct correlation, personnel will fluctuate overall by the number of
16 customers the Company serves. The non-payroll component was based on the type
17 of expense and most appropriate trend factor for the account. This is consistent with
18 historically approved trend factors used in prior rate proceedings, and resulted in
19 expected levels of expenses.

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

22 A. The O&M over and under adjustments, as well as direct projections, were made to
23 certain accounts outside of trending historical data when management determined

1 that a trend would not adequately reflect expected results. A detailed listing of the
2 over and under adjustments, including direct projections, have been included in the
3 filing under MFR Schedule C-7 page 7 and 8. The over and under adjustments are
4 each assigned to a specific witness and will be discussed in their testimony.

5 **Q. Can you summarize the adjustments assigned to you?**

6 A. Because fuel and conservation are eliminated from net operating income for the
7 purposes of setting base rates, when projecting costs for these clauses, the Company
8 assumes that revenues equal expenses. Since the Company did not have a 2025 fuel
9 or conservation filing at the time the MFRs were prepared, the 2024 rates were used
10 to calculate 2025 revenue and the expenses were adjusted to equal the revenues.
11 Since all fuel and conservation costs and revenues are removed in Schedule C-1 for
12 2025, there is no effect of any of the fuel or conservation adjustments made in C-7
13 page 7 and 8 in 2025.

14 The projected increase in the storm reserve accrual of \$446,979 per year was made to
15 ensure coverage due to the Company's exposure and risk of storm damage because
16 the conditions related to storm activity has changed significantly from our last rate
17 proceeding in that Florida has encountered and is projected to experience an
18 increased number of minor and named storms in the coming years. To project the
19 storm reserve and expense, the Company included the amount approved in its
20 previous rate proceedings of \$121,620 annually for a total storm reserve of \$2.9
21 million, which was previously approved in Commission Order No. PSC-2008-0327-
22 FOF-EI. Then, FPUC projected estimated costs, \$619,454, related to expected minor
23 and named storms, by calculating a five-year average of actual costs from 2020

1 through 2023 and projected 2024. This resulted in a deficit in the reserve balance of
2 \$734,894 for the projected test year ending December 31, 2025.

3 On February 28, 2018, FPUC filed a petition for a limited proceeding to recover
4 incremental storm restoration costs due to minor and named storms. Because these
5 storms had depleted FPUC's reserves, FPUC also proposed to restore its storm
6 reserve to \$1.5 million as originally approved by Order No. PSC-2017-0488-PAA-
7 EI, which was again approved in this petition by Order No. PSC-2019-0114-FOF-EI.
8 As previously mentioned, the conditions related to storm activity have changed
9 significantly from our last rate proceeding in that Florida has encountered and is
10 projected to experience an increased number of minor and named storms in the
11 coming years. The Company's exposure to the risk of storm damage, suggests a need
12 to increase the reserve at this time. This risk also contributes to the fact that this
13 account is currently projected to be underfunded by December 31, 2025, which also
14 implies an increase is in order for the reserve. Therefore, FPUC projected an increase
15 in the reserve and expense to replenish its storm reserve to \$1.5 million from its
16 deficit of \$734,894. In order to lessen the impact to its customers, especially in light
17 of this proceeding, FPUC requests to collect \$2,234,894 over five years, which
18 amounts to \$446,979 annually.

19 The projected regulatory commission expense amortization of \$382,727 was based
20 on rate case expenses outlined in Schedule C-10. Schedule C-10 shows estimated
21 costs pertaining to all aspects of filing a rate proceeding. These costs include, but are
22 not limited to, preparation, review, filing, responses to data requests and specific
23 forecasts from consultants and attorneys, which includes internal review of, as well

1 as the in-house review of, appropriate and anticipated costs. These forecasts assume
2 that this case would not be fully litigated since the Company is filing as a proposed
3 agency action as authorized in Section 366.06(4) F.S. The Company estimates the
4 incremental expenses related to this rate case to be \$1,530,907 and is requesting to
5 recover these expenses at a rate of \$382,727 per year over a four-year period, which
6 is consistent with the Commission's decisions on this issue in a previous FPUC rate
7 case. NOI has been adjusted by \$382,727 for the projected test year -- provided this
8 proceeding does not require a full hearing. If this proceeding goes to hearing, the
9 Company respectfully requests that those additional costs be included in expense for
10 recovery.

11 The Company has projected rate case expense based on specific forecasts including
12 the cost to use consultants to assist in preparation and support of a rate case and the
13 cost for representation and consultation by attorneys and consultants. The Company
14 is not staffed at a level to allow for preparation of a rate proceeding, MFRs or the
15 additional rate case related workload required after the MFRs are filed. We do not
16 retain expertise in all areas to help facilitate the preparation of a rate case given that
17 we avoid regular rate case filings through cost controls. Instead, we hire the
18 necessary expertise and extra assistance necessary to help us complete the process
19 when we do find a rate proceeding necessary. Therefore, we are utilizing various
20 external consultants to assist us in the areas of preparation of the cost of capital, cost
21 of service, rate design, billing determinants, and tariffs. The Company is also
22 utilizing full-time temporary internal staff to assist with the rate case and extra rate

1 case work beyond the normal workload of the regulatory and accounting
2 departments.

3 The Company included a four-year amortization period for the Company's rate case
4 expense of \$382,727. The Commission has authorized the Company to use a four-
5 year amortization in the past for rate case expense, specifically, in Order No. PSC-
6 2008-0327-FOF-EI, issued in Docket No. 20070304-EI on May 19, 2008. Therein,
7 the Commission recognized that it is appropriate to amortize rate case expense over
8 the period of time between rate case proceedings and then concluded that the four-
9 year period was appropriate for FPUC.

10 **Q. How were depreciation and amortization expense projected?**

11 The detailed projected plant balances were multiplied by the applicable depreciation
12 rates approved during the Company's last depreciation study per Order PSC-2023-
13 0384-PAA-EI. Amortization expense includes the remaining amortization of
14 regulatory assets and liabilities previously approved by the Commission. The
15 amortization is detailed on MFR Schedule C-19.

16 **Technology Investment – Regulatory Asset and Cost Recovery Rider ("TCRR")**

17 **Q. What is the Company doing to stay current with technology?**

18 A. The Company has made, and is continuing to make, significant investments in
19 technology to modernize our current platform and to lay the foundation for future
20 technology upgrades. The new customer information project is an example of one of
21 those upgrades and will be in service in the test year. The testimony of Witness Kim
22 Estrada, discusses the Company's decision to upgrade its outdated technology in the
23 ERP project. The Company's current technology (SAP), which is over 20 years old

1 and is at end-of-life, is currently being installed. The Company is currently working
2 on the implementation of an enterprise wide Enterprise Resource Planning (“ERP”)
3 project, which will integrate with the new customer information system. Company
4 Witness Vikrant Gadgil expands upon the technological enhancements CUC has
5 implemented and discusses future investments in his testimony. To save customers
6 the additional costs of a subsequent rate case, the Company is requesting approval of
7 a rider mechanism to recover these costs, including a return on the investment and
8 additional operating costs, as reflected in the TCRR Rider provision as set forth in
9 our tariff and presented in Schedule E-14.

10 **Q. Please describe the TCRR.**

11 A. The proposed TCRR is a mechanism that allow us to avoid the cost and expense of
12 single-issue rate cases or limited proceedings, which will avoid regulatory lag,
13 provide certainty regarding the recovery of this significant investment, and
14 ultimately reduce costs for our customers. The tariff proposed presents a formula to
15 calculate a fixed monthly charge to recover the revenue requirement and costs
16 related to the new advancement. The TCRR format in the tariff would be used to
17 calculate a fixed monthly charge per customer for the purpose of recovering the cost
18 associated with the Company’s newly implemented and updated technology costs.
19 The formula calculates a return on the investment and includes any new costs
20 associated with the project implementation. It also removes any costs already in the
21 base rate calculation. The TCRR would be applicable to all residential and
22 commercial rate schedules unless otherwise stated in the tariff. The Company will
23 record both actual expenses and revenues associated with the purchase and

1 implementation of the Company's technology implementation plan. The TCRR cost
2 recovery mechanism will be based on a projected twelve (12) month recovery period
3 of January 1 to December 31. The Company will file the first TCRR rates with the
4 Commission at least sixty (60) days before the rate effective date and refile on an
5 annual basis at least sixty (60) days prior to the January 1 effective date. This would
6 give the Commission time to review and approve the rider.

7 **Q. Does this conclude your testimony?**

8 **A.** Yes.

1 (Whereupon, prefiled direct testimony of John
2 Taylor was inserted.)

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BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION
FLORIDA PUBLIC UTILITIES COMPANY.

DOCKET NO. 20240099-EI

DIRECT TESTIMONY

OF

JOHN D. TAYLOR

August 22, 2024

INTRODUCTION

1 **Q. Please state your name and business address.**

2 A. My name is John D. Taylor, and my business address is 10 Hospital Center Commons,
3 Suite 400, Hilton Head Island, South Carolina 29926.

4 **Q. On whose behalf are you appearing in this proceeding?**

5 A. I am appearing on behalf of Florida Public Utilities Company. ("FPUC" or the
6 "Company").

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

8 A. I am employed by Atrium Economics, LLC ("Atrium") as a Managing Partner.

9 **Q. Have you prepared an Appendix describing your professional qualifications?**

10 A. Yes. Appendix A to my Direct Testimony presents my professional qualifications.

11 **Q. What was Atrium's assignment in this proceeding?**

12 A. FPUC requested Atrium to forecast Test Year Billing Determinants, develop the required
13 embedded class cost of service study ("COSS"), and support its rate design efforts. In this
14 regard, I am sponsoring the COSS that allocates FPUC's electric distribution costs to its
15 rate classes, class revenue increase apportionment, and proposed rate design. In addition,
16 I am sponsoring several Minimum Filing Requirements ("MFR") schedules required by
17 the Florida Public Service Commission ("FPSC" or the "Commission").

18 **Q. Which MFR Schedules are you sponsoring?**

19 A. Exhibit JDT-1 lists the MFRs that I am sponsoring or co-sponsoring which is replicated
20 below.

- 21 • A-2 – Full Revenue Requirements Bill Comparison - Typical Monthly Bills
22 • A-3 - Summary of Tariffs

- 1 • E-1 - Cost of Service Studies
- 2 • E-2 - Explanation of Variations From Cost of Service Study
- 3 • E-3a - Cost of Service Study-Allocation of Rate Base Components to Rate
- 4 Schedule
- 5 • E-3b - Cost of Service Study-Allocation of Expense Components to Rate Schedule
- 6 • E-4a - Cost of Service Study-Functionalization and Classification of Rate Base
- 7 • E-4b - Cost of Service Study-Functionalization and Classification of Expenses
- 8 • E-5 - Source and Amount of Revenues-At Present and Proposed Rates
- 9 • E-6a - Cost of Service Study-Unit Costs, Present Rates
- 10 • E-6b - Cost of Service Study-Unit Costs, Proposed Rates
- 11 • E-8 - Company-Proposed Allocation of the Rate Increase By Rate Class
- 12 • E-9 - Cost of Service-Load Data
- 13 • E-10 - Cost of Service Study-Development of Allocation Factors
- 14 • E-11 - Development of Coincident and Noncoincident Demands For Cost Study
- 15 • E-12 - Adjustment to Test Year Revenue
- 16 • E-13a - Revenue From Sale Of Electricity By Rate Schedule
- 17 • E-13b - Revenues By Rate Schedule-Service Charges (Account 451)
- 18 • E-13c - Base Revenue By Rate Schedule-Calculations
- 19 • E-13d - Revenue By Rate Schedule-Lighting Schedule Calculation
- 20 • E-15 - Projected Billing Determinants-Derivation
- 21 • F-5 - Forecasting Models
- 22 • F-6 - Forecasting Models-Sensitivity of Output to Changes in Input Data
- 23 • F-7 - Forecasting Models - Historical Data

1 **Q. Please summarize your testimony.**

2 A. In my testimony, I first present the forecasted Test Year Billing Determinants. I then
3 present the COSS and discuss its results, present the revenue increase apportionment to
4 FPUC's rate classes, and present the rate design proposals filed by FPUC in this
5 proceeding. My testimony consists of this introduction and summary section and the
6 following additional sections:

- 7 • Development of Billing Determinants and Associated Revenues
- 8 • Embedded Class Cost of Service Study
- 9 • Principles of Sound Rate Design
- 10 • Determination of Proposed Class Revenues
- 11 • Proposed Rate Design

12

13 **I. DEVELOPMENT OF BILLING DETERMINANTS AND ASSOCIATED**
14 **REVENUES**

15 **Q. Are you presenting the historical base year and forecasted test year billing**
16 **determinants and test year revenues?**

17 A. Yes. This information is provided on MFR Schedule F-7. The starting point on Schedule
18 F-7 is the historical 2023 base period number of bills, kWh sales, and associated revenues.
19 Then on Schedule E-12, projected bills and normalized kWh sales are presented to reflect
20 projected values under the present rate structure to demonstrate the difference between the
21 base year and projections. Schedule E-15 presents the derivation of the projected billing
22 determinants, and the process is described in F-5. Finally, Schedule E-13 presents the

proposed rates and associated revenue based on the proposed rate structure.

Q. How are the forecasted test year revenues developed for each rate class?

A. Forecasted Test Year revenue is an estimate of the revenue based on forecasted billing determinants and the rates in place when filing for a rate change. It is developed by multiplying forecasted billing determinants for each rate class, comprised of total annual kWh and bill counts (customer counts x 12) to the current rates. The billing determinants used to produce the Forecasted Test Year revenue are also used to estimate the revenue from proposed rates.

Q. Please describe how the forecast of annual kWh was completed?

A. The process contained three steps:

1 - Collection and Preparation of Data: The Company provided historical monthly billing data (kWh) and customer count data by customer class for the Northeast ("NE") and Northwest ("NW") service territories, from January 2015 to April 2024. The customer classes used in the analysis were Residential, Commercial Small, and Commercial. From this data, Use Per Customer ("UPC") was calculated for each customer class and service territory. The Company also provided historical daily Heating Degree Day ("HDD") and Cooling Degree Day ("CDD") data for Jacksonville and Tallahassee weather stations; Jacksonville corresponding the NE service territory and Tallahassee corresponding to the NW service territory. This data was aggregated into monthly HDD and CDD to correspond with the monthly billed, customers count, and calculated UPC data. Further, a ten-year average of monthly HDD and CDD was calculated to represent ten-year Normal levels for HDD and CDD.

2 - Historical Regression Analysis: Multiple Linear Regression analysis was performed to

1 explain UPC for each customer class and service territory as a function of a constant term,
 2 a trend term, HDD and CDD for the concurrent month (i.e., Jan UPC and Jan HDD and
 3 CDD), and HDD and CDD for the prior month. Prior month HDD and CDD are used to
 4 reflect the lag between when energy (kWh) is used and when the customer is billed. For
 5 example, kWh usage on a customer bill issued in mid-January (based on a meter read in
 6 mid-January) will contain usage from mid-December to mid-January, and largely
 7 determined by weather from mid-December to mid-January; hence the inclusion of the
 8 billed month HDD and CDD, and the lagged month HDD and CDD.

9
 10 The general form of the regressions to explain UPC is:

$$11 \quad \text{UPC}_t = \text{Constant} + \beta_1 \times \text{Trend} + \beta_2 \times \text{HDD}_t + \beta_3 \times \text{HDD}_{t-1} + \beta_4 \times \text{CDD}_t + \beta_5 \times \text{CDD}_{t-1}$$

12
 13
 14 Where:

15 UPC_t is Use-Per-Customer for the month 't', e.g., January.

16 HDD_t and CDD_t are for the month 't', e.g., January.

17 HDD_{t-1} and CDD_{t-1} are for the prior month, 't-1', e.g., December.

18 The Constant, β_1 , β_2 , β_3 , β_4 , β_5 are estimated regression coefficients.

19 The results of the historical regression analyses and data used are reported in MFR F-7.

20
 21 3 – Projection of Use Per Customer for Normal Weather: The results from the regression
 22 analysis, along with the calculated ten-year Normal for HDD and CDD, is used to forecast
 23 monthly Normal UPC from May 2024 to December 2025, based on Normal levels of

1 HDD and CDD.

2 **Q. How were these results used to develop the forecasted billing determinants?**

3 A. The projections of normal UPC developed from the regression analysis, and normal HDD
4 and CDD, were multiplied by Company-provided customer count forecasts to calculate
5 projected Normal usage in kWh. Company forecasts of the number of customers were
6 developed using a time trend based on 2020 to 2023 data and adjusted by a forecast of the
7 number of customers by class and service territory developed by the Company.

8 **Q. Were the projections reviewed for reasonability by FPUC?**

9 A. Yes. After the projections were completed, they were reviewed by FPUC personnel
10 familiar with customer growth and usage trends in their service territory. In addition to
11 the regression analysis developed by Atrium, FPUC personnel developed forecasts for
12 their largest customers within the Commercial Large and Industrial classes to account for
13 any changes in load expected for these customers. This is a common method for forecasts
14 as large customers are typically not very weather-sensitive and have operational changes
15 that may impact future usage for which only Company personnel may be familiar. Also,
16 given the small number of Commercial Large and Industrial customers, regression
17 analysis becomes less reliable and so a more qualitative approach to forecasting usage is
18 appropriate.

19 **Q. How was the usage forecasted for the Commercial Large and Industrial classes?**

20 A. A review of current usage was completed and meetings were conducted with major
21 account representatives to ascertain if any major changes are occurring in these customers'
22 operations. Through this review, it was discovered that a large commercial customer will
23 be offline and not taking service during, and as such, the forecast was adjusted to account

1 for this change.

2 **II. EMBEDDED CLASS COST OF SERVICE STUDY**

3 **Q. What is the general purpose and use of a COSS in regulatory proceedings?**

4 A. The purpose of a COSS is to allocate the electric distribution utility's overall adjusted test
5 year costs to the various classes of service in a manner that reflects the relative costs of
6 providing service to each class. Conducting a COSS represents an attempt to analyze to
7 what degree each group of customers causes the utility to incur costs to provide service.
8 Finally, COSS provides different contributions to the development of economically
9 efficient rates and the cost responsibility by rate class. This is accomplished through
10 analyzing costs and assigning each rate class its proportionate share of the utility's total
11 revenues and costs within the test year. The results of these studies can be utilized to
12 determine the relative cost of service for each rate class, help determine the individual
13 class revenue responsibility, and provide guidance with rate design. Using the cost
14 information per unit of demand, customer, and energy/commodity developed in the COSS
15 to understand and quantify the allocated costs in each rate class is a useful step in the rate
16 design process to guide the development of rates.

17 **Q. Are there factors that influence an electric utility's overall cost allocation framework**
18 **when performing a COSS?**

19 A. Yes. First, the fundamental and underlying philosophy applicable to all cost studies
20 pertains to the concept of cost causation to allocate costs to customer groups. Cost
21 causation addresses the question - which customer or group of customers causes the utility
22 to incur particular costs? To answer this question, it is necessary to establish a linkage

1 between a utility's customers and the particular costs incurred by the utility in serving
2 those customers. The factors which can influence the cost allocation methods used to
3 perform a COSS include: (1) the physical configuration of the utility's electric system; (2)
4 the availability of data within the utility; and (3) the state regulatory policies and
5 requirements applicable to the utility. It is important to understand these considerations
6 because they influence the overall context of a utility's cost of service study and indicate
7 where efforts should be focused to conduct a more detailed analysis of the utility's electric
8 system.

9 **Q. Please describe the cost of service model utilized to develop the COSS?**

10 A. Atrium's Excel-based cost of service model was used, and the results are presented into
11 the Minimum Filing Requirements (MFR) Excel workbook,¹ within the MFR E
12 Schedules. It consists of several pages utilized to allocate various components of the
13 Company's revenue requirements relying on Atrium's Excel model's built-in formulas
14 and logic. MFR E-1 Schedule summarizes the results of these allocations showing the
15 current rate of return for each rate class and the revenue requirement at an equal rate of
16 return.

17 **Q. Is the COSS filed in this proceeding aligned with the previous cost of service study**
18 **filed by the Company in its prior rate case proceeding?**

19 A. In preparation for this filing, Atrium reviewed the Company's previous rate case filing and
20 replicated the methods employed in that filing for the allocation of costs.

¹ The information required by Commission Form PSC 1026 (12/20), entitled "Minimum Filing Requirements for Investor Owned Electric Utilities," which is incorporated into rule 25-6.043, F.A.C., and is available at <https://www.flrules.org/gateway/ruleno.asp?id=25-6.043>

1 **Q. What was the source of the cost data analyzed in the Cost of Service Model?**

2 A. All cost of service data was extracted from the Company's total cost of service (i.e., total
3 revenue requirement) and schedules in this filing. Where more detailed information was
4 required to perform various analyses related to certain plant and expense elements, the
5 data were derived from the historical books and records of the Company and information
6 provided by Company personnel. For instance, the weighted customer allocation factor
7 for meters used was developed based on the average cost of providing a meter for each
8 rate class.

9 **Q. How are the FPUC rate classes structured for purposes of conducting the Cost of**
10 **Service Model?**

11 A. It should be noted that the Company's Standby rate has been removed. This change is
12 covered in the testimony of Company Witness Haffecke. The COSS model contains the
13 following classes:

- 14 - RS – Residential
- 15 - GS – General Service
- 16 - GSD – General Service Demand
- 17 - GS LD – General Service Large Demand
- 18 - GS LD1 – General Service – Industrial
- 19 - LS – Lighting Service

20
21 **Q. Please describe the content of MFR E Schedules, which summarizes the results of the**
22 **COSS?**

23 A. The difference between the computed revenue requirement and the revenue that would be
24 derived without making any rate changes equals the Company's Net Operating Income
25 deficiency, as shown on Schedule E-1. The Rate of Return is determined by subtracting
26 the revenue derived from each rate class from the expenses attributable to each rate class
27 and then dividing the result by the rate base attributed to each rate class. Schedule E-1

within the PSC provided contains three pages. E-1 Page 2 contains the rate of return projected to be otherwise realized by rate class, absent a rate increase in the results for the projected test year. Page 2 also shows the rate of return resulting from each rate class providing an equal rate of return, commonly referred to as parity. Page 3 of this Schedule shows the Company's proposed revenue targets by rate class, further described in Section IV below. Lastly, MFR Schedule E-13 contains the Company's proposed revenue targets by rate class, the proposed customer charge rates, and proposed volumetric rates.

Q. Please summarize the results of COSS.

A. Table below presents a summary of the results of the COSS that can be reviewed in detail within MFR Schedule E-1. The COSS shows an overall revenue deficiency to the Company of \$12,593,450 million.

Table 1 - Summary Results of the Company's COSS

Customer Classes	Current Revenues	Cost to Serve	Class Revenue (Deficiency)/ Excess	% Change to Cost to Serve	Current Rate of Return
RS	\$ 13,663,622	\$ 21,409,426	\$ (7,745,805)	56.69%	-0.9%
GS	3,005,981	4,235,782	(1,229,802)	40.91%	1.7%
GSD	4,090,524	6,607,287	(2,516,763)	61.53%	1.2%
GSLD	1,305,459	2,388,031	(1,082,571)	82.93%	0.1%
GSLDI	620,814	669,405	(48,591)	7.83%	7.6%
LS	1,689,189	1,494,612	194,577	-11.52%	12.1%
Total Base Revenue	\$ 24,375,589	\$ 36,804,544	\$ (12,428,955)	50.99%	0.7%
Other Revenues	978,357	1,142,852	(164,495)	16.81%	
Total System	\$ 25,353,946	\$ 37,947,396	\$ (12,593,450)	49.67%	0.7%

Table presents the revenue deficiency/(surplus) for each rate class and the class rate of return on the net rate base at present rates. Regarding rate class revenue levels, Table shows that all classes except Lighting Services are being charged rates that recover less than their indicated costs of service.

III. PRINCIPLES OF SOUND RATE DESIGN

Q. Please identify the rate design principles utilized in developing the Company's rate design proposals.

A. Several rate design principles find broad acceptance in the recognized literature on utility ratemaking and regulatory policy. These principles include:

- 1) Cost of Service;
- 2) Efficiency;
- 3) Value of Service;
- 4) Stability/Gradualism;
- 5) Non-Discrimination;
- 6) Administrative Simplicity; and
- 7) Balanced Budget.

These rate design principles draw heavily upon the "Attributes of a Sound Rate Structure" developed by James C. Bonbright in Principles of Public Utility Rates; Columbia University Press (1961).

Q. Can the objectives inherent in these principles compete with each other at times?

A. Yes, these principles can compete with each other, and this tension requires further judgment to strike the right balance between the principles. Detailed evaluation of rate design recommendations must recognize the potential and actual tension between these principles. Indeed, Bonbright discusses this tension in detail. Rate design recommendations must deal effectively with such tension. There are tensions between cost and value of service principles and efficiency and simplicity. There are potential conflicts between simplicity and non-discrimination; and between the value of service and non-discrimination. Other potential conflicts arise where utilities face unique circumstances that must be considered as part of the rate design process.

Q. How are these principles translated into the design of rates?

A. The overall rate design process, which included the design of a consolidated rate structure, the apportionment of the revenues to be recovered among rate classes, and the determination of rate structures within rate classes, consists of finding a reasonable balance between the above-described criteria or guidelines that relate to the design of utility rates. Economic, regulatory, historical, and social factors all enter the process. In other words, both quantitative and qualitative information is evaluated before reaching a final rate design determination. Out of necessity, the rate design process must, in part, be influenced by good judgment.

IV. DETERMINATION OF PROPOSED CLASS REVENUES

Q. Please describe the approach to apportion FPUC's proposed revenue increase to its rate classes.

A. The apportionment of revenues among rate classes consists of deriving a reasonable balance between various criteria or guidelines related to the design of utility rates. The various criteria that were considered in the process included: (1) class contribution to present revenue levels, (2) customer impact considerations, and (3) cost of service.

Q. Did you consider various class revenue options in conjunction with your evaluation and determination of FPUC's interclass revenue proposal?

A. Yes. Using FPUC's proposed revenue increase and the results of the COSS, Atrium evaluated a few options for the assignment of that increase among its customer classes and, in conjunction with FPUC personnel and management, ultimately decided upon one of those options as the preferred method. The first option evaluated was to set revenues to the cost to serve for each rate class resulting from the methods employed in the COSS, as

shown in MFR E-1 Lines 51 and 52. However, this fully cost-based option was not the preferred solution, as there were large increases required for some of the rate classes. For instance, moving the Residential rate class to their cost to serve would require a \$7.7M increase to their current revenues of \$14.2M, representing a 54.5% increase in base distribution margin. A second option considered was assigning the increase in revenues to FPUC's proposed customer classes based on an equal percentage basis of its current electric sales revenues. In other words, every rate class would receive the same percentage increase. A third option was utilized using a targeted system multiplier at Equal Rates of Return where GS, GSD, GSLD were set to 1.35 times the system increase, GSLD1 and Lighting were set to 0.54 times the system increase and the remaining increase was apportioned to the Residential class which resulted in a 0.86 times the system increase multiplier. The result of this approach is reflected on MFR Schedule E-1 and in Table below. Table summarizes the proposed revenue change for each rate class and the percent change in total revenues resulting from the above-described process.

Table 2 – Proposed Revenues by Rate Division

Customer Classes	Current Revenues	Proposed Revenue	Proposed Revenue Change	Proposed Percentage Change	Proposed Rate of Return
RS	\$ 13,663,622	\$ 19,678,209	\$ (6,014,587)	44.02%	4.9%
GS	3,005,981	\$ 5,073,484	(2,067,503)	68.78%	11.3%
GSD	4,090,524	\$ 6,903,973	(2,813,449)	68.78%	7.7%
GSLD	1,305,459	\$ 2,203,350	(897,891)	68.78%	5.5%
GSLDI	620,814	\$ 791,612	(170,798)	27.51%	9.9%
LS	1,689,189	2,153,917	(464,727)	27.51%	16.5%
Total Base Revenue	\$ 24,375,589	\$ 36,804,544	\$ (12,428,955)	50.99%	6.9%
Other Revenues	978,357	1,142,852	164,495		
Total System	\$ 25,353,946	\$ 37,947,396	\$ (12,593,450)	49.67%	6.9%

V. PROPOSED RATE DESIGN

Q. Please summarize the proposed rate design.

1 A. For all classes except the General Service class, each rate component was increased at the
2 same percentage increase as the class was receiving from the revenue apportionment. For
3 the General Service class the customer charge was increase at approximately half of the
4 class increase with the remaining increase recovered in the volumetric charges.
5 Consequently, the method resulted in the Residential customer charge being set below the
6 customer unit costs within the COSS. Had we strictly used the COSS model results, the
7 monthly Customer Charge for Residential would be \$30.16; instead, we propose a \$24.40
8 per month customer charge (see MFR Schedule E-6b for unit costs and E-13c for the
9 proposed customer charges).

10 **Q. Have you provided a schedule detailing the proposed rates and corresponding**
11 **revenues?**

12 A. Yes. MFR Schedule E-13c contains the proposed customer charges and volumetric
13 charges and the corresponding revenues generated for each of the rate classes.

14 **Q. What are the corresponding bill comparisons for FPUC's customers served under its**
15 **existing rate schedules?**

16 A. As required by MFR Schedule E-13c, the Company's prepared bill impacts for each of the
17 Company's rate classes.

18 **Q. What is the Company's proposal relating to the various charges associated with the**
19 **Lighting Service class?**

20 A. The Company has been replacing all historical lighting technologies (high pressure
21 sodium, metal halide, and mercury vapor) with LED fixtures and plans to complete this
22 transition during the second half of 2024. As such, historical lighting technology fixtures
23 have been mapped to the company's LED lighting rates and the Company has projected its

1 test year revenues based on the transition of all historical lighting technology fixtures to
2 LED fixtures. The rate design for lighting was completed by increasing the current LED
3 fixture rates by the same percentage increase as the class was receiving from the revenue
4 apportionment. The proposed rates for the LED lighting service are shown on MFR
5 Schedule E-13d.

6
7 **Q. Does this conclude your prefiled direct testimony?**

8 **A. Yes.**



ATRIUM ECONOMICS
CENTERED ON ENERGY

John D. Taylor

Managing Partner

Mr. Taylor has experience with a wide range of costing, ratemaking, and regulatory activities for gas and electric utilities. He has testified numerous times on these and other issues for clients across North America. He has extensive experience with costing and pricing rates and services, regulatory planning and strategy development, revenue recovery and tracking mechanisms, merger and acquisitions analysis, new product and service development, affiliate transaction reviews, line extension policies, market assessments, litigation support, and organizational and operations reviews. He has testified on numerous occasions as an expert witness on costing and ratemaking related issues on behalf of utilities before federal, state, and provincial regulatory bodies and has extensive experience in evaluating and implementing innovative ratemaking approaches and rate design concepts.

He has also testified on return on equity, electric vehicle and battery storage programs, time-of-use rates, and the appropriate use of statistical analysis during audit testing. Mr. Taylor has led engagements relating to gas supply planning and the review of midstream transportation and storage capacity resources. He has worked as the market monitor for New England ISO's capacity market, supported the negotiation of PPAs, and supported feasibility and prudence studies of generation investments. He has also been involved in selling generating assets and distribution companies, supporting due diligence efforts, financial analyses, and regulatory approval processes.

Mr. Taylor received a master's degree in Economics from American University and holds a bachelor's degree in Environmental Economics from the University of North Carolina at Asheville.

His consulting career includes Managing Partner with Atrium Economics, LLC; Principal Consultant – Advisory & Planning with Black & Veatch Management Consulting, LLC; Senior Project Manager & Principal of Concentric Energy Advisors, Inc.; and CEO of Nova Data Testing, Inc. Mr. Taylor started his career working on Capitol Hill working with NGOs that were seeking Public Private Partnerships with the Federal Government, World Bank, and International Monetary Fund to pursue various projects in developing countries.

EDUCATION

M.A., Economics, American University

B.A., Environmental Economics, University of North Carolina at Asheville

YEARS EXPERIENCE

19

RELEVANT EXPERTISE

Utility Costing and Pricing, Expert Witness Testimony, Transaction Facilitation, Revenue Requirements, Statistics, Valuation, Market Studies, Rate Case Management, New Product and Service Development, Strategic Business Planning, Marketing and Sales



EXPERT WITNESS TESTIMONY PRESENTATION

United States

- California – Superior Court of California
- Delaware Public Service Commission
- Florida Public Service Commission
- Federal Energy Regulatory Commission
- Illinois Commerce Commission
- Indiana Utility Regulatory Commission
- Maine Public Service Commission
- Maryland Public Service Commission
- Massachusetts Department of Public Utilities
- Minnesota Public Utilities Commission
- New Hampshire Public Utilities Commission
- North Carolina Utilities Commission
- Oregon Public Utility Commission
- Ohio Public Utility Commission
- Pennsylvania Public Utility Commission
- South Carolina Public Service Commission
- Virginia State Corporation Commission
- Washington Utilities and Transportation Commission
- Public Service Commission of West Virginia

Canada

- Alberta Utilities Commission
- British Columbia Utilities Commission
- Ontario Energy Board

REPRESENTATIVE EXPERIENCE

Rate Design and Regulatory Proceedings

Mr. Taylor has worked on dozens of electric and gas rate cases including the development of revenue requirements, class cost of service studies, and projects related to utility rate design issues.

Specifically, he has:

- Lead expert and witness for class costs of service studies across North America and worked on dozens of other class cost of service and rate design projects for other lead witnesses.
- Developed WNA and Decoupling mechanisms for utilities including back casting results and supporting expert witness testimony and exhibits.
- Developed revenue requirement model to comply with a new performance-based formula ratemaking process for a Midwest electric utility.
- Supported the developed of time of use rates, demand rates, economic development rates, load retention rates, and line extension policies.
- Analyzed and summarized allocation methodology for a shared services company.
- Assessed the reasonableness of costs through various benchmarking efforts.
- Led the effort to collect and organize plant addition documentation for six Midwest utilities associated with the state commission's audit of rate base.
- Supported lead-lag analyses and testimonies.
- Analyzed customer usage profiles to support reclassification of rate classes for a gas utility.
- Helped conduct a marginal cost analysis to support rate design testimony.



Litigation Support and Expert Testimony

Mr. Taylor has testified in several cases on class cost of service studies and statistical audit methods. He has also supported numerous other expert testimonies. Specifically, he has:

- Filed testimony as an expert witness on allocated class cost of service studies for both electric and gas utilities.
- Filed testimony as an expert witness on the application of statistical analysis.
- Filed testimony before FERC on the rate of return for an Annual Transmission Revenue Requirement and participated in FERC settlement conferences.
- Part of two-person expert witness team that provided an expert report to the British Columbia Utilities Commission on the use of facilities for transportation balancing services for Fortis BC.
- Part of two-person expert witness team that provided an expert report on affiliate transactions and capitalized overhead allocations for Hydro One on three separate occasions.
- Sole expert for expert report on affiliate allocations for Alectra utilities, the second largest publicly owned electric utility in North America. This was conducted shortly after the merger of four distinct utilities.
- Sole expert for expert report on the allocation of overhead costs between transmission and distribution businesses for EPCOR.

Transaction Experience

Mr. Taylor has been involved with several generating asset transactions supporting both buy side and sell side analysis and due diligence. His work has included:

- Worked as buy side advisor for a large water utility in the mid-Atlantic region including supporting the review of revenue requirements, rates, and forecasts.
- Helped facilitate and manage processes for a nuclear plant auction by processing Q&A, collecting relevant documentation and managing the virtual data room for auction participants.
- Supported the auction process for steam and chilled water distribution and generation assets in the Midwest.
- Supported the development of a financial model to ascertain the net present value of several competing wholesale power purchase agreements and guided the client with a decision matrix for the qualitative aspects of the offers.
- Provided research on comparable transactions, previous mergers and acquisitions, and potential transaction opportunities for several clients.

Financial Analysis and Market Research

Other financial analysis and market research Mr. Taylor has conducted include:

- Estimated the rate impact and costs associated with moving California energy market to 100% renewable.
- Assessed the consequences of a divestiture on the cost of service model for a New England gas distribution company.
- Developed LNG market studies for two separate utilities and two separate competitive market participants.
- Modeling alternative mechanisms for the allocation of overhead costs to a nuclear plant.



1 CHAIRMAN LA ROSA: Let's move to exhibits.

2 MS. BROWNLESS: Staff has compiled a
3 stipulated Comprehensive Exhibit List, which
4 includes the prefiled exhibits attached to the
5 witnesses' testimony, as well as staff's exhibits.
6 The list has been provided to the parties, the
7 Commissioners and the court reporter.

8 At this time, staff requests that the
9 Comprehensive Exhibit List be marked for
10 identification purposes as Exhibit No. 1, and that
11 the other exhibits be marked for identification as
12 set forth in the Comprehensive Exhibit List.

13 CHAIRMAN LA ROSA: The exhibits are so marked.

14 (Whereupon, Exhibit Nos. 1-97 were marked for
15 identification.)

16 MS. BROWNLESS: At this time, we would request
17 that the Comprehensive Exhibit List, marked as
18 Exhibit No. 1, be entered into the record.

19 CHAIRMAN LA ROSA: All right. Well, then
20 Exhibit 1 is entered.

21 (Whereupon, Exhibit No. 1 was received into
22 evidence.)

23 MS. BROWNLESS: We would now request that
24 Exhibit No. 2 proffered by FPUC customer Steve
25 Danitz at the January 8th, 2025, customer service

1 hearing be entered into the record.

2 CHAIRMAN LA ROSA: All right. Hearing no
3 objections, let's move 2 through 97 into the
4 record, they are entered.

5 MS. BROWNLESS: They are so moved -- or thank
6 you. Yes, we would like to move Issues No. 3
7 through 97 into the record.

8 CHAIRMAN LA ROSA: I am sorry. I am jumping
9 ahead of you.

10 All right. Now hearing no objections, show
11 Exhibits 2 through 97 as entered it.

12 (Whereupon, Exhibit Nos. 2-97 were received
13 into evidence.)

14 MS. BROWNLESS: There are no stipulated issues
15 in this docket.

16 CHAIRMAN LA ROSA: All right. I assume the
17 parties wish to make opening statements?

18 MR. WRIGHT: Very briefly.

19 CHAIRMAN LA ROSA: Okay. Let's do a
20 three-minute opening statements, and we will start
21 with FPUC. You don't have to take the whole time.

22 MS. KEATING: Well, actually, Mr. Chairman, I
23 may be the loan standout here, but we are happy to
24 waive opening statements in this matter.

25 CHAIRMAN LA ROSA: Okay. Excellent.

1 OPC.

2 MS. CHRISTENSEN: Good afternoon,
3 Commissioners. Patty Christensen with the Office
4 of Public Counsel. As you are aware, there was a
5 rate case proceeding that was being processed
6 through the PAA that got protested. OPC, along
7 with the City of Marianna, Jackson County and the
8 Jackson County School Board and the FPUC were able
9 to entered settlement discussion, and as a result,
10 we were able to reach agreement that resolves all
11 the issues and lowers customers' rates from the PAA
12 decision and provides for base rate certainty for
13 the next three-and-a-half years.

14 As you will hear from the other parties and
15 from the witnesses today regarding specific
16 provisions of the agreement, I will not go over
17 them, but I will say this, that the settlement with
18 all of its provisions provides the basis for the
19 benefits to customers, these overall benefits,
20 amongst the individual provisions of the
21 settlement, provide FPUC's customers fair and
22 reasonable rates, provide FPUC with sufficient
23 funds and resources to provide adequate service,
24 and, therefore, is in the public interest.

25 As you have already entered all of those

1 exhibits and testimony into the record, along with
2 the testimony that will be heard from the witnesses
3 today, or otherwise entered into the record, we
4 believe that you will have sufficient evidence to
5 approve this settlement and will provide support
6 for the settlement agreement, and, again, will
7 justify that the rates that are being approved for
8 the settlement agreement are fair and reasonable,
9 and, therefore, in the public interest.

10 We just would like to note that FPUC customers
11 who have been struggling since Hurricane Michael
12 deserve a break in rates, and we believe the
13 settlement will do that by lowering the overall
14 rates.

15 Thank you.

16 CHAIRMAN LA ROSA: Thank you.

17 Jackson Counties, City of Marianna,
18 Jacksonville School Board.

19 MR. WRIGHT: Thanks, Mr. Chairman on behalf of
20 the City of Marianna, Jackson County and the
21 Jackson County School Board, very briefly.

22 This unanimous settlement between Florida
23 Public Utilities Company, the City, County, School
24 Board and the Office of Public Counsel is in the
25 public interest because it provides the company

1 with what it needs, sufficient revenues and
2 resources to provide safe and reliable service at
3 fair, just and reasonable rates to its customers
4 for the next three-and-a-half years.

5 I want to add, we are grateful to the FPU team
6 and the OPC team, with whom we worked hard to bring
7 this settlement in for a landing, and we are
8 specifically on behalf, again, on behalf of the
9 City, the County and the School Board, we are
10 grateful for you and to your staff for facilitating
11 this hearing today, and we respectfully ask that
12 you approve the settlement by a bench vote today so
13 that its benefits can start flowing to customers
14 through lower rates tomorrow.

15 Thank you.

16 CHAIRMAN LA ROSA: Great. Thank you.

17 Let's move then into witness testimony. Start
18 with FPUC.

19 MS. KEATING: FPUC would call Mr. Michael
20 Cassel.

21 CHAIRMAN LA ROSA: Mr. Cassel, do you mind
22 standing and raise your right hand?

23 MR. WRIGHT: Mr. Chairman, I understood from
24 Ms. Brownless we were going to have them sit as a
25 panel, so --

1 CHAIRMAN LA ROSA: Okay. Yeah, let's --

2 MR. CHRISTOPHER WRIGHT: -- I think it would
3 be in order for me to call Mr. James R. Dean, or
4 Jim Dean, on behalf of the City, the County and the
5 School Board.

6 CHAIRMAN LA ROSA: Okay. Yeah, let's go ahead
7 and do that.

8 So do you mind if I have you both stand up and
9 raise your right hand?

10 Whereupon,

11 MICHAEL CASSEL
JAMES R. DEAN

12 was called as witnesses, having been first duly sworn to
13 speak the truth, the whole truth, and nothing but the
14 truth, was examined and testified as follows:

15 CHAIRMAN LA ROSA: Excellent. Awesome. Then
16 let's start with -- I will give it back to Ms.
17 Keating.

18 MS. KEATING: Thank you, Mr. Chairman. And if
19 I am not mistaken, I think we were going to lead
20 with Mr. Cassel.

21 EXAMINATION

22 BY MS. KEATING:

23 **Q Mr. Cassel, would you please state your name,**
24 **business address, employer and position for the record?**

25 A I am Michael Cassel. I am -- my business

1 address is 208 Wildlight Avenue in Yulee, Florida. I am
2 the Vice-President of Strategic Development for
3 Chesapeake Utilities.

4 **Q And what is the purpose of your testimony**
5 **today?**

6 A My testimony explains why this 2025 settlement
7 agreement is in the public interest, results in fair,
8 just and reasonable rates and contributes to safe,
9 reliable service for our customers, as well as enhanced
10 customer service access communications in both of our
11 service territories.

12 **Q Have you prepared a summary of the benefits of**
13 **the proposed settlement with regard to this case?**

14 A Yes, I have.

15 **Q Would you please present that?**

16 A Certainly.

17 Good afternoon, Commissioners. It's a
18 privilege to be here today in support of the settlement
19 agreement between FPUC, the Office of Public Counsel,
20 the City of Marianna, Jackson County and the Jackson
21 County School Board. As indicated, we think this is a
22 good, fair resolution to our request for a rate
23 increase. It puts our company in good financial
24 posture, and it helps continue us -- helps us continue
25 to provide safe, reliable service to our customers while

1 also taking into account the concerns we heard from our
2 intervenors, OPC and the customers at our customer
3 service hearing.

4 I think this is a good result, and I want to
5 thank the Public Counsel, Mr. Trierweiler, and the
6 counsel for customer intervenors, Mr. Wright and Mr.
7 LaVia, for working with us, and certainly for their
8 professionalism during this process.

9 FPUC, OPC and the intervenors in this case
10 have a long history of working out our differences.
11 Ultimately, I think we understand that it's important to
12 have a strong, reliable and resilient electric utility,
13 it's also important to be a true partner in the
14 communities that we are serving.

15 Certainly, for all of us, the idea of
16 additional time and expense associated with a full
17 hearing in this matter was a significant motivating
18 factor. For the utility and the customers alike,
19 stability and certainty of critical components of
20 managing our business day-to-day is certainly important
21 for our lives and for our businesses.

22 Commissioners, FPUC urges you to approve the
23 settlement before you today. It represents good faith
24 negotiations of the company, OPC and the customer
25 parties. And the settlement before you provides the

1 company with regulatory certainty, and addresses major
2 funding needs, it significantly reduces the rate impact
3 on our customers while providing certainty and low rates
4 for the next three-and-a-half years.

5 Approval of this settlement resolves all
6 issues in dispute among the parties, and it will avoid
7 additional time, expense and delay of a full hearing.
8 And perhaps most importantly, it's in the best interest
9 of both the community and our customers. And I think it
10 demonstrates that we care about our customers, and we
11 are honored to be their hometown electric service
12 provider.

13 The settlement serves the public interest
14 because it enables FPUC to provide safe, reliable
15 service at fair, just, reasonable rates, and it further
16 enhances our relationships with our customers and with
17 the communities that we serve. As such, on behalf of
18 the company, I respectfully ask that you approve this
19 settlement agreement.

20 Thank you.

21 CHAIRMAN LA ROSA: Thank you.

22 BY MS. KEATING:

23 **Q Mr. Cassel, do you have a more detailed**
24 **written analysis of the benefits of the settlement?**

25 **A Yes, I do.**

1 MS. KEATING: Mr. Chairman, we ask that the
2 written testimony addressing the settlement be
3 moved into the record as though read.

4 CHAIRMAN LA ROSA: Okay. So moved.

5 (Whereupon, testimony of Michael Cassel was
6 inserted.)

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DOCKET 20240099-EI
FPUC RATE CASE
TESTIMONY OF MIKE CASSEL

[Begin with usual - swearing in, I'll ask you to state your name, business address, employer, position]

Q. Mr. Cassel, what is the purpose of your testimony today?

A. My testimony explains why the 2025 Settlement Agreement is in the public interest, results in fair, just and reasonable rates, and contributes to safe and reliable service for our customers, as well as enhanced customer access and communications in both our service territories.

Q. Have you prepared an outline of the benefits of the proposed Settlement with regard to certain Key Elements in the case?

A. Yes, I have.

Q. Would you please present that?

A. Certainly.

Good afternoon, Commissioners. It's a privilege to be here today in support of the settlement before you between FPUC, the Office of Public Counsel, the City of Marianna, Jackson County, and the Jackson County School Board. As I just indicated, we think this is a good and fair resolution of our request for a rate increase. It puts our company in a good financial posture to continue to provide safe and reliable service to our customers, while also taking into account the concerns we heard from the Intervenors, OPC, and customers at our customer service hearings.

I think this is a good result and I want to thank the Public Counsel, Mr. Trierweiler, as well as counsel for the Customer Intervenors, Mr. Wright and Mr. LaVia, for working with us and for their professionalism during the process.

FPUC, OPC, and the Intervenors in this case have a long history of working out our differences. Ultimately, I think we all understand that it's important to have a strong, reliable and resilient electric utility, and it's also important that we be a true partner in the communities we serve.

In our discussions, it was made clear that the impact of the revenue increase was simply too much right now. Our settlement counterparties also maintained their concern that our presence in the communities had been reduced since we closed our walk-in

offices and that that reduced contact was impacting our customer service and communication with our communities. We heard and took to heart those concerns, which led to intense, but productive, conversations.

And, certainly, for all of us, the idea of the additional time and expense associated with a full hearing in this matter was a significant motivating factor. For the utility and customers alike, stability and certainty are critical components of managing our day to day lives and businesses.

Thus, with an understanding of the key sticking points and a careful eye to ensure that the critical reliability and security projects would still be viable, we successfully reached terms for a settlement that protects our opportunity to earn a reasonable return, while also providing a reduced and transitional rate impact and enhanced customer contact and community interaction for our customers.

It (almost literally) took a village, but we truly believe the result before you is a good and fair solution to all of the disputed issues in this case.

In particular, I'd like to highlight a number of key points and the solutions provided by the Settlement for your consideration. I will reference at times certain proposed decisions of the Commission to

provide context, rationale, and order of magnitude, but **only** for those purposes.

1. Base revenue increase/Miscellaneous Fees.

I'll begin with the essential element – the revenue increase.

On August 22, 2024, we filed our Petition seeking approval to increase rates and charges to produce an additional \$12,593,450 in revenues. The Company also requested interim rate relief in the amount of \$1,812,869, which was approved by the Commission in October 2024.

As you know, our last rate case was filed in 2014, and since then, we've made significant capital expenditures, particularly associated with reliability and customer service technology improvements. Over that same period, we faced increasing operating and maintenance costs, as well as 10-years-worth of inflation.

Following 33 sets of data requests to the Company, as well as customer service hearings in both Fernandina Beach and Marianna, the Commission reached proposed decisions on 65 issues regarding FPUC's request, which included approval of a reduced increase in base revenues of \$9,675,171, approval of an increase of \$164,495 associated with increased service charges and connection fees, and a subsequent step increase for the full cost of FPUC's proposed

acquisition of certain substation and transmission assets and the restoration, replacement, and refurbishment of substations.

Other key aspects of our case involved certain costs associated with the upgrading certain substations, as well as critical reliability and safety projects designed to (1) replace fibercrete vaults; (2) replace live front equipment; (3) replaceunjacketed underground cable, (4) install a new transformer, and (5) install IntelliRupters, as well as substation loops and switches. Similarly, we requested certain security projects that are also critical to the company, namely the installation of security cameras, which aligns with the North American Electric Reliability Corporations Critical Infrastructure Protection standards, and the implementation of a two-way radio communications system, that will be more reliable than cell service.

On the customer-facing side of the business, we requested a new CIS system, which will have a profound favorable impact on how our Company communicates with, and protects the information of, its customers. The SAP platform of this system will streamline billing, while also incorporating cybersecurity and monitoring components that are, unfortunately, critical in this day and age. Also addressed were requested increases to our miscellaneous service charges based on evidence provided regarding the significant rise in vehicle costs, fuel, and insurance.

Certain adjustments and reductions were however deemed appropriate, such as removal of property taxes from the costs associated with the two-way radio communications system, as well as recognition of the reduced capital requirement, reduction of O&M expense associated with the Storm Protection Plan, and the elimination of our requested Technology Cost Recovery Rider.

All this to say, there are a number of components to our case, which, fortunately, provided us with some maneuverability in terms of our further discussions with our Settlement counterparties.

In our discussions with the OPC and the Customer Parties that intervened, it became very clear that the revenue increase was still going to present a significant challenge. So, we took a look at multiple aspects of our case to determine what, if any, adjustments we could make to reach a resolution. Ultimately, we reached agreement that the general base revenue increase should be further reduced to \$8.4 million per year, which is a total reduction of more than 33% off our original requested increase. The parties specifically agreed that the revenue requirement associated with miscellaneous fees and charges, should not be impacted, so the total revenue requirement increase, when the \$164,495 associated with miscellaneous is included, is \$8,564, 495.

Focusing on the base revenue increase only, the parties agreed that, for this first year, FPUC would defer collection of \$1 million of the \$8.4 million revenue increase. So, the new base rates for 2025 (again, excluding miscellaneous charges and fees) are calculated assuming a \$7.4 million revenue increase. The settlement provides that we will be able to recoup that additional \$1 million, which will be recovered over the remaining period of the settlement as an additional increase that will go into effect next year, on March 20, 2026. Effective March 20, 2026, rates will be revised to include the additional \$1 million to the revenue increase, plus an additional \$333,000 to recoup the deferred amount.

The additional \$333,000 will, however, be reduced before it is implemented. That is because, if the Settlement is approved, the new rates reflecting the \$7.4 million revenue increase will be deemed applicable back to March 20, 2025, which is when the initial, PAA Order approved rates went into effect. The result will be an over-collection for the period from March 20, 2025 to the effective date of the Commission's approval of this Settlement. The amount of the over-recovery will be subtracted from the deferred \$1 million and only the remaining amount will be allocated over the remainder of the settlement period; thus, resulting in a reduction to the \$333,000 that I mentioned. At this point, we can't calculate specifically how much that reduction will be, because it depends on the total amount of the over-recovery, which depends upon the approval date of the

settlement and customer usage over the intervening period since March 20, 2025.

Commissioners, undoubtedly, this is a substantial decrease from our initial request, but we are confident that we can still implement the critical components of our case with this increase and continue providing safe and reliable service to our customers. More importantly, it will result in a reduced rate increase for our customers, which we and our counterparties agree is a good result and in the best interests of our ratepayers.

2. Step Increase/Substation and Transmission assets

In our petition, we proposed some major transactions and upgrades of substations and transmission assets in our Northeast and Northwest Division.

For the Northwest, we included costs associated with the acquisition and replacement of four substations and a transmission line in its Northwest Florida territory. The purchase of these assets is expected to cost approximately \$4.2 million, and the replacement/update of these assets is expected to cost approximately \$6.5 million, but we anticipate that our acquisition of these assets will result in annual Fuel Clause savings to customers of approximately \$1.4 million by eliminating the distribution charge paid to FPL for the provision of purchased power to FPUC from these assets.

We also proposed the replacement or rebuilding of two FPUC-owned substations in our Northeast Florida territory. The AIP substation needs replacement of its switchgear. The JL Terry substation project will involve replacement of an existing 30 MVA transformer with a new 40 MVA transformer. The 30 MVA transformer will be moved to the step down substation to replace an old 20 MVA transformer that has been in service for over 70 years. These projects are expected to cost approximately \$6.3 million and \$2.4 million, respectively.

Both of these projects are critical to maintaining safe and reliable service in both our divisions. Given the delayed in-service dates for these assets, you appropriately determined that these assets should not be recovered until they are in-service.

The Settlement before you today still allows for these key projects, and ultimately will enable the Company to utilize the same approach for recovery through the implementation of a step increase after the projects are completed and in service. The increase is limited to the \$727,778, which is the revenue requirement we had originally identified, grossed up for income taxes, RAFs, and bad debt, but recalculated using the adjusted cost of capital and including the property and income tax adjustments.

Again, these projects are important to us, and important to our customers in that they will not only enhance the reliability of our

system in both divisions but provide cost reductions for our customers through the Fuel Clause. These projects are retained within this Settlement, which we firmly believe is in the best interests of both the Company and our customers.

3. ROE and Equity Ratio

In our last rate case in 2014, FPUC's midpoint ROE was set at 10.25%. Given market conditions in recent years, we proposed an ROE of 11.3% in this case. We had also originally requested a Weighted Average Cost of Capital of 6.89%.

Your staff's additional analyses of operational and business risk, resulted in a proposed ROE midpoint of 10.15%, which is the lowest of the IOUs in Florida.

In the Settlement, the parties have agreed that FPUC should be allowed a midpoint ROE of 10.20%, which is still well below the Company's originally requested 11.30%. This results in an adjusted WACC of 6.36%. This adjustment has a negligible impact on rates but provides the Company with a little more flexibility and brings us closer to the next lowest midpoint for other Florida IOUs, which is 10.30%.

The parties have also agreed that FPUC's equity ratio shall be 50.04% based on investor sources. This ratio will be used for **all** regulatory purposes including, but not limited to, all cost recovery clauses and

recovery mechanism(s), our earnings surveillance reporting, including any determination as to whether an early exit from this 2025 Agreement pursuant to Paragraph VI is authorized, as well as for the calculation of the Company's AFUDC rate.

The Parties' agreements on these key financial terms are important, because they provide a measure of certainty to the Company and were important in our ability to agree to an additional revenue reduction. These terms also send the right message to investors that FPUC continues to operate in a state with a favorable regulatory environment. This is good for our company, for our interaction with the investment community, and ultimately, for our customers.

4. General liability reserve accrual increase

We also reached agreement on our requested accrual to our general liability reserve, which was important to us. In MFR Schedule C-7, we had reflected a proposed adjustment to the accrual to this reserve of \$189,342, because the current annual expense recorded to FPUC's self-insurance reserve has been short of the actual claims. While this may appear to be a relatively minor adjustment, it is important for us to appropriately address cost increases in the areas where they are actually occurring. Recognition of this accrual helped us get to the revenue decrease we needed to reach a settlement, and ultimately factors into the overall value for the company and its customers.

5. Annual storm reserve accrual

As for our storm accrual, based on our 2024 storm costs and projected 2025 costs, we had asked to increase our accrual to our storm reserve in an amount that would allow us to get back to our target of \$1.5 million in 5 years. As part of the Settlement, we have, however, agreed to stick to our prior accrual amount of \$121,620. While that means it will take longer to get to our reserve target of \$1.5 million, we have found it more valuable overall for us to be able to reach an agreement, avoid additional hearing costs, and reach certainty for our company and our customers. We will still be able to accrue to the reserve and anticipate that, at least in the short term, any damage we experience associated with storms can be handled through the existing reserve and, if necessary, implementation of a storm recovery surcharge, which the Settlement does contemplate. Specifically, and similar to other settlements the Commission has seen in the past several years, the Settlement includes a mechanism that allows the Company to petition for recovery for damage associated with named tropical storms, implement an interim recovery charge within certain limits and subject to refund, and pursue recovery of additional costs in excess of those limits. The Settlement also addresses the final disposition of those costs in accordance with Rule 25-6.0143.

As such, we believe we can manage our risk at the current accrual level, which represents savings for our customers. We believe this component of the Settlement is also in the public interest.

6. Rate case expense

In our initial filing, we proposed to recover projected rate case expense in the amount of \$1,530,907 over a period of 4 years. This amount reflected our expected costs for putting forth this case associated with legal, consulting, temporary resources, and travel expenses. In the Settlement before you, we have agreed to a 5-year amortization period, but established a slightly higher amount of \$1,536,000 for rate case expense in recognition of the additional work involved with the settlement negotiations. These provisions are in the public interest because they enable the Company to recover its costs while reducing rate impacts to customers through the extended amortization period.

7. Next base rate increase

The settlement period is deemed to be March 20, 2025 through September 20, 2028, or 3.5 years. The parties have agreed that this is the Minimum Term and that base rates will not be changed during that period unless specifically authorized by the settlement terms. As such, the rates and terms, inclusive of the step increase for the substation and transmission assets, as well as the increase on March

20, 2026, will remain in effect until the Commission approves new rates in the Company's next base rate or limited proceeding.

This provision is also important to both the Company and its ratepayers. It provides a level of certainty for our customers for a minimum of 3.5 years but allows us to seek relief in certain critical situations. Consistent with the "give and take" of negotiations, this provides a benefit for all.

8. Enhanced customer service measures

Finally, a key component of the settlement agreement is our commitment to implement additional customer service measures in both our service territories. These measures are focused on establishing, or re-establishing, an enhanced local presence in the communities we serve.

The Settlement recognizes that we **do** have numerous walk-in payment locations that do not charge a fee. To enhance use of these locations, we have added bar codes to the bills the make bill payment at these locations more efficient, and we are implementing enhanced social media messaging, bill inserts, and website information to ensure that our customers are aware of these locations.

Perhaps most importantly, we have committed to conducting in-person town hall meetings in each of our service areas, as well as

more frequent virtual town hall meetings at which customers will be able to interact with members of our Billing, Accounts, Customer Care, and Operations teams via a live video feed.

As a Company, we recognize our role in these communities we serve. We also recognize that communication – real communication – is important, and these additional outreach measures will, we think, improve that communication without the additional liability, safety, and insurance costs that prompted the closure of our local offices. We care about these communities and our customers. Also, our employees live and work in these communities. So, we think these additional steps will improve our communication with our customers and enhance our partnerships with these communities.

Conclusion

In conclusion, Commissioners, FPUC urges you to approve the Settlement before you. It represents the good faith negotiations of the Company, OPC, and the Customer parties. The settlement before you provides the Company with regulatory certainty, addresses our major funding needs, and significantly reduces the rate impact on our customers while providing rate certainty for the next 3.5 years. Approval of this Settlement resolves all issues in dispute among the parties and will avoid the additional time, expense, and delay of a full hearing. And, perhaps most important, it is in the best interests of both the Company and our customers, and I think, demonstrates

that we care about our customers and are honored to be their hometown, electric service provider. The Settlement serves the public interest because it enables FPUC to provide safe and reliable service at fair, just, and reasonable rates, and because it further enhances our relationships with our customers and the communities we serve. As such, on behalf of the Company, respectfully ask that you approve this settlement.

Thank you.

Q. Does that conclude your testimony, Mr. Cassel?

A. Yes.

Attny: The witness is tendered for cross.

1 BY MS. KEATING:

2 Q And does that conclude your testimony,
3 Mr. Cassel?

4 A Yes, it does. Thank you.

5 MS. KEATING: The witness is tendered -- or we
6 hand off to Mr. Dean.

7 CHAIRMAN LA ROSA: Mr. Wright, you are
8 recognized.

9 MR. WRIGHT: Thank you, Mr. Chairman. As we
10 have done, Mr. Dean has been called and sworn in.

11 EXAMINATION

12 BY MR. WRIGHT:

13 Q Mr. Dean, will you please state your name and
14 business address for the record?

15 A My name is James R. Dean, Jim Dean. My
16 business address is 2864 Madison Street, Marianna,
17 Florida.

18 Q And on whose behalf are you testifying this
19 afternoon?

20 A Today, I am here to testify on behalf of the
21 Board -- Jackson County Board of County Commissioners,
22 the City of Marianna and the Jackson County School
23 Board.

24 Q Could you please provide a brief summary of
25 your testimony, including what you are asking the

1 **Commission to do this afternoon?**

2 A Yes. Very briefly, and again, a little
3 repetitive.

4 Good afternoon, Commissioners. My name is Jim
5 Dean. I serve as County Administrator for Jackson
6 County Board of County Commissioners, and my business
7 address is 2864 Madison Street, and I am here on behalf
8 of the City of Marianna, the Jackson County Board of
9 County Commissioners and the Jackson County School
10 Board.

11 This unanimous settlement agreed to by FPUC,
12 the City, the County, the School Board and the Office of
13 Public Counsel, and supported by evidence already in the
14 record, as well as by the testimony that you have heard,
15 is in the public interest because it achieves exactly
16 what regulation is supposed to do. It provides the
17 company with sufficient revenues and resources to
18 provide safe and reliable service with enhancements to
19 customer relations, communications and access to the
20 company personnel at fair, just and reasonable rates for
21 the next three-and-a-half years.

22 That concludes my testimony.

23 **Q Finally, Mr. Dean, would you summarize exactly**
24 **what you are asking the Commissioners to do this**
25 **afternoon?**

1 A To approve the agreed upon rate that we have
2 settled outside of this room.

3 **Q Thank you.**

4 **And have you also, as Mr. Cassel has done,**
5 **prepared a written statement of your testimony?**

6 A Yes, I have.

7 MR. WRIGHT: Mr. Chairman, we do have copies
8 of that for the court reporter and others who want
9 them. We would ask that that be entered into the
10 record as though read.

11 CHAIRMAN LA ROSA: All right. So moved.

12 MR. WRIGHT: Thank you.

13 (Whereupon, testimony of James R. Dean was
14 inserted.)

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TESTIMONY OF JIM DEAN IN SUPPORT OF FPU-CONSUMERS SETTLEMENT

Good afternoon, Commissioners. My name is Jim Dean, I serve as the County Administrator for the Jackson County Board of County Commissioners, and my business address is 2864 Madison Street, Marianna, Florida.

Briefly, I previously served the City of Marianna as City Manager from 2008 until 2023. In the last election cycle, I was elected to serve on the Marianna City Commission, but other events led to the County asking me to serve as its County Administrator, and I assumed that position on June 18, 2025.

Thank you very much for the opportunity to address you today in support of the Settlement that all parties to this case have agreed to. These parties include FPU, the Public Counsel's Office, the City of Marianna, Jackson County, and the Jackson County School Board. I am testifying on behalf of all 3 of the local government parties to this case.

In summary, in my opinion, the Settlement is a good and fair deal for all concerned, including the utility and its customers. I'd like to address a few of the specific elements of the Settlement, including the overall base rate increases, the term of the Settlement, the enhanced customer service measures that FPU has committed to in the Settlement, the base rate "step increase" that FPU will be allowed to implement when it brings certain new transmission and distribution assets on line, and the provisions covering storm cost recovery.

Base Rate Increases, Timing of Increases, and FPU's Earnings. In my opinion, the overall base rate increase and FPU's earnings rate – its rate of return on equity, or ROE – are fair both to customers and to FPU. From the perspective of three of the largest customers on FPU's system in Jackson County, we are satisfied that all parties were able to agree on the base rate increases in the Settlement, which are significantly less than FPU's original requests. The increases are significantly less than what FPU originally proposed, and FPU's agreement to shift \$1 million of revenue from the first year's increase into the following years will definitely help out governments, businesses, and individual customers in Jackson County. I'm not a utility finance expert, so I don't have a professional financial analyst's opinion regarding the ROE of 10.20 percent that the

Settlement provides for FPU, but I do know that it lines up favorably with the comparable rates recently approved by the PSC for Duke Energy Florida (10.30%) and Tampa Electric Company (10.50%).

Additionally, the agreement between the customer parties and FPU that FPU will stay out and not seek additional base rate increases before September 2028 benefits customers by providing certainty as to what our rates will be.

At the same time that the lower rates will benefit customers, FPU confirms that it will be able to provide safe and reliable service with the revenues that the Settlement provides for the next three-plus years. In my opinion, this is the prime consideration of meeting the public interest in utility operations and rates.

Rate Increases to Pay for Transmission & Distribution Upgrades. The Settlement also provides that FPU can increase its rates to recover the costs of certain planned transmission and distribution upgrades WHEN THOSE UPGRADES COME ON LINE. We support FPU upgrading its system to enhance the reliability and cost-effectiveness of its service, and having the associated rate increases match the timing of those facilities come on line is entirely fair.

Again, it's in the public interest to have the utility make investments in needed assets and receive fair compensation for those assets. We support this provision of the Settlement.

Enhanced Customer Service. We also support the provisions in the Settlement where FPU will improve its messaging to customers regarding the availability of no-fee payment locations and enhanced email payment options. We also support the virtual and in-person town hall meetings that FPU has committed to in the Settlement. Good customer service and customer-utility communications are in the public interest, and we support these efforts.

Storm Cost Recovery Provisions. Commissioners, I was the City Manager of Marianna when Hurricane Michael devastated the Panhandle and Jackson County in 2018, so I have first-hand/direct experience with the impacts and consequences of such events/storms. While we ALL hope that we never again experience anything like Michael, we recognize that, if a storm should strike, FPU needs access to funding to restore service as quickly and cost-effectively as possible. Again, the public interest is

served where the utility has the revenues it needs to ensure safe and reliable service. We support the storm cost recovery and storm reserve accrual provisions of the Settlement.

In closing, Commissioners, I first want to thank you again for the opportunity to address you this afternoon. The Settlement before you is the product of good-faith, give-and-take negotiations, and I believe that it serves the public interest [by providing FPU with sufficient revenues to provide service at rates that customers can live with].

On behalf of the three local governments in Jackson County who are parties to this case, I respectfully ask that you approve the Settlement today.

Thank you again. This concludes my prepared testimony. I'm happy to answer any questions.

1 CHAIRMAN LA ROSA: I assume the parties don't
2 have any questions of the witnesses.

3 MR. WRIGHT: We don't.

4 CHAIRMAN LA ROSA: Staff?

5 MS. BROWNLESS: I have two questions.

6 CHAIRMAN LA ROSA: Sure.

7 EXAMINATION

8 BY MS. BROWNLESS:

9 **Q First, at the customer service hearings, there**
10 **was a lot of testimony, Mr. Cassel, about their ability**
11 **to interact with the company with regard to billing**
12 **matters. What improvements have you agreed to in the**
13 **settlement agreement that would address those issues?**

14 A Thank you for that question.

15 So as I said, we have taken that very
16 seriously. We take to heart what we hear at those
17 service hearings. We have put in a plan for a number of
18 things. The first and foremost is we have met
19 face-to-face in Marianna, and we have regularly
20 scheduled times to do that, and we have done the same
21 thing in Fernandina. We also established a regular live
22 event on-line that people can interact with us.

23 Furthermore, we went out to Marianna and we
24 provided what we called a tent event, where we invited
25 our customers in and helped them with -- helped them

1 figure out ways to save energy in their homes and
2 provide them an outlet to talk to customer service and
3 billing professionals on the ground.

4 We have also gone to a bar code system on our
5 bills, and we have a number of locations that take
6 payments for free. There seems to have been some
7 miscommunication, so we have addressed that. And by
8 doing that, we put the bar code on there to make
9 payments for those locations a little bit more easily
10 accessible and easier for those locations to take the
11 money from our customers, and those, again, are for
12 free. We are communicating that by way of new bill
13 inserts, on-line and social media posts. So we are
14 being more regular with our communication on how they
15 can make those payments.

16 **Q Thank you.**

17 **Another issue that was raised by many**
18 **customers in both Marianna and Fernandina Beach were the**
19 **impact that a large rate increase would have on them.**
20 **How has this settlement agreement addressed that issue?**

21 A Well, so overall, when we look at the overall
22 total bill, we expect a decrease in the bill. We very
23 thoughtfully timed how we have done this case so that it
24 would be coinciding with the end of the Hurricane
25 Michael surcharge, first of all.

1 We also had a large fuel decrease, and as you
2 know, we have accepted roughly a 33 percent reduction in
3 the overall ask of our revenue requirement in this case
4 in the first place. So, you know, those things
5 combined, and we have also, as we see the fuel charge
6 come down, we will see that one more time as well,
7 because the substations that are subject of this docket
8 will provide some savings in the fuel clause again in
9 '26, in 2026.

10 **Q Have you put in a delayed implementation of**
11 **your \$8.4 million annual rate increase?**

12 A Yes, we have. We have delayed \$1 million of
13 that. So the 2025 rate will actually be 7.4. We
14 deferred that million dollars until 2026 so that we can
15 start collecting that later, and kind of stage it out
16 for our customers.

17 **Q So the first year, between now and March of**
18 **2026, \$7.4 million in annual revenues would be**
19 **collected, is that right?**

20 A That is correct. Yes.

21 **Q Okay. And then in March of 2006, it would go**
22 **up to 8.4 million?**

23 A In March of 2026, we would have the step rate
24 that would be inclusive of the additional million-dollar
25 deferral, yes.

1 **Q** Okay. And you would also recover one-third of
2 the one million that had been delayed, correct?

3 **A** That's correct. Yes.

4 **Q** Okay.

5 **A** With the reduction of that amount consistent
6 with the timing of the settlement agreement approval
7 here and the customer usage.

8 **Q** Right. And that -- there would be a reduction
9 associated with the fact that PAA rates are already in
10 effect, and those are higher than what you have agreed
11 to?

12 **A** That is correct.

13 **Q** Okay. And those would be counterbalanced for
14 a period of three years, so it would be '26, '27, '28?

15 **A** Those rates would go into effect at that point
16 until we come back in to reset rates, either through a
17 limited proceeding or another full rate case.

18 **Q** Thank you.

19 Do you have a minimum term for this settlement
20 agreement?

21 **A** Yes, we do. It's three-and-a-half years.

22 **Q** Okay. And so that basically takes you through
23 September 20th of 2028, is that correct?

24 **A** That is correct. Yes.

25 **Q** Okay. What is the return on equity you agreed

1 to?

2 A 10.2 percent.

3 Q Okay. And do you believe that that's
4 consistent with return on equities for similarly sized
5 electric utilities?

6 A Yes. It gets us close to the lowest one in
7 our group. Yes.

8 Q Okay. And when you say in your group, what --

9 A The other IOUs in the state, we will still be
10 the lowest, but it gets us closer to the lowest one.

11 Q Okay. Thank you.

12 That's all the questions I have. Thank you so
13 much.

14 A Thank you.

15 CHAIRMAN LA ROSA: Thank you.

16 Commissioners, are there any questions?

17 Commissioner Clark.

18 COMMISSIONER CLARK: How about now?

19 CHAIRMAN LA ROSA: There you go.

20 COMMISSIONER CLARK: All right. I had a green
21 light. Thank you.

22 Mr. Cassel, you talked about -- Ms. Brownless
23 asked you about the customer service issues, and
24 that was a common theme that we were hearing. It
25 wasn't just as much about customer service but

1 about outage management as well. It's something
2 that I have a serious interest in. What are -- are
3 there any contemplations of the settlement
4 agreement and the additional enhancements that you
5 have made to your customer service outreach that
6 are going to benefit outage management specifically
7 in the northwest region?

8 WITNESS CASSEL: There are no specific
9 settlement provisions for outage management in this
10 settlement agreement.

11 COMMISSIONER CLARK: Okay. I want to go back
12 and address the question that Ms. Brownless asked
13 you, and the result of that the rates of the PAA
14 that were in place, all customers were receiving a
15 reduction in their actual bill cost. That was kind
16 of from the very beginning. So I want to make sure
17 I understand.

18 The provisions of the settlement agreement
19 that you have come to actually bring the rates
20 lower than what were in the PAA, and what were
21 approved by this commission earlier?

22 WITNESS CASSEL: That's correct. It brings
23 the total bill cost lower.

24 COMMISSIONER CLARK: Okay. Were there any
25 provisions or discussions in the settlement

1 agreement regarding inclining block rates?

2 WITNESS CASSEL: We did not have any
3 discussion.

4 COMMISSIONER CLARK: Are those still in the
5 rate structure?

6 WITNESS CASSEL: They are still in the rate
7 structure.

8 COMMISSIONER CLARK: Okay. That's all I have,
9 Mr. Chairman. Thank you.

10 CHAIRMAN LA ROSA: Thank you.

11 Commissioner Fay.

12 COMMISSIONER FAY: Thank you, Mr. Chairman.

13 Mr. Cassel, so I want to ask you about these
14 virtual town halls I think you said, you mentioned
15 maybe events. So we obviously had a lot of
16 customer feedback about access and how that works.
17 I just want to understand -- it sounded like you
18 mentioned some in-person capabilities, but based on
19 the agreement, these virtual town halls, just
20 explain to me how a customer engages in that, like,
21 how they have access, who they have access to?

22 WITNESS CASSEL: Thank you.

23 So our customers on -- and this is the
24 non-live in-person events. This is the ones via
25 video feed, our customers will have access to our

1 billing, our accounts team, customer care and
2 operations alike. And it will be via video feed,
3 so they can dial in.

4 We have also agreed in that that we would come
5 back with the counter-parties and measure the
6 success and the attendance of those. We will do
7 them on a regular basis.

8 COMMISSIONER FAY: Okay. And then the
9 communication about being able to pay locally, and
10 some of the things that we heard about, just
11 explain to me maybe how the settlement tries to
12 best address those concerns we heard from
13 customers.

14 WITNESS CASSEL: Well, I think a lot of that
15 was a question of our communication style and
16 frequency. So what we've heard very loud and clear
17 was that we need to be more aggressive in our
18 communication. So we have started to do that by
19 way of bill inserts. We have also, as I have said,
20 we have gone out to our northwest division and we
21 have hosted live events and brought our customers
22 in trying to make sure that they understand ways
23 they can pay their bill. Just our overall
24 communications is more aggressive, and will
25 continue to be more aggressive, and that will be in

1 several media, several channels, not just in
2 person, but including in person as well.

3 COMMISSIONER FAY: Great.

4 Ms. Brownless asked you about the ROE in this
5 docket. You mentioned basically it sort of falling
6 close to the lower end. Just help me understand, I
7 mean, I know we have had, you know, members of the
8 Supreme Court have weighed in kind of to our
9 process and things that we do. Help me understand
10 on the settlement side -- this is one of the more
11 detailed settlements I have seen, so just to
12 understand how you get to that number, kind of lay
13 that out for me maybe, so I have a better idea of
14 how you get to that midpoint. And then I know
15 there has always been this hundred basis point
16 adjustment up and down, but maybe that midpoint
17 analysis would be what I am looking for.

18 WITNESS CASSEL: So the calculation gets us
19 closer to the other IOUs in the state. So the 10.2
20 and the 10.15 that was approved in the PAA order
21 from the Commission, it's \$29,000 in total, and it
22 doesn't change that revenue requirement at all,
23 because other elements of the capital struck and
24 the weighted average cost of capital changed as
25 well.

1 So what was intended at the hundred basis
2 points was get our midpoint closer to range with
3 the other IOUs in the state.

4 COMMISSIONER FAY: Okay. And just -- so I
5 understood what you are saying. The adjustment
6 based -- let me ask it this way: The -- I guess it
7 maybe sort of irrelevant as to comparable to what
8 the PAA said, but aside from that, the analysis you
9 are saying, even if you didn't include that, that
10 gets you to a number that is in the lower portion
11 of what the other IOUs?

12 WITNESS CASSEL: That's correct. Yes.

13 COMMISSIONER FAY: Okay. Great.

14 Mr. Chairman, maybe one more question?

15 CHAIRMAN LA ROSA: Sure.

16 COMMISSIONER FAY: I just want to ask you
17 about the -- and this may be a question potentially
18 for staff, but how do you envision -- so the
19 agreement talks about these step-up increases, and
20 the adjustments and tariffs through that. And it
21 looks like the agreement basically analyzes these
22 as being something that would be done
23 administratively by the Commission.

24 Could you just help me understand maybe what
25 you provide to the Commission to validate those

1 adjustments? Like, what sort of information, maybe
2 what sort of background to know that when the
3 Commission goes through that process, we can be
4 comfortable knowing that the agreement has sort of
5 laid out that process, it's not some arbitrary
6 thing, it's actually got a structure to it?

7 WITNESS CASSEL: So we've laid out the overall
8 construct of the recalculation, at which time when
9 we come in March 20th of 2026, we will work with
10 staff to lay out the exact calculation, because at
11 this point, we don't know exactly what it will be.
12 Depending on the date of settlement for this, as
13 well as the usage in the customer -- and our
14 customer usage, and so we will work with staff at
15 that point to provide the detail and the matrix
16 however we need to provide that for them so that
17 the change can be made.

18 COMMISSIONER FAY: Okay. Great.

19 And I didn't want to leave Mr. Dean left out
20 here, so just from your perspective, articulate
21 maybe the -- Ms. Brownless asked about the
22 beginning of this rate implementation process.
23 Maybe just help us understand how that's key to,
24 you know, how this settlement is implemented and
25 what it means for you as intervenors?

1 WITNESS DEAN: I guess, you know, it started
2 out several months ago, when the public found out
3 about the rate increase, you know. And like I said
4 before here before the Commission, our county is
5 one of the top poverty rated counties in the state.
6 It's a county of rural economic -- rural area of
7 critical concern identified by the Governor for the
8 state. So, you know, there was a lot of public
9 outcry to try and do something about the rate
10 increase.

11 We met with Florida Public Utilities on
12 multiple different occasions. Our attorney did
13 more than us, and it was something that our
14 attorney kept us informed and made us aware of all
15 the steps that we went through. And, you know,
16 after an extensive negotiation between FPU and
17 basically our attorney, we came to a point where we
18 felt like, you know, the public would be satisfied
19 with the effort that we had made, as well as the
20 reduction that is being made by Florida Public
21 Utilities.

22 So I don't know if that answers your question.

23 COMMISSIONER FAY: It does, yeah. We
24 obviously spent time in that area. The Chairman
25 put a customer meeting there. We heard that, and

1 so I think --

2 WITNESS DEAN: Being the City Manager for 15
3 years, now County Administrator, was elected to the
4 City Commission at one time but stepped down to do
5 this position, I have extensive amount of contact
6 with the public, and, you know, the public appears
7 to be very satisfied with the outcome.

8 COMMISSIONER FAY: Great. Yeah, we were
9 honored to be there. I am not sure we have heard
10 from a more passionate group of individuals, that
11 that home base means a lot to them, and how this
12 would impact them, and so I appreciate you got
13 engaged in the process.

14 I do think I heard you say maybe the lawyer
15 did a descent job. My colleagues think the lawyers
16 get in the way of doing, you know, potential
17 solutions, but it sounds like in situation, maybe
18 it worked out well, so I appreciate you taking the
19 role you have taken on. It sounds like you have
20 held a lot of different positions and represent
21 your area well, and to have you here is important
22 for us, I think, to make the analysis that we are
23 making today, so thank you.

24 WITNESS DEAN: Thank you.

25 COMMISSIONER FAY: That's all I had, Mr.

1 Chairman.

2 CHAIRMAN LA ROSA: Thank you.

3 Commissioners, any further questions?

4 All right. Seeing none, thank you.

5 Do I need to tender him back to you guys?

6 MS. KEATING: FPUC has no redirect.

7 CHAIRMAN LA ROSA: Okay.

8 MR. WRIGHT: No redirect. Just excuse the
9 witnesses. Thank you.

10 CHAIRMAN LA ROSA: Excellent.

11 Gentlemen, you may be excused. Thank you very
12 much.

13 (Witnesses excused.)

14 CHAIRMAN LA ROSA: All right. So parties, I
15 assume -- well, let me ask, do you wish to file
16 briefs?

17 MR. WRIGHT: No, sir.

18 MS. KEATING: No.

19 CHAIRMAN LA ROSA: Okay. I assumed that was
20 the answer.

21 All right. Let's go ahead let me go back,
22 then, to staff.

23 Would you be ready to give a recommendation on
24 the settlement --

25 MS. BROWNLESS: Yes.

1 CHAIRMAN LA ROSA: -- oral recommendation on
2 the settlement?

3 MS. GUFFEY: Good afternoon, Chairman and
4 Commissioners. I am Seveni Guffey with the
5 Division of Economics.

6 On May 7th, 2025, a unanimous stipulation and
7 settlement agreement was filed in Docket No.
8 20240099-EI. I would like to highlight the major
9 elements of the settlement agreement.

10 The proposed settlement agreement reduces the
11 requested revenue requirement increase from \$12.6
12 million to an average of 8.4 million, resulting in
13 a mitigated rate impact for all customers of FPUC.
14 Deferring the collection of \$1 million for the
15 first year revenue requirement increase, and it
16 provides for a phased-in approach to the rate
17 increase.

18 The settlement also provides a step increase
19 not to exceed 7,000 -- \$727,778 when the position
20 and replacement of transmission and substation
21 assets designed to improve reliability are expected
22 to be placed in service about December 2026.

23 Lowering the requested ROE from 11.3 percent
24 to 10.2 percent, an amount more accurately
25 reflecting the expected market conditions and

1 investor required equity returns during the minimum
2 period of the settlement agreement.

3 The proposed settlement agreement also
4 maintains an equity ratio of 50.04 percent, which
5 is within the range of Florida's other electric and
6 natural gas IOUs. It provides for an enhanced
7 local customer service addressing the payment and
8 billing concerns expressed by many customers in
9 both Fernandina Beach and in Marianna. It
10 establishes a minimum term through September 2028,
11 which will create price stability and allow
12 customers and governmental entities to establish
13 more accurate budgets.

14 Finally, the settlement agreement disposes of
15 all outstanding issues in this docket.

16 This settlement agreement appropriately
17 balances the need for FPUC to have the revenue
18 necessary to provide safe and reliable electric
19 service at a reasonable cost to its customers. The
20 new rates, if approved, will be effective as of
21 July 2nd, 2025.

22 The settlement reflects collaborations from
23 FPUC, the Office of Public Counsel, the City of
24 Marianna, Jackson County and the Jackson County
25 School Board, reflecting their respective

1 interests.

2 For the reasons stated, staff recommends that
3 the settlement agreement is in the public interest
4 when taken as a whole, and, therefore, should be
5 approved.

6 Thank you.

7 CHAIRMAN LA ROSA: Thank you.

8 Commissioners, are there any questions of
9 staff's recommendation?

10 Commissioner Fay, you are recognized.

11 COMMISSIONER FAY: Thank you, Mr. Chairman.
12 Just one.

13 I just want to confirm, based on the
14 recommendation and what we have, that -- and this
15 is either Ms. Brownless or Ms. Guffey, whatever,
16 that we have the substantial evidence and
17 information in the docket to clearly put out an
18 order that articulates what this settlement
19 includes?

20 MS. BROWNLESS: Yes, sir, we do.

21 COMMISSIONER FAY: Okay. Thank you, Mr.
22 Chairman.

23 CHAIRMAN LA ROSA: Commissioners, any further
24 questions?

25 Seeing no questions, I am open for a motion.

1 COMMISSIONER FAY: Mr. Chairman, I would move
2 to approve the settlement as presented.

3 COMMISSIONER GRAHAM: Second.

4 CHAIRMAN LA ROSA: All right. So hearing a
5 motion and hearing a second on the settlement
6 agreement.

7 All those in favor signify by saying yay.

8 (Chorus of yays.)

9 CHAIRMAN LA ROSA: Yay.

10 Opposed no?

11 (No response.)

12 CHAIRMAN LA ROSA: Show that the settlement
13 agreement is approved.

14 Thanking you, Commissioners.

15 Staff, are there any other matters that we
16 need to address?

17 MS. BROWNLESS: No, sir.

18 CHAIRMAN LA ROSA: Parties, are there any
19 other additional matters that we need to address?

20 MS. KEATING: No, sir.

21 CHAIRMAN LA ROSA: Seeing none. Excellent.

22 Thank you all for your time and for putting
23 this and preparing this for us and presenting it
24 this way. If there is no further business, I can
25 go ahead and call this hearing adjourned.

1 Thank you. Done.

2 MR. WRIGHT: Thank you.

3 MS. KEATING: Thank you.

4 (Proceedings concluded.)

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1 CERTIFICATE OF REPORTER

2 STATE OF FLORIDA)
3 COUNTY OF LEON)
45 I, DEBRA KRICK, Court Reporter, do hereby
6 certify that the foregoing proceeding was heard at the
7 time and place herein stated.8 IT IS FURTHER CERTIFIED that I
9 stenographically reported the said proceedings; that the
10 same has been transcribed under my direct supervision;
11 and that this transcript constitutes a true
12 transcription of my notes of said proceedings.13 I FURTHER CERTIFY that I am not a relative,
14 employee, attorney or counsel of any of the parties, nor
15 am I a relative or employee of any of the parties'
16 attorney or counsel connected with the action, nor am I
17 financially interested in the action.18 DATED this 17th day of July, 2025.
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DEBRA R. KRICK

NOTARY PUBLIC

COMMISSION #HH575054

EXPIRES AUGUST 13, 2028