BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

DOCKET NO. 20250035-GU

Petition for approval of 2025 depreciation study and for approval to amortize reserve imbalance, by Florida City Gas.
_________________________________/

VOLUME 2
PAGES 241 - 415

PROCEEDINGS: HEARING

COMMISSIONERS PARTICIPATING: CHAIRMAN MIKE LA ROSA
COMMISSIONER GARY F. CLARK
COMMISSIONER GABRIELLA PASSIDOMO SMITH

DATE: Thursday, December 11, 2025

TIME: Commenced: 9:30 a.m.
Concluded: 4:50 p.m.

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

REPORTED BY: DEBRA R. KRICK
Court Reporter

APPEARANCES: (As heretofore noted.)

PREMIER REPORTING
TALLAHASSEE, FLORIDA
(850) 894-0828

APPEARANCES:

BETH KEATING, ESQUIRE, Gunster, Yoakley & Stewart, P.A., 215 South Monroe Street, Suite 601, Tallahassee, Florida 32301; appearing on behalf of Florida City Gas (FCG).

WALT TRIERWEILER, PUBLIC COUNSEL; CHARLES REHWINKEL, DEPUTY PUBLIC COUNSEL; AUSTIN WATROUS, ESQUIRE, OFFICE OF PUBLIC COUNSEL, c/o The Florida Legislature, 111 West Madison Street, Room 812, Tallahassee, FL 32399-1400, appearing on behalf of the Citizens of the State of Florida (OPC).

TIMOTHY SPARKS, JACOB IMIG and SHAW STILLER, ESQUIRES, FPSC General Counsel's Office, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, appearing on behalf of the Florida Public Service Commission (Staff).

ADRIA E. HARPER, GENERAL COUNSEL; MARY ANNE HELTON, DEPUTY GENERAL COUNSEL, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, Advisor to the Florida Public Service Commission.

I N D E X

EXHIBITS

NUMBER:		ID	ADMITTED
6-15	As identified in the CEL		320
17-18	As identified in the CEL		320
19-23	As identified in the CEL		343
24-25	As identified in the CEL		412

P R O C E E D I N G S

CHAIRMAN LA ROSA: Let's go ahead and -- so that's -- that is -- that is all of FCG's witnesses. Let's go, then, to OPC, you may introduce your next witness.

MR. REHWINKEL: Public Counsel calls William Dunkel to the stand.

CHAIRMAN LA ROSA: Mr. Dunkel, welcome.

THE WITNESS: Thank you.

CHAIRMAN LA ROSA: You were sworn in earlier today?

THE WITNESS: Yes.

CHAIRMAN LA ROSA: You are free to get situated, and you gentlemen are recognized once you are ready.

Whereupon,

WILLIAM DUNKEL

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

EXAMINATION

BY MR. REHWINKEL:

Q Can you state your name for the recrod?

A My name is William Dunkel.

Q And on whose behalf are you testifying?

A On behalf of the OPC.

Q Thank you.

Mr. Dunkel, did you cause to be prepared 59 pages of testimony and filed in amended state on December 5th?

A Yes.

Q And did you also cause to be prepared some 13 exhibits that have been identified in the composite exhibit list as 6 through 18?

A Yes.

Q And did you also cause to be prepared a revised Exhibit WWD-12, which has been identified as Exhibit 17?

A Yes.

Q And did you also cause to be prepared an Exhibit 11, WWD-11, which is identified as Exhibit 16 in the CEL?

A I haven't looked at what it's identified, but I prepared such an exhibit, yes.

Q Okay. And is that exhibit now moot because of the amendments to your testimony required by the amendments to the staff's -- to Ms. Lee's testimony?

A Yes.

Q Okay. All right. Mr. Dunkel, if I asked you the questions contained in your December 5th, 2025,

direct testimony today, would your answers be the same?

A Yes.

MR. REHWINKEL: Mr. Chairman, I would ask that Mr. Dunkel's December 5th testimony be inserted into the record as though read.

CHAIRMAN LA ROSA: So moved.

(Whereupon, prefiled direct testimony of William Dunkel was inserted.)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for approval of 2025 depreciation study and for approval to amortize reserve imbalance, by Florida City Gas	DOCKET NO.: 20250035-GU FILED: December 4, 2025

AMENDED DIRECT TESTIMONY

OF

WILLIAM DUNKEL

ON BEHALF

OF

THE CITIZENS OF THE STATE OF FLORIDA

Walt Trierweiler
Public Counsel

Mary A. Wessling
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5. Exhibit WWD-5 OPC ROG 17,18, & 19 Variances
6. Exhibit WWD-6 OPC No. 16 – NARUC not say1%
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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is William Dunkel. My business address is 8625 Farmington Cemetery Road, Pleasant Plains, Illinois 62677.

Q. WHAT IS YOUR PRESENT OCCUPATION?

A. I am a consultant with, and the principal of, William Dunkel and Associates ("WDA"). For decades I have addressed utility depreciation rates and dismantlement in numerous proceedings in various jurisdictions.

Q. HAVE YOU PREVIOUSLY TESTIFIED IN FLORIDA?

A. Yes. I am addressing depreciation rates and dismantlement cost in the current Florida Power & Light Company's ("FPL") proceeding, Docket No. 20250011-EI. In addition, I addressed dismantlement costs in the prior FPL proceeding, Docket No. 20210015-EI. In addition, I addressed depreciation rates regarding Duke Energy Florida in Docket No. 20240025-EI.

Q. PLEASE SUMMARIZE YOUR PROFESSIONAL QUALIFICATIONS.

A. I am the principal of William Dunkel and Associates, which was established in 1980. For over 40 years since that time, I have regularly provided consulting services in utility regulatory proceedings throughout the country. I have participated in over 300 state regulatory proceedings before over one-half of the state commissions in the United States. I provide, or have provided, services in utility regulatory proceedings to the following clients:

The Public Utility Commissions or their Staffs in these States:

Arkansas	Maryland
Arizona	Mississippi
Delaware	Missouri
District of Columbia	New Mexico
Georgia	North Carolina
Guam	Utah
Illinois	Virginia
Kansas	Washington
Maine	U.S. Virgin Islands

The Office of the Public Advocate, or its equivalent, in these States:

Alaska	Maryland
California	Massachusetts
Colorado	Michigan
Connecticut	Missouri
District of Columbia	Nebraska
Florida	New Jersey
Georgia	New Mexico
Hawaii	Ohio
Illinois	Oklahoma
Indiana	Pennsylvania
Iowa	Utah
Maine	Washington

The Department of Administration in these States:

Illinois	South Dakota
Minnesota	Wisconsin

I graduated from the University of Illinois in February 1970 with a Bachelor of Science Degree in Engineering Physics, with an emphasis on economics and other business-related subjects. In the past I was a design engineer for Sangamo Electric Company designing electric watt-hour meters used in the electric utility industry. I was granted patent No. 3822400 for solid-state meter pulse initiator which was used in metering.

I am a member of the Society of Depreciation Professionals. I have made presentations in the 2018 and 2011 annual meetings of the Society of Depreciation Professionals.

Nationwide, 50% of my firm's cases are on behalf of the commissions or commission staffs, and the remainder are on behalf of public advocates.

Q. HAVE YOU PREPARED AN EXHIBIT THAT DESCRIBES YOUR QUALIFICATIONS?

A. Yes. My qualifications and previous experiences are shown on the attached Exhibit WWD-1.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

A. I am testifying on behalf of the Office of Public Counsel of the State of Florida ("OPC").

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I will address Issues 1 through 5, and Issue 7 on Attachment A of Order No. PSC-2025-0366-PCO-GU in this case.

A primary purposes of my testimony are to (1) address the Direct Testimony of Patricia Lee filed October 1, 2025 and as amended November 4, 2025, (2) address the Florida City Gas ("FCG" or "Company") 2025 Exhibit PSL-2 Revised FCG Depreciation Study and Workbook, (3) address the Exhibits PSL-1, PSL-3 and, PSL-4, (4) address portions of the Direct Testimony of Matt Everngam filed October 1, 2025, and (5) address the associated, discovery responses, and other information related to the Florida City Gas 2025 Depreciation Study and associated testimonies. I also reviewed information that FCG had provided prior to the October 1, 2025, filing. I also address the Staff Report filed August 12, 2025.

Q. PLEASE DESCRIBE SOME OF THE STEPS YOU TOOK TO PREPARE YOUR TESTIMONY.

A. The steps I took to prepare for my testimony included the following:

- Reviewed the Direct Testimonies filed by Patricia Lee and by Matt Everngam, and the FCG 2025 Depreciation Study and associated documents and workpapers filed in this proceeding.
- Reviewed the Staff Report filed August 12, 2025
- Prepared discovery requests to be issued in this proceeding as they pertain to depreciation, reviewed the responses, prepared follow-up discovery requests as appropriate, and reviewed responses to the follow-up discovery requests.
- Considered the Federal Energy Regulatory Commission ("FERC") Uniform System of Accounts ("USOA").
- Considered the accepted depreciation practices, including those contained in the Public Utility Depreciation Practices published by the National Association of Regulatory Utility Commissioners ("NARUC").

- Conducted additional analyses, which are detailed in this testimony.

Q. PLEASE PROVIDE THE DEFINITION OF DEPRECIATION YOU USED.

A. Because this proceeding is for a regulated gas utility, I rely on the definition of depreciation in the FERC USOA Part 201, which states[1]:

> *Depreciation*, as applied to depreciable gas plant, means the loss in service value not restored by current maintenance, incurred in connection with the consumption or prospective retirement of gas plant in the course of service from causes which are known to be in current operation and against which the utility is not protected by insurance. Among the causes to be given consideration are wear and tear, decay, action of the elements, inadequacy, obsolescence, changes in the art, changes in demand and requirements of public authorities, and, in the case of natural gas companies, the exhaustion of natural resources.

II. ISSUE 1: SHOULD CURRENTLY PRESCRIBED DEPRECIATION RATES FOR FLORIDA CITY GAS BE REVISED?

Q. SHOULD CURRENTLY PRESCRIBED DEPRECIATION RATES FOR FLORIDA CITY GAS BE REVISED?

A. No. The FCG proposal is nowhere near a reasonable balance of the investors and ratepayer interests, as I will now demonstrate.

A. FCG PROPOSES TO TAKE $19 MILLION OUT OF THE DEPRECIATION RESERVE AND GIVE IT TO THE OWNERS.

Q. WHAT IS ONE THING FCG IS PROPOSING?

[1] 18 CFR, Vol 1, Part 201.

A. FCG proposed to take $19,244,380 out of the depreciation reserve and give it to the owners.[2]

Q. PLEASE PROVIDE AN ANALOGY TO THIS FCG PROPOSAL.

A. Assume the bank owner took $10,000 out of your retirement account and put that money in his or her pocket. Of course that is improper, but it is a good analogy to what FCG is proposing in this case.

In this case, FCG is proposing to take $19,244,380 out of the depreciation reserve.[3]

Q. WHAT WOULD HAPPEN TO THE $19 MILLION FCG PROPOSES TO TAKE OUT OF THE DEPRECIATION RESERVE?

A. The $19 million FCG proposes to take out of the Depreciation Reserve would go to the owners as earnings.

In response to discovery, FCG said the following:

> In depreciation studies not accompanied with a rate case proceeding, the resultant expenses of revised depreciation rates, either increases or decreases, have an effect on earnings.[4]

FCG is proposing to take $19 million out of the Depreciation Reserve and give that $19 million to the owners' "earnings."

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[2] Page 5 of Amended Composite PSL-2 (Narrative). FCG would remove this by removing $9,622,190 per year from the Depreciation Reserve for two years.
[3] Page 5 of Amended Composite Exhibit PSL-2 (Narrative).
[4] FCG response to Interrogatory 24 in Responses to Staff's First Data Requests. See Exhibit WWD-2.

<u>B. FCG MISREPRESENTS ITS PROPOSAL</u>

Q. WHAT DOES THE EXISTENCE OF A RESERVE SURPLUS MEAN?

A. A reserve surplus means that ratepayers have overpaid for depreciation. As an analogy, if for some reason you overpaid your dentist, the dentist would not take that overpayment out of your account and put it in his or her pocket. The dentist would use it as a credit to reduce your future charges or would send the overpayment back to you.

Q. WITNESS LEE STATES THE FOLLOWING:

> **First, if FCG's proposal is accepted, the annual depreciation expenses will decrease by approximately $10.7 million for two years compared to existing rates and amortization,….In this way. FCG's proposal will provide a return of the reserve surplus, which equates to the over payment of depreciation expenses, to the generation of ratepayers who may have overpaid…**[5]

UNDER THE FCG PROPOSAL, WILL THE AMOUNT LABELED AS "SURPLUS" GO TO "THE GENERATION OF RATEPAYERS WHO MAY HAVE OVERPAID"?

A. Absolutely not. Under the FCG proposal the $19 million that is labeled as "surplus" will go **<u>to the owners,</u>** not to any ratepayers. FCG is misrepresenting its proposal. If FCG wanted to return the $19 million to the "the generation of ratepayers who may have overpaid" they could reduce the prices/tariffs charged the ratepayers by $9.6 million per year for two years.[6] That is **<u>not</u>** what FCG is proposing. FCG is proposing the $19 million be **<u>given to the owners</u>**, not to the ratepayers.

[5] Page 32, lines 11-18 of the Lee Amended Direct Testimony.
[6] I am not recommending the prices/tariffs charged to the ratepayers be reduced by $9.6 million per year for two years. My recommendations are contained elsewhere in this testimony.

C. TAKING $19 MILLION OUT OF THE DEPRECIATION RESERVE HARMS RATEPAYERS

Q. WOULD TAKING $19,244,380 OUT OF THE DEPRECIATION RESERVE HARM CUSTOMERS?

A. Yes. Taking $19,244,380 out of the depreciation reserve would result in future prices/tariffs charged to ratepayers being higher than if this $19 million is not taken out of the depreciation reserve. Taking $19 million out of the Depreciation Reserve would increase the net rate base by $19 million. This occurs because the amount in the Depreciation Reserve is a deduction when calculating the Net Rate Base amount. In a rate case, the allowed rate of return is multiplied times the Net Rate Base. So, if $19 million is taken out of the Depreciation Reserve, that means in the coming rate case the ratepayers will have to pay a rate of return on a Net Rate Base which would be $19 million higher than it would be if the $19 million is not taken out of the depreciation reserve.

D. REMOVING $19 MILLION FROM THE DEPRECIATION RESERVE WOULD ENTITLE FCG TO RECEIVE $1.7 MILLION HIGHER RATES IN THE COMING RATE CASE.

Q. ON PAGE 6 OF HIS TESTIMONY, WITNESS EVERNGAM CLAIMS ADOPTING THE FCG PROPOSAL WOULD BENEFIT RATEPAYERS "IN ITS NEXT BASE RATE CASE". IS THAT TRUE?

A. No. Just the opposite. Removing $19.2 million from the Depreciation Reserve would entitle FCG to receive a **rate increase of** $1.7 million dollars higher per year than if the $19.2 million was not removed from the Depreciation Reserve.

The amount in the depreciation reserve is a deduction when calculating the net rate base amount. A $19.2 million lower depreciation reserve increases the net rate base by $19.2 million.

The fact that deducting money from the Depreciation Reserve **increases** the Net Utility Plant is illustrated below: [7]

Figure 1:

Hypothetical Utility

		Normal		Deduct $ 19.2 Million From Reserve		Difference
	Utility Plant in Service	700,000,000			700,000,000	
-	Depreciation Reserve	200,000,000	-	19,244,380	180.755,620	
	Net Utility Plant	500,000,000			519,244,380	19,244,380

Q. IN A RATE CASE, WHAT IMPACT DOES A HIGHER NET RATE BASE HAVE?

A. A higher Net Rate Base results in higher rates.

In a rate case, the dollar amount of the Required Net Operating Income is calculated by multiplying the Commission-approved rate of return times the amount of the Net Rate base. If the Net Rate base is higher, the dollar amount of the Required Net Operating Income is

[7] In a rate case, items in addition to those shown in Figure 1 would be added or subtracted in calculating the Net Utility Base.

higher. An example of this calculation in an actual rate case is shown on Exhibit WWD-3 from Order No. PSC-2023-0177-FOF-GU.

To see the approximate impact of taking $19,244,380 out of the Depreciation Reserve, the calculation below uses the rate of return and Expansion Factor [for income tax] approved in the prior FCG case, Docket No. 20220069-GU.[8]

Figure 2:[9]

Hypothetical Utility

		Normal		Deduct $19.2 Million From Reserve		Difference
	Utility Plant in Service	700,000,000			700,000,000	
-	Depreciation Reserve	200,000,000	-	19,244,380	180,755,620	
	Net Utility Plant	500,000,000			519,244,380	$19,244.380
		Rate of Return				6.44%
		Required Net Operating Income				$ 1,239,338
		Revenue Expansion Factor [For Income Taxes]				1.3527
		Increase from removing $19.2 M from Reserve				$ 1,676,453

If in this case the Commission approves removing $19.2 million from the Depreciation Reserve and giving that to the owners, that would impact the books such that the owners

[8] See Exhibit WWD-3. From Attachment 5, Order No. PSC-2023-0177-FOF-GU.
[9] This calculation is for illustrative purposes. I am not forecasting what rate of return or tax factor might be approved in the future case.

would also receive in the coming rate case $1.2 million higher Required Net Operating Income than if the $19.2 million is not removed from the Depreciation Reserve.[10] This would increase the rates on the ratepayers by $1.7 million more **per year** after the Revenue Expansion Factor [for income taxes].[11] In addition, the impact of higher prices/tariffs on ratepayers due to removing $19.2 million from the reserve could last for decades.

E. INVESTORS RECEIVE A RETURN ON AN ADDITIONAL $19.2 MILLION INVESTMENT, WITHOUT MAKING ANY ADDITIONAL INVESTMENT.

Q. WHAT IS THE BASIC CONCEPT OF ALLOWING INVESTORS A RATE OF RETURN ON THE NET RATE BASE?

A. The basic concept of allowing investors a rate of return on the **net** rate base is that investors should receive a rate of return on the capital the investors have invested. Investors are not entitled to receive a rate of return on capital they have not invested.

Q. DOES THIS FCG FILING VIOLATE THIS CONCEPT?

A. Yes. Under the FCG proposal, after investors **remove** $19.2 million from the Depreciation Reserve, investors would receive a rate of return on an additional $19.2 million. This is because removing $19.2 million from the Depreciation Reserve increases the net rate base

[10] Even if all of the $19,244,380 had not yet been fully removed from the Depreciation Reserve in the time period looked at in the rate case, a proforma adjustment could be made since it would be known the $19,244,380 would soon be fully removed (if the FCG proposal in this case had been adopted).

[11] FCG also proposes to reduce the depreciation rates by approximately $1 million per year, which would reduce the amount credited into the Depreciation Reserve by approximately $1 million per year, which would further increase the Net Utility Plant by $1 million per year. The impact of the FCG proposed depreciation rate changes would be in addition to what is shown above. The FCG proposed reduction of depreciation rates means future depreciation rates would have to be higher than they otherwise would be, to make up for the smaller amount going into the Depreciation Reserve under the depreciation rates FCG proposes in this case.

by $19.2 million. But the investors did not invest an additional $19.2 million in this transaction. In fact, the investors **received** that $19.2 million.

This FCG proposal is unreasonable and violates proper regulatory concepts.

F. IMPACT ON DEPRECIATION RATES IN FUTURE

Q. WOULD THE FCG PROPOSAL ALSO INCREASE THE DEPRECIATION RATE IN THE NEXT DEPRECIATION STUDY?

A. Yes. Taking $19.2 million out of the depreciation reserve will also increase depreciation rates in the next depreciation study, compared with what the depreciation rates would be if the $19.2 million is not removed from the Depreciation Reserve.

The dollar amount in the Depreciation Reserve is part of the calculation of the remaining life depreciation rate. The smaller the dollar amount in the Depreciation Reserve, the higher the depreciation rate is, everything else being the same. Removing $19.2 million from the Depreciation Reserve will result in the future depreciation rates being in the range of half a million dollars a year higher, than if the $19.2 million is not removed from the Depreciation Reserve.[12]

In this case FCG proposes to reduce the depreciation rates by approximately $1 million per year. But that would be a temporary reduction. The depreciation rates would have to be

[12] $19,244,380 out of the Depreciation Reserve / average Remaining life of 49 years = $392,742,449 impact on annual depreciation expense.

increased because of the money taken out of the reserve and because of the lower amount being booked into the reserve.

G. TAKING $19 MILLION OUT OF THE DEPRECIATION RESERVE HARMS RATEPAYERS, EVEN IF YOU CALL IT "SURPLUS".

Q. FCG CALLS THE $19,244,380 A "RESERVE SURPLUS." DOES CALLING THIS AMOUNT A "RESERVE SURPLUS" MEAN IT CAN BE REMOVED FROM THE DEPRECIATION RESERVE AT NO COST TO THE RATEPAYERS?

A. No. Regardless of what name you give it, removing $19.2 million from the Depreciation Reserve will cost the ratepayers. Regardless of what name you give it, removing $19.2 million from the Depreciation Reserve will, in the next rate case, entitle FCG to rates which are approximately $1.7 million per year higher than they would be if the $19.2 million is not removed from the Depreciation Reserve, as shown in prior Figure 2. Higher costs to ratepayers as the result of removing $19.2 million from the Depreciation Reserve could last for decades.

In addition, regardless of what name you give it, removing $19.2 million from the Depreciation Reserve will, in the next depreciation study, result in rates which are approximately half a million dollars a year higher than if the $19.2 million is not removed from the Depreciation Reserve.

H. PURPOSE OF THE DEPRECIATION RESERVE

Q. WHAT IS THE PURPOSE OF THE DEPRECIATION RESERVE?

A. The Depreciation Reserve accumulates money from the ratepayers, and that money is taken out of the Depreciation Reserve when investments retire. For example, when a facility that has an original cost of $1,000 in the Plant in Service account retires, $1,000 is removed from the Plant in Service account, and under double-entry bookkeeping, $1,000 is also removed from the Depreciation Reserve account.

In the USOA, the official name of what we call the Depreciation Reserve is Account "108 Accumulated provision for depreciation of gas plant." As described in the FERC Uniform System of Accounts (USOA), "Amounts charged to account 403, Depreciation Expense" are "credited" into the Depreciation Reserve. And:

> At the time of retirement of depreciable gas utility plant, this account shall be charged with the book cost of the property retired and the cost of removal and shall be credited with the salvage value and any other amounts recovered, such as insurance.[13]

Q. CAN MONEY PROPERLY BE TAKEN OUT OF THE DEPRECIATION RESERVE AND CONVERTED TO EARNINGS?

A. No. The USOA says the following regarding Account 108 "Accumulated provision for depreciation of gas plant":

> The utility **is restricted in its use of the provision for depreciation to the purposes set forth above**. **It shall not transfer any portion of this account to retained earnings** or make any other use thereof without authorization by the Commission.[14] (Emphasis added)

[13] CFR Title 18- Vol 1. Part 201 from "108 Accumulated provision for depreciation of gas utility plant." There is similar wording for other circumstances, such as leases.
[14] CFR Title 18- Vol 1. Part 201 from "108 Accumulated provision for depreciation of gas utility plant."

I. THE FCG PROPOSAL IS NOT A REASONABLE BALANCING OF THE INVESTOR AND THE CONSUMER INTERESTS.

Q. THE U. S. SUPREME COURT HAS STATED THE FOLLOWING:

> **THE RATEMAKING PROCESS UNDER THE ACT, *I.E.,* THE FIXING OF "JUST AND REASONABLE" RATES, INVOLVES A BALANCING OF THE INVESTOR AND THE CONSUMER INTERESTS.**[15]

IN YOUR OPINION IS THE FCG PROPOSAL A REASONABLE BALANCING OF THE INVESTOR AND THE CONSUMER INTERESTS?

A. No. FCG proposes taking $19,244,380 out of the Depreciation Reserve and giving that to the investors. Taking $19,244,380 out of the Depreciation Reserve would also entitle the investors to receive an additional $1.2 million per year in earnings, because of the impact on the net rate base of taking $19,244,380 out of the Depreciation Reserve.

On the ratepayers' side, FCG taking this money out of the Depreciation Reserve will cost the ratepayer an additional $1.7 million per year.[16] Higher costs to ratepayers as the result of removing $19.2 million from the Depreciation Reserve could last for decades. This is due to the impact on the net rate base of FCG taking $19,244,380 out of the Depreciation Reserve.

In my opinion, this is absurdly one sided. This is nowhere near a reasonable balancing of the investor and the consumer interests, using the plain meaning of the words.

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[15] *Federal Power Commission v. Hope Natural Gas Co.,* 320 U.S. 591 (1944) at 603.
[16] After the Revenue Expansion Factor [For Income Taxes]. See prior Figure 2.

J. FCG'S DEPRECIATION STUDY VIOLATES THE RULES, AND MUST BE REJECTED

Q. WHAT IS THE SECOND REASON THE FCG PROPOSAL IN THIS CASE SHOULD BE REJECTED?

A. FCG's depreciation study violates the Rules and must be rejected.

Q. WHAT IS ONE THING PARTICULARLY RELEVANT TO THIS ISSUE THAT THE FPSC RULE 25-7.045, FLORIDA ADMINISTRATIVE CODE, REQUIRES?

A. FPSC Rule 25-7.045, Florida Administrative Code ("F.A.C.") includes the following:

> (5) A depreciation study shall include:
>
> …
>
> h) The mortality and salvage data used by the company in the depreciation rate design **must agree with activity booked by the utility**. Unusual transactions not included in life or salvage studies, e.g., sales or extraordinary retirements, must be specifically enumerated and explained. (Emphasis added)

Q. DOES THE DATA IN THE DEPRECIATION STUDY FCG FILED IN THIS CASE "AGREE WITH ACTIVITY BOOKED BY THE UTILITY"?

A. Absolutely not, as I will now demonstrate. The FCG books are audited by Deloitte, and the audited numbers are provided in the FCG Annual Report to the FPSC. There are vast inconsistencies between the data on which FCG is basing its claimed depreciation rates, and the data in the audited FCG Annual Reports.

For example, as I will demonstrate below, for a number that should be the same amount, that number is $5,565,780 from the data in the audited FCG Annual Reports, but that number is $386,460 in the calculations FCG used in calculating their proposed depreciation rates and claimed reserve surplus. The number FCG used in its depreciation study is less than 1/10th the number on the books as shown in the audited FCG Annual Report.

Q. PLEASE PROVIDE THE DETAILS OF THE EXAMPLE YOU DISCUSSED ABOVE.

A. Page 22 of the 2021 FCG Annual Report to the FPSC shows that the Additions in 2021 were $5,565,780 in Mains -Steel.[17] This 2021 Annual Report was audited by Deloitte, as is shown in Exhibit WWD-4. FCG admits there have been no retirements in the 2021 vintage in that account,[18] so the balance in service at the time used in the study (1/1/2025) was still $5,565,780 ($5,565,780 - $0 = $5,565,780).[19]

However, Schedule J of FCG Amended Exhibit PSL-2 shows the balance in service at the time used in the study (1/1/2025) was [allegedly] $546,527 which FCG further adjusted to $386,460 in the same 2021 vintage of the same account, Mains -Steel.[20] The audited data from the annual report shows the amount is $5,565,780, but FCG used $386,460 in the Average Age Calculations. FCG uses that claimed Average Age in calculating its claimed depreciation rate and in calculating its claimed reserve surplus.

[17] See Exhibit WWD-4, page 6 of 6. FCG Annual Report to the FPSC for 2021, page 22 shows the Additions in 2021 were $5,565,780 in Mains- Steel (which at that time was Account 376.1).
[18] See Exhibit WWD-5, page 4 of 11. The FCG response to Citizens' Third Set of Interrogatories, Interrogatory No.17, part (c) starts as follows: "There have been no retirements from the vintage year 2021." This was addressing Account 3762, Mains -Steel. The FCG responses to Citizens' Third Set of Interrogatories, Interrogatories Nos. 17-19 are attached as Exhibit WWD-5.
[19] There have also been no retirements, no transfers and no adjustments in the 2021 vintage in this account. See Exhibit WWD-5.
[20] Page 81 of 258 of Amended Composite Exhibit PSL-2 (workbook), "Sch J Amended", FCG filed on 11-4-2025.

Q. ARE THE NUMBERS IN THE FCG ANNUAL REPORTS BOTH AUDITED BY DELOITTE AND ALSO CERTIFIED BY THE "RESPONSIBLE ACCOUNTING OFFICER" OF FCG?

A. Yes. As shown on the pages of the FCG 2021 Annual Report which are attached as Exhibit WWD-4, the FCG Annual Reports are both audited by Deloitte and also certified by the "responsible accounting officer" of FCG. The Annual Report also states the signing "responsible accounting officer" of FCG could be subject to criminal charges in the event of false information.

Q. DID FCG ADMIT THAT HUGE INCONSISTENCIES EXISTED IN THE NUMBERS FCG USED IN ITS DEPRECIATION STUDY COMPARED TO THE NUMBERS IN THE FCG ANNUAL REPORTS?

A. Yes. In response to discovery, FCG admitted in many accounts a huge "variance" existed between the numbers FCG used in its depreciation study compared to the numbers in the FCG Annual Reports. Below I have copied the 2021 data FCG provided in response to OPC discovery:[21]

[21] See Exhibit WWD-5, page 9 of 11. "OPC ROG 3-19 2021-2024 Transaction Periods (38660739.1)" provide by FCG in response to Citizens' Third Set of Interrogatories, Interrogatory No.19. Pages 9 and 10 of Exhibit WWD-5 also shows numerous large variations in the 2022, 2023, and 2024 vintages. This document is attached as Exhibit WWD-5.

Dunkel Comment:

This Column Per FCG Annual Report	This Column Per FCG Sch J In Depr. Study:

From FCG response to OPC ROG 3-19:

Plant Account	Account Description	OPC ROG 2-8a - 2021 Additions	Retirements	Net Additions	Sch J Additions	Variance $	%
3750	Struc&Impr	$97,376		$97,376	$98,567	($1,191)	-1%
3761	Mains - Plastic (Formally Acct 3762)	$16,821,851		$16,821,851	$15,890,410	$931,441	6%
3762	Mains - Steel (Formally Acct 3761)	$5,565,780		$5,565,780	$546,527	$5,019,253	90%
3780	M&R Stat Eq-Gen	$569,979		$569,979	$31,663	$538,316	94%
3790	M&R Stat Eq-CGate	$1,333,472		$1,333,472	$1,199,726	$133,746	10%
3801	Services - Plastic (Formally Acct 3802)	$10,024,838	($528)	$10,025,366	$6,441,585	$3,583,781	36%
3802	Services - Steel (Formally Acct 3801)	$20,929		$20,929	$14,263	$6,666	32%
3810	Meters	$1,951,167	($8,140)	$1,959,307	$1,605,197	$354,110	18%
3812	Meters - ERT (Formally Acct 3811)	$751,626	($71,610)	$823,236	$639,123	$184,113	24%
3820	Meter Installs	$791,856	($41,411)	$833,267	$361,786	$471,481	60%
3821	Meters Installs - ERTs	$25,554	($6,858)	$32,412	$4,839	$27,574	108%
3830	House Reg	$767,916	($40,906)	$808,822	$745,283	$63,539	8%
3840	House Reg Installs	$125,567	($27,966)	$153,533	$85,421	$68,112	54%
3850	M&R Stat Eq-Ind	$353		$353	$190,574	($190,221)	-53887%
3870	Other Eq	$373,921		$373,921	$120,692	$253,229	68%
3900	Struc&Impr	$25,178		$25,178	$10,802	$14,376	57%
3960	Pwr Op Equip	$53,822		$53,822	$50,377	$3,445	6%

This shows that FCG admitted that for the majority of the accounts, there is a huge "Variance" between the number FCG used in its depreciation study compared to the number in the FCG Annual Reports. Both the "Net Additions" column (per the Annual Reports) and the "Sch J" column in the above table are at the same time (1/1/2025). There should be no variance. In its Amended Schedule J, FCG changed the 2021 amounts to

$386,460 in Account 3762, and to $1,341,215 in Account 3810, and to $625,768 in Account 3820, and to $2 in Account 3850, and to $11,802 in Account 3900. These FCG amended numbers are still very different than the audited Annual Report numbers, which are shown on the chart on the prior page.

Likewise, the FCG response to Citizens' Third Set of Interrogatories, Interrogatory No.19 also admits that in 2022, 2023, and 2024 there are numerous similar Variances in the data on which FCG is basing its proposed depreciation rates and surplus amounts, compared to the audited data from the FCG Annual Reports. This response is attached as Exhibit WWD-5.

Q. WHAT IS ONE EXPLANATION FCG PROVIDED FOR THESE HUGE DISCREPANCIES IN THE FCG DATA?

A. FCG said the following:

> **Supporting entries were not provided by FPL** with the reconciliation schedule; and therefore, **vintages for the correcting entries cannot be determined by FCG**. As a result, FCG continues to have confidence that its CRP records are the best option **and swiftest option** to provide the appropriate distribution of assets at 1/1/2025 to compute the average age calculation for adjusted accounts.[22] (Emphasis added)

[22] See Exhibit WWD-5, page 6 of 11. From the FCG response to Citizens' Third Set of Interrogatories, Interrogatory No.18. The FCG responses to Citizens' Third Set of Interrogatories, Interrogatories Nos.17-19 are attached as Exhibit WWD-5.

FCG is saying that they are not sure of its data, as a result of the acquisition of FCG by Chesapeake Utilities Corporation in 2023. FCG says the correct numbers "cannot be determined by FCG."

Even though the correct numbers "cannot be determined by FCG", FCG says the Commission should use the numbers FCG has filed, because using them is the "swiftest option."

In my opinion, it would be improper to base multimillion-dollar decisions on FCG's numbers, when FCG says the correct numbers "cannot be determined by FCG." Using these inaccurate numbers because that is the "swiftest" thing to do, is not proper.

Q. HAS FCG FURTHER SAID THEY DO NOT KNOW WHAT THE CORRECT NUMBERS ARE?

A. Yes. FCG said the following:

> Previously, attachment OPC ROG 2-8a Service Life Data provided additions based on what was stated on the original Sch G 202X **which may or may not have been the vintage total for the year.**[23] (Emphasis added)

Multi-million-dollar depreciation rate revisions should not be based on numbers "which may or may not" be correct.

[23] From the FCG response to Citizens' Third Set of Interrogatories, Interrogatory No.19 (d). The FCG responses to Citizens' Third Set of Interrogatories, Interrogatories Nos.17-19 are attached as Exhibit WWD-5.

Q. WHAT IS YOUR RECOMMENDATION?

A. I recommend the Commission find that the "study" provides an inadequate basis to make any changes and that the current depreciation rates remain in effect. The Commission should direct that a new, correct, depreciation study be filed as part of the coming rate case.

FPSC Rule 25-7.045, F.A.C., includes the following:

> (5) A depreciation study shall include:
>
> …
>
> h) The mortality and salvage data used by the company in the depreciation rate design **must agree with activity booked by the utility**. Unusual transactions not included in life or salvage studies, e.g., sales or extraordinary retirements, must be specifically enumerated and explained. (Emphasis added)

The depreciation study FCG filed in this case directly and severely violates this requirement and therefore must be rejected.

The FCG response to Citizens' Third Set of Interrogatories, Interrogatory No.19 (Exhibit WWD-5) shows that in numerous accounts and in numerous years, the numbers FCG used to calculate its claimed depreciation rates and claimed reserve surplus are vastly inconsistent with the audited numbers in the Annual Reports, which were audited by Deloitte.

It would be improper to revise depreciation rates based on numbers which have been proven to be incorrect and which FCG admits "which may or may not" be correct. FCG says that the correct numbers "cannot be determined by FCG", but the correct, audited numbers are available as shown by the audited FCG Annual Reports. FCG using numbers that are provably extremely inaccurate is not valid evidence which would support changing the current depreciation rates.

A new depreciation study is not now due. A new depreciation study must be filed by May 31, 2027. The most recent prior depreciation study was filed on May 31, 2022.[24] Rule 25-7.045(4)(a), F.A.C., requires regulated gas utilities to file a depreciation study "…at least once every five years from the submission date of the previous study..." A depreciation study is not now due, and will not be due until May 31, 2027.

FCG witness Everngam's testimony indicates FCG is expecting to file a rate case in the near future, regardless of the outcome of this case.[25] Filing a new depreciation study as part of that general rate case proceeding would allow FCG the time it needs to better check its data to provide reliable depreciation information.

We have proven that the numbers FCG used to calculate its claimed depreciation rates and claimed reserve surplus are vastly inconsistent with the numbers in the Annual Reports, which were audited by Deloitte. This inaccurate data cannot reasonably be used as a basis for changing depreciation rates.

As noted above, I recommend the Commission find that the "study" provides an inadequate basis to make any changes and that the current depreciation rates remain in effect. The

[24] See page 1 of the FCG 2025 Depreciation Study Narrative.
[25] Witness Everngam Direct testimony page 6, line 22 to page 7, line 1 states that even if the FCG proposal in this case was approved that would not "allow FCG to delay a rate case for two years." Also see page 7, lines 2-11 of Witness Everngam Direct testimony. So, it appears a rate case is coming soon.

Commission should direct that a new, correct, depreciation study be filed as part of the coming rate case.

K. DEPRECIATION EXPENSE IS AUTOMATICALLY ADJUSTED WHEN INVESTMENT IS ADDED

Q. WITNESS EVERNGAM SAYS THE FOLLOWING:

> **IT WAS ALSO IMPORTANT TO PROCEED WITH THIS DEPRECIATION STUDY TO ENSURE THAT RECENT CAPITAL INVESTMENTS FOR NEW CONSTRUCTION BY FCG, WHICH HAS TAKEN PLACE UNDER ITS NEW OWNERSHIP BY CUC, ARE ACCURATELY DEPRECIATED BASED UPON UPDATED LIVES AND SALVAGE VALUES THAT ALIGN WITH THOSE OF FPUC AND OTHER, SIMILARLY-SITUATED CUC AFFILIATES.**[26]

IS IT NECESSARY TO CHANGE THE DEPRECIATION RATES AS THE RESULT OF A CHANGE IN THE AMOUNT OF INVESTMENT IN AN ACCOUNT?

A. No. The depreciation expense is automatically adjusted when the investment changes. Each year or each month, a utility multiplies the Commission-approved depreciation rate times the then-current investment amount. If the investment was $1,000,000 and a 5% depreciation rate was approved, then the depreciation expense would be $50,000. If later the investment had grown to $2,000,000 then the 5% depreciation rate would produce a $100,000 depreciation expense.

[26] Page 5, lines 6-10 of Witness Everngam Direct testimony.

III. ISSUE 2: BASED ON FCG'S 2025 DEPRECIATION STUDY, WHAT ARE THE APPROPRIATE DEPRECIATION PARAMETERS (E.G., SERVICE LIVES, REMAINING LIFE, NET SALVAGE PERCENTAGE, AND RESERVE PERCENTAGE) AND RESULTING DEPRECIATION RATES FOR EACH DEPRECIABLE PLANT ACCOUNT?

Q. IS THERE A MAJOR PROBLEM WITH THE DETERMINATION OF THE PARAMETERS THAT FCG IS FILING IN THIS CASE?

A. Yes. There is a major conflict of interest in the preparation of the FCG filing. Under FCG's proposal, the money that is identified as a "surplus" in the depreciation reserve would be transferred to the owners. The amount of money which is claimed to be "surplus" is determined by the "parameters" selected. This creates a conflict of interest for the personnel selecting parameters to be proposed by FCG.

Q. IN MOST DEPRECIATION STUDIES, DOES THE AMOUNT THAT IS IDENTIFIED AS THE RESERVE SURPLUS GET TRANSFERRED OUT OF THE DEPRECIATION RESERVE TO THE OWNERS?

A. No. In most depreciation studies, the amount that is identified as the reserve surplus does not get transferred out of the depreciation reserve to the owners. A reserve surplus is the result of an over collection from ratepayers. In most cases any reserve surplus is returned to the ratepayers, often over time through the "remaining life" depreciation rates. Likewise, any reserve deficiency is collected from the ratepayers, often over time through the "remaining life" depreciation rates.

The fact that under the FCG proposal in this case, the amount identified as a "surplus" in the depreciation reserve would be transferred to the owners, creates an unusual conflict of interest in the selection of the parameters to be proposed in the FCG depreciation study.

A. FCG DID NOT FILE A COMPLETE DEPRECIATION STUDY.

Q. RULE 25-7.045 (4), F.A.C. STATES THE FOLLOWING REGARDING DEPRECIATION STUDIES:

> **(4)(A) EACH COMPANY SHALL FILE A STUDY FOR EACH CATEGORY OF DEPRECIABLE PROPERTY FOR COMMISSION REVIEW AT LEAST ONCE EVERY FIVE YEARS FROM THE SUBMISSION DATE OF THE PREVIOUS STUDY OR PURSUANT TO COMMISSION ORDER AND WITHIN THE TIME SPECIFIED IN THE ORDER.**

Q. WHAT IS A MAJOR PART OF A NEW DEPRECIATION STUDY?

A. When performing a new depreciation study several years after the prior study, you will have several years of new actual data which was not available at the time of the prior study. A major part of a new depreciation study is to do statistical analyses of the life and net salvage data, including the new data.

Q. WAS SEVERAL YEARS OF ADDITIONAL ACTUAL DATA AVAILABLE?

A. Yes. At the time FCG performed the depreciation study, there were four years of new actual data that was not in the 2022 Depreciation Study. The "2022 Gannett Fleming Depreciation Study" used actual data through 2020 (see page 59 of Exhibit NWA-1 in Docket No. 2022-0069-GU). In this case FCG had actual data available through 2024 at the time FCG performed the depreciation study.

Q. IN DIRECT TESTIMONY, WHAT DID WITNESS LEE ADMIT?

A . Witness Lee admitted the following:

> **Q. DID YOU PERFORM STATISTICAL ANALYSIS FOR YOUR PROPOSED LIFE OR SALVAGE FACTORS?**
>
> A. No, I didn't.
>
> **Q. PLEASE EXPLAIN.**
>
> A. I reviewed the statistical analysis presented in the 2022 Gannett Fleming Depreciation Study and decided there was no need for additional statistical analysis.[27]

Q DID FCG FILE A COMPREHENSIVE DEPRECIATION STUDY IN THIS PROCEEDING?

A. No. A major part of a comprehensive depreciation study is to analyze the actual experience data of that utility, including the new data from recent years. In the respected *Public Utility Depreciation Practices* written by the Staff Subcommittee on Depreciation of the National Association of Regulatory Utility Commissioners (NARUC), the first sentences in the Chapter entitled *Actuarial Life Analysis* are as follows:

> Knowing what happened yesterday may help one to better understand what is happening today and what may happen tomorrow. This is also true with depreciation studies. Historical life analysis is the study of past occurrences that may be used to indicate the future survivor characteristics of property. Accumulation of suitable data is essential in an historical life analysis.[28]

[27] Page 22, lines 13-17, of Witness Lee's Amended Direct Testimony.
[28] Page 111, *Public Utility Depreciation Practices (1996)* published by NARUC.

However, the FCG filing in this case did **not** include a statistical life analysis. Instead, it uses the same statistical life analysis from the prior study, but appears to think that by making different arguments the result will be different.

Q. WHAT DOES THIS MEAN?

A. The FCG filing in this case is not a new depreciation study. The statistical analyses used are from the prior case and included actual data only through 2020. I recommend that the Commission order that in the coming rate case, FCG file a new depreciation study which includes the statistical analyses for life and salvage factors which include the actual data after the year 2020.[29]

B. THE FCG CLAIM THAT RETIREMENTS OF LESS THAN 1% ARE "MEANINGLESS," IS A FALSE CLAIM.

Q. WHAT REASON DID FCG GIVE FOR NOT RELYING ON THE ACTUAL FCG AGED DATA?

A. Witness Lee said the following:

> For many FCG accounts, the historical average retirement rate as well as the recent 2001-2024 average retirement rate for each account has averaged less than one percent. This level of activity makes the results of any statistical analysis meaningless for developing life expectations. For this reason, reliance on industry averages is necessary.[30]

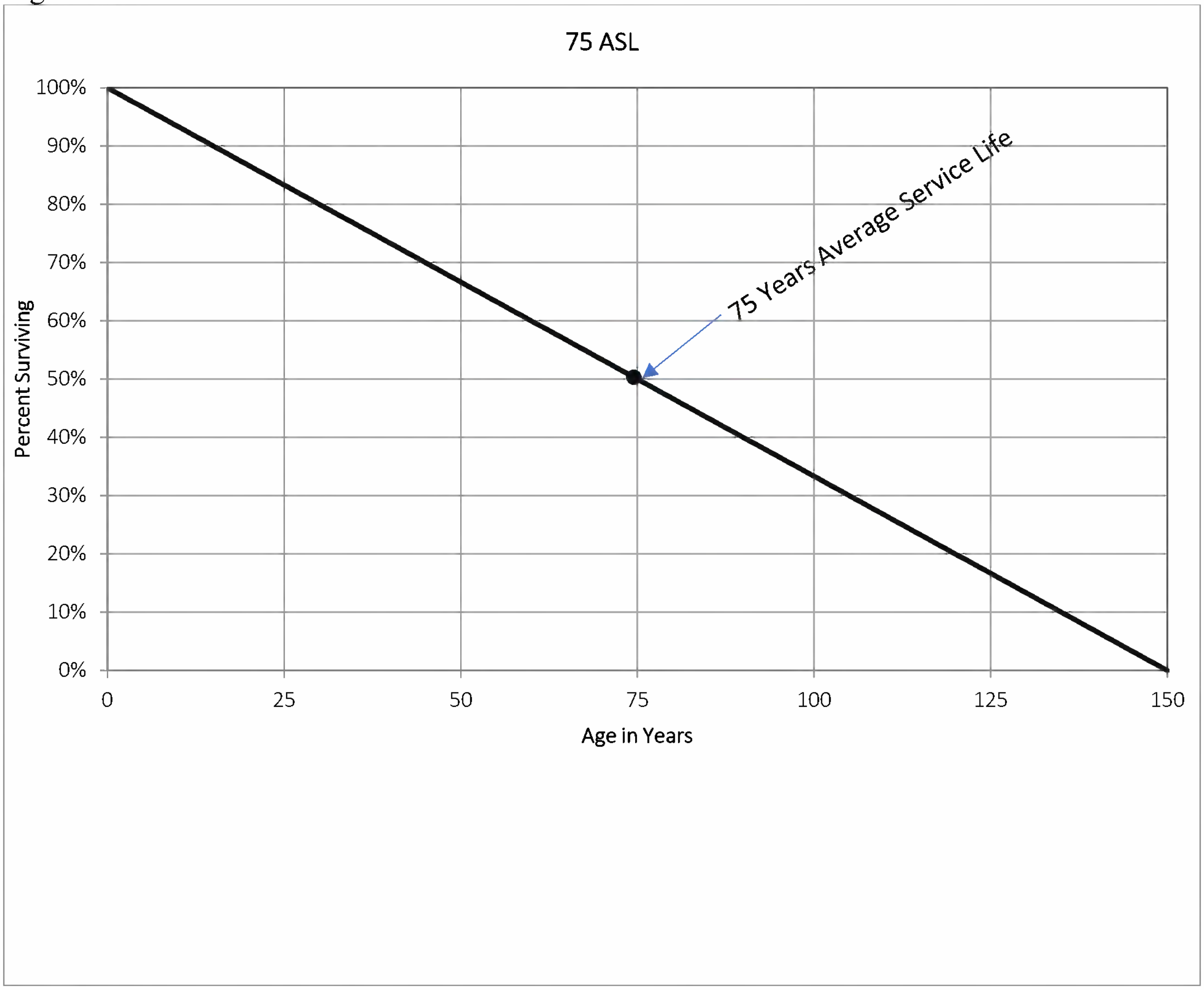
[29] Including the actual data that is available at the time the new depreciation study is prepared.
[30] Page 22, lines 4-8 of the Lee's Amended Direct Testimony.

Q. DOES THE FACT THAT THE "RETIREMENT RATE[S]" HAVE "AVERAGED LESS THAN ONE PERCENT" MEAN THAT DATA IS "MEANINGLESS FOR DEVELOPING LIFE EXPECTATIONS"?

A. Absolutely not. A low number of retirements over time indicates the facilities are having a long life.

For the largest account, Account 3761 Mains- Plastic, the average annual retirement rate **has to be less than 1%** to be consistent with the 75-year Average Service Life which both FCG and the Staff recommend. A 75-year Average Service Life does not mean all of the investment will be retired by the 75th year. At a 75-year ASL, some investment is still in service after age 75. Assuming the same retirement rate each year, the annual retirement rate would be 0.67% for a 75-year ASL. This is shown in the graph below:

Figure 3:



0.67 % of the investment retires each year. This is consistent with a 75-year ASL. 0.67% is a "retirement rate" which is "less than one percent" but that does not mean that data is "meaningless for developing life expectations." That retirement rate proves the investment are living a long life, such as a 75-year ASL.

Q. WHAT IS THE AVERAGE RETIREMENT RATE IF THE RETIREMENT RATE IS NOT THE SAME EACH YEAR?

A. The retirement rate expected each year varies depending on the Iowa Curve.

At the 75-year R2.5 Iowa Curve which FCG recommends, the retirement rates would vary by year but would average 0.73% per year.[31]

At a 75-year ASL with an R4 Iowa Curve that the Staff Report recommends, the retirement rates would vary by year but would average 0.88% per year.[32]

For FCG to claim the fact that the retirement rate is less than 1.00% means there's something wrong with the data, is entirely false. At a 75-year ASL, the average retirement rate has to be less than one percent per year, under most common Iowa Curves.

Q. DOES THE NARUC *PUBLIC UTILITY DEPRECIATION PRACTICES* STATE THAT IF THE RETIREMENT RATE IS LESS THAN 1%, THAT INDICATES THE DATA IS INSUFFICIENT OR UNRELIABLE?

A. No. The *Public Utility Depreciation Practices,* published by NARUC (1996) is a 332-page book authored by the NARUC Staff Subcommittee on Depreciation.

In discovery we asked FCG The following:

> Please cite which page in Public Utility Depreciation Practices, published by NARUC (1996) says that retirement rates (or retirement ratios) of less than 1 % are not reliable.

The Company response begins as follows:

> **Company Response:**
> a. **<u>There is no specific cite from *Public Utility Depreciation Practices.* The statement is based on Ms. Lee's vast depreciation experience</u>**. Stated simply,

---

[31] In a 75-year R2.5 Iowa Curve the last investment retires at age 138. This is an average annual retirement rate of 0.73%.

[32] In a 75-year R4 Iowa Curve the last investment retires at age 113. This is an average annual retirement rate of 0.88%.

> when retirement rates average less the 1%, the results of statistical analysis are considered meaningless for service life or net salvage projections, because there is not a reasonable sample size upon which to conduct the statistical analysis.[33] (Emphasis added).

Witness Lee's claim that if retirement rates have "averaged less than one percent" means that data is "meaningless," is not a rule accepted by the NARUC *Public Utility Depreciation Practices*.

Q. CAN YOU PROVIDE FURTHER PROOF THAT THE CLAIM THAT RETIREMENT RATES HAVE "AVERAGED LESS THAN ONE PERCENT" MEANS THAT DATA IS "MEANINGLESS FOR DEVELOPING LIFE EXPECTATIONS" IS A FALSE CLAIM?

A. Yes. In the USA, whenever someone dies, a death certificate is issued, and government agencies track and analyze that data. 0.75 % of the US population died in the year 2023, and 0.799 % of the US population died in the year 2022.[34] Those are well less than 1.00%. Of course, the fact that the actual data shows that less than 1% of the population dies per year does not mean that data is "meaningless." What it means is that less than 1% of the population dies per year.

If someone declared that since the actual data shows that less than 1% of the U.S. population dies per year that data is "meaningless for developing life expectations" and

[33] See Exhibit WWD-6, page 2 of 2. FCG response to Citizen's Second Set of Interrogatories, Interrogatory No. 16(a).
[34] Mortality in The United States, 2023-NCHS Data Briefs. "http://www.ncbi.nlm.nih.gov/books", visited 9-12-2025, U.S. Centers for Disease Control and Prevention (CDC).

therefore, the recommended life expectancy of the U.S. population would be based on the life expectancy in Cuba, in Mexico, etc., that would be unreasonable.

C. FCG MISCALCULATES THE RETIREMENT RATES.

Q. IS THERE A PROBLEM IN THE FCG CALCULATION OF WHAT IT CALLS THE RETIREMENT RATES?

A. Yes. These calculations in the FCG filing divide dollar amounts which were recorded more recently, by dollar amounts that were recorded farther back in the past. Because of inflation, the number of dollars of original cost for an item which was installed decades ago, (for which the original cost was recorded in dollars decades ago), is a much lower number of dollars than the cost of a similar item which was recently installed (for which the original cost was recorded in recent dollars). For example, the Consumer Price Index-Urban states that the Cost of a Basket of Goods and Services which cost $113.60 in 1987 dollars would cost $270.97 in 2021 dollars. For a basket of goods and services, the number of dollars in 2021 dollars is 2.4 times the number of dollars in 1987 dollars.

On Schedule F-1, for Account 3761, Mains-Plastic, FCG calculates what is called the Retirement Rate by dividing the Original Cost of the items that **retired** in the year 2024, by the Original Cost of the Plant in Service at the end of 2024. In the numerator, the units which retired in 2024 tend to be at the end of their lives, and their Original Costs amounts were recorded decades ago, on average. The denominator of the FCG calculation is the original cost of the plant in service at the end of the year 2024. The majority of the dollar amounts in this plant in service in the denominator were recorded in more recent years.

For comparison, in the prior depreciation study the Retirement Ratios were calculated using amounts in the numerator which were the **same age** as the amounts in the denominator. For example, in the prior FCG depreciation study, for Services, the Retirement Ratio for investments as age 20.5 was calculated by dividing the dollar amount of Retirements, which were age 20.5, by the dollar amount of Exposures, which were also age 20.5.[35]

D. CIRCULAR LOGIC

Q. PLEASE PROVIDE AN EXAMPLE OF CIRCULAR LOGIC.

A. Assume there were only two regulated gas distribution utilities in the state: Utility A and Utility B. When Utility A files its depreciation study, it does not analyze the actual data it has showing how long its investments actually live, but instead Utility A proposes that it use the same lives that utility B uses.

Later, when Utility B files its depreciation study, it does not analyze the actual data it has showing for how long its investments actually live, but instead Utility B proposes that it use the same lives that Utility A uses.

Utility A uses lives because Utility B uses them, and Utility B uses lives because Utility A uses them. That is circular logic.

[35] Page 64 of Exhibit NWA-1, 2022 Depreciation Study, in Docket No. 20220069-GU.

Q. IS THE FCG PRESENTATION IN THIS PROCEEDING BASED UPON CIRCULAR LOGIC?

A. Yes. Page 15 of the FCG Depreciation Study,[36] authored by witness Lee, says the following:

> Plastic services are likely to experience life expectancies longer than 50 years. The retirement rate for the account during the 2021-2024 period has averaged less than 1%. In fact, the retirement rate for the 2004-2024 also averaged less than 1%. This activity makes results of statistical analysis for life and salvage factors meaningless. Other gas companies in Florida have estimated average service lives ranging from 40 years to 55 years, averaging 48 years.

Similar claims appear several times in the FCG filing.

Q. DID FCG SHOW WHAT OTHER "GAS COMPANIES IN FLORIDA" IT HAD USED TO CALCULATE THE FLORIDA AVERAGE?

A. Yes. This is shown on FCG Exhibit PSL-4, page 1. FCG calculated the Florida Average of the ASL of an account as the average of the ASL for that account of the following four utilities: (1) St. Joe, (2) Peoples Gas, (3) FPUC, and (4) Sebring Gas.[37]

Q. STARTING WITH FPUC, IN THE FPUC CASE, DID WITNESS LEE BASE THE ASLS FILED FOR FPUC ON THE ACTUAL FPUC DATA?

A. No. In the FPUC case, witness Lee said the ASLs for FPUC should be based on the lives of the "other Florida gas utilities." The Order in the FPUC case says the following regarding witness Lee:

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[36] Composite Exhibit PSL-2 (Narrative) page 15.
[37] FCG Exhibit PSL-4, page 1.

> Witness Lee explained that retirement rates for FPUC averaged less than one percent since the last depreciation study for many accounts, which provided insufficient data to perform any meaningful statistical analyses for life characteristics, which **led her to rely on life characteristics for similar plant of other Florida gas companies** to make a complete analysis.[38] (Emphasis added)

Of course, for FPUC, FCG is one of the "other Florida gas companies." This is circular logic.

Q. ARE TWO OF THE FOUR UTILITIES WHICH FCG INCLUDED IN ITS "FLORIDA AVERAGE" TINY COMPARED TO FCG?

A. Yes. Florida City Gas has 125,000 customers.[39] Listed below are the approximate number of Florida gas customers of each of the other Florida gas companies:

Other Florida gas utilities	**Customers**
Sebring Gas System:[40]	711
St. Joe Natural Gas Company:[41]	2,878
Florida Public Utilities Company:[42]	100,000
Peoples Gas Service:[43]	470,000

Two out of the four "other Florida gas utilities" that FCG used in the averages FCG relied on, are **tiny** compared to FCG.

[38] See WWD Exhibit-8, page 2 of 3. Page 15, Order No. PSC-2023-0103-FOF-GU.
[39] See Exhibit WWD-7, page 9 of 9. FCG response to Citizens' Second Set of Interrogatories, Interrogatory No. 6(a).
[40] See Exhibit WWD-7 page 5 of 9. Page 1 of Order No. PSC-2022-0153-PAA-GU issued April 22, 2022, in Docket No. 20210183-GU.
[41] See Exhibit WWD-7 page 6 of 9. Page 1 of Order No. PSC-2023-0215-PAA-GU issued July 26, 2023, in Docket No. 20230022-GU.
[42] See Exhibit WWD-7 page 9 of 9. FCG response to Citizens' Second Set of Interrogatories, Interrogatory No. 6 (a).
[43] See Exhibit WWD-7 page 4 of 9. Page 4, Order No. PSC-2023-0388-FOF-GU issued December 27, 2023, in Docket No. 20230023-GU.

The Company response to Citizens' Second Set of Interrogatories, Interrogatory No. 16(a).) begins as follows:

> **Company Response:**
> a. There is no specific cite from *Public Utility Depreciation Practices.* The statement is based on Ms. Lee's vast depreciation experience. Stated simply, when retirement rates average less the 1%, the results of statistical analysis are considered meaningless for service life or net salvage projections, because there is **not a reasonable sample size upon which to conduct the statistical analysis**.[44] (Emphasis added).

If the "sample size" for FCG, which has 125,000 customers, is allegedly too small, then it is totally unreasonable for FCG to significantly rely upon life information for Sebring, which has 711 customers and would therefore have a "sample size" approximately 1/175th the size of FCG, but that is what FCG has filed. [45]

If the "sample size" for FCG, which has 125,000 customers, is allegedly too small, then it is totally unreasonable for FCG to rely upon life information for St. Joe, which has 2,878 customers and would therefore have a "sample size" approximately 1/44th the size of FCG, but that is what FCG has filed. [46]

Q. HAS WITNESS LEE STATED THAT UTILITIES WHICH ARE A DIFFERENT SIZE CANNOT BE USED AS A PROXY?

A. Yes. In the FPUC case, the Order discusses and quotes the witness Lee testimony as follows:

> Witness Lee also testified that the customer sizes of witness Garrett's out-of-state proxy companies make them poor proxies for FPUC. She points out that Liberty

[44] See Exhibit WWD-6, page 2 of 2. FCG response to Citizens' Second Set of Interrogatories, Interrogatory No. 16(a).
[45] 711/125,000 = 1/175.
[46] 2,873/125,000 = 1/44.

> has approximately 60,000, NIPSCO has approximately 821,000, and Piedmont Natural Gas has 157,000 customers, while FPUC has approximately 108,000. **Witness Lee stated that, "The operational characteristics and demand on assets between these different sized companies can create different accounting and operation process dynamics for each company**."[47] (Emphasis added).

In the FPUC case, witness Lee said utilities which are a different size cannot be used as a proxy, but in this case witness Lee is basing parameters for FCG, which has 125,000 customers, substantially on parameters for Sebring, which has 711 customers, and on parameters for St. Joe, which has 2,878 customers. That is not reasonable.

Q. SHOULD THE FCG TESTIMONY ON LIVES BE ACCEPTED?

A. No. The FCG testimony on lives is based on circular logic and on assuming that the data from FCG is too small of a "sample size," while pretending that information about utilities that are a tiny compared to FCG, is not too small of a "sample size."

I recommend that the Commission order that in the coming rate case, FCG file a new depreciation study which includes the statistical analyses for life factors which include the actual data after the year 2020.[48]

[47] See Exhibit WWD-8 page 3 of 3. Page 19, Order No. PSC-2023-0103-FOF-GU in Docket No. 20220067-GU.
[48] Including the actual data that is available at the time the new depreciation study is prepared.

E. NET SALVAGE

Q. WHAT CHANGE IN NET SALVAGE DOES FCG PROPOSE FOR THE LARGEST ACCOUNTS?

A. There are three accounts which each contain more than $100 million in investment. These three accounts contain 73% of all the total depreciable gas plant.[49] In **each of these three accounts**, FCG proposed to change the currently approved net salvage factor in the **direction which increases the calculated reserve surplus**. This is shown in the following table:[50]

Figure 4:

	Net Salvage Factor		
	Currently Approved For FCG	FCG Proposed	Change
Accounts 3761, Mains -Plastic	(33)	(30)	3
Account 3762, Mains – Steel	(50)	(40)	10
Account 3801, Service – Plastic	(68)	(40)	28

[49] Accounts 3761, Mains -Plastic, Account 3762, Mains – Steel and Account 3801, Service – Plastic. 73% calculated from Schedule A of the FCG Exhibit PSL-2.
[50] Source for FCG Current and FCG Proposed is FCG Exhibit PSL-2, Schedule B.

Making the net salvage factor a smaller negative number increases the claimed reserve surplus. In every one of the three largest accounts, FCG is proposing to change the net salvage factor **in the direction that increased the claimed reserve surplus**. Any money labeled as "surplus" would be taken by the investors, under the improper FCG proposal in this case.

Q. THE LARGEST FCG PROPOSED CHANGE ON THE TABLE ABOVE IS THAT FCG PROPOSES CHANGING THE NET SALVAGE PERCENT FOR ACCOUNT 3801, SERVICE – PLASTIC FROM (68)% TO (40)%. WHAT IMPACT DOES THAT ONE PROPOSED CHANGE HAVE?

A. This one proposed change increases the amount of the claimed surplus by $6 million. This $6 million is included in the $19 million alleged surplus that would be given to the owners under the FCG proposal.

F. THE FACTS IN THIS CASE DO NOT SUPPORT CHANGING THE NET SALVAGE FROM (68)% TO (40)% IN SERVICE PLASTIC.

Q. FCG SAYS THAT "…IT WAS NECESSARY TO RELY ON LIFE CHARACTERISTICS FOR SIMILAR PLANT OF OTHER FLORIDA GAS UTILITIES TO MAKE A COMPLETE ANALYSIS."[51] WHAT DO THE PARAMETERS OF "OTHER FLORIDA GAS UTILITIES" SHOW FOR NET SALVAGE FOR SERVICE- PLASTIC?

A. For Florida gas customers other than FCG, 82 percent of those Florida gas utilities' customers are served by Peoples Gas[52] which has an approved (75) % net salvage for Service-Plastic.[53]

FCG's proposal to move from (68) % to a (40) % net salvage is moving away from (75) % net salvage that currently applies to 82 percent of the other Florida gas utilities customers.

When we also include all of other smaller Florida gas utilities, the average approved net salvage for Florida gas customers, other than FCG, is (67) %.[54] That is very close to the (68) % which is currently approved for FCG. The (67) % average for other Florida utilities is far removed from the (40) % to which FCG proposes to move.

[51] Page 24, lines 15-17, Amended Direct Testimony of Witness Lee.
[52] See Exhibit WWD-7. As shown on Exhibit WWD-7 page 4 of 9 (Order No. PSC-2023-0388-FOF-GU, p. 4) Peoples Gas serves approximately 470,000 gas customers/ 573,589 (Exhibit WWD-7) total Florida (Commission-regulated/investor-owned) gas customers (other than FCG) = 82%.
[53] See Exhibit WWD-10 page 2 of 2. Order No. PSC-2023-0388-FOF-GU, page 22, Table 2, Commission-Approved Depreciation Parameters and Resulting Remaining Life Depreciation Rates for Peoples Gas System.
[54] See Exhibit WWD-7, page 1 of 9.

Q. DO THE FCG-SPECIFIC NUMBERS FILED BY FCG SUPPORT MOVING TO A (40) % NET SALVAGE?

A. No. Schedule Q in FCG Exhibit PSL-2 Revised shows that for Account 3801 Service-Plastic the Net Salvage Percent in the "Five Year Average" (2020-2024) is (132) %, as calculated by FCG. FCG's proposal to move from (68) % to (40) % is moving away from (132) % that FCG has calculated as being shown by the FCG actual experience.

For Service – Plastic, the table below compares the FCG actual net salvage data and the average for other Florida gas customers to the FCG current and FCG proposed net salvage percent.

Figure 5:

Net Salvage Percent				
	Average Approved For Other Florida Gas Customers	FCG Last Five Year Average, Per FCG Schedule Q.	Currently Approved For FCG	FCG Proposed
Account 3801, Service – Plastic	(67)	(132)	(68)	(40)

As can be seen above, FCG's proposal to move from the current (68)% to (40)% is contrary to even the net salvage data as calculated and filed by FCG.[55] But, by FCG proposing this

[55] Using the data as even calculated by FCG to impeach the FCG proposal, does not imply that I have checked or necessarily support those numbers as calculated by FCG. But the fact the numbers calculated by FCG do not support the FCG proposal demonstrates the weakness of the FCG proposal.

drastically, and unsupported, change in the net salvage for Service – Plastic, $6 million more would be claimed to be "surplus" and would be transferred from the depreciation reserve to the owners, compared to using the currently-approved (68)%. Any money labeled as "surplus" would be taken by the investors, under the improper FCG proposal in this case.

Q. WHAT DID FCG SAY TO TRY TO SUPPORT ITS PROPOSAL TO MOVE FROM A (68) % TO A (40) % NET SALVAGE FOR SERVICE – PLASTIC.

A. Regarding Account 3801: Services - Plastic, Composite Exhibit PSL-2 (Narrative), page 15 states the following:

> FCG has a program to replace mains and services running through less assessable parts of customer property (e.g., backyards) with mains and services located in more accessible areas.

It also states the following regarding Account 3801: Services – Plastic:

> At this time, the Company proposes a decrease to (40)% net salvage given easier accessibility to the retired service as well as projections from other Florida gas utilities.[56]

First of all, the approved net salvage percents applied to the customers of "other Florida gas utilities" averages (67) % for Services – Plastic, as is shown on Exhibit WWD-7.

In addition, the claimed higher Cost of Removal for the services in the "less assessable parts of customer property (e.g., backyards)" were primarily **steel** services, which are in a different account from the plastic services.

[56] Amended Composite Exhibit PSL-2 (Narrative), pages 15-16.

It is not **plastic** mains and services FCG is retiring from the "less assessable parts of customer property (e.g., backyards)" to be replaced in more accessible areas.

In response to discovery, FCG said:

> "Based on FCG's records, there were 204 plastic services retired in 2024."[57]

However, **none** of those **plastic** services retired were retired from "less assessable parts of customer property (e.g., backyards)" and replaced with "services located in more accessible areas."

In discovery we asked FCG the following:

> Please state separately for each of the years 2024, 2023, 2022, and 2021 how many service lines **which were plastic** and **were in "less assessable parts** of customer property (e.g., backyards)" FCG retired and replaced with "services located in more accessible areas"?[58]

The FCG answer stated that in 2024 "no plastic services" retired from less assessable parts of customer property (e.g., backyards) and were replaced with services located in more accessible areas. [59]

We also asked the following in discovery:

> (b) Please state "yes" or "no" whether it is correct that the majority of the "mains and services running through less assessable parts of customer property (e.g., backyards)" which were replaced were **steel** mains and service lines?

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[57] See Exhibit WWD-9 page 3 of 4. Citizens' Fourth Set of Interrogatories, Interrogatory No. 23 (d).
[58] See Exhibit WWD-9 page 3 of 4. Citizens' Fourth Set of Interrogatories, Interrogatory No. 23, Request (e). Emphasis in the original.
[59] See Exhibit WWD-9 page 3 of 4. Citizens' Fourth Set of Interrogatories, Interrogatory No. 23 Response (e).

FCG answered "Yes"[60]

We asked the following in discovery:

> (c) Please state "yes" or "no" whether it is correct that when FCG replaced the "mains and services running through less assessable parts of customer property (e.g., backyards) with mains and services located in more accessible areas" the majority of the "mains and services located in more accessible areas" were **plastic** mains and services?

FCG answered "Yes,"[61]

The claim that the Cost of Removal for Service-Plastic will be much less in the future than it has been in the past, because [allegedly] plastic services are being retired from "less assessable parts of customer property (e.g., backyards)" and replaced with plastic "services" located in more accessible areas" does not appear to be true. The number of plastic service lines that happened to in 2024 is **zero,** and FCG did not have data showing it happened in any of the other years we asked about.[62]

G. THE FACTS IN THIS CASE DO NOT SUPPORT CHANGING THE NET SALVAGE FROM (50) % TO (40) % IN THE MAINS -STEEL ACCOUNT.

Q. ABOVE YOU DISCUSSED THE FCG PROPOSED NET SALVAGE CHANGE TO SERVICE-PLASTIC. FOR THE LARGE ACCOUNTS, WHAT IS THE SECOND LARGEST CHANGE IN NET SALVAGE PERCENT THAT FCG PROPOSES?

A. Among the three largest accounts, the second largest change in net salvage percentage that FCG proposes is the FCG proposal to change the currently approved (50) % to (40) % for

[60] See Exhibit WWD-9 page 3 of 4. Citizens' Fourth Set of Interrogatories, Interrogatory No. 23 (b).
[61] See Exhibit WWD-9 page 3 of 4. Citizens' Fourth Set of Interrogatories, Interrogatory No. 23 (c).
[62] See Exhibit WWD-9 page 3 of 4. Citizens' Fourth Set of Interrogatories, Interrogatory No. 23 (e).

Mains-Steel. Not surprisingly, this FCG proposal to change is also in the direction which would increase the amount of the claimed reserve surplus. FCG proposed net salvage change in this account increases the amount of claimed surplus by $4 million. This $4 million is included in the $19 million alleged surplus that would be given to the owners under the FCG proposal.

Q. FOR THE MAINS-STEEL ACCOUNT, COMPARE THE FCG ACTUAL NET SALVAGE DATA AND THE AVERAGE FOR OTHER FLORIDA GAS CUSTOMERS TO THE FCG CURRENT AND FCG PROPOSED NET SALVAGE PERCENT.

A. For Mains-Steel, the table below compares the FCG actual net salvage data, and the average for other Florida gas customers, to the FCG current and FCG proposed net salvage percent.

Figure 6:

	Net Salvage Percent			
	Average Approved For Other Florida Gas Customers	FCG Last Five Year Average, Per FCG Schedule Q.	Currently Approved For FCG	FCG Proposed
Account 3762, Mains – Steel	(56)	(73)	(50)	(40)

As can be seen above, the FCG proposal to move from the current (50)% to (40)% is contrary to even the net salvage data as calculated and filed by FCG.[63] But this FCG-proposed change in the net salvage for Account 3762, Mains – Steel increases the amount of its claimed reserve surplus by $4 million, which $4 million would be transferred to the owners. Any money labeled as "surplus" would be taken by the investors, under the improper FCG proposal in this case.

Q. WHAT IS YOUR RECOMMENDATION ON ISSUE 2, WHICH REFERS TO PARAMETERS?

A. The fact that under the FCG proposal, the money that is identified as a "surplus" in the depreciation reserve would be transferred to the owners, creates a strong conflict of interest in the FCG selection of parameters. The amount of money which is claimed to be "surplus" is largely determined by the "parameters" selected.

The testimony above shows that the net salvage factors FCG is recommending are contrary to the data for both the Account 3801, Service – Plastic and Account 3762, Mains – Steel. These two incorrect net salvage percentages create over one half of the $19 million reserve surplus that FCG claims. This can be seen by comparing Amended Schedule E as filed by

[63] Using the data as even calculated by FCG to impeach the FCG proposal, does not imply that I have checked or necessarily support those numbers as calculated by FCG. But the fact the numbers calculated by FCG do not support the FCG proposal demonstrates the weakness of the FCG proposal.

the Company[64] compared to Amended Schedule E with the currently approved net salvages for these two accounts.[65]

All of the parameters that FCG is proposing were prepared under the same conflict of interest which is created by the fact that under the FCG proposal, money that is identified as a "surplus" in the depreciation reserve would be transferred to the owners.

As discussed elsewhere, my recommendation is that this case be closed and the current depreciation rates remain in effect, and that a new, correct, depreciation study be filed as part of the coming rate case. By then FCG will have had more time to assemble more accurate data, and to conduct a statistical analysis of the data. A new depreciation study does not have to be filed until May 31, 2027.

I also recommend that any reserve imbalance, in the case of a surplus, be returned to ratepayers, and in the case of a deficiency, be charged to the ratepayers through the "remaining life" depreciation rates. The fact that in the rate case any alleged "surplus" would not go to the owners, would reduce the conflict of interest when determining the parameters in that new FCG depreciation study.

[64] Page 32 of 258 of Amended Composite Exhibit PSL-2 (workbook), "Sch E Amended", FCG filed on 11-4-2025
[65] See Amended Exhibit WWD-12. I am not recommending the reserve surplus shown on Amended Exhibit WWD-12. This is used only to illustrate the large impact of only two corrections. This does not imply that no other corrections are appropriate.

IV. ISSUE 3: BASED ON THE APPLICATION OF THE DEPRECIATION PARAMETERS THAT THE COMMISSION HAS DEEMED APPROPRIATE TO THE FCG'S DATA, AND THE COMPARISON OF THE THEORETICAL RESERVES TO THE BOOK RESERVES, WHAT, IF ANY, ARE THE RESULTING IMBALANCES?

Q. CAN THE DOLLAR AMOUNT OF RESERVE IMBALANCE REASONABLY BE DETERMINED BASED ON THE RECORD IN THIS CASE?

A. No. As previously discussed, there are huge and numerous "Variances" in the data on which FCG is basing its proposed depreciation rates and surplus amounts, compared to the audited data from the FCG Annual Reports. The FCG response which admits this is attached as Exhibit WWD-5. Further, FPSC Rule 25-7.045(5)(h), F.A.C., states that in a "depreciation study" the data used "must agree with activity booked by the utility."

As discussed elsewhere, my recommendation is that the Commission find that the "study" provides an inadequate basis to make any changes, and that the current depreciation rates remain in effect. The Commission should direct that a new, correct, depreciation study be filed as part of the coming rate case. By then FCG will have had more time to assemble more accurate data and perform the statistical analyses. A new depreciation study does not have to be filed until May 31, 2027.

V. ISSUE 4: WHAT, IF ANY, CORRECTIVE DEPRECIATION RESERVE MEASURES SHOULD BE TAKEN WITH RESPECT TO ANY IMBALANCES IDENTIFIED IN ISSUE 3?

Q. WHAT, IF ANY, CORRECTIVE DEPRECIATION RESERVE MEASURES SHOULD BE TAKEN WITH RESPECT TO ANY IMBALANCES?

A. Any depreciation reserve imbalance identified in the new depreciation study to be filed in the coming rate case should be addressed in the remaining life calculations.

As witness Lee states:

> The use of the remaining life technique incorporates a self-correcting mechanism that will adjust for any over- or under-recoveries that have occurred. The remaining life technique ensures that the full-service value of the associated assets is recovered through depreciation expense.[66]

The new depreciation rates should become effective at the same time as the new tariffs/prices charged to ratepayers become effective. These proper actions would recover any reserve deficiency from the ratepayers or return any reserve surplus to the ratepayers.

VI. ISSUE 5: WHAT SHOULD BE THE IMPLEMENTATION DATE FOR REVISED DEPRECIATION RATES AND AMORTIZATION SCHEDULES?

Q. WHAT IMPLEMENTATION DATE DO YOU RECOMMEND FOR REVISED DEPRECIATION RATES AND AMORTIZATION SCHEDULES?

A. As was done in the prior FCG case, I recommend that the new depreciation rates and amortizations become effective at the same time as the new tariffs/prices charged to ratepayers become effective in the coming rate case. This, along with recovering any reserve imbalance in the remaining life calculations, would recover any reserve deficiency from the ratepayers, or return any reserve surplus to the ratepayers. This is fair to both investors and ratepayers.

In the prior case, Docket No 20220069-GU, the prices/tariffs charged to ratepayers were changed concurrently with the change in the depreciation rates.

In response to discovery, FCG's answer begins as follows:

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[66] Page 25, lines 17-20, Amended Direct Testimony of witness Lee.

> FCG agrees that, as part of its petition for a base rate increase in Docket No 20220069-GU, an implementation date for revised depreciation rates was requested effective with the date of FCG's new revenue rates.[67]

A. FCG PROPOSES NO REDUCTION IN THE DEPRECIATION EXPENSE CHARGED TO RATEPAYERS, BUT TO REDUCE THE DEPRECIATION EXPENSE RECORDED IN THE RESERVE.

Q. WHAT IS ONE THING FCG PROPOSES IN THIS CASE?

A. In this case, FCG proposes **no** reduction in the depreciation expense collected from ratepayers but proposes to reduce the amount of depreciation expense recorded in the Depreciation Reserve.

Q. PLEASE PROVIDE AN ANALOGY TO WHAT FCG IS PROPOSING IN THIS CASE.

A. Assume that you had opened a holiday account at a bank. You deposit $100 per month and at the end of the year that money will be available for the holidays. For the first two months you deposit $100 per month, and the bank puts your $100 into your account. However, after a few months, when you deposit your $100, the bank puts $60 into your account, and the bank owner takes $40 and puts that $40 in his or her pocket. This continues every month. Of course, this is improper but is it a good analogy to what FCG is proposing.

[67] See Exhibit WWD-13 page 2 of 3. Citizens' Second Set of Interrogatories, Interrogatory No. 13 (a).

Q. IN A RATE CASE, IS DEPRECIATION EXPENSE RECOVERED FROM RATEPAYERS?

A. Yes. In a rate case, depreciation expense is one of the costs that are recovered from the ratepayers. So, an amount to cover the depreciation expense is recovered from the ratepayers in the prices/tariffs.

Another thing that occurs each month is that an amount equal to the depreciation expense is credited into the Depreciation Reserve, Account 108.[68] So the money collected from the ratepayers for depreciation is credited into the depreciation reserve.

Q. WHAT HAPPENS WHEN THE DEPRECIATION RATES ARE REDUCED, BUT THE PRICES / TARIFFS CHARGED TO THE RATEPAYERS FOR DEPRECIATION ARE NOT REDUCED?

A. When the depreciation rates are reduced outside of a rate case, the lower depreciation rates reduces the amount of recorded depreciation expense, which reduces the amount that is being credited into the depreciation reserve. But that does not reduce the prices/rates charged to the ratepayers for depreciation expense. This is similar to the analogy I previously presented, where $100 per month is being collected, but only $60 per month is being credited into the account.

[68] This accounting could be done monthly or annually. The FERC Uniform System of Accounts (CFR Title 18, Vol 1, Part 201) requires the following:

> **108 Accumulated provision for depreciation of gas utility plant.**
> A. This account shall be credited with the following:
> (1) Amounts charged to account 403, Depreciation Expense…

Q. DOES FCG ADMIT THE CHANGE IN THE DEPRECIATION RATES IN THIS CASE WILL NOT RESULT IN CHANGING THE PRICES/TARIFFS CHARGED TO RATEPAYERS?

A. Yes. We asked the following in discovery:

> Does FCG agree that the change in depreciation rates proposed by Florida City Gas in the current proceeding is not part of a petition for a base rate increase, and if accepted, no change to the prices/tariffs charged to ratepayers would be effective at approximately the same time changes to the depreciation rates to be booked would be effective?

FCG's answer begins as follows:

> Correct. Revised depreciation rates approved in the instant depreciation study, assuming a January 1, 2025 effective date as proposed, will not affect current prices/tariffs charged to ratepayers whether that change results in an increase or a decrease in depreciation expenses. [69]

Q. IS THIS DIFFERENT THAN WHAT OCCURRED IN THE PRIOR FCG DEPRECIATION STUDY?

A. Yes, in the prior case, Docket No 20220069-GU, the prices/tariffs charged to ratepayers were changed concurrent with the change in the depreciation rates.

In response to discovery, FCG's answer begins as follows:

> FCG agrees that, as part of its petition for a base rate increase in Docket No 20220069-GU, an implementation date for revised depreciation rates was requested effective with the date of FCG's new revenue rates. [70]

[69] See Exhibit WWD-13 page 3 of 3. Citizens' Second Set of Interrogatories, Interrogatory No. 13 (b).
[70] See Exhibit WWD-13 page 2 of 3. Citizens' Second Set of Interrogatories, Interrogatory No. 13 (a).

Q. PLEASE EXPLAIN WHY IT IS IMPROPER TO BREAK THE CONNECTION BETWEEN THE DEPRECIATION COLLECTED FROM THE RATEPAYERS AND THE DEPRECIATION THAT IS CREDITED INTO THE DEPRECIATION RESERVE.

A. Page 187 of the respected *Public Utility Depreciation Practices* published by the National Association of Regulatory Utility Commissioners ("NARUC") states the following:

> In many regulatory customer rate-setting procedures, the depreciation reserve is a deduction from rate base. Therefore, it is desirable that the depreciation reserve be as accurate as possible.

If the amount of depreciation expense that is being recorded in the Depreciation Reserve is not based upon the depreciation expense that is being collected from the ratepayers, that makes the Depreciation Reserve less accurate, which makes the rate base and the amount of return on rate base the investors receive less accurate.

VII. ISSUE 7: SHOULD THIS DOCKET BE CLOSED?

Q. SHOULD THIS DOCKET BE CLOSED?

A. Yes. For the reasons discussed in this testimony, I recommend this case be closed and the current depreciation rates remain in effect. A new depreciation study is not due until May 31, 2027, which will be five years after the filing of the last FCG depreciation study.[71]

I recommend that a new, correct, depreciation study be filed as part of the coming rate case. I recommend that include the statistical analysis of the life data.

[71] What FCG filed in this case is not a full depreciation study, as discussed elsewhere in this testimony.

The FCG response to Citizens' Third Set of Interrogatories, Interrogatory No. 19, (Exhibit WWD-5) shows that in numerous accounts and in numerous years, the numbers FCG used to calculate its claimed depreciation rates and claimed reserve surplus are vastly inconsistent with the numbers in the Annual Reports, which were audited by Deloitte.

It would be improper to revise depreciation rates based on numbers which we have proven are incorrect. FCG says that the correct numbers "cannot be determined by FCG", [or at least not swiftly]. Those numbers are not valid evidence which would support changing the current depreciation rates.

Any imbalance identified in the new depreciation study to be filed in the coming rate case should be addressed in the remaining life calculations. The new depreciation rates should become effective at the same time as the new tariffs/prices charged to ratepayers become effective. These proper actions would recover any reserve deficiency from the ratepayers or return any reserve surplus to the ratepayers.

Under FCG's proposal, the money that is identified as a "surplus" in the Depreciation Reserve would be transferred to the owners. The amount of money which is claimed to be "surplus" is determined by the "parameters" selected. This creates an inherent conflict of interest in favor of increasing the surplus for the personnel selecting parameters to be proposed by FCG. I have demonstrated that FCG is proposing parameters which are contrary to the evidence and increase the claimed amount of "surplus", which would be paid to the owners under this unreasonable FCG filing.

I have demonstrated that removing $19.2 million from the Depreciation Reserve, and paying it to the owners, will increase by $1.7 million per year the amount of the rate increase FCG will be able to prove in the upcoming rate case. That additional $1.7 million rate increase can be avoided by rejecting the FCG filing in this case.

I recommend this case be closed and the current depreciation rates remain in effect. I recommend that a new, correct, depreciation study be filed as part of the coming rate case.

Q. THE STAFF FILED A STAFF REPORT ON AUGUST 12, 2025. IS THE STAFF REPORT AN IMPROVEMENT OVER THE FCG PROPOSALS?

A. Yes. The Staff Report is definitely more just and reasonable than are any of the FCG filings. For one thing, the Staff Report recommends using the remaining life technique to address any reserve imbalance. Page 5 of the Staff Report states the following:

> It is staff s opinion that the remaining life depreciation technique is the preferred option to correct the reserve imbalance in this instance.

A reserve surplus means that the ratepayers have overpaid for depreciation. The remaining life technique returns the surplus to the ratepayers. The FCG proposals instead would pay the surplus to the owners, which would be unjust. All of this is discussed in more detail earlier in this testimony.

Q. DOES THE STAFF REPORT CORRECT ALL THE MAJOR PROBLEMS IN THE FCG FILINGS?

A. No. The Staff Report is clearly superior to any of the FCG filings, but it does not correct all of the major issues in the FCG filings. For one example, there is no indication in the

Staff Report that the Staff had corrected the fact that the data FCG filed, and was presumably used by Staff, is inconsistent with the audited data in the FCG Annual Reports. The Staff Report contains recommendations which are still based on the inaccurate data provided by FCG.

Q. HAS FCG MADE A "LAST-MINUTE" FILING WHICH SUPPORTS YOUR TESTIMONY THAT THE NUMBERS FCG IS USING CANNOT BE RELIED UPON?

A. Yes. FCG filed new testimony and exhibits the day before we have to file this testimony. FCG filed its greatly revised numbers, exhibits and testimony on November 4, 2025. My testimony has to be filed November 5, 2025.

Q. DO THESE "LAST-MINUTE" CHANGES ELIMINATE ANY OF THE PROBLEMS DISCUSSED IN THE TESTIMONY YOU HAD FILED ON NOVEMBER 5, 2025?

A. No. In this new "last-minute" filing FCG changed many numbers, but it does not eliminate any of the issues presented in my November 5 testimony. For example, referring to the prior FCG filing, page 17 of the testimony I had filed on November 5 shows that:

> Page 22 of the 2021 FCG Annual Report to the FPSC shows that the Additions in 2021 were $5,565,780 in Mains -Steel. This 2021 Annual Report was audited by Deloitte…
>
> …

> However, Schedule J of FCG Exhibit PSL-2 shows the balance in service at the time used in the study (1/1/2025) was [allegedly] $546,527 in the same 2021 vintage of the same account, Mains -Steel. (Footnotes omitted.)

The new November 4, 2025, FCG filing changes the $546,527 to $386,460 in the 2021 vintage of the same account, Mains -Steel, so the problem has not been corrected.[72] The $386,460 number FCG is now using is still vastly inconsistent with the accurate, audited, number of $5,565,780.

Referring to the prior FCG filing, page 5 of my November 5 testimony said "FCG proposed to take $22,391,064 out of the depreciation reserve and give it to the owners." In the new November 4, 2025, filing, FCG proposes to take $19.2 million out of the depreciation reserve and give it to the owners.[73] So the same problem still exists, with somewhat different numbers.

Q. WHAT DOES THIS NEW FCG FILING FURTHER PROVE?

A. The fact that FCG is still jumping around trying to determine the numbers, further proves that FCG does not have a good understanding of what the actual numbers are. This uncertainty of the numbers reinforces my recommendation that this case be closed and the current depreciation rates remain in effect, and that a new, correct, depreciation study be filed as part of the coming rate case.

[72] The November 4, 2025, FCG Excel Exhibit PSL-2 FCG2025 Study Workbook, Sch J Amended, Account 3762 Mains Steel 2021.
[73] The November 4, 2025, FCG testimony of Lee, page 8 line 22.

Q. WHAT DO YOU RECOMMEND?

A. As discussed in more detail above, I recommend this case be closed and the current depreciation rates remain in effect. I recommend that a new, correct, depreciation study be filed as part of the coming rate case. I recommend that a new depreciation study include the statistical analysis of the life data. Any imbalance identified in the new depreciation study to be filed in the coming rate case should be addressed in the remaining life calculations. The new depreciation rates should become effective at the same time as the new tariffs/prices charged to ratepayers become effective.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does at this time. The fact that I do not address any other particular issues in my testimony or am silent with respect to any portions of FCG's Petition or direct testimony in this proceeding should not be interpreted as an approval of any position taken by FCG.

BY MR. REHWINKEL:

Q Mr. Dunkel, with respect to the 12 exhibits that you have prepared that are not moot, are there any changes or corrections to that --

A No.

Q -- those exhibits?

MR. REHWINKEL: Okay. And, Mr. Chairman, these exhibits have already been identified for the record.

CHAIRMAN LA ROSA: Okay.

MR. REHWINKEL: And I will just state for the record, we are not going to be moving Exhibit 16 into the record based on the mootness of them.

CHAIRMAN LA ROSA: All right.

BY MR. REHWINKEL:

Q Mr. Dunkel, have you prepared a summary of your testimony --

A Yes.

Q -- in under five minutes?

A Yes.

Q Okay. Could you give that to the Commission at this time?

A Certainly.

For decades, I have been a depreciation expert testifying all over the country on depreciation rates.

50 percent of my firm's cases are on behalf of the Commission or the Commission staff, and roughly 50 percent on behalf of the public advocates, so I prepare testimony that is fair to everyone.

In this case, let's take an example. Assume you had an account in a bank and the bank owner took $10,000 out of your account and put that money in his or her pocket. That would be improper, obviously, but it's very similar to what is being proposed in this case. In this case, the company wants to take 19 million out of the depreciation reserve, which is one of the company accounts, and put it -- and give it to themselves as earnings. That is totally improper. As a matter of fact, the Uniform System of Accounts specifically forbids taking the money out of the depreciation reserve and putting it in earnings. Specific forbids it, but that's what the company wants to do in this case.

Now, let's start off with where a surplus comes from. Witness Lee for the company has admitted that any surplus in the depreciation reserve is because ratepayers have overpaid. She used that term, overpaid.

Now, the question becomes if you decide to take that overpayment and return it to someone, who should you return it to? Since it's the ratepayers that have overpaid, obviously, you should return it to the ratepayers, not to the owners or the investors, which is what the company proposes.

I will give you an example which I use in my testimony. Assume that for some reason you overpaid your dentist, so now you have a surplus in your account with your dentist. The dentist would not send you a letter and say, you have a surplus in your account, therefore, I, the dentist, have taken it and put it in my pocket. The dentist might leave it in your account, which means you pay less in the future for future services, or the dentist might send you a check, but the idea that because you have a surplus in your account because you have overpaid means the dentist can take the money and put it in his or her pocket is absurd. But that's exactly what is being proposed in this case, or extremely similar to what's being proposed in this case.

Let's go on to another problem. You might think that once a certain amount of money has been identified as a surplus, that means the company can take it out with no harm to the ratepayers. That's not true. If you take $19 million out of the reserve right now in this case, that affects the records in the next case, which means the next case, you would have to give the owners an extra 1.2 million of earnings on rate base. That doesn't make any sense. They took money out, but in return for that, they get money.

The reason this is, is the depreciation reserve is a deduction when calculating the rate base. And when you flow that through, the resulting rate case is 1.7 million higher after taxes than if you don't take $19 million out in this case. So basically you are going to overcharge the ratepayers in the next rate case if you take it out.

One other problem is the rule says the depreciation must agree with the activity books, the data used. They didn't do that. A booked amount used in my testimony is $5 million. They used a number of less than 600,000. And that -- the five million is audited by the outside CPA firm, it's real. It's booked. They didn't use the booked amount.

My recommendations are as follows:

Close this case, keep using the current depreciation rates. In the rate case that will be filed in the coming year by the company, have them file a new depreciation study which corrects their errors, which are very large.

My most -- and finally, my most significant recommendation is that any reserve surplus that you find in this case or in the coming case should go to the ratepayers, not go to the owners. Just as the same with the dentist. If you have overpaid, it's still your money. You should either get it back or get a credit for it and not go to the dentist or the owner.

Thank you.

MR. REHWINKEL: Mr. Chairman, Mr. Dunkel is available for cross-examination.

CHAIRMAN LA ROSA: Great. Thank you.

FCG.

MS. KEATING: We have no cross for witness Dunkel.

CHAIRMAN LA ROSA: Okay. Staff.

MR. SPARKS: Staff has a few questions.

CHAIRMAN LA ROSA: Sure. Go ahead.

EXAMINATION

BY MR. SPARKS:

Q Good afternoon, Mr. Dunkel.

A Good afternoon.

Q The company is proposing to amortize approximately $19.2 million in surplus over two years, is that correct?

A Yes. That's their most recent proposal. They started out at 27 million, and then you, staff, did some very nice, you know, discovery, and they dropped it down to 22 million. And then both of us were doing discovery, and they dropped it down to 19 million.

Q Thank you.

Is there any benefit to customers for this proposal, in your opinion?

A Of their proposal?

Q Correct.

A No. It's terrible. An analogy I could use, as a matter of fact I used it in one of my discovery responses, is what happens in here is similar to a mortgage. Say you took out a mortgage for $100,000 and you have to pay interest on the remaining balance, so you start off paying interest on $100,000. After several years, you have paid off $40,000, so now you are paying interest on $60,000 on the unpaid balance.

The -- a rate case is the same. The $40,000 you paid off, the depreciation reserve is the account that keeps track of how much the ratepayers have paid off. So if you take 19 million, or let's say 10 million in my mortgage example out, you have actually paid off 40,000, but the bank owner takes 10,000 out. Now it looks like you only paid off 30,000, so now you owe interest on 70,000 unpaid balance.

The real unpaid balance is 60,000, but because they took money out of the reserve, which is what keeps track of how much you paid off, it looks like you have to pay interest on 70,000. That would be terrible in a mortgage. That would be terrible in a rate case.

Q Does the approximately 19.2 million represent dollars that customers have paid in excess of the actual depreciation that has occurred up to the current depreciation study date?

A They have overpaid. That was sort of a complicated question, but in the past, let's say somebody thought that something would live, you know, 20 years and it really lived 30 years. So they were being charged on the basis of a 20-year life, and now we know it lives 30, so they actually overpaid. So it's -- the surplus is because customers, ratepayers, have overpaid for depreciation. That's where it came from.

Q And is it true that amortizing the approximately 19.2 million as requested would be a transfer of this value from the customers to the stockholders?

A Yes. We actually did discovery where we took one year, the year 2024, and we asked them, is it -- and their recent proposal amounted to point -- 9.6 million a year coming out of the reserve. We said, does this mean 9.6 million comes out of the reserve in the year 2024? Yes. Does this mean -- and this reduces the depreciation expense by 9.6 million? Yes.

The earning with the rate -- depreciation expense is down 9.6 million, and the revenues are the same because you haven't changed the tariff, earnings go up 9.6 billion? Yes.

So the short story is you take 9.6 million a year out of the depreciation reserve, earnings go up 9.6 million a year. And the same thing happens in 2025. None of it goes to the ratepayers.

Q In your testimony on pages 28 to 33 -- and we don't have to turn to them necessarily -- you argue that FCG's claim that retirement rates of less than one percent are meaningless, is that correct?

A Yes, they are.

Q Okay. Can you point to any past Commission decisions that have accepted account retirement rates under one percent for the purposes of statistical life analysis?

A I haven't looked for that. I give an example of the U.S. population. Less than one percent of U.S. population dies per year. And this is government data. There is no question about that. So if you say one -- one less than one percent retiring per year is meaningless data, that means we don't know how long the people in the U.S. live on average, because less than one percent of them die per year. And if you then leap from that and say we don't trust the U.S. data because less than one percent retire per year, therefore, we will use the lifespan in Cuba and Mexico to replace the data we have for the U.S. population, that, of course, would be absurd, but that's what you are being presented with here.

Q Can you point to any depreciation practice standards that treat retirement rates under one percent as significant for the purposes of determining depreciation parameters?

A There is none that take them out. As a matter of fact, this is proven in my testimony, in order to have the average service life, and I picked -- it's one of the accounts anyway -- in order to have the life that both staff and the company recommend, the average retirement rate has to be less than one percent a year, okay. Just like the U.S. population. I mean, that's how low the retirement rate is in order to get to the life.

Q Thank you.

MR. SPARKS: Staff has no further questions, Mr. Chair.

CHAIRMAN LA ROSA: Great. Thank you.

Commissioners, any questions?

All right. Seeing none, back to OPC for redirect.

MR. REHWINKEL: Mr. Chairman, we have no redirect.

CHAIRMAN LA ROSA: Okay. Anything you need to move in the record?

MR. REHWINKEL: Yeswe would move Exhibits 6 through 15 and 17 and 18.

CHAIRMAN LA ROSA: Objections to those?

MS. KEATING: No objection.

CHAIRMAN LA ROSA: Okay.

MR. REHWINKEL: I would ask that Mr. Dunkel be excused.

CHAIRMAN LA ROSA: All right. Then, so moved on moving those into the record.

(Whereupon, Exhibit Nos. 6-15 and 17 & 18 were received into evidence.)

CHAIRMAN LA ROSA: And, Mr. Dunkel, you are excused. Thank you very much for your testimony.

THE WITNESS: Thank you.

(Witness excused.)

CHAIRMAN LA ROSA: All right. Let's go to staff. You can call your first witness.

MR. SPARKS: Staff calls Andrew Kunkler to the stand.

CHAIRMAN LA ROSA: Mr. Kunkler, you have been sworn in, correct?

THE WITNESS: Yes, I have.
CHAIRMAN LA ROSA: Go ahead.
Whereupon,
ANDREW KUNKLER
was called as a witness, having been previously duly sworn to speak the truth, the whole truth, and nothing but the truth, was examined and testified as follows:
EXAMINATION
BY MR. SPARKS:
Q Good afternoon, Mr. Kunkler. Could you state your?
A Andrew Edwin Kunkler, IV.
Q And by whom are you employed?
A I am employed by the Florida Public Service Commission.
Q And what position do you hold?
A Public Utility Analyst.
Q And did you prepare and cause to be filed in this docket prepared direct testimony consisting of 14 pages?
A I did.
Q And did you prepare and cause to be filed exhibits numbered EAK-1 through EAK-5 attached to your direct prefiled testimony?
A That's right.

Q And on December 8th, did you prepare and cause to be filed an errata sheet to revise portions of your direct testimony in Exhibits EAK-3 and 4?

A That's correct.

Q And with those revisions contained in the errata sheet, if I were to ask you the questions contained in your prepared direct testimony, would your answers be the same?

A Yes.

MR. SPARKS: Mr. Chairman, staff requests that the prepared direct testimony of Mr. Kunkler be inserted into the record as though read.

CHAIRMAN LA ROSA: So moved.

(Whereupon, prefiled direct testimony of Andrew Kunkler was inserted.)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

COMMISSION STAFF DIRECT TESTIMONY OF EDWIN A. KUNKLER IV

DOCKET NO. 20250035-GU

November 12, 2025

TABLE OF CONTENTS

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Edwin A. Kunkler IV, and my business address is 2540 Shumard Oak Blvd, Tallahassee, FL 32399.

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

A. I am employed by the Florida Public Service Commission as a Public Utility Analyst in the Division of Economics.

Q. How long have you been employed by the Commission?

A. I have been employed by the Florida Public Service Commission since September 2019.

Q. Briefly review your educational and professional background.

I graduated from Florida State University with a Bachelor of Science degree in Economics and Statistics in 2019. Later that same year, I began employment with the Florida Public Service Commission as a Public Utility Analyst in the Division of Economics. During my tenure, I have provided the Commission with technical recommendations on a variety of issues involving all of the industries under the Commission's jurisdiction, primarily forecasting and depreciation-related issues in the electric and gas industries. In addition, I have attended the National Association of Regulatory Utility Commissioners (NARUC) rate school in 2022, and have participated in over 50 hours of Society of Depreciation Professionals (SDP) seminars, led by leading industry professionals, on a wide range of utility depreciation-related concepts.

Q. Are you sponsoring or co-sponsoring any exhibits in this case?

A. Yes, I am sponsoring the following exhibits:

- EAK-1 – FCG's Mains Accounts Stub Survivor Curve
- EAK-2 - Mains Accounts Overlaid with 65/R4 and 65/R2.5 Life Patterns
- EAK-3 – Proposed Reserve Transfers
- EAK-4 – Depreciation Rates and Annual Depreciation Expense
- EAK-5 - FCG's 2022 Depreciation Study

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present alternative depreciation parameters applicable to certain depreciable plant accounts contained in FCG's 2025 Depreciation Study. My alternative parameters include a different Iowa curve shape for Account 3762: Mains-Steel, and a lower net salvage factor for Account 3762: Mains-Steel and Account 3801: Services-Plastic. The alternative parameters are supported by the Company's historical retirement and salvage data. If accepted by the Commission, these adjustments would impact depreciation rates, annual depreciation expense, the Company's theoretical reserve levels, and reduce the Company's calculated reserve surplus.

II: DEPRECIATION STUDY CONCEPTS

Q. Please briefly define average service life, net salvage factor, and Iowa curves in the context of a depreciation study.

A. A. Average Service Life

The Average Service Life (ASL) is generally defined by NARUC as the average number of years that plant assets within a particular account are expected to remain in service before retirement. The ASL reflects the combined effect of all influencing factors, including wear, obsolescence, and maintenance practices. The ASL selected will impact the average remaining life calculation, and therefore, the theoretical reserve level of the account, depreciation rates, and annual depreciation expense.

B. Net salvage factor

The net salvage factor is a ratio of net salvage (salvage value minus the cost of removal) to the original cost of an asset. It indicates the portion of an asset's cost expected to be recovered, or additionally spent, when the asset is retired. Negative net salvage factors are fairly common because, for many accounts, the cost of removal will greatly exceed salvage value. The net salvage factor selected will impact the theoretical reserve level, depreciation rates, and annual depreciation expense for an account.

C. Iowa Curve

An Iowa curve is standardized survivor curve that is used to represent the pattern of how a particular group of assets retire over time. Iowa curves give an estimation of the percentage of group of assets (or monetary value of assets) that will remain in service at a particular age. The four primary Iowa curve families are as follows:

- Left-modal (L curves) - frequency of retirements is greatest before the ASL. L-curves are most common for assets that are vulnerable to early failure.
- Symmetrical (S-curves) - frequency of retirements is greatest at the ASL. S-curves are most common for assets with consistent, steady retirements.
- Right-modal (R-curves) - frequency of retirements is greatest after the ASL. Most common for long-lived, reliable utility assets.
- Origin-modal (O-types) - frequency of retirements is greatest at the origin (i.e. age 0.) O-curves are uncommon but can sometimes be utilized for intangible assets such as patents, licenses, or permits that exhibit early, heavy attrition.

The number immediately following the L, S, R, or O (typically 0, 1, 2, 3, or 4) designate how tightly the retirements are dispersed around the ASL. Lower numbers indicate a wide, broader variance of retirement ages around the ASL, while higher numbers indicate a narrow, less broad variance of retirement ages around the ASL. Iowa curve shapes are typically expressed in conjunction with an ASL (e.g., 50/L2, 30/S3), together forming the expected life pattern of a group of assets. The Iowa curve selected will impact the calculation of average remaining life for an account, and therefore, the theoretical reserve level, reserve imbalance, depreciation rate, and annual depreciation expense for the account.

Q. Please explain the concept of a reserve imbalance.

A. A reserve imbalance is the difference between the actual amount of accumulated depreciation on a utility's books and the expected amount of accumulated depreciation that should theoretically exist at a point in time, given the plant balance and a set of depreciation parameters. Reserve imbalances identified in depreciation studies are common and expected as there are numerous changes that will occur over the life of the utility's plant. A reserve surplus indicates that the actual accumulated depreciation (book reserve) amount is larger than what was expected (theoretical reserve) at a certain point in time, while a reserve deficit indicates that the book reserve amount is less than the theoretical reserve. The ASL, net salvage factor and Iowa curve selected will affect the reserve imbalance of each account.

III: FCG'S 2025 DEPRECIATION STUDY

A. General Concerns

Q. Do you have any general concerns regarding the methodology FCG utilized to determine its depreciation parameters?

A. First, I would like to point out that there is some degree of subjectivity in depreciation studies. Estimates for depreciation parameters rely partially on judgement and different analysts may reach slightly different conclusions when presented with the same information. The Company explains it relied on a combination of the life analysis performed in FCG's 2022 Depreciation Study, the depreciation parameters of other Florida gas companies, recent account activity, and the professional judgement of FCG personnel and the expertise of FCG's depreciation witness, Ms. Lee. In my opinion, FCG's methodology for determining its depreciation parameters in this study relied minimally on FCG's actual historical retirement/salvage activity and relied heavily on the judgement and expectations of Company personnel and Ms. Lee.

B. <u>Statistical Life Analysis</u>

Q. What is a statistical life analysis (life analysis)?

A. A life analysis is the analytical process used to determine the service life characteristics (ASL and Iowa curve) for a particular group of assets.

Q. What is the benefit of a life analysis?

A. A life analysis provides a factual, data-driven, supportable basis for determining service life characteristics of a particular account.

Q. Did the Company's 2025 Depreciation Study include a statistical life analysis of its depreciable accounts?

A. No.

Q. What reason did the Company give for not conducting a life analysis as part of its 2025 Depreciation Study?

A. The Company stated it did not believe a statistical life analysis was necessary. Ms. Lee stated the following in her amended direct testimony:

> "Statistical analysis, at best, only indicates how the account under study has lived in the past. Company personnel are a better source for what the future may look like. Only if the past is a mirror of the future is statistical analysis of

value. If the past is considered to mirror the future, repetitive statistical analysis serves no real purpose.*”[1]

Q. Do you believe the Company should have provided a statistical analysis as part of its 2025 Depreciation Study?

A. Yes, I do. In the time between depreciation studies, additional years of retirement data become available, which provides more data for statistical life analyses and, ultimately, a clearer picture of each account’s actual depreciation activity. In my opinion, a statistical life analysis provides critical support for recommended depreciation parameters.

C. Evaluation of FCG’s proposals

Q. Do you believe FCG’s proposed depreciation parameters are reasonable?

A. For the majority of FCG’s depreciable accounts, I believe the Company’s proposed depreciation parameters are reasonable. For such accounts, FCG’s proposals include one or more of the following:

- The same or similar parameters as those that were recommended by the last depreciation expert to conduct a life analysis on the account;
- Additional data-backed support for recommended changes;
- Parameter changes that have a de minimus impact on the account’s reserve position, remaining life calculation, depreciation rates, and annual depreciation accruals.

Q. Are there any accounts you have specific concerns about?

A. Yes. There are two accounts in which the Company proposes new parameters that are not consistent with the Company’s historical retirement/salvage data, lack supporting documentation, exhibit an over-reliance on expectations, and result in significant

[1] DN 14928-2025; Amended Direct Testimony of Patricia Lee, page 22

impacts to the Company's calculated reserve surplus.

Q. Please identify these two accounts.

A. They are Account 3762: Mains-Steel and Account 3801: Services-Plastic. These two accounts are FCG's second and third-largest accounts by plant investment and together constitute nearly 40 percent of FCG's total plant invested.[2]

IV: PROPOSED ADJUSTMENTS

Q. Are you proposing any adjustments to any of the Company's proposed parameters?

A. Yes, as discussed previously, I am proposing a different Iowa curve shape for Account 3762: Mains-Steel, and a lower net salvage factor for Account 3762: Mains-Steel and Account 3801: Services-Plastic.

Q. Without a life analysis, how did you determine the service life characteristics (i.e. ASL and Iowa curve shape) for Account 3762: Mains-Steel?

A. For Account 3762: Mains-Steel, I utilized the Company's retirement information from FCG's most recent life analysis that was included as part of FCG's 2022 Depreciation Study. The historical data dates from 1963 through 2020. As part of that life analysis, the Company's two mains accounts (Account 3761: Mains-Plastic and Account 3762: Mains-Steel) were analyzed together by FCG's witness in that docket, Ned Allis. Without an updated life analysis from the Company, my analysis for Account 3762 relies on the combined life data for Accounts 3761: Mains-Plastic and Account 3762: Mains-Steel, which was provided in FCG's 2022 Depreciation Study. [3]

Q. Please elaborate and discuss the areas in which you disagree with the Company's parameter proposals.

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[2] Acct. 3762 plant invested + Acct 3801 plant invested)/total plant invested = ($143,280,076 +$128,613,988) / $696,714,096 = 39.03 percent

[3] FCG's 2022 Depreciation Study is attached as Exhibit EAK-5

A. As mentioned above, there are two accounts in which I disagree with at least one parameter proposed by the Company. My assessment for each appears below:

A. Account 3762: Mains-Steel

This account includes the cost of FCG's steel distribution mains, and related components. This is the company's second largest account by plant investment.

ASL/Iowa Curve: The ASL and Iowa Curve shape combination currently prescribed for Account 3762 is 65 years with an R1.5 curve shape.[4] The Company proposes to retain the current ASL but transition to an R2.5 curve shape. I believe the Company's proposal of a 65/R2.5 life pattern does not adequately represent the dispersion witnessed in historical retirements, and, for the reasons I am about to discuss, a 65/R4 life pattern is a better representation for this account's historical retirement dispersions. The Company's historical survivor curve (or stub survivor curve) for its two mains Accounts – 3761: Mains-Plastic and 3762: Mains-Steel, as shown in Exhibit EAK-1, detail few retirements up to age 50 (approximately 89 percent of these assets surviving at an age of 50.5 years) while also showing a relatively rapid escalation of the frequency of retirements immediately following age 50 (approximately 70 percent of these assets surviving at age 57.5.) As previously mentioned, a higher modal curve reflects a retirement dispersion that is more concentrated around the average service life. The escalating frequency of retirements exhibited in the Company's data is why I believe an R4 curve is the most appropriate curve shape for Account 3762. As shown in Exhibit EAK-2, with a 65 year ASL, the higher modal R4 curve is a better fit to the mains accounts' stub survivor curve compared to a R2.5 curve. A 65/R4 life pattern was the life pattern proposed in the Company's last depreciation study for this account,

[4] Order PSC-2023-0177-FOF-GU

and also was originally proposed by the Company in the current docket.[5]

Net Salvage: The currently prescribed net salvage factor for Account 3762 is (50) percent.[6] The Company proposes to increase the net salvage factor from (50) percent to (40) percent due to "…recent trends, easier accessibility to retired pipe, and expectations of other Florida gas companies."[7] However, the Company has not supplied sufficient support for this claim. The Company's proposed increase is not supported by the Company's historical salvage data and exhibit an over-reliance on expectations. Schedule Q of FCG's 2025 Depreciation Study shows the realized average net salvage factor for the account over the past 20 years is (146) percent and the most recent 5 years (2020-2024) averaged (73) percent, which are both lower net salvage factors than the (50) percent factor currently prescribed. I believe retaining the currently approved (50) percent net salvage factor is most reasonable at this time. A (50) net salvage factor is within the range of other Florida gas companies, as shown in Exhibit PSL-4, page 2 of 2. Re-evaluation of the account's net salvage activity will occur at the time of the Company's next depreciation study.

B. Account 3801: Services-Plastic

Assets in this account represent plastic distribution service lines from the mains to the customers property lines or meter location. This account is FCG's third largest account by plant investment.

ASL/Iowa Curve: The ASL and curve shape combination currently prescribed for this Account 3801 is 55 years with an R1.5 curve shape.[8] The Company proposes to retain the currently prescribed 55/R1.5 life pattern for this account, which is reasonable.

Net Salvage: The currently prescribed net salvage factor for this account is (68)

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[5] Document No. 01103-2025, Page 12, filed February 24, 2025, in Docket 20250035-GU
[6] Order PSC-2023-0177-FOF-GU
[7] DN 14928-2025; FCG's Amended 2025 Depreciation Study Narrative, page 13
[8] Order PSC-2023-0177-FOF-GU

percent. The Company proposes to increase the net salvage factor from (68) percent to (40) percent due to easier accessibility to the retired services as well as the expectations of other Florida gas companies."[9] I believe the Company's proposed net salvage increase is not supported by the Company's historical net salvage data. In addition, the Company did not provide any documentation supporting its claimed future net salvage projection of (40) percent.

Schedule Q of FCG's 2025 Depreciation Study shows the realized average net salvage factor for the account over the past 20 years was (398) percent and the most recent 4 years averaged (132) percent. Referring to the same schedule, with the exception of 2024 (in which the full cost of removal may not be fully processed as of yet), FCG has not experienced a single year in which the realized net salvage has been greater than (90) percent since 2008.

Therefore, I believe a retention of the currently approved net salvage factor of (68) is most reasonable at this time. In addition, a (68) net salvage factor is within the range of other Florida gas companies, as shown in Exhibit PSL-4, page 2 of 2. Re-evaluation of the account's net salvage activity will occur at the time of the Company's next depreciation study.

Q. Please summarize your proposals and the Company's proposals for the accounts you reference.

I have summarized my proposals and the Company's proposals in Tables 1 and 2 below.

[9] DN 14928-2025; FCG's Amended 2025 Depreciation Study Narrative, pages 15-16

Table 1 - Account 3762: Mains-Steel			
	Currently Approved	**Company-proposed**	**E.A.K. Proposal**
ASL/Iowa Curve	65/R1.5	65/R2.5	65/R4
Net Salvage (NS)	(50) percent	(40) percent	(50) percent

Table 2 - Account 3801: Services-Plastic			
	Currently Approved	**Company-proposed**	**E.A.K. Proposal**
ASL/Iowa Curve	55/R1.5	55/R1.5	55/R1.5
Net Salvage (NS)	(68) percent	(40) percent	(68) percent

V: RESERVE SUPLUS

Q. Does FCG have a reserve surplus?

A. According to the plant and reserve figures contained in FCG's November 4, 2025 filing, the Company calculates a reserve surplus. However, the parameters proposed for the two accounts referenced above lack support and result in an overstated reserve surplus. The Company calculates a total reserve surplus of approximately $19.2 million. My calculated reserve surplus is approximately $6.9 million, a difference of approximately $12.3 million.

It should be noted that my calculations are based on FCG's latest revised version of its

2025 Depreciation Study, which was filed November 4, 2025. The Company has made revisions/corrections to its originally filed depreciation study on multiple occasions, each of which impact the Company's reserve position. At this time, Commission staff is still in the discovery process regarding the verification of the Company's plant and reserve figures appearing in the Company's most recent filing. My calculations are contingent on FCG's plant and reserve balances being accurate.

Q. Are you proposing any reserve transfers?

A. Yes, I am proposing transfers between accounts with relatively large surpluses to other accounts with relatively large deficits in order to bring each account to (or closer to) its theoretically correct level. The results are shown in Exhibit EAK-3.

Q. If the Commission approves the remaining life technique to address the Company's reserve imbalance, what are the resulting depreciation rates and annual depreciation expense?

A. The resulting depreciation rates and annual depreciation expense are shown in Exhibit EAK-4. With my proposed adjustments, and inclusive of my proposed reserve transfers, the resulting annual depreciation expense utilizing the remaining life technique is $17,311,186.

Q. If the Commission approves a two-year amortization to address the Company's reserve imbalance, what are the resulting depreciation rates and annual depreciation expense?

A. The resulting depreciation rates and annual depreciation expense are shown in Exhibit EAK-4. With my proposed adjustments, the resulting annual depreciation expense utilizing a 2-year amortization is $14,186,256. After the two-year amortization period has transpired, the annual depreciation expense will increase to $17,611,364.

Q. Are you making any recommendation as to whether the remaining life technique

or a two-year amortization is the preferred remedy for FCG's reserve surplus?

A. No, I am not.

VI: CONCLUSION

Q. Why should the Commission accept your proposals?

A. These alternative depreciation parameters for Account 3762: Mains-Steel and Account 3801: Services-Plastic are more reflective of the actual historical retirement and salvage activity booked by the utility. If accepted by the Commission, these adjustments would impact depreciation rates, annual depreciation expense, the Company's proposed theoretical reserve levels, and reduce the Company's calculated reserve surplus.

Q. Does this conclude your testimony?

A. Yes.

BY MR. SPARKS:

Q Have you prepared a summary of your testimony?

A I have.

Q Would you please give that summary?

A Yes. I had good morning, but it's good afternoon now. Thanks, Charles.

Good afternoon, Commissioners. My testimony discusses and presents alternative depreciation parameters applicable to two depreciable plant accounts contained within Florida City Gas' 2025 depreciation study. The alternative parameters include a different Iowa curve shape for account 3762, mains-steel, and lower net salvage factors for account 3762, mains-steel, and account 3801, services-plastic.

These alternative parameters I present are supported by the company's actual historical retirement and salvage data. If accepted by the Commission, these adjustments would impact the company's future depreciation rates, annual depreciation expense, theoretical reserve levels, and reduce the company's calculated reserve surplus.

This concludes my summary. Thanks.

MR. SPARKS: Mr. Chairman, staff tenders the witness for cross-examination.

CHAIRMAN LA ROSA: Great. Thank you.

FCG.

MS. KEATING: FCG has no cross for Witness Kunkler.

CHAIRMAN LA ROSA: Thank you.

OPC?

MR. REHWINKEL: Yes, just a few, Mr. Chairman.

CHAIRMAN LA ROSA: Okay.

EXAMINATION

BY MR. REHWINKEL:

Q Good afternoon, Mr. Kunkler?

A Good afternoon, Mr. Rehwinkel.

Q I just want to understand one some of the terminology you use in your testimony as you intend it. Are you familiar with the 2023 FCG order?

A Somewhat, yes.

Q Okay. Let's go, if we can, to F1-123. I am sorry, 121. Yes.

Are you familiar with this part of the order, the depreciation part?

A Yes.

Q Are you aware that in the -- the commission described in this order alternative depreciation parameters?

A Yes.

Q Okay. In your testimony at C4-570, on lines

nine and 13, you use the term alternative to describe your proposal, right?

A Waiting on it, but, yes, that's true.

Q Okay. Alternative, as you used it in your testimony, is fairly interpreted as being your recommendation to the Commission on behalf of the professional staff, but it is only alternative in the sense that it is different from the company proposal, is that right?

A That's right.

Q Okay. Your testimony is not designed to create a depreciation surplus, is it?

A No, sir.

Q Let's look at hearing Exhibit 12, at page 23 -- E2345. And this was a response to OPC discovery question where we quoted your testimony and asked you about this piece of your testimony. My calculated reserve surplus is approximately $6.9 million. Do you see that?

A Which one are you on?

Q OPC Interrogatory 3.

A I see it. Okay, I am there.

Q And then we asked you the following: Is it a correct statement that the approximately $6.9 million reserve surplus has been collected from the ratepayers,

do you see that?

A Yeah, I do.

Q And your response was yes?

A That's right.

Q Let's look at E2345, please, and this is Interrogatory No. 2 of the same set.

Is it correct that in the staff's calculation of the average age of account 3762, mains-steel, in the 2021 vintage, the amount of mains-steel in service at the time used in the study was 546,527?

A That's correct.

Q And let's go to Exhibit 7 and page C530, is that a real number? I think it should be C3-530. C3-530.

This is out of Mr. Dunkel's Exhibit WWD-4 for Exhibit 9. Are you familiar with this document?

A Annual status report, yes, I am familiar with it.

Q On this page of the annual report, it shows -- which is page six of Mr. Dunkel's exhibit -- it shows FCG additions in the mains-steel account were 5,585,780 in the year 2021 vintage, is that right?

A I see that, yes.

Q Would it be correct to assume that the reason you used 546,527 as the amount in that vintage in

mains-steel accounts is because FCG had used that same 546,527 number in their study?

A That's correct. That's the number that appeared in the company's study --

Q Okay.

A -- and that's what I used.

Q And on your testimony at C4-580, page 13 of your testimony, you testified that your calculations are contingent on FCG's plant and reserve balances being accurate, is that right?

A That's right.

Q Let's go back and look at C3-530, please. I think I have written down the wrong number here. Excuse me, Mr. Chairman. If I could -- I want to actually go to staff Exhibit 37. Let me see if I -- it's a different -- this would be Exhibit 12. I apologize. Hearing Exhibit 12, and I don't have the page number.

Okay. So this is at Exhibit E2345, and if we could look at your response to OPC 1, and this refers to the depreciation rates and reserve amount you calculated and filed as your Exhibit EAK-1. Do you see that?

A Yeah.

Q Okay. And is it true that you answered yes when asked the following: Is it correct that the reason your 2020 data was the most recent year of actual data

which was included in Exhibit EAK-1 is that the company's 2025 depreciation study did not include a statistical life analysis of its depreciation accounts?

A That's true.

Q Okay. Is it also correct that in response to part B of that same interrogatory, you answered yes when the OPC asked the following regarding life data: Is it correct that the most recent year of actual data incurred -- included in Exhibit EAK-1 is 2020?

A That's right.

Q If you are aware, do you know whether -- strike that. I will withdraw that question, Mr. Kunkler.

Those are all the questions I have. Thank you for your testimony.

A Thank you, Charles.

CHAIRMAN LA ROSA: Great. Thank you.

Let's go -- Commissioners, any questions?

Seeing none, back to staff for redirect.

MR. SPARKS: No redirect, Mr. Chairman.

CHAIRMAN LA ROSA: All right. Would we like to enter anything into the record?

MR. SPARKS: Yes. Staff requests that Exhibits 19 through 23 be entered into the record. Although, staff would note that per an order issued by the Prehearing Officer, Exhibit 23 should be limited to just pages 20, 35, 47, 57 through 59 and 155 through 156.

CHAIRMAN LA ROSA: Okay. Is there objection? Seeing none, so moved.

(Whereupon, Exhibit Nos. 19-23 were received into evidence.)

CHAIRMAN LA ROSA: And staff would request that the witness be excused.

CHAIRMAN LA ROSA: Mr. Kunkler, you are excused, my friend. Thank you.

THE WITNESS: Thank you.

(Witness excused.)

CHAIRMAN LA ROSA: All right. Let's go back to FCG for rebuttal with Ms. Lee.

MS. KEATING: Thank you, Mr. Chairman. We would call Ms. Lee back to the stand.

Whereupon,

PATRICIA S. LEE

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

CHAIRMAN LA ROSA: Ms. Lee, welcome back.

THE WITNESS: Thank you.

CHAIRMAN LA ROSA: Ms. Keating, you are

recognized.

MS. KEATING: Thank you, Mr. Chair.

EXAMINATION

BY MS. KEATING:

Q And, Ms. Lee, you were sworn earlier today, correct?

A Yes.

Q Just for clarification of the record, could you please state your full name again for the record?

A Patricia S. Lee.

Q And you are the same Patricia S. Lee that testified earlier in this proceeding, correct?

A Yes --

Q And did you --

A -- I think so.

Q And did you cause to be prepared and filed in this proceeding 33 pages of rebuttal testimony on November 20th, 2025?

A Yes, I did.

Q Do you have any changes or corrections to that rebuttal testimony?

A No.

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

CHAIRMAN LA ROSA: So moved.

(Whereupon, prefiled rebuttal testimony of Patricia S. Lee was inserted.)

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE PETITION FOR	)	
APPROVAL OF 2025 DEPRECIATION STUDY	)	Docket No. 20250035-GU
AND FOR APPROVAL TO AMORTIZE THE RESERVE	)	
IMBALANCE, BY FLORIDA CITY GAS	)	

REBUTTAL TESTIMONY
OF PATRICIA LEE

ON BEHALF OF
FLORIDA CITY GAS

November 20, 2025

Table of Contents

I. Introduction

Q. Please state your name and business address.

A. My name is Patricia Lee. My address is 116 SE Villas Court, Unit C, Tallahassee, Florida 32303.

Q. Have you previously filed direct testimony in this docket?

A. Yes, I filed direct testimony on behalf Florida City Gas ("FCG"), which supported the 2025 Depreciation Study, including the subsequent revision and amended filings.

Q. Has your employment status and job responsibilities remained the same since discussed in your previous testimony?

A. Yes.

II. Purpose of Rebuttal Testimony

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to the Direct Testimony of Witness William Dunkel, filed on November 5, 2025, on behalf of the Office of Public Counsel, and the Direct Testimony of Witness Edwin A. Kunkler IV, filed on November 13, 2025, on behalf of the Florida Public Service Commission, in this instant docket. In my rebuttal testimony, I will first respond to Witness Dunkel's assessments and conclusions regarding the depreciation study submitted for Florida City Gas, before responding to Witness Kunkler's assessment of the depreciation study and his recommended adjustments to the depreciation parameters I have proposed for FCG.

Q. Are you sponsoring any rebuttal exhibits?

A. Yes. Attached to my rebuttal testimony is Exhibit PSL-5, a compilation of reconciliations for all accounts with significant variances between FCG's study data and FCG's Annual Reports (2021-2024)[1], and Exhibit PSL-6, a list of Commission orders where reserve imbalances were corrected over a period shorter than the remaining life. Both exhibits were prepared under my supervision.

Q. Please summarize your rebuttal testimony.

A. Certainly. As it pertains to OPC's Witness Dunkel, I disagree that the methodology of the depreciation study presented is incomplete or flawed, and address his assessments as follows:

- I will address his recommendation that FCG's depreciation rates should not be revised, which is based upon a flawed analysis (pp. 16-23);
- I will respond to his characterizations of FCG's reserve imbalance proposal, including the analogy he used, which are inaccurate, arbitrary, and not based on a sound assessment of the data (pp. 5-6);
- I will respond to his various suggestions that aspects of FCG's depreciation study and associated reserve amortization proposal are contrary to the USOA and to Florida's depreciation rule (pp. 11-12, and 14)
- I will address his representations that FCG's depreciation study and reserve amortization proposal are detrimental to FCG's customers (pp. 7-8); and

[1] FCG's Annual Reports (2021-2024) are reflected on Sch G 202X of Exhibit PSL-2 workbook.

- I will respond to his assertion that any reserve imbalance should be addressed through remaining life rates in a future rate case rather than amortization (pp. 49-50, 55, and 58).

As it pertains to Commission Staff's Witness Kunkler, I will address his testimony regarding statistical analysis (pp. 6-8), proposed adjustments to the parameters proposed for Steel Mains (Account 3762) and Plastic Services (Account 3801) (pp. 9-12), and positions regarding the correction of the reserve imbalance (pp. 12-14).

For clarity, for purposes of my rebuttal testimony, like my direct testimony, I will refer to the depreciation study submitted in FCG's 2022 rate case as the "Gannett Fleming Depreciation Study."

Q. Are there aspects of Witness Dunkel's testimony with which you agree?

A. Yes. I agree with Witness Dunkel's definition of "depreciation" at page 5 of his testimony. I also generally agree with his assessment that the existence of a reserve surplus is an indication that customers have overpaid, or are overpaying, depreciation expense.

Q. Are there aspects of Witness Kunkler's testimony with which you agree?

A. Yes. I generally agree with all of Witness Kunkler's definitions and explanations of depreciation concepts. As it pertains to Witness Kunkler's testimony, it appears that our primary areas of disagreement pertain to the issue of statistical analysis and the appropriate parameters for Accounts 3762 and 3801.

III. <u>Regulatory Compliance</u>

Q. On page 26-28, Witness Dunkel states a major part of a new depreciation study is to perform statistical analyses for life and net salvage determinations. Under the Commission's depreciation study requirements, must a company perform statistical analysis for its life proposals?

A. No, Commission Rule 25-7.045, F.A.C., does not require that a Company perform a statistical analysis. Statistical analysis may be used as a tool, but it is not required and should not be viewed as determinative of future expectations for the life and net salvage for any account. Reasonable life estimates can be developed through review of current lives, curve shapes[2], company input, and consideration of the average service lives of other Florida gas companies. As I will discuss in greater detail in Section V of my testimony, because statistical analysis reflects past account activity, it provides historical context, but that often does not translate to accurate future projections. In contrast, the purpose of the depreciation study is to establish forward-looking life and salvage expectations; consequently, I consider the review of current lives, current shapes, input of company personnel and average service lives of other Florida gas companies to carry much greater weight when developing reasonable life estimates.

Q. Do you agree with Witness Dunkel's statement that depreciation rates and amortizations should only be revised with implementation "effective at the same time as new tariffs/prices charged to ratepayers become effective."[3] ?

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[2] A curve shape or Iowa curve or mortality dispersion is a graphical representation plotting the percent of property surviving at each age.
[3] Dunkel testimony, page 50.

A. No. Depreciation rates should not be restricted to revision only within a revenue rate proceeding. The Commission has consistently encouraged utilities to file depreciation studies whenever a need for revised rates is identified, as FCG is doing now. Linking depreciation rate revisions exclusively to revenue proceedings would discourage timely depreciation updates due to the high cost of a rate case. Such a requirement also conflicts with the Commission's established practice of allowing companies to file depreciation studies for all or selected accounts whenever the need arises[4].

Q. On page 50, Witness Dunkel also suggests that depreciation rates should only become effective at the same time as new rates and tariffs from the anticipated rate case. Does the Commission usually dictate implementation dates for revised depreciation rates?

A. No. Proposed implementation dates are typically at the company's discretion. The Commission just requires a depreciation study be filed at least once every five years from the last submission and that the Study investments and reserves align with the proposed effective date. Commission Rule 25-7.045(4)(b–c) provides that: a) if a company proposes revised depreciation rates to be effective at the beginning of the fiscal year, the study must be filed before the midpoint of that year; and b) if a company wants new depreciation rates to be implemented at the same time as new base rates, a depreciation study is required to be filed with the Company's Minimum Filing Requirements (MFRs). However, the actual timing of implementation is generally at the company's discretion to propose, unless otherwise specified by stipulation.

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[4] 25-7.045(4)(a), and (6), F.A.C. requires a gas company to file at least once every five years, but permits a study to be filed as needed.

Periodic, regular depreciation filings are much more preferable because rate case timing is unpredictable. In Florida, depreciation studies are required at least once every four years for electric utilities and every five years for gas utilities, reflecting industry-specific technology and technological changes. In states where depreciation studies are only required in conjunction with rate cases, depreciation rates may go unreviewed or revised for more than 10 years, depending on when a company chooses to request a rate increase.[5]

Q. Do FCG's Original Study filed February 24, 2025, the Revised Filing submitted October 3, 2025, and the Amended Depreciation Study filed November 4, 2025, comply with the Commission's depreciation rule for gas utilities?

A. Yes.

IV. <u>Data Integrity and Study Reliability</u>

Q. On page 58, Witness Dunkel states FCG's changes to its depreciation study prove that FCG does not have a clear grasp of its own data. What specific revisions have been made to the February 24, 2025, originally filed study, and do these changes indicate that the Company lacks a clear understanding of its actual data?

A. Five instances were identified where the Company updated the originally submitted February 24, 2025 Study to reflect corrected balances and or parameters. FCG "refined" its Study on two occasions, October 3, 2025 and November 4, 2025, to include the following:

[5] As an example, the CUC Delaware filed a depreciation study in 2024 commensurate with a rate case. (Docket No. 24-0906) Depreciation rates had not been revised since 2008, with exception of Account 3900 for which a depreciation rate was revised in 2018.

1) A complete list of reserve adjustments;
2) A corrected curve shape for Plastic Mains (Account 3761);
3) A corrected curve shape and average remaining life for Steel Mains (Account 3762);
4) A recalculation of the average remaining life calculation for Transportation (Account 3922) Light and Medium Trucks, SUVs, and Vans; and
5) Adjustments to average age calculations to address vintage discrepancies for Steel Mains (Accounts 3762) and M&R Station Equipment (Account 3850), asset misclassifications for Meters (Accounts 3810) and Meter Installation (Account 3820) , and hard coded errors in both Mains accounts (Account 3761 and 3762).

Q. Are changes such as the ones you have noted unusual in the context of a depreciation study?

A. No, they are not and certainly do not reflect that the Company does not know or understand its data. To the contrary, these revisions were identified while responding to more than 150 interrogatories and production of document requests from Staff and OPC. Witness Dunkel's statement mischaracterizes FCG's transparency and cooperation throughout this process, when, in fact, the Commission has recognized, on more than one occasion that, "In the normal course of review and analysis of any depreciation study, the Company's original proposals are frequently refined or changed." Order No. PSC-1995-1050-FOF-GU, issued August 24, 1995, in Docket No. 19951776-GU.[6]

FCG has provided all known corrections to the OPC and Commission Staff in a transparent, straightforward manner, upon its own realization of errors made. Such transparency and due diligence should not be mistaken for a misunderstanding of the data or other ineptitude, but rather the appropriate refinement of an analysis as new, correct information comes to light.

Q. Similarly, at page 20, Witness Dunkel suggests that FCG has acknowledged it has incorrect data and cannot determine correct numbers. Is the data used by the Company inconsistent or otherwise insufficient to support the requests depreciation rates, lives, and salvage values?

A. No, it is not. Moreover, FCG has never stated nor implied uncertainty regarding the data used in the 2025 Study. To be clear, FCG was acquired by Chesapeake Utilities Corporation on December 1, 2023, and therefore does not possess detailed historical activity records for the period 2021–November 2023. During the acquisition, Chesapeake loaded the FCG asset listing acquired from FPL into its continuous property records and project details for ongoing projects as of December 2023. As a result, FCG cannot provide complete supporting documentation for activities recorded prior to acquisition and must rely on source records from the prior owners.

Witness Dunkel was provided a high-level reconciliation between booked additions and audited financial reports for 2021–November 2023, which did not include vintage

[6] See also, Order No. 1995-0180-FOF-TL at page 5, issued February 9, 1995, in Docket No. 19941229-TL, which was protested, but only as it pertained to United.

or accounting details. FCG identified variances between the annual reports and prior property records and reported them as FPL's reconciling adjustments in schedules provided to OPC. While detailed historical entries are unavailable, FCG's continuous property records are reliable. The activities from 2021–November 2023 are embedded in the asset balances carried forward into Chesapeake's records. FCG's reconciliation of investments by vintage for 2021–2024 against audited financial statements confirmed minimal discrepancies and demonstrated that its continuous property records are the most reliable and efficient source [swiftest means of obtaining the information] for determining asset distribution as of January 1, 2025, for average age calculations of surviving investments.

Q. Beginning on page 16 of his testimony, Witness Dunkel asserts that FCG's depreciation study violates Florida Administrative Rule 25-7.045(5)(h) because it relies on data that does not "agree with activity booked by the utility". He further claims there are "vast inconsistencies" between the study data and FCG's audited Annual Reports, resulting in erroneous calculations for average age, remaining life, and reserve surplus. Do you concur with Witness Dunkel's assessment?

A. No. Witness Dunkel's conclusion is incorrect and misleading. FCG's 2025 Depreciation Study complies with Rule 25-7.045(5)(h) and aligns its data with booked accounting activity. The Company used all reasonably available information and supplemented gaps with peer group data (Exhibit PSL-4), a standard and accepted practice in depreciation studies.[7]

[7]Order No. PSC-2023-0103-FOF-GU, page 19.

FCG rejects the claim of "vast inconsistencies" between the study and its audited Annual Reports. Variances cited by Witness Dunkel for years 2021-2024 reflect normal timing differences between asset placement and the recording of post-in-service costs—not errors or noncompliance. These differences do not result in flawed methodology or inaccurate calculations of the age.

Further, during discovery, FCG provided detailed reconciliations for all accounts with significant variances between the study data and Annual Reports (2021-2024), as shown in OPC Interrogatory Nos. 17–19. These reconciliations confirm that the discrepancies are due to timing with only three instances involving surviving investment figures differing from source documentation, and those were fully explained. OPC's witness did not include any of these reconciliation schedules in his Exhibit WWD-5. In particular, Witness Dunkel's choice to highlight a partial schedule for 2021 at page 19 of his testimony is misleading and inconsistent with the reconciliations FCG has provided the record. As such, I have included with my testimony Exhibit PSL-5, which includes the reconciliations provided in response to OPC ROG 3-17 through 3-19.

Q. Would it be unusual for additions reported on a company's 2021 Annual Report to differ from what is shown as the December 31, 2024 surviving investment for the 2021 vintage?

A. No. Additions reported in the 2021 Annual Report can differ from the surviving investment for the 2021 vintage as of December 31, 2024, even without retirements, adjustments, or transfers. This occurs because legitimate late charges or true-ups related to the original project cost may be capitalized in a later accounting period.

These timing differences between the in-service date and subsequent cost entries are normal and represent valid components of the total capitalized cost.

Q. Please explain what is meant by timing differences.

A. Assume a project costing $5 million is placed into service in October 2024 with an expected service life of 40 years. In June 2025, after the project is closed out, the Company receives a contractor's final invoice totaling $100,000 for construction work performed before the project was placed in-service. That $100,000 in late charges is added to the original costs of the asset and references that same in-service date of October 2024 as the original entry. Financial records for year 2024 will not be restated to include the additional $100,000 project variance. Instead, the utility will report the late charges as part of its new plant additions in the 2025 financials and depreciate the new additions over the remaining life of the asset, which, at year 2025 assuming a square-wave curve is 39 years.

Q. On pages 18-23 of Witness Dunkel's testimony, he characterizes the inconsistencies between FCG's data and FCG's Annual Reports as "huge" and therefore, the study should be rejected. Do you agree with Witness Dunkel's assertion?

A. No. I do not. The study has been extensively reviewed by all parties (FCG, Commission Staff, and OPC), reconciled to Annual Reports for 2021–2024, and amended to incorporate all known corrections. FCG provided these updates to ensure all stakeholders have the most complete and accurate data available. Rejecting the study at this stage would be a draconian measure inconsistent with the Commission's historical approach to depreciation studies.

Q. Would there be any changes to the data if the study were rejected and refiled at a later date?

A. If the 2025 Study were rejected and refiled later, the implementation date would change, and the only substantive change to the data would be the inclusion of one additional year of actual data from FCG's continuous property records. No other material changes are anticipated.

V. <u>Statistical Analysis</u>

Q. Both Witness Dunkel and Witness Kunkler expressed concern that the FCG study did not include a statistical analysis. Is that a reasonable concern?

A. No. I will explain there are several reasons why it is not, and should not be a concern.

Q. On pages 27–28, Witness Dunkel contends that FCG did not file a comprehensive, new depreciation study because the study filed did not include a statistical analysis. Is statistical analysis required for life and salvage determinations under the Commission's Rule 25-7.045, F.A.C.?

A. No.

Q. Can you give an example of a recent depreciation study completed without statistical analysis, where the Commission approved new rates and parameters?

A. Yes. In the recent Florida Public Utilities consolidated natural gas depreciation study, Docket No. 20220067-GU, the Commission approved revised depreciation rates and parameters without any statistical analysis being performed.

Q. Did you perform statistical analysis for your life and salvage proposals?

A. No. After reviewing the information in the last Commission order on depreciation for FCG, Order No. 2023-0177-FOF-GU, the statistical analysis results from the Gannett Fleming Depreciation Study, the account activity since 2022, as well as information gleaned from conversations with FCG personnel, my opinion was that additional statistical analysis was not needed at this time.

Q. Is this a basis for rejecting FCG's 2025 Depreciation Study and retaining the current depreciation rates, as Witness Dunkel suggests?

A. No. First and foremost, Witness Dunkel's assertion that FCG failed to file a complete depreciation study is incorrect and inconsistent with the Commission's depreciation rule for gas utilities. His claim rests on the premise that Rule 25-7.045(4)(a), F.A.C., requires statistical analysis to support life and salvage proposals. In fact, the Rule contains no such requirement. FCG's depreciation study fully complies with the requirements explicitly set forth in the Rule. The study provides the necessary data, methodology, and supporting rationale consistent with Commission standards. If the Commission determines that statistical analysis should be a required component of future depreciation studies, the appropriate course of action would be to revise Rule 25-7.045, F.A.C. to reflect that expectation. Companies should not be penalized for failing to provide information that is not currently required under the governing regulation.

Q. Witness Dunkel also cites a section from the NARUC *Public Utility Depreciation Practices* regarding life analysis to support his claim that FCG did not submit a

complete depreciation study. Does this language support Witness Dunkel's claim that FCG did not provide a complete study?

A. No, Witness Dunkel's reliance on the referenced passage from *Public Utility Depreciation Practices* is misplaced. The language he references states: "Historical life analysis is the study of past occurrences that **may be used** to indicate the future survivor characteristics of property." (emphasis added). The key phrase is "may be used." NARUC does not mandate that historical life analysis must be employed to establish future life expectations. Rather, it acknowledges that such analysis is one possible tool among others available to depreciation analysts. Moreover, the NARUC Public Utility Depreciation Practices manual advises against strict reliance on historical data and fitting, and states, "Depreciation analysts should avoid becoming ensnared in the historical life study and relying solely on mathematical solutions. The reason for making an historic life analysis is to develop a sufficient understanding of history in order to evaluate whether it is a reasonable predictor of the future. The importance of being aware of circumstances having direct bearing on the reason for making an historical life analysis cannot be understated.... The analyst should become familiar with the physical plant under study and its operating environment, including **talking with the field people who use the equipment being studied**."[8] (Emphasis added) Thus, neither NARUC guidance nor Rule 25-7.045, F.A.C., requires historical life analysis to determine average life expectancy.

[8] *Public Utility Depreciation Practices,* published by the National Association of Utility Commissioners, 1996, page 126.

Q. In your experience, is it prudent to base life and salvage projections on historical trends?

A. No.

Q. Please explain.

A. For any depreciation study, considerations other than the historical data should inform the service life and net salvage recommendations, because conducting a depreciation study involves estimating the future (e.g., the future service life experience and timing of future retirements) over many decades. FCG's overall data is available for a relatively short period of time (19 years). Relying only on historical data assumes that the future service life experience and retirements will be substantially the same as the past, which, in my experience, I have found is usually not a reasonable assumption. This is true even if there is extensive historical data available that provides fairly definitive indications of how long assets have survived in the past.[9]

For a company such as FCG, with more limited data, it is more critical to exercise judgment in estimating service lives. Accordingly, while I reviewed the statistical analysis results in the Gannett Fleming study, the limited extent of available data requires that other factors—such as Commission-approved estimates in prior depreciation studies for FCG and other Florida gas companies—be given greater consideration than would be the case for a utility with a much more extensive data history.

[9] For example, Tampa Electric Company has approximately 75 years of data based on information in Docket No. 20230139-EI.

Q. On page 28,Witness Dunkel asserts that FCG has claimed that retirement rates averaging less than 1% are meaningless. Did you make that claim?

A. No, nor did I claim that that means there is something wrong with the data. The data itself is not meaningless, insufficient, or unreliable; rather, it is the statistical analyses results of such minimal retirement activity that lacks value. Retirement rates averaging less than 1% indicate a lengthening of service life, as Witness Dunkel acknowledges on page 29 of his testimony. He further concedes on page 31 that multiple average service lives and curve shapes could fit the data. That is precisely my point: extremely low retirement rates allow for numerous possible curve fits, making reliance on the service lives of other Florida gas companies both necessary and consistent with Commission practice for life projections.

In normal circumstances, conducting the same statistical analysis year after year is not productive for determining useful life indications. In contrast, reviewing average retirement rates, as I did, will show if – and when – there is any change in the retirement pattern that warrants further investigation as to cause, and possibly the need to conduct a new life analysis. Statistical analysis will, at best, only reveal how the subject plant investment has lived in the past. As such, reliance solely upon statistical analysis in the determination of an average service life has limited benefits and is only valuable if the future is expected to mirror the past.

Q. On pages 31-32, Witness Dunkel suggests that your assertion that retirement rates averaging less than 1% per are not reliable for statistical analysis is not

supported by the NARUC *Public Utility Depreciation Practices*. Do you agree?

A. While there is not a specific citation, the National Association of Regulatory Utility Commissioners (NARUC) discusses stub curves, that is, incomplete curves that do not reach 0% surviving. NARUC states "It is generally considered desirable to have the stub curve drop below 50% surviving."[10] Additionally, in Depreciation Systems by Frank Wolf and Chester Fitch, stub curves with more than 70% surviving are considered not a reasonable fit with accuracy to complete curves.[11]

For example, accepting the curve graph and original life table as presented in Exhibit EAK-1 of Witness Kunkler's testimony for the combined Steel and Plastic Mains accounts (Account 3761 and Account 3762), a stub curve exists with more than 70% surviving. Therefore, it is logical to conclude that the data should not be considered a reasonable fit to a complete curve.

Q. Because there is no reasonable fit to a complete curve, how did you determine that the R2.5 curve is appropriate?

A. This is where professional judgment comes into the process. Certainly, historical data would indicate very little infant mortality (early retirements). From conversations with FCG, its program to relocate mains from the customer's back yard to more accessible areas as well as the program to retire orange pipe due to safety concerns has led to increased future retirement expectations, and a mortality dispersion (curve shape) recognizing more early retirements. While the historical data may indicate a higher mode curve, taking the above into consideration supports a curve indicating more early

[10] *Public Utility Depreciation Practices,* published by the National Association of Utility Commissioners, 1996, page 120.
[11] *Depreciation Systems*, Frank K. Wolf and W. Chester Fitch, Iowa State University Press, 1994, pages 48-50.

retirements than historical indications. The existing curve shape underlying the currently prescribed average remaining life is an R2. My professional judgment is an R2.5 curve recognizes some increase in retirement expectations and is more indicative of the future.

Q. Do any of FCG's accounts provide complete survivor curves?

A. No. A survivor curve will extend to the maximum life when the group or account is fully retired or approaches full retirement. This means that a curve and average service life are not known until the group or account retires. We are dealing with estimates based on the most current information available including judgement. Judgement is not limited to estimating future expectations and is often used where there is a limited data set. This does not mean that FCG's data is incomplete. It means that more subjectivity enters into determination of a curve shape that is a mix of history and future expectations. There are curve fitting techniques, such as mathematical or visual methods, that can be used in extending the stub curve[12] to a complete curve in order for a life calculation to be made.

Q. Did you use professional judgement in developing your proposed lives, curve shapes, and net salvage values?

A. Yes, as well as input from company personnel.

Q. Why is it important to give significant weight to information obtained from Company subject matter experts, as well the professional judgment of a depreciation expert?

[12] A stub curve is an incomplete curve, one that does not extend to maximum life.

A. FCG has changed ownership since 2022 and will not be subject to the same historical retirement patterns and net salvage practices and procedures. This makes reliance on current operational insight in combination with relevant professional judgment in depreciation much more important to incorporate in the future life and salvage expectations. FCG's personnel are knowledgeable about the assets being studied and deal with these assets as part of their work assignments. Their input is invaluable given the small level of analytical data and should carry significant weight, especially when historical statistical analysis does not capture forward-looking insight. In addition, as I've noted earlier, this is consistent with the guidance in the NARUC Public Utility Depreciation Practices manual. [13]

Q. Witness Dunkel also suggests that FCG has miscalculated the average retirement rate. Is he correct?

A. No. It appears that Witness Dunkel misunderstands how FCG has made its calculations in Schedule F-1. FCG's calculation takes the retirements during the year divided by the exposures (plant in service at the end of the years plus the retirements during the year). Exposures equate to the plant exposed to retirement during the year.

Q. Is the retirement rate calculation in FCG's Schedule F-1 consistent with appropriate depreciation methodology?

A. Yes.

Q. Did Witness Dunkel provide any support for his assertion that the calculations were incorrect?

[13] *Public Utility Depreciation Practices,* published by the National Association of Utility Commissioners, 1996, page 126.

A. No. While he offered an example and referred back to the prior study, his underlying analysis was unsupported and still misunderstood FCG's calculation of the retirement rates.

Q. Does Witness Dunkel's assessment that FCG's depreciation study is based on "circular logic" hold water?

A. No. It does not. FCG's proposed lives are based on a reasoned analysis of historical experience, industry benchmarks, and forward-looking expectations. While past data informs the study, it is not the sole determinant—for projecting future service lives. Florida gas utilities are subject to similar meteorological conditions (i.e., hurricane incidence), and subsurface conditions (e.g., karst geology, saltwater intrusion and corrosion). Additionally, being in a peninsular environment, Florida companies are subject to similar operating and environmental conditions of heat and humidity. They are also subject to similar regulatory environments relating to, for example, storm protections that impact maintenance and retirements. Expensing and capitalization practices are also similar among Florida companies regardless of the number of customers being served. Thus, comparisons to the service lives of assets for other similarly-situated companies is appropriate and aligns with Commission standard practices, ensuring that estimates reflect both historical trends and anticipated conditions. The range of lives for the companies in Florida has historically been used as a range of reasonableness for company proposals, as well the Commission's analysis of those proposals.[14] There is nothing circuitous about it.

14

VI. Parameter Selection and Objectivity

Life Parameters

Q. On page 6 of Witness Kunkler's testimony, lines 2-5, he suggests that, for this study, you relied, at least in part, on the life analysis from the Gannett Fleming Depreciation Study. Is that a correct assessment?

A. No. I reviewed the study as a reference tool, accepted the results at face value, and determined that additional statistical analysis was not necessary. That does not mean I agreed with the conclusions. Statistical life analysis depends not only on the input data and output, but also on the assumptions and variables selected by the analyst running the program. Because I do not know all of those assumptions, I cannot state whether the analysis is correct in the Gannett Fleming Depreciation Study. All I can say is that the analysis represents the results he produced, and I recognize that other interpretations are possible. Moreover, I did not believe it appropriate to rely on data from a study that was not actually approved by the Commission.

Q. On pages 8-9, Witness Kunkler proposed an R4 curve for the combined Steel and Plastic Mains (Account 3761 and Account 3762). Is this curve appropriate in depicting future retirement expectations?

A. No, Witness Kunkler's proposed R4 curve is not appropriate for depicting future retirement expectations for the Steel Mains (Account 3762). FCG's proposed R2.5 curve better reflects anticipated future conditions of increased retirements due to the SAFE program as compared to the existing R1.5 for Steel Mains (Account 3762). While the R4 curve reasonably represents historical life characteristics, it assumes a very minimal retirement pattern that does not reflect the Company's anticipated conditions. For this reason, it's important to give more weight to company input and the professional judgment of a depreciation expert for future expectations. FCG has demonstrated that its SAFE program will accelerate retirements of older mains, making the R2.5 curve a more accurate and forward-looking choice, including the Company's plan to continue adding new steel mains. The R2.5 curve incorporates both historical data and Company input regarding planned replacements, ensuring that depreciation rates align with expected future activity rather than trends that no longer apply. Additionally, adopting R2.5 minimizes intergenerational inequity by allocating costs more fairly across current and future customers, rather than deferring expenses far into the future as the R4 curve would. This approach is consistent with regulatory principles and industry practice, which emphasize prospective analysis and expert judgment when known changes in retirement patterns are imminent.

Q. On page 9, Witness Kunkler claims FCG's proposed 65/R2.5 life pattern "does not adequately represent the dispersion witnessed in historical retirements" and argues that "a 65/R4 life pattern is a better representation." Does this suggest his analysis relied solely on historical data?

A. Yes. His testimony indicates he based his recommendation for life/curve pattern for Steel Mains (Account 3762) on a curve derived from historical retirements in the Gannett Fleming Depreciation Study. He did not incorporate the Company's expectations or judgment about future retirements, including those influenced by FCG's SAFE program.

Q. What life/curve pattern did the Commission approve for Steel Mains (Account 3762) in FCG's last proceeding?

A. The Commission approved a 65/R1.5 life pattern in the last rate case, Order No. PSC-2023-0177-FOF-GU.

Q. Is Witness Kunkler's reliance on Gannett Fleming Depreciation Study an appropriate basis for making adjustments to FCG's 2025 Depreciation Study?

A. No. It is important to remember that FCG is proposing parameters of how the investment is expected to live in the future not how it has lived in the past. While the Gannett Fleming Depreciation Study can serve as a reference, it should not be the primary basis for any recommendation.

The existing R1.5 curve indicates more future retirements than FCG expects. Witness Kunkler's proposed R4 curve indicates few retirements through age 33. The R4 curve may be indicative of how the account has lived historically, but based on company input described above, a lower modal curve than R4 is appropriate.

Q. On page 9, Staff Witness Kunkler states that a R4 is a better representation for the Steel Mains (Account 3762) historical retirements. Do you agree?

A. No. Again, his recommendation relies solely on historical retirement data and the statistical analysis in the Gannett Fleming Depreciation Study. Because FCG's historical data is limited, it is critical to consider additional factors—such as future expectations under the SAFE program—which he ignores. While R4 reflects past retirements, it does not account for anticipated changes based on input from Company personnel.

D2-36

Salvage Parameters

Q. As it pertains to the salvage proposal in the 2025 Depreciation Study, Witness Dunkel suggests that FCG's net salvage proposals are intended solely to increase the calculated reserve surplus. Do you agree?

A. Absolutely not. FCG's net salvage proposals are based on a comprehensive review that includes historical salvage data, recent trends, input from subject matter experts (SMEs), projections from other Florida gas companies, and professional judgment. These proposals were not designed to create or enlarge a reserve imbalance.

Q. He also suggests that the reserve surplus is designed to benefit shareholders and therefore a conflict of interest for the personnel selecting the parameters. Do you agree?

A. No. That is an absurd assessment from several perspectives that he repeats several times throughout his testimony. Repeating it, however, does not make it true.

First, I conducted the study and the responsibility for the selection of the parameters ultimately rested with me. I am an outside consultant to the Company. I am not a shareholder in the Company nor am I a regular employee.

Second, the data utilized and analysis conducted to complete the 2025 Study is consistent with the Commission's Rule, NARUC's *Public Utility Depreciation Practices* manual, and Commission-accepted depreciation policies.

Third, the reserve surplus reflected in the 2025 Depreciation Study was the result of the 2025 Study, not the goal, as Witness Dunkel implies. If he were correct, the Company's self-initiated adjustments, which ultimately reduced the reserve surplus from that reflected in the initial filing, would be completely illogical.

Fourth, a reserve imbalance does not benefit either shareholders or customers. It is not an account or pot of money from which shareholders can make withdrawals.

Finally, the Company's proposal to amortize the surplus over two years is specifically intended to return the benefit to current customers through lower depreciation expenses, consistent with Commission precedent, as both I and Witness Everngam have stated previously.

Q. Do you agree with Witness Dunkel's assessment that FCG's net salvage proposals for Plastic Services (Account 3801) and Steel Mains (Account 3762) are simply a means to increase the reserve imbalance and are not supported by facts in this case?

A. No, I do not agree. While historical data shows net salvage more negative than FCG's proposals, Company SMEs anticipate less negative net salvage going forward. Improved accessibility to retired pipe is expected to reduce labor costs, which are the primary driver of removal expense. FCG's proposals also consider the net salvage estimates of other Florida gas companies, as shown in Exhibit PSL-4. Although recent experience from 2020–2024 reflects more negative net salvage, judgment and SMEs input should carry greater weight than historical averages, particularly given the minimal retirement activity for these accounts. For Steel Mains, net salvage has steadily improved—from negative 97% in 2021 to negative 1% in 2024—and, under Chesapeake's removal practices, this trend is expected to continue. Plastic Services show a similar, though less pronounced, improvement. Witness Dunkel's reliance on historical salvage ignores these trends and operational changes, making his conclusion misleading.

Q. Did Witness Kunkler have concerns with regard to FCG's proposed net salvage factors?

A. Witness Kunkler disagrees with FCG's proposed net salvage factors for Steel Mains (Account 3762) and Plastic Services (Account 3801). He contends that FCG has not provided sufficient support for proposing less negative net salvage values, given that both historical data and the recent 2020–2024 period reflect more negative net salvage than the Company's recommendations.

Q. What information has FCG provided to support its proposed net salvage factors?

A. FCG's proposals are based on multiple considerations. First, input from Company SMEs indicates that less negative net salvage is expected in the future, primarily due to improved accessibility to retired pipe, which will reduce labor costs—the largest component of removal expense. Second, the proposals reference net salvage estimates from other Florida gas companies, as shown in Exhibit PSL-4. While recent experience from 2020–2024 reflects more negative net salvage than FCG's recommendations, judgment and SME input should be given greater weight than historical averages, particularly given the minimal retirement activity for these accounts. For Steel Mains, net salvage has improved significantly, moving from negative 97% in 2021 to negative 1% in 2024, and under Chesapeake's removal practices, this trend is expected to continue. Plastic Services show a similar, though less pronounced, improvement. Witness Kunkler's position—that no change should be made because current factors fall within the range of other Florida companies—fails to consider these trends and operational changes. His reliance on historical salvage is misleading given the very low retirement rates for these accounts.

VII. **Handling of Reserve Imbalances**

Q. Witness Dunkel contends that FCG's proposal to amortize the reserve surplus over a period shorter than the average remaining life is tantamount to giving the surplus to FCG's owners by providing an analogy. Do you agree?

A. No. Again, a reserve imbalance, in either direction, does not equate to a funded account. A reserve surplus occurs when customers over pay their fair share of depreciation expense. FCG's proposal amortizes this surplus by reducing depreciation expense for two years, directly lowering cost of service. No cash is "taken" from the reserve; the reserve is an accounting mechanism, not a bank account. The adjustment ensures customers who contributed to the surplus are more likely to receive the benefit promptly, consistent with Commission precedent.

FCG's proposal reduces depreciation expense by approximately $11 million per year for two years. This reduction flows through cost of service, benefiting customers. Amortization using the remaining life approach would take much longer to return the surplus to FCG's customers.

Witness Dunkel's suggestion that the surplus should be refunded through tariff reductions conflates depreciation accounting with revenue requirement adjustments, which is not how reserve corrections are handled under Rule 25-7.045, F.A.C.

While it is true that any increase or decrease in depreciation expenses will affect a company's earnings, in FCG's case, the decrease in depreciation expenses will simply allow the Company to earn within its authorized rate of return range, as detailed in the rebuttal testimony of Matt Everngam. In that regard, I do agree with his statement at page 54, in lines 10-13, that, "If the amount of depreciation expense that is being recorded in the Depreciation Reserve is not based upon the depreciation expense that is being collected from the ratepayers, that makes the Depreciation Reserve less accurate, which makes the rate base and the amount of return on rate base the investors receive less accurate." The 2025 Depreciation Study I have sponsored corrects the depreciation expense being recorded to the reserve so that the impact on rate base, and allowed return determined in the next rate case is accurate.

Q. Witness Dunkel, however, claims removing funds from the reserve will increase rate base and future rates. Is his assertion correct?

A. This is misleading. First, there is no "removal of funds" from the reserve. Rate base calculations in a future rate case will reflect actual plant and accumulated reserve balances at that time, subject to Commission review. Amortizing the surplus does not automatically increase rates; it reduces depreciation expense now, benefiting customers.

Q. Witness Dunkel also contends that the annual reduction in depreciation expense based on FCG's proposed depreciation rates is misleading and will lead to higher future depreciation rates. Do you agree?

A. No. I do not agree. The $1 million reduction in depreciation expense is based on FCG's proposed depreciation rates using investments and reserves as of the study date, company future expectations, and professional judgment. A reduction in depreciation expense does not automatically necessitate a future increase. The decrease is a benefit to customers because it will lower the revenue requirement in the next rate case. Whether rates must be adjusted in the future depends on a number of factors, including actual service life experience, reserve adequacy, and Commission review in subsequent depreciation studies. Depreciation is a cost component in setting rates; reducing it decreases the overall cost of service. In my opinion, Witness Dunkel's assertion oversimplifies the process and does not reflect the judgment required in applying depreciation principles to a company of FCG's size and data set.

Q. How does Witness Kunkler address any reserve correction measures?

A. On pages 13-14, Witness Kunkler proposes reserve transfers but makes no recommendation for the remaining reserve surplus, leaving open whether amortization should be over the remaining life through the remaining life rate design for each account or amortization over a shorter period of time as FCG proposes. However, his Exhibit EAK-4 depicts the change in depreciation expenses comparing his proposed remaining life rates and FCG's proposal.

Q. Is the amortization of a reserve surplus covered in depreciation theory?

A. No. Correction of reserve deficiencies or surpluses are policy driven, not depreciation theory. To be clear though, recovery of reserve imbalances through remaining life depreciation rates is amortization, just over the average remaining life. The issue is whether reserve imbalances, deficits or surpluses, should be recovered/amortized over a period shorter than the remaining life. A shorter period would result in a quicker correction of the understated rate base to its appropriate level. Any reserve imbalance indicates the existence of intergenerational inequity that should corrected as fast as economically practicable. The Commission's historic policy has been to return reserve surpluses over a period as fast as a company can afford, while typically recovering deficits over longer periods. In FCG's case, correcting the reserve is a correction to an understated rate base, which has contributed to the Company not earning a fair return on its investments as discussed in Matt Everngam's rebuttal testimony.

Q. Do you agree with Witness Kunkler's assessment of the corrective reserve options available?

A. He offers two alternatives to correct the imbalance: (1). amortize the remaining reserve surplus over the remaining life of each account, estimated over 40 years, or (2). amortization over 2 years. I agree that those are the options available and his analysis of those options, based upon the reserve surplus he has calculated, appears correct. However, Witness Kunkler calculates a net reserve surplus of $6.8 million based on his proposed depreciation parameters. In contrast, FCG calculates a net reserve surplus of $19.2 million and proposes a 2-year amortization to return the surplus to the customers who may have paid for it. In my expert opinion, 40 years is far too long for ratepayers to realize the benefits of a reserve surplus through lower depreciation expenses.

Q. Does the Commission have a policy on the corrective treatment for reserve imbalances?

A. The Commission has an established policy of using a combination of remaining life rates and amortization over a given period to correct reserve imbalances, deficits or surpluses. The period of amortization has been as short as 1 year to more than 30 years. Whether an account reserve imbalance or a bottom-line reserve imbalance is not the issue. Both relate to a failure to recover and a misstatement of rate base that should be corrected as fast as possible in order to restore intergenerational equity. Correcting a reserve surplus is just as important as correcting a reserve deficit. My Exhibit PSL-6 lists cases where the Commission has addressed the treatment of reserve imbalances through amortization periods shorter than the remaining life.[15] Additionally, reserve transfers, explicitly provided in Rule 25-7.045, F.A.C. have been a standard Commission practice for decades. Reserve transfers, in my opinion, are essentially 1-year amortizations of a reserve imbalance.

VIII. Conclusion

Q. Please summarize the Company's proposal in this proceeding.

A. Florida City Gas proposes revised depreciation rates effective January 1, 2025, based on its 2025 Depreciation Study. The study updates average service lives, curve shapes, and salvage factors to reflect current expectations and correct a significant reserve surplus. The Study identifies a $19.2 million surplus, which the Company recommends amortizing over two years to promptly return over-recovered amounts and maintain intergenerational equity. This approach will reduce annual depreciation expense by approximately $10.7 million for two years and about $1 million thereafter. Overall, the proposal ensures appropriate recovery of investment and compliance with Rule 25-7.045, F.A.C.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

[15] FCG's response to Staff's Second Set of Interrogatories, No. 26.

BY MS. KEATING:

Q Did you also cause and be prepared and filed with your rebuttal testimony two exhibits, PSL-5 and PSL-6?

A Correct.

MS. KEATING: Mr. Chair, I believe those have already been marked on the CEL as Exhibits 24 and 25.

CHAIRMAN LA ROSA: Okay.

BY MS. KEATING:

Q Did you prepare a summary of your rebuttal?

A I did.

Q Please go ahead and present that.

A Good afternoon, Mr. Chairman and fellow Commissioners. The purpose of my rebuttal testimony is to respond to the critiques and concerns raised in the testimonies of OPC Witness Dunkel and staff Witness Kunkler with respect to FCG's depreciation study.

First, I disagree with OPC Witness Dunkel that FCG's depreciation study is not complete because it does not contain statistical analysis of historical activity. The Commission's depreciation Commission rule does not require statistical analysis in a depreciation study. Historical analysis is just that, it's a picture of the past, because depreciation life and salvage parameters and resulted depreciation rates are forward-looking, future estimates, historical analysis is only one tool in the toolbox available for depreciation review. It should not be the stole determination of future life of salvage expectations.

I reviewed, not relied on, I reviewed the historical statistical analysis results presented in the 2022 Gannett Fleming study and accepted them on face value. I also reviewed the account's activity from 2021 to 2024. I had many discussions with the company's subject matter experts, and reviewed the current approved depreciation parameters for other Florida gas companies in my life and salvage determinations. FCG's depreciation study is not deficient in any respect to the Commission's current study requirements.

I also disagree with Witness Dunkel that depreciation rates and amortizations should only be revised with new revenue rates. In my opinion, depreciation studies should not be respected to revenue rate proceedings. Certainly, a company can file a depreciation study in conjunction with a rate proceeding, but restricting studies to be filed only in a rate case would unnecessarily limit the opportunity to correct depreciation rates and parameters even if known information suggests that they should be changed.

With respect to data integrity, FCG refined its originally filed depreciation study in consideration of issues identified during the discovery process, and also inconsistencies FCG found itself. These revisions were made in FCG's amended filing as appropriate refinements, not as a misunderstanding of its data.

Witness Dunkel overstates the extent of the inconsistencies between FCG's study data and its audited annual reports, which have all been reconciled. Many inconsistencies were due to timing differences between in-service date and late charges or true-ups related to the project.

With regard to staff Witness Kunkler's testimony regarding service lives, I explain why the service lives of net salvage values for the mains and services accounts recommended in FCG's depreciation study are, in my opinion, more forward-looking and reasonable than he recommends, which are based solely on historical indications.

With regard to resulting reserve imbalance and his suggestion that the proposed amortization will lead to higher depreciation rates and base rates, I disagree with OPC Witness Dunkel.

First, the goal of the depreciation study was not to come up or create a reserve surplus, as can be seen with the reduction of the calculated reserve surplus from the February original filing to the November amended filing.

Second, the fact that there is a reserve surplus indicates that net plant investment less reserve is understated, and represents a misstatement of rate base.

Third, whether depreciation rates or base rates are adjusted in future -- in the future depends on a number of additional factors but not limited to determinations on this depreciation study. Depreciation is only one cost component in setting customer rates.

In conclusion, the average service lives and remaining lives in net salvage values recommended in the FCG depreciation study should be approved. Further, the calculated reserve surplus of 19.2 million should be amortized over a period of two years. This approach will reduce annual depreciation expenses by about $10.7 million for two years, and then $1 million thereafter -- approximately $1 million.

This concludes the summary of my rebuttal testimony and I thank you for your time.

CHAIRMAN LA ROSA: Thank you.

MS. KEATING: Thank you, Ms. Lee.

Mr. Chairman, the witness is tendered for cross.

CHAIRMAN LA ROSA: Great. Thank you.

OPC.

MR. REHWINKEL: Thank you, Mr. Chairman.

EXAMINATION

BY MR. REHWINKEL:

Q Hello again.

A Hello again.

Q Let's go, if we can, to E5621, Exhibit 24. And you recognize this request for admission -- these requests for admissions?

A I do.

Q Request number one referring to your testimony at page 29, lines 12 through 15, asks if you -- to admit or deny that FCG's proposal reduces depreciation expense by approximately 11 million per year for two years. This reduction flows through cost of service benefiting customers, is that correct that your testimony says that?

A Correct.

Q Isn't it true that approximately 9.6 million per year of this $11 million per year is the impact of FCG's proposed two-year preserve surplus amortization, and the rest is the impact of the FCG proposed change to depreciation rates?

A Say that one more time.

Q So of the 11 million, 9.6 is the impact of one year's amortization of the two-year reserve surplus amortization, and the rest is the impact on depreciation rates?

A Correct.

Q And isn't it true that the company admitted when asked the following in part D, which is on E5625: Admit or deny that the two-year reserve surplus amortization FCG has proposed would debit, parenthesis deduct, $9.6 million from the depreciation reserve in the year 2025, and another $9.6 million from the depreciation reserve in the year 2026, you admitted that, right?

A It is a reduction in depreciation expense, which, by way, it does reduce the reserve, yes.

Q So isn't it also true that the company responded admit when asked the following in part E, which is on the next page, E5626: Admit or deny that, if your proposal is granted, then pursuant to the two-year reserve surplus amortization, the depreciation expense in 2025 will be $9.6 million less than it otherwise would be, and with the end user retail customer prices and tariff revenues being unchanged, all other things being equal, the FCG earnings in 2025 would

be $9.6 million higher prior any tax effect?

A Yes.

Q So in year 2025, all other things being equal, under the FCG proposed two-year reserve surplus amortization, $9.6 million would be debited or deducted from the depreciation reserve, and the FCG earnings in 2025 would be $9.6 million higher?

A Yes.

Q Let's look at hearing Exhibit 2 at E53.

MR. SCHULTZ: What was that?

MR. REHWINKEL: E53. E53.

BY MR. REHWINKEL:

Q Looking at the November 4th, hearing Exhibit 2 in E53, this is a reference to staff's Interrogatory 22, do you see that?

A I do.

Q In part A, the staff asked: Please explain if an amortization of any portion or all of FCG's proposed $27.3 million surplus would result in a requested rate base increase by the same amount and such increase reflected in the requested revenue requirements of the company the next time FCG petitions the Commission for a base rate increase. Do you see that?

A I see that.

Q Isn't it true that in your response, you

corrected the $27.3 million number to your more recent number of $19 million?

A I did.

Q Okay. And then your response included this statement as follows: This method does result in an increased rate base when updated depreciation life and salvage values are taken into account, is that right?

A It's correct in a rate base which, in this case, increases it, correct.

Q Let's go to E88 within this Exhibit 2. And I want to get you to look at interrogatory, your response to staff Interrogatory 44?

A Interrogatory 44?

Q 43, I am sorry. Do you see that?

A I do.

Q Specifically the staff asked the following: Assuming all other things equal, i.e., no new depreciation study, would the requested two-year amortization of the $27.3 million surplus lead to a higher depreciation expense and higher customer rates in FCG's next rate case than if the surplus were corrected using the remaining life technique? Do you see that?

A I do.

Q Now, isn't it true that in your response, you corrected the number to $19 million, and then your

response with the following: Notwithstanding these objections and without waiving these objections, FCG agrees that correction of the reserve imbalance over the proposed two-year period compared to a correction through the remaining life tech -- remaining life rate design could, in a vacuum, result in an increased rate base and depreciation expenses, parenthesis, as compared to expenses during the two-year amortization period in FCG's next rate case proceeding --

A Correct --

Q -- do you see that?

A -- correct, in a vacuum.

Q Let's go to E5629 in Exhibit 24. And this is request -- OPC RFA, or Request for Admission No. 3.

Do you see there where the financing response is admit in response to the following request: Admit or deny that in calculation of a remaining life depreciation rate, with all values the same other than the amount of depreciation reserve, that using a lower amount of depreciation reserve will result in the calculation of a higher depreciation rate than would be calculated using a higher amount of depreciation reserve?

A Correct.

Q All right. Let's go to -- I want to talk to

you about aged data, if we can, and take you to E5006 at hearing Exhibit 18. Are you there?

A I am.

Q Okay. This is the response to OPC Interrogatory 35. Do you see that?

A I do.

Q Okay. As quoted there from page 14, lines 14 through 15 of your testimony, your rebuttal testimony, you said: The Commission rules do not require a statistical analysis. Do you see that?

A I do.

Q Isn't it true that in this response, that the Commission rules say that when available, retirement data shall be aged?

A When available, shall data shall be aged. That is a correct statement.

Q You would agree, as discussed in part A of this interrogatory, that the NARUC definition of aged data is as follows: A collection of property data for which the date -- the dates of placements, retirements, transfers and other actions are known?

A I will take your word that that's what NARUC says.

Q Okay. My intention is that I quote it accurately to you.

A Pardon me?

Q My intention was to quote it accurately to you.

A Very good.

Q Okay. Is it correct that on E5007, 5007, with regard to part B, you answered correct to the following request, which asked: Is it correct that since FCG had aged data, it knew the various ages at retirement of the investments which retired in 2024, but this data showing the ages at retirement was not used in this FCG life analysis?

A That is correct.

Q Let's go to E5010, Exhibit 18, 5010. And I would ask you to review your response to OPC 36, Interrogatory 36.

A Any particular part, A, B, C, D, E?

Q Well, this is -- so at the -- under 36, it cites your testimony at page 21, and it starts off: It appears that Witness Dunkel misunderstands how FCG has made its calculation in Schedule F1, do you see that?

A For the retirement -- average retirement rate, that's correct.

Q And that's what you testified to in part, right?

A Yes.

Q Okay. Now, your -- that interrogatory at 5010, 5010, quotes Mr. Dunkel's testimony, right in E -- let's see, C and E?

A C and E?

Q C, D -- let's see, C and E, do you see that?

A I see C, yes.

Q Okay. So isn't it correct that you answer, quote, this statement is correct to part C, which is as follows: Is Mr. Dunkel's statement that, quote, in the numerator, the units which retired in 2024 tend to be at the end of their lives, and their Original Costs amounts were recorded decades ago on average; is that a correct statement?

A Yes.

Q Okay. And then in E, you further agree that it's correct where he testified as characterized: Is Mr. Dunkel's statement that the, quote, majority of the dollar amounts in this plant in service in the denominator were recorded in more recent years, parenthesis, as compared to the total of the original cost in the numerator, close parenthesis, you said that was a correct statement, is that right?

A That is what I say.

Q Okay. All right. Let's go to 4835 at Exhibit 15. Are you there, 4835?

A Yes, I am now.

Q Okay. This is OPC Interrogatory 15, and my question is, isn't it true that your response to part B of this question includes the following statement: Yes, an original cost, which was recorded 55 years ago would, in general, be a lower dollar amount than the dollar amount of an original cost of a similar item recorded 10.5 years ago?

A Yes.

Q Let's go to Exhibit 18 and page 5014, 5014, and ask you to review OPC Interrogatory 38 response. Let me know when you have that.

You were asked in that interrogatory on page 26, lines nine through 16 of your rebuttal the following question: He, Mr. Dunkel, also suggests that the reserve surplus is designed to benefit shareholders and therefore a conflict of interest for the personnel selecting the parameters. Do you agree? And you answered the following -- first of all, did I read that correctly?

A You did.

Q Okay. First -- this is you: First, I conducted the study and the responsibility for the selection of the parameters ultimately rested with me. I am an outside consultant to the company. I am not a

shareholder in the company, nor am I a regular employee. Did I read that right?

A Yes, you did.

Q Okay. The Public Counsel also asked: Is it correct that there are other outside consultants which offer to perform depreciation studies for utilities? Do you see that?

A I do.

Q And your answer was -- or the answer was provided was: Ms. Lee is aware that other consultants have performed depreciation studies for utilities, right?

A Correct.

Q All right. Let's go to E5013 in Exhibit 18. And this is OPC Interrogatory 37, and I want to ask you about subpart C.

The question was: Does Witness Lee, or FCG, dispute the statement that when we also include all of the other smaller Florida gas utilities, the average approved net salvage for Florida Gas customers other than FCG is negative 67 percent for services-plastic; do you see that?

A I do.

Q And you answered no, as in you do not dispute that assertion in the question, is that right?

A Correct.

Q On D2-23, on page 12 of your testimony, lines one and two, you state -- testify to the following: FCG rejects the claim of vast inconsistencies between the study and its audited annual reports, is that right?

A That is what I said.

Q And when we go to hearing Exhibit 9, which is Mr. Dunkel's WWD-4 and page C3-530 --

A I am not there yet.

Q Okay.

A Yes.

Q Okay. You are familiar with this page somewhat?

A I am.

Q You would agree that this is a page from the FCG audited 2021 annual report, and it depicts, among others, the mains-steel line additions in 2021 are 5,565,780?

A Yes, I see the 5,565,780.

Q Okay. Just to be clear, besides the additions column, there is a separate column for reclassification. Do you see that?

A I do.

Q Okay. And there is a separate column for adjustments --

A Yes.
Q -- and transfers, right?
A Yes.
Q Okay.
A I see that.
Q But the 5,565,780 in mains-steel is in the separate 2021 additions column, would you agree with that?
A Yes.
Q Okay. In your testimony at D2-23, if would can go there, which is page 12, on lines one and two, you, again, as we just discussed, rejected the claim that there is a vast inconsistency between --
A I do.
Q Okay. Let's go to page E4815 in Exhibit 16, and I am going to ask you to review your answer there.
OPC asked you -- this answer includes an attachment named OPC ROV 3-19 2021-2024 transaction period --
A Yes.
Q -- you see that, and that was also --
A Wait a minute. I may be on the wrong page.
Q Okay.
A You said 4815?
Q Yes. Oh, I think I'm on the right page.

A Well, mine starts off with saying: Staff's Third Set of Data Requests.

Q Oh, I have given you the wrong number.

A Pardon me?

Q I have given you the wrong number.

MR. REHWINKEL: Let me find the right one, Mr. Chairman.

This is in Exhibit 41, I think. Yeah, let's just -- as a shortcut, we will go to Exhibit 10, Mr. Dunkel's WWD-5. I apologize for the misdirection. This is -- yeah, it's Exhibit 8 -- 8? No, this is the one that has Interrogatory 17, 18 and 19, variances. If I could just have a second, Mr. Chairman --

CHAIRMAN LA ROSA: Sure.

MR. REHWINKEL: -- just to make sure.

MS. KEATING: Mr. Chair, I hate to ask, but if we could perhaps maybe have a five-minute break?

CHAIRMAN LA ROSA: Sure. Let's do that. Let's take a five-minute recess.

MS. KEATING: Thank you.

(Brief recess.)

CHAIRMAN LA ROSA: All right. I think we can start off -- you need to grab something? Sure? Okay.

Let's go ahead and pick up where we left off.

MR. REHWINKEL: Thank you, Mr. Chairman. And I found out I transposed the number, and that created all kind of havoc, but I appreciate the opportunity to fix my error.

CHAIRMAN LA ROSA: Sure.

BY MR. REHWINKEL:

Q Okay. Let's start this over.

Let's look at C3-359, if we can. I am sorry, C3-539. It's late. I apologize.

Okay. So you are familiar with this document, which is --

A I do --

Q -- is that right? Okay.

A -- I am familiar with it, yes.

Q Okay. Looking he at the first page of your -- of this attachment named OPC ROG 3-19 2021-2024 transaction period --

A Yes.

Q -- and looking at the third line of numbers, starting with 3762, which is mains-steel?

A Yes.

Q Isn't it true that the company's audited annual report for the year 2021 showed that in that -- in the year 2021, the additions were 5,565,780?

A That is what FPL had on its books, yes.

Q Okay. And isn't it also true that in the second column of numbers, it shows that there have been no retirements in that account?

A That is correct.

Q Which results in the surviving balance of 5,565,780, as shown on the third column of numbers?

A It shows the net additions of 5,565,780 into that column.

Q Okay. Now, I know you have changed the number to the 386,460, but looking at the fourth column, you have the number 546,527, is that right --

A Yes.

Q -- for that account?

A Yes, it is.

Q Okay. And that number at the time you originally filed is what you used on Schedule J of your depreciation study as the amount of surviving investment in the 2021 vintage of account 3762, mains-steel?

A What you are seeing -- the 5,565,780 is the transaction year. It's all the additions that went in for that transaction year. The vintage is different. The -- well, I am showing Schedule J additions for 2021, 546,527. That is for the vintage. The difference between the two, the 5.5 -- 5.6 million and the 546,000, those have been reconciled on -- in response 3-18.

Q But the 546,527 you originally used has now been changed to 386,460?

A Yes.

Q Isn't it true that in your November 4th, 2005, filing, you -- well, I already asked that question.

So if there was an amended version of this attachment, according to the audited annual report, the surviving 2021 balance in accounts 3762, mains-steel, is 5,565,000 even though you used 386,460 on Schedule J, isn't that right?

A No. The 5,565,000 is the transaction for the year. The 386 was for the vintage, is the vintage amount. They are two different things. You have a transaction year. You have a vintage year.

Q On D2-23, page 12 of your rebuttal, on lines six through 15, you state the following, when we get there.

A Normal timing differences?

Q Further, during discovery, FCG provided detailed reconciliations for all accounts with significant variances between the study data and the annual report, 2021-2024, as shown in OPC Interrogatory Nos. 17 through 19, is that right?

A Correct.

Q And then further on, you said: As such, I have included with my testimony Exhibit PSL-5, which includes the reconciliations provided in response to OPC ROGs 3-17 through 3-19, is that right?

A Yes.

Q Okay. Let's go to D2-48, which is page four of your Exhibit PSL-5. Do you see that? Is this page about account 3762, mains-steel?

A I don't know. It says it is 3762, yes.

Q In the column headed Addition 2021, do you see that?

A Yes.

Q The activity is at the bottom of that page, do you see that?

A The 41 million, is that the number you are looking at?

Q I can't read it.

A 41,000,835 or 41,000,885?

Q So if you go to where it says transaction years, and then underneath it says additions 2021, if you go all the way down. This is going to be an exercise. If you see under the ASR filing line --

A The per ASR.

Q It's in green. It's really hard to read.

A Oh.

Q You see the 5,545,7 --

A Okay, I am not with you.

Q -- 80, you do see that?

A No, I don't.

Q Okay. Do you see where the purple cross is there, on the screen there, there is two lines with numbers?

A Yes, can you --

Q Okay.

A I am trying to figure out which ones I am looking at.

Q So where it says ASR filing on the left, if you go across under 21, I read very, very faintly 5,545,780 in the green, in the dark green. Do you see that?

A I am looking at the wrong -- oh, now I am looking at the right schedule. Okay.

Q Right there. Mr. Schultz is --

Q That doesn't help.

Q I don't know who is --

A Yes, okay.

Q Do you see that?

A Yes.

Q Is that -- did I read that right? I think you need an electron microscope for it.

A 5,545,760 something.

Q I think it's 780.

A 780?

Q Yes.

A Okay. Yes.

Q Okay. And that's the number for the 2021 additions that appear in the audited FCG annual report, right?

A It just says Chesapeake 20 -- I am sorry, yes, you are right.

Q Okay. In that same 2021 column, on the year 2018 line, you show an addition in the amount of 3,097,564, is that right?

A Correct.

Q Okay. And is it your contention that by this presentation, that the 3,097,564 in steel-mains was added and went into service in 2018, but the audit the audited annual report for the year 2021 mistakenly said that investment first went into service in the year 2021?

A What I am saying is -- what I am saying is that $3 million in 2018 was either a late charge or, yes, it did not come in until after the unit -- the equipment had gone into service, therefore, it was booked the transaction year of 2021, but it goes to the vintage -- belongs to the vintage of 2018.

Q So you are saying it was three or four years after it went into service it was finally booked?

A Yes. And remember, these are -- these -- this data were was from FPL. This is what they provided Chesapeake.

Q So the 3,097,564 in additions in the mains-steel account was installed and went into service in 2018, but the FCG accountants and the outside CPA auditors did not know that it was in service and left it out of the additions in 2018 annual report?

A I am saying it was a late charge. The -- I do not want to speculate, but it was something that -- it was a charge that came in in 2018 for that prior year.

Q But it wasn't reported?

A I am sorry. It came in in 2021 for the prior year of 2018.

Q Okay. It was three prior years ago, though, right?

A Right, in this particular case, yes, it was. But again, remember, these are F -- these -- this was FPL's numbers.

Q Well, they are FCG's numbers, though, right?

A By default, yes.

Q Okay. And further, according to this exhibit

the 3,097,564 in additions in the mains-steel account was installed and went into service in 2018, but when preparing the 2019 annual report, the FCG accountants and outside CPA auditors did not know it was in service and left it out of that annual report?

A I am not going to speculate what they knew or did not know.

Q Okay. If I ask the same question about 2020, your answer would be the same?

A For 2020?

Q Yeah, that they -- it was in service, but they didn't know about it?

A I won't say that they didn't know about it. I mean, these were late charges coming in.

Q Okay. Well, they weren't aware because --

A They had not been billed yet.

Q Okay.

A They had not gotten the charge yet.

Q Okay.

A It could have been CWIP. It could have been a number of things.

Q All right. But you are speculating about that?

A I am speculating.

Q Okay. All right. So let's look at D2-24 of

your testimony, on page 13, lines four through 11.

A Four through 11?

Q Yes, ma'am.

Okay. So you state the following on those lines: Assume a project costing $5 million is placed into service in October 2024 with an expected service life of 40 years. In June 2025, after the project is closed out, the company received the contractor's final invoice totaling $100,000 for construction work performed before the project was placed in service. That $100,000 in late charges is added to the original cost of the asset and references that same in-service date of October 2024 as the original entry. Financial records for the year 2024 will not be restated to include the additional $100,000 project variance. Instead, the utility will report the late charges as part of its new plant additions in the 2025 financials. Did I read that right?

A Yes, that is correct.

Q Okay. Now, just -- when you are talking about late charges here, you mean late submitted. They are not, like, late charges --

A Correct.

Q -- like, you are late paying your bill or anything?

A Right.

Q Okay. Let's look at E5000. And hopefully this is OPC Interrogatory 32 question and response. There we go.

Isn't it true -- well, take a look at this, and then I am going to ask you, when you have had a chance to take a gander at it.

A Is this the same, what you were just referring to before?

Q I think it quotes that part of your testimony, yeah.

Isn't it true that your response to this list some possible exceptions, but you say this also: Under CUC's policies and procedures, which have been in place since December 2023 for contracts dated after the acquisition of FCG, construction master service agreements, MSAs, typically require contractors to submit invoices on a month consistently basis. Do you see that?

A I do.

Q Now, let's look at E5618, which is Exhibit 23, and the response to OPC -- part -- a part of the response to OPC POD 4-14.

So we asked you the following: FCG Amended Schedule G shows that in the year 2024, there were

1,891,849 in additions in account 3762 for the contract which was the largest dollar amount in this 1,891,849, provide the copies of the pages of the contract which specify the time period within which the contractor must bill for the contractor's work, for example, 30 days, 60 days, 90 zero days, et cetera. Do you see that?

A I do.

Q And you provided, subject to an objection, see OPC POD 14 for the contract excerpt specifying that the time period within which the last bill must be submitted, 180 days. Do you see that?

A I do.

Q Okay. Going back to page 13 of your testimony on D2-24, where you quote -- you talked about a contract billing $100,000 a few months after a 500 -- a $5 million contract was performed?

A Yes.

Q Isn't it true that nowhere have you provided any documents showing that a contractor billed for $3 million for a project four years after it went into service?

A That is correct. And if I can explain that.

What you previously were referring to was 2024, which, yes, that is under Chesapeake's policies and procedures now. Then FCG was owned by FPL, and this was a discussion I had with FCG personnel, it was not uncommon for the contracts for -- it could be months, it could be a year, it could be two years before they got a final closeout. That is not happening under Chesapeake now.

Q All right. Let's go, if we can, to D2-19, which is page eight of your testimony, and specifically lines 19 through 21.

You state there: FCG refined its study on two occasions, October 3rd, 2025, and November 4, 2025; is that right?

A That is right.

Q And let's talk about some of the reasons for the refinement in your study. At E92 in hearing Exhibit 2, I would like you to look at staff Interrogatory No. 46.

A Correct.

Q Do you see that?

A Yes.

Q Okay. And this was originally from a data request that the staff filed, right?

A Yes, it was.

Q Okay. After -- and that data request was filed on June 18th, is that right?

A That's what it says.

Q Okay. Staff asked you the following in there after an introduction: At an average account age of 21.5 years, the R4-65 life table estimates an average remaining life of 43.69 years, yet FCG's proposed -- FCG proposes an average remaining life of 48 years in the instant study. Please explain.

And you answered: As a result of responding to OPC's Third Set of Interrogatories, corrections were made to the average age and remaining life of this account, right?

A I am sorry, the response that I have talks about the curve shape. My apologies?

Q That's okay.

A OPC's FCG's Third Set of Interrogatories, corrections were made to the average age and remaining life of this account. Is that where you are at?

Q So I am looking at Staff Interrogatory No. 46?

A That's what this is.

Q So if you look on -- and this is on E92, under the company response, about halfway down, it starts: As a result of responding to OPC's Third Set of Interrogatories --

A Correct.

Q -- corrections were made to the average age and remaining live.

A Yes.

Q Okay. Isn't it also true that this response shows that some of the refinements you made to the FCG study were to correct errors that FCG made, and which errors were found by the staff and/or the Public Counsel?

A I am not sure I would classify them as errors, but there were differences, yes --

Q Okay.

A -- that we corrected.

Q All right. Okay. Thank you. That's all the questions I have for you today.

A Okay. Thank you.

MR. REHWINKEL: Those are all. Thank you.

CHAIRMAN LA ROSA: Great. Thank you.

Staff?

MR. SPARKS: Very brief, Mr. Chair.

CHAIRMAN LA ROSA: Sure.

EXAMINATION

BY MR. SPARKS:

Q Good afternoon, Ms. Lee.

A Good afternoon.

Q I would just like to follow up with you on a couple of questions that were punted to you, for lack of a better expression, by Mr. Everngam.

A You know that scoundrel.

Q Presuming the -- excuse me, presuming the various Florida gas divisions now operating under Chesapeake Utilities Corporation request the consolidated rate case in the future, would the utilities be submitting a single consolidated depreciation study across all divisions?

A I cannot speak for FCG in that respect. That would be their decision.

Q If the decision was made, would that study involve a merger of FCG's study data used to develop the study parameters required per the Commission's depreciation rule with all of the data of all the other Chesapeake Florida divisions?

A If I understand your question correctly, if they were to come in for a consolidated -- did you say rate case or depreciation study? If they came in asking for consolidated depreciation rates?

Q Yes.

A Okay. And say the rest of your question. I am sorry.

Q Would that study involve a merger of FCG's study data with the data of all other Chesapeake Florida divisions?

A It would include the combination of

investments and reserves and salvage analysis, and everything, yes, it would.

Q Thank you. No further questions.

CHAIRMAN LA ROSA: Great. Thank you. Commissioners?

Commissioner Passidomo Smith.

COMMISSIONER PASSIDOMO SMITH: Hi, Ms. Lee. I am just following up with you from what I asked you during direct. I was wondering if you have those numbers.

THE WITNESS: I do.

COMMISSIONER PASSIDOMO SMITH: Thank you. I just want to put them in the record.

THE WITNESS: And I had it right in front of me at the time.

COMMISSIONER PASSIDOMO SMITH: That's okay. We are getting through it now.

THE WITNESS: For 3762, the average for the most recent five years, negative 73 percent. And for 3801, the negative -- the last five years average, negative 132 percent.

COMMISSIONER PASSIDOMO SMITH: Okay. That's my only question. Thank you.

CHAIRMAN LA ROSA: Great. Back to FCG for redirect.

MS. KEATING: Thank you, Mr. Chair. Just briefly.

FURTHER EXAMINATION

BY MS. KEATING:

Q Ms. Lee, counsel for OPC asked a number of questions regarding -- that were in reference to Witness Dunkel's testimony, that there were vast differences in the data.

A Yes.

Q Do you agree with Witness Dunkel on that point?

A No, I don't, because the last example that we were talking about, the difference in the -- the correction to the average age was two-tenths of a year. I don't consider that vast differences.

Q Thank you, Ms. Lee.

MS. KEATING: We have no further redirect.

CHAIRMAN LA ROSA: Great. Thank you.

Anything that needs to be moved into the -- oh, anything that needs to be moved into the record? No. No. Okay.

MS. KEATING: FCG moves Exhibits 24 and 25.

CHAIRMAN LA ROSA: 24 and 25. Objections? Seeing none, so moved.

(Whereupon, Exhibit Nos. 24-25 were received into evidence.)

CHAIRMAN LA ROSA: Staff, anything to move into the record?

MR. SPARKS: No.

CHAIRMAN LA ROSA: No. Okay. Excellent. Well, Ms. Lee, you are excused.

THE WITNESS: Thank you.

CHAIRMAN LA ROSA: Great. Thank you.

(Witness excused.)

CHAIRMAN LA ROSA: All right. Well, are there any other additional matters that need to be addressed today?

MR. SPARKS: Staff notes that post-hearing briefs, if any, are due to be filed January 7th, 2026. The page limit for briefs is currently 40 pages.

CHAIRMAN LA ROSA: All right. Sound good?

MR. REHWINKEL: Could we just make it 50? Would that be an imposition? I will try to keep it at 40, but I just feel nervous about 40.

CHAIRMAN LA ROSA: Okay. Objection to 50 pages? No?

MS. KEATING: FCG doesn't plan to take 50 pages, but we have no objection to OPC doing so.

THE COURT: Okay. Then -- so let it be 50 pages.

Anything else that needs to be addressed? All right.

MR. REHWINKEL: Thank you, Mr. Chairman. I appreciate your patience, and your efficient management of the hearing. This ended a lot sooner than I thought it would.

CHAIRMAN LA ROSA: Okay. Excellent. Well, thank you.

If there is nothing else before us that needs to be heard today, this --

MR. REHWINKEL: One last thing.

CHAIRMAN LA ROSA: Yes, sir.

MR. REHWINKEL: We passed out confidential exhibits, and I think we have collected them all, but if for some reason, other than the reporter and Commission Clerk, if there are any, we just need to get them back.

CHAIRMAN LA ROSA: All right. Any confidential docs, please make sure that they find their way back. You are right under the bell.

So then seeing no other business before us, this part of the hearing is adjourned. Thank you.

MS. KEATING: Thank you, Mr. Chair.

(Proceedings concluded.)

CERTIFICATE OF REPORTER

STATE OF FLORIDA)
COUNTY OF LEON)

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

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

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

DATED this 28th day of December, 2025.

Debbie R Krick

DEBRA R. KRICK
NOTARY PUBLIC
COMMISSION #HH575054
EXPIRES AUGUST 13, 2028