GUNSTER

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April 2, 2021

E-PORTAL

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

Re: **Docket No. 20200151-EI -** Petition for approval of a regulatory asset to record costs incurred due to COVID-19, by Gulf Power Company.

Docket No. 20200189-WS - Petition for approval of a regulatory asset to record costs incurred due to COVID-19, by Utilities, Inc. of Florida.

Docket No. 20200194-PU – Petition for approval of regulatory assets to record costs incurred due to COVID-19, by Florida Public Utilities Company, Florida Public Utilities Company - Indiantown Division, Florida Public Utilities Company - Fort Meade, Florida Division of Chesapeake Utilities Corporation.

Dear Mr. Teitzman:

Attached for filing in the referenced consolidated dockets, please find the Direct Testimony of Derrick M. Craig and the Direct Testimony of Michael D. Galtman submitted on behalf of Florida Public Utilities Company (Electric and Gas Divisions) and the Florida Division of Chesapeake Utilities Corporation.

As always, thank you for your assistance with this filing. Please do not hesitate to let me know if you have any questions whatsoever.

Sincerely,

_s/*Beth Keating*___________________

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DIRECT TESTIMONY OF DERRICK M. CRAIG

ON BEHALF OF FLORIDA PUBLIC UTILITIES COMPANY

DOCKET NO. 20200194-PU

Q. Please state your name and business address.

A. My name is Derrick M. Craig. My business address is 208 Wildlight Avenue, Yulee, Florida, 32097.

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

A. I am employed as a Senior Regulatory Analyst by Florida Public Utilities Company ("FPUC").

Q. Could you give a brief description of your background and business experience?

A. In 1991, I received a Bachelor of Electrical Engineering degree from the Georgia Institute of Technology in Atlanta, Georgia and in 1997, I received a Masters of Business Administration from the University of Virginia (Darden Graduate Business School) in Charlottesville, Virginia. I have worked in various engineering and financial analysis roles for several utilities, including Baltimore Gas and Electric, Oglethorpe Power Company and Southern Company. I have been in my current position as a Senior Regulatory Analyst with Florida Public Utilities Company (FPUC) since April 2019. My responsibilities include the fulfillment of many regulatory activities for FPUC, which range from financial and other analysis to making regulatory filings (Purchased Gas Adjustment, Swing Service and the Gas Reliability Infrastructure Program) before the Florida Public Service Commission.

Q. Have you provided testimony before the Florida Public Service Commission (FPSC)?

A. Yes, I have provided written, pre-filed testimony. I have provided testimony in various dockets before this Commission for Purchased Gas Adjustment Docket No. 20200003, Gas Reliability Infrastructure Program (GRIP) –Docket No. 20200207 and the Swing Service-Docket No. 20200203.

Q. What is the purpose of your testimony?

A. My testimony will explain the unusual and unanticipated costs incurred by Florida Public Utilities, Florida Public Utilities-Indiantown Division, Florida Public Utilities-Fort Meade, and Florida Public Utilities-Electric Division, as well as the Florida Division of Chesapeake Utilities Corporation (collectively, "the Companies") as a direct result of the COVID-19 pandemic and why the Companies should be allowed to record these costs as a regulatory asset.

Q. Please provide context for this proceeding.

A. As the Commission is well-aware, the Novel Coronavirus Disease 2019, or COVID-19, is an extremely contagious virus which can be potentially deadly for many individuals. Since its outbreak in late 2019, nations around the world, including the U.S., have implemented international guidelines for global pandemics in an effort to stem the tide of the virus. Until the relatively recent release of vaccines, the primary means of reducing the spread of the virus were social distancing, personal protective equipment (PPE), and quarantine.

As noted in the Companies' Petition, in response to this serious threat, Governor Ron DeSantis took decisive action to declare a public health emergency on March 1, 2020.[1] Thereafter, on March 9, the Governor declared a state of emergency and directed that

[1] Executive Order No. 20-51.

the State's Emergency Management Plan be implemented, which order has subsequently been extended 6 times, most recently by Executive Order 20-316, issued December 29, 2020.[2] On March 16, 2020, then-President Donald Trump and the Centers for Disease Control ("CDC") advised individuals to adopt social distancing measures and to avoid gatherings of more than 10 people in an effort to mitigate the spread of COVID-19. Governor DeSantis issued additional Executive Orders pertaining to the protection of Florida's citizens and efforts to mitigate the spread of COVID-19, including, on April 1, 2020, Executive Order No. 20-91, declaring the implementation of "Safer at Home" requirements, whereby it was recommended that Florida's most at-risk citizens stay at home and take all precautions to avoid exposure to the COVID-19 virus, and all others were advised to limit their movements and personal interactions outside their home to only those necessary to obtain or provide essential services or essential activities. On May 8, 2020, Governor DeSantis issued Executive Order number 20-114, extending the state of emergency declaration an additional 60 days.

Q. How was the Florida economy affected by COVID-19?

A. The economy of the state, as well as the nation, has been adversely impacted as a result of the necessity to adhere to social distancing guidelines and other precautionary measures designed to slow the spread of the virus. According to the U.S. Bureau of Labor Statistics, Florida's unemployment rate tripled from 4.4% in March of 2020 to 13.8% in April of 2020. These numbers reflect that consistent with the CDC's guidance and the Governor's Executive Orders, businesses not considered essential

[2] Executive Order 20-52, extended by Executive Orders 20-114, 20-166, 20-192, 20-213, 20-276, and 20-316.

were either closed or assumed limited operations. While the state is now rebounding, and Florida's unemployment rate for January 2021 decreased to 4.8 percent, the impact of the pandemic can still be seen across the state. For example, according to the Florida Department of Economic Opportunity (DEO), as of March 29, DEO has paid 2.3 million claimants over $25 billion in "Reemployment Assistance." Over 5.5 million claims have been processed, representing 99.1 percent of claims submitted. Pandemic Emergency Unemployment Compensation (PEUC) and Pandemic Unemployment Assistance (PUA) benefit programs have been extended to September 6, 2021.[3] According to the Florida Chamber of Commerce, the impact on Florida's small businesses, which make up 35.7% of Florida's total employment, has been particularly significant.[4]

Q. What processes and procedures have the Companies incorporated in order to protect their employees from the risks of the pandemic?

A. The Companies implemented an emergency response plan to the pandemic that took extraordinary measures including enabling as many employees as possible to work from home, cancelling all business travel, stopping movement of employees between offices, postponing face to face meetings and events, instituting health reporting protocols, providing paid time off to employees that become infected or exposed to COVID-19 and could not work, providing needed personal protective equipment ("PPE") to employees, and implementing social distancing practices. Based on the recommendations provided by the CDC, Department of Health ("DOH"), and other

[3] Florida Department of Economic Opportunity, www.floridajobs.org.

[4] The Impact of Covid-19 on Florida's Small Businesses, October 2020, (Florida Chamber, SBDC Florida, Haas Center/University of West Florida). COVID-Impact-Survey_October.pdf (flchamber.com)

agencies, and consistent with the State of Florida's orders, the Companies have undertaken additional steps to preserve the health and safety of its employees, contractors, and customers. These actions include, but are not limited to, the following: (1) the testing for COVID-19 and antibodies for some at-risk employees; (2) the purchase of other equipment, materials and supplies to protect employees and customers' health and safety; and (3) the purchase of additional cleaning and sanitation supplies. While many of its employees were able to work from home, the Companies' field operations teams were still required to perform essential services. As such, the Companies provided each such employee with social distancing and health protection training, as well as necessary PPE and disinfectant supplies. Also, for a few months, as a way to compensate for the additional risk that some employees endured, the Companies paid additional salary to the essential, front-line employees whose jobs could not be performed remotely and required exposure to both the customers, as well as other employees.

Q. How did the Companies respond to the economic impact of COVID-19?

A. Recognizing that many of its customers were facing economically challenging times, the Companies announced on March 16, 2020, that customer late fees and disconnections would be suspended temporarily – a proactive approach taken by many utilities across the state and the country. The Companies did not reinstate late fees and disconnections until January 2021.

Q. Have the Companies returned to normal billing practices?

A. Yes. During the month of November 2020, the Companies informed their customers (by bill inserts and E-Blast) that delinquent notice issuances to customers with past due balances would resume in December 2020 and all collection activities (including the assessment of late fees and service disconnections) would resume in January 2021. At the same time, the Companies have also made available flexible payment plans for struggling customers. In addition to these steps, the Companies opened additional payment channels so that customers could make payments remotely.

Q. What have the Companies requested of the FPSC in this proceeding?

A. The Company has asked for permission to employ deferral accounting because of the significant and increasing nature of the Companies' incremental COVID-19 related costs. Specifically, the Company has asked for approval to establish a regulatory asset to record and preserve its COVID-19 related costs, including bad debt expense.

Q. Have the Companies requested recovery of lost revenues?

A. No, except to the extent that the Company did ask to recover late fees.

Q. Why is deferral accounting treatment appropriate for COVID-19 costs?

A. Deferral accounting treatment, and specifically the utilization of regulatory assets, has historically been used to address exogenous events. The FPSC has approved regulatory assets for FPUC, as well as for other utilities, for a wide array of situations ranging from pension costs to litigation expense to early retirement of coal generation units.[5] As the FPSC noted in its approval of a regulatory asset for FPUC to address unanticipated changes to its pension benefits and post retirement costs:

> To create a regulatory asset or liability, a regulated company must have the approval of its regulator. This concept of deferral accounting allows companies to defer costs due to events beyond their control and seek recovery through rates at a later time. The alternative would be for the Company to

[5] See, for instance, Dockets Nos. 20060733-EI, 20080029-PU, 20120227-EI, 20160039-EI, and 2017274-EI

> seek a rate case or a limited proceeding each time it experiences an exogenous event.

Order No. PSC-08-0134-PAA-PU, issued March 3, 2008, in Docket No. 080029-PU. In addition, as stated by the Maryland Public Service Commission (from Order No. 89542), "deferral of [COVID-19] costs is appropriate because the current catastrophic health emergency is outside the control of the Utility and a non-recurring event." Finally, deferral treatment of these costs via the establishment of a regulatory asset in no way eliminates or replaces the prudency review. Historically, the prudency review of these types of actions is accomplished in a company's base rate proceeding or limited proceeding filing. The appropriateness of deferral accounting for COVID-19 costs will be further discussed in the testimony of the Companies' witness Galtman.

Q. Do the Companies have knowledge of any other jurisdictions that have allowed a regulatory asset for COVID-19 costs?

A. The Companies are a part of the Chesapeake Utilities Corporation, which also has utility companies located in the states of Delaware and Maryland. Both states' public service commissions have allowed for the establishment of regulatory assets for the tracking of COVID-19 costs. In addition, according to the May 28 issue of S&P Global Market Intelligence, 22 jurisdictions out of 53 had approved some form of deferral accounting for incremental costs related to the pandemic, with states including Arkansas, Connecticut, Delaware, Hawaii, Maryland, Pennsylvania, Texas, and Virginia (among other states) specifically calling for the establishment of a regulatory asset as the format for the deferral of incremental costs.

Q. What types of costs do the Companies believe are appropriate to receive deferral accounting treatment?

A. The Companies believe that all incremental costs directly attributable to the COVID-19 pandemic are appropriate for deferral accounting treatment. Examples of these incremental costs include, but are not limited to, items such as incremental bad debt expense, incremental personal protective equipment, incremental safety costs, incremental cleaning costs, incremental IT costs, higher insurance premiums, and incremental compensation for employees at higher risk. These costs are incremental to the Company and are not being recovered by base rates. The reasons for the appropriateness of these costs will be more fully covered in witness Galtman's testimony.

Q. What effect did the pandemic have on the Companies' bad debt expense?

A. The economy of the state, as well as the nation as a whole, has been adversely impacted as a result of the necessity to adhere to social distancing guidelines and other precautionary measures designed to slow the spread of the virus. According to the U.S. Bureau of Labor Statistics, Florida's unemployment rate had tripled from 4.4% in March of 2020 to 13.8% in April of 2020. According to Statista.com, the end of year unemployment rate for the state more than doubled from 3.3% at the end of 2019 to 7.7% at the end of 2020. These numbers reflect that, consistent with the CDC's guidance and the Governor's Executive Orders, businesses not considered essential had either been closed or had implemented limited operations. This higher unemployment and business shut-downs served to impact our customers' ability to pay their debt and as a result the Companies realized an increase in bad debt expense.

Q. Why should the incremental costs for the additional salary paid to "higher risk" employees be included in the regulatory asset?

A. Due to the nature of their jobs, many of the Companies' employees meet the definition of "front line, essential" workers. As stated in a March 28, 2020, communication from the Cybersecurity & Infrastructure Security Agency ("CISA") of the Department of Homeland Security, "Promoting the ability of such [critical infrastructure] workers to continue to work during periods of community restriction, access management, social distancing, or closure orders/directives is crucial to community resilience." To encourage and assist these workers as they maintain part of the state's critical infrastructure, the Companies found it necessary to additionally compensate these employees to ensure sufficient coverage and maintenance of the system. Therefore, the Companies have incurred incremental expense for salaries related to their "front line essential" employees who were required to keep working during the period of community restrictions. Additional information on the appropriateness of this expense in the regulatory asset will be discussed in the testimony provided by witness Galtman.

Q. Do the Companies have any incremental cost savings related to COVID that should be used to offset COVID related expenses?

A. No. Any costs savings attributable to COVID would not create excess earnings and therefore are not deemed incremental COVID savings. All Companies are still earning within their allowable range of returns or significantly under-earning.

Q. Have the Companies established procedures to effectively identify all relevant expenditures?

A. Yes. The Companies are tracking incremental COVID-19 related costs directly with the use of specially-created accounting codes. Other procedures and methodologies used for identifying and calculating COVID-related costs are more completely covered in witness Galtman's testimony.

Q. How should the bad debt expense appropriate for inclusion in the regulatory asset be calculated?

A. The Companies propose to calculate bad debt expenses in the following manner:

A) Determine the average bad debt expense for each Company from the same time frame for the preceding three years;

B) Subtract the average bad debt expense, as calculated in (A) above, from the corresponding month(s) in 2020. For example, the bad debt expense for April 2020 would be the total bad debt expense for that month less the three-year average of the bad expenses from April 2017, April 2018, and April 2019.

More detailed information for this calculation of the bad debt expense in the regulatory asset will be discussed in the testimony provided by witness Galtman.

Q. What time frame should the proposed regulatory asset cover?

A. As the COVID-19 pandemic is still ongoing, the Companies believe that the relevant time frame for the proposed regulatory asset should be from March 9, 2020, which, as was mentioned earlier in this testimony, was the effective date of the first Florida State of Emergency order, until a date that is 60 days after the date when the governor lifts the State of Emergency.

Q. Does this conclude your testimony?

A. Yes.

<u>BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION</u>

DIRECT TESTIMONY OF MICHAEL D. GALTMAN

ON BEHALF OF FLORIDA PUBLIC UTILITIES COMPANY AND THE FLORIDA DIVISION OF CHESAPEAKE UTILITIES CORPORATION

DOCKET NO. 20200194-PU

Q. Please state your name and business address.

A. My name is Michael D. Galtman. My business address is 100 Commerce Drive, Suite 200, Newark, DE 19713.

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

A. I am employed by Chesapeake Utilities Corporation, the corporate parent of Florida Public Utilities Company, as Vice President and Chief Accounting Officer.

Q. Could you give a brief description of your background and business experience?

A. In 1997, I received a Bachelor of Science in Accounting from Rutgers University in Camden, New Jersey and am a licensed Certified Public Accountant in Pennsylvania. I have been in my current position as Vice President and Chief Accounting Officer of Chesapeake Utilities Corporation since April 2019. In my role I have responsibility for the SEC reporting, accounting policy, tax, financial planning and analysis and strategic modeling departments. Prior to joining Chesapeake Utilities Corporation I held various accounting leadership roles, including the role of Chief Accounting Office at Sunoco Logistics Partners LP, which was a subsidiary of Energy Transfer. Sunoco Logistics Partners LP owned and operated midstream assets that served to transport crude oil, refined products and natural gas liquids and had certain assets that were regulated by the FERC and the respective state public service commission where the assets were located.

Q. Have you provided testimony before?

A. No. This will be my first time providing testimony since joining Chesapeake Utilities Corporation in April 2019.

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

A. My testimony will provide the reasoning and methodology utilized by Florida Public Utilities, Florida Public Utilities-Indiantown Division, Florida Public Utilities-Fort Meade, and Florida Public Utilities-Electric Division, as well as the Florida Division of Chesapeake Utilities Corporation (collectively, "the Companies") to support the establishment of a regulatory asset for costs related to the COVID-19 pandemic.

Q. **Under what circumstances is it appropriate to recognize a regulatory asset based on the guidance contained within *ASC 980 – Regulated Operations*?**

A. It is appropriate to recognize a regulatory asset under the accounting guidance defined within *ASC 980 – Regulated Operations ("ASC 980")* when the costs being deferred have both been incurred and are allowable based on supporting evidence.

Under ASC 980, an incurred cost is defined as one which has arisen from cash being paid out or an obligation to pay for an acquired asset or service, a loss from a cause that has been sustained and has been or must be paid for. The costs that should be included in the Company's pandemic response regulatory asset relate to the period after the Company began implementing its emergency response plan in March 2020 in response to the COVID-19 pandemic.

The guidance in ASC 980 indicates that a regulated utility should only recognize a regulatory asset for incurred costs if it is probable that future revenue in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for rate-making purposes. The accounting guidance further stipulates that there are varying degrees of evidence which assist in determining whether deferral of costs is an appropriate course of action. An approved rate order specifying that the incurred costs are allowed for recovery in the future are traditionally seen as the highest and best form of evidence to proceed with recognition of a regulatory asset. However, there are other forms of evidence that can support recognition of regulatory assets including whether the incurred costs have been treated as allowable cost of service in prior regulatory filings.

Q. What accounting policy considerations support establishment of this regulatory asset?

A. While not identical, the Company believes the costs incurred in relation to the pandemic are akin to those brought about by natural disasters such as hurricanes. Although there was no loss of service to our customers as a result of the pandemic, it was imperative to incur additional costs to maintain operations during the pandemic and ensure the safety of our employees, customers and communities.

Based on the accounting guidance provided within ASC 980, the establishment of a regulatory asset related to pandemic response costs is appropriate. The costs have been incurred and were deemed allowable for inclusion in a regulatory asset based on an issued, FPSC order, albeit one that has now been protested, and the creation of this regulatory asset is consistent with the practice for other natural disasters.

Q. **Describe the types of costs that should be included in the Companies' pandemic response regulatory asset and the methodology utilized in calculating the balance of the regulatory asset?**

A. As the FPSC outlines in its initial order, the costs included should be those costs associated with incremental bad debt expense and safety-related expenses. Safety-related expenses limited to those expenses directly pertaining to the protection of the Company's employees and customers, such as costs associated with testing, monitoring, acquiring personal protective equipment (PPE), and incremental costs for cleaning and sanitizing Company property, should also be included in the regulatory asset. In addition to these costs, the Companies have also considered incremental costs which were necessary to maintain our employees' well-being, as well as our operations throughout the pandemic including incremental information technology costs for employees working remotely and higher insurance costs as a result of the pandemic environment.

Q. What methodology did the Companies employ in calculating the bad debt expense included in this regulatory asset?

A. In an effort to remain consistent with current rate-making practices, the Companies reviewed bad debt expense over the three preceding years and calculated average bad debt expense. Once the three-year historical average for bad debt expense had been determined it was then compared to bad debt expense incurred since the onset of the pandemic. Any amounts during the period of time for which the pandemic was ongoing that were in excess of the calculated historical amount were segregated and included in the regulatory asset recognized by the Companies. Since the pandemic began, there has been a significant increase in the Companies' aged accounts receivable balances which has resulted in significantly higher levels of bad debt expense above historical averages.

Q. Is the methodology used for calculating safety-related costs consistent with that of the bad debt expense?

A. Yes. The Companies analyzed their historical safety-related expenses over the past three years and compared those to safety expenses incurred throughout the course of the pandemic. Any safety-related expenses that exceeded the historical average were included as a component of the regulatory asset. If the Companies incurred a safety-related cost that they had not historically, but was incurred directly as a result of the pandemic (i.e. testing, acquiring PPE, additional healthcare costs and completing COVID specific sanitizing), the total amount of those costs are also appropriate for inclusion in the regulatory asset.

Q. Are costs for incremental labor appropriate for inclusion in this regulatory asset?

A. Yes. The Companies have incurred incremental labor costs for our field employees who have been customer-facing throughout the pandemic. These incremental labor costs are due largely to the significant changes experienced by the Companies in serving their residential business over the course of the pandemic as many of our customers transitioned to working from home or adjusted their schedules to accommodate children who were remote learning. This transition led to a greater demand for service technicians at customer residences and put our employees at greater risk of exposure to Covid. In order to ensure we could continue to provide safe, reliable, and responsive service to our customers, the Companies issued incentive pay to some of our employees. This was the right thing to do for our customers to ensure minimal disruption in service and responsiveness, in line with our culture and commitment to our customers and local communities, as well as our employees who were asked to put themselves at greater risk of exposure in order to maintain our high standard of service.

Q. Should the same methodology be consistently applied across all business units?

A. Yes. In analyzing the costs involved and determining the costs that would be appropriate for inclusion in the regulatory asset, the Companies have consistently applied the aforementioned calculation across all of its regulated business units within Florida, including Florida Public Utilities Company, Florida Public Utilities Company – Indiantown Division, Florida Public Utilities Company – Fort Meade, and Florida Public Utilities Company – Electric Division, as well as the Florida Division of Chesapeake Utilities Corporation.

Q. Does this conclude your testimony?

A. Yes, it does.

Dockets Nos. 20200151-EI, 20200189-WS, and 20200194-PU

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the Direct Testimony of Derrick M. Craig and the Direct Testimony of Michael D. Galtman, have been furnished by Electronic Mail to the following parties of record this 2nd day of April, 2021:

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