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May 24, 2022

BY E-FILING

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

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

Dear Mr. Teitzman:

Attached, for electronic filing, please find the Testimony and Exhibits MN-1 through MN-3 of Michelle Napier.

Thank you for your assistance with this filing. As always, please don't hesitate to let me know if you have any questions whatsoever.

(Document 3 of 27)

Sincerely,

Beth Keating

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

Prepared Direct Testimony of Michelle Napier

Date of Filing: May 24, 2022

Q. Please state your name and business address.

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

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

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

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

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

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

Q. Have you ever testified before the FPSC?

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

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

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

Q. How will you refer to the Company?

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

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

RATE BASE

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

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

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

Florida Common plant to the natural gas operating units?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Q. How were trend factors applied to working capital?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

<u>NET OPERATING INCOME</u>

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

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

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

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

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

A. PGA, Swing and Conservation:

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

Gross Receipts and Franchise Tax:

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

AEP:

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

FGS:

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

Out of Period Adjustments:

Operating Revenues:

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

Operating Expenses:

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

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

Interest Income:

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

Economic Development Costs:

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

Industry Association Dues, Social Activities and Promotional Expenses:

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

Non-Utility Depreciation Expense:

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

Income Tax Impact:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A. No.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Q. How were the operating savings calculated?

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

Q. Does this conclude your testimony?

A. Yes.

SCHEDULE	TITLE	Witness
	RATE BASE	
B-1	Balance Sheet	M. Galtman / M. Napier
B-1	Balance Sheet - Florida Common	M. Galtman / M. Napier
B-2	Adjusted Rate Base	M. Napier
B-3	Rate Base Adjustments	M. Napier
B-5	Common Plant Allocated	M. Galtman / M. Napier
B-6	Acquisition Adjustments	M. Napier
B-8	Construction Work In Progress Florida Common	M. Galtman / M. Napier
B-11	Allocation of Depreciation/Amortization Reserve - Common Plant	M. Galtman / M. Napier
B-13	Working Capital Allowance	M. Galtman / M. Napier
B-13	Working Capital Allowance - Florida Common	M. Galtman / M. Napier
	NET OPERATING INCOME	
C-2	Adjustments to Net Operating Income	M. Napier / M. Galtman
C-15	Out of Period Adjustments	M. Napier
C-18	Amortization/Recovery Schedule	M. Napier
C-19	Allocation of Depr./Amort. Expense - Common Plant	M. Napier / M. Cassel
C-33	Wage & Salary Increases Compared to C.P.I.	M. Napier
C-34	O & M Benchmark Comparisons	M. Napier
C-37	O & M Compound Multiplier	M. Napier
	RATE OF RETURN	
D-1	Cost of Capital - 13 Month Average	M. Napier / N. Russell
D-10	Reconciliation of Average Capital Structure to Average Jurisdictional Rate Base	M. Napier
D-11	Financial Indicators	M. Napier
D-12	Applicant's Market Data	M. Napier
	COST OF SERVICE	
E-6	Derivation of Rate Base	M. Napier
E-6	Derivation of Operating and Maintenance Expenses	M. Napier
	PROJECTED TEST YEAR	
G1-1	Projected Test Year Rate Base	M. Napier
G1-2	Projected Test Year Working Capital - Assets	M. Napier
G1-3	Projected Test Year Working Capital - Liabilities	M. Napier
G1-4	Rate Base Adjustments	M. Napier
G1-5	Historic Base Year + 1 Balance Sheet - Assets	M. Napier / J. Bennett
G1-6	Historic Base Year + 1 Balance Sheet - Liab. & Capitalization	M. Napier
G1-7	Projected Test Year Balance Sheet - Assets	M. Napier
G1-8	Projected Test Year Balance Sheet - Liab. & Capitalization	M. Napier
G1-11	Historic Base Year + 1 - Depreciation Reserve Balances	M. Napier
G1-12	Projected Test Year - Depreciation Reserve Balances	M. Napier
G1-13	Historic Base Year + 1 - Amortization Reserve Balances	M. Napier
G1-14	Projected Test Year - Amortization Reserve Balances	M. Napier

SCHEDULE	TITLE	Witness
G1-15	Historic Base Year + 1 - Allocation Of Common Plant	M. Napier / M. Galtman
G1-16	Historic Base Year + 1 - Allocation Of Common Plant - Detail	M. Napier
G1-17	Historic Base Year + 1 - Allocation Of Common Plant - Detail (Cont.)	
G1-18	Projected Test Year - Allocation Of Common Plant	M. Napier / M. Galtman
G1-19	Projected Test Year - Allocation Of Common Plant - Detail	M. Napier
G1-20	Projected Test Year - Allocation Of Common Plant - Detail (Cont.)	M. Napier
G1-21	Historic Base Year + 1 - Alloc. Of Deprec./Amort. Reserve - Common Plant	M. Napier
G1-22	Projected Test Year - Alloc. of Deprec./Amort. - Common Plant	M. Napier / M. Galtman
G1-23	Historic Base Year + 1 - Construction Budget	M. Napier
G2-1	Projected Test Year Net Operating Income - Summary	M. Napier / M. Galtman
G2-2	Adjustments to Net Operating Income	M. Napier / M. Cassel
G2-3	Adjustments to Net Operating Income (Cont.)	M. Napier / M. Cassel
G2-4	Historic Base Year + 1 - Income Statement	M. Napier / M. Galtman
G2-5	Projected Test Year - Income Statement	M. Napier / M. Galtman
G2-12	Projected Test Year - Calculation of Distribution Expenses (Cont.)	M. Napier / M. Galtman
G2-13	Projected Test Year - Calculation of Maintenance Expenses	M. Napier / M. Galtman
G2-14	Projected Test Year - Calculation of Maintenance Expenses (Cont.)	M. Napier / M. Galtman
G2-15	Projected Test Year - Calculation of Customer Account Expenses	M. Napier / M. Galtman
G2-16	Projected Test Year - Calculation of Customer Service Expenses	M. Napier / M. Galtman
G2-17	Projected Test Year - Calculation of Selling Expenses	M. Napier / M. Galtman
G2-18	Projected Test Year - Calculation of Admin. and General Expenses	M. Napier / M. Galtman
G2-19	Projected Test Year - Calculation of Admin. and General Expenses (Cont.)	M. Napier / M. Galtman
G2-19 a to d	Projected Test Year - Calculation of Operation and Main Expense Supplement	M. Cassel, J. Bennett, M. Galtman, V. Gadgil, M. Napier, K. Parmer, N. Russell, K. Lake, D. Rudloff, B. Hancock
G2-19e	Projection Basis Factor	M. Napier / M. Galtman
G2-19f	Over and Under Adjustments	M. Cassel, J. Bennett, M. Galtman, V. Gadgil, M. Napier, K. Parmer, N. Russell, K. Lake, D. Rudloff, B. Hancock
G2-20	Historic Base Year + 1 - Depreciation / Amortization Expense	M. Napier
G2-21	Historic Base Year + 1 - Amortization Expense Detail	M. Napier
G2-22	Historic Base Year + 1 - Allocation Of Deprec. / Amort. Expense	M. Napier / M. Cassel
G2-23	Projected Test Year - Depreciation / Amortization Expense	M. Napier
G2-24	Projected Test Year - Amortization Expense Detail	M. Napier
G2-25	Projected Test Year - Allocation Of Deprec. / Amort. Expense	M. Napier / M. Cassel
G3-9	Projected Test Year - Financial Indicators	M. Napier
G3-10	Projected Test Year - Financial Indicators (Cont.)	M. Napier
G3-11	Projected Test Year - Financial Indicators (Cont.)	M. Napier
G4	Projected Test Year - Attrition Calculation of The Revenue Expansion Factor	M. Napier / M. Cassel
G5	Projected Test Year - Attrition Calculation of Revenue Deficiency	M. Napier / M. Cassel
G6	Projected Test Year - Attrition Calculation of Major Assumptions	M. Napier / M. Cassel
G7	Other Taxes	M. Napier

ENGINEERING

SCHEDULE	TITLE	Witness
I-4	Vehicle Allocation	M. Napier / J. Bennett

Florida Public Utilities Company
Evaluation of Acquisition Adjustment (CUC Acquisition of FPUC)

DOCKET NO.: **20220067-GU**
EXHIBIT NO.: **MN-2**

	Cost Rate	Ratio	Weighted Cost	2021	Weighted Cost	2022	Weighted Cost	2023
Net Balance Acquisition Adjustment Premium				$ 20,895,412		$ 19,755,663		$ 18,615,913
Equity	10.85%	41.84%	4.54%	$ 948,651.72	4.65%	$ 918,638.31	5.10%	$ 949,411.55
LT Debt	3.60%	29.93%	1.08%	$ 225,670.45	1.08%	$ 213,361.16	1.15%	$ 214,083.00
ST Debt	1.42%	10.60%	0.15%	$ 31,343.12	0.17%	$ 33,584.63	0.15%	$ 27,923.87
Customer Deposits	2.41%	2.89%	0.07%	$ 14,626.79	0.07%	$ 13,828.96	0.06%	$ 11,169.55
Deferred Income Tax	0.00%	14.74%	0.00%	$ -		$ -		$ -
		100.00%	5.84%	$ 1,220,292	5.97%	$ 1,179,413	6.46%	$ 1,202,588
Income Taxes	24.52%			$ 299,240	25.345%	$ 298,922	25.345%	$ 304,796
Pre-Tax Return on Capital				$ 1,519,532		$ 1,478,335		$ 1,507,384
Amortization Expense Net of Tax Per ROR				$ 1,139,750		$ 1,139,750		$ 1,139,750
Total Premium Cost				$ 2,659,282		$ 2,618,085		$ 2,647,134
Savings:								
Fuel Savings				$ 1,302,932		$ 1,342,020		$ 1,382,281
O & M Savings				$ 5,537,103		$ 5,427,938		$ 5,397,601
Cost of Capital Savings		Note 1		$ 330,124		$ 330,124		$ 330,124
Savings				$ 7,170,159		$ 7,100,082		$ 7,110,006
Net Savings				$ (4,510,877)		$ (4,481,997)		$ (4,462,872)

Note 1: Based on filing made in original petition.

Florida Public Utilities Company
Evaluation of Acquisition Adjustment

DOCKET NO.: **20220067-GU**
EXHIBIT NO.: **MN-2**

	2021 FN 2009 Projected	2022 FN 2009 Projected	2023 FN 2009 Projected
O & M last projected test year rate case	$ 18,079,564.00	$ 18,079,564.00	$ 18,079,564.00
Remove Pension Costs	$ (1,093,301.00)	$ (1,093,301.00)	$ (1,093,301.00)
Remove Rate Case Expense	$ (241,224.00)	$ (241,224.00)	$ (241,224.00)
	$ 16,745,039	$ 16,745,039	$ 16,745,039
Growth and Inflation Multiplier from 2009 Acquisition	1.6663	1.8090	1.9175
Increased for Growth and Inflation	$ 27,902,881	$ 30,292,196	$ 32,108,587
O & M	$ 24,254,903	$ 27,102,735	$ 30,949,611
Plus Flex Rate and Special Contract costs not removed in 2009 Projection		$ 68,652	$ 128,605
Less Increase in Information Technology Costs not in Test Year	$ (995,632)	$ (1,080,858)	$ (1,145,674)
Less Rent which replaces plant, depreciation expense and real estate taxes in 2009	$ (359,405)	$ (255,499)	$ (452,178)
Less Increased Legal costs related to additional filings and employee matters	$ (87,009)	$ (94,457)	$ (100,121)
Less Utility Costs that have increased over inflation and growth	$ (365,269)	$ (396,536)	$ (420,315)
Less Increased Security Costs	$ (81,810)	$ (88,813)	$ (94,139)
Less Rate Case Expense			$ (492,748)
Less New Satellite Scan System			$ (991,774)
Less Increased Storm Reserve			$ (4,000)
Less Additional Facility Expenses Related to COVID changes		$ (26,184)	$ (26,997)
Less New Costs Relating to ESG		$ (103,643)	$ (116,242)
Less Increase in Insurance and Injuries and Damages in Excess of Growth and Inflation		$ (62,557)	$ (269,340)
Less New Damage Prevention Initiative		$ (198,582)	$ (253,702)
Net 2021 Comparable Costs	$ 22,365,778	$ 24,864,258	$ 26,710,986
2021 compared to last cases inflated for growth and inflation Under-Savings/(Over-Additional Costs)	$ 5,537,103	$ 5,427,938	$ 5,397,601

Florida Public Utilities Company
Evaluation of Indiantown Acquisition Adjustment

DOCKET NO.: **20220067-GU**
EXHIBIT NO.: **MN-3**

	Cost Rate	Ratio	Weighted Cost	2021	Weighted Cost	2022	Weighted Cost	2023
Net Balance Acquisition Adjustment Premium				$ 203,023		$ 153,303		$ 103,583
Equity	11.50%	39.87%	4.59%	$ 9,308.71	4.64%	$ 7,029.02	4.81%	$ 4,749.33
LT Debt	3.60%	27.98%	1.01%	$ 2,045.30	1.00%	$ 1,544.41	1.06%	$ 1,043.52
ST Debt	1.42%	9.91%	0.14%	$ 285.70	0.16%	$ 215.73	0.14%	$ 145.76
Customer Deposits	2.19%	0.36%	0.01%	$ 16.18	0.01%	$ 12.22	0.01%	$ 8.26
Deferred Income Tax	0.00%	21.87%	0.00%	$ -		$ -		$ -
		100.00%	5.74%	$ 11,656	5.81%	$ 8,801	6.02%	$ 5,947
Income Taxes	24.52%			$ 2,858	25.345%	$ 2,231	25.345%	$ 1,507
Pre-Tax Return on Capital				$ 14,514		$ 11,032		$ 7,454
Amortization Expense Net of Tax Per ROR				$ 37,525		$ 37,525		$ 37,525
Total Premium Cost				$ 52,039		$ 48,557		$ 44,979
Savings:								
Fuel Savings								
O & M Savings				$ 473,973		$ 505,129		$ 522,569
Cost of Capital Savings		Note 1		$ 2,215		$ 2,215		$ 2,215
Savings				$ 476,188		$ 507,344		$ 524,784
Net Savings				$ (424,149)		$ (458,787)		$ (479,805)

Note 1: Based on filing made in original petition.

Florida Public Utilities Company | **DOCKET NO.:** | **20220067-GU**
Evaluation of Indiantown Acquisition Adjustment | **EXHIBIT NO.:** | **MN-3**
Page 2 of 2

	2021 Indiantown June 2010 Surveillance	**2022 Indiantown June 2010 Surveillance**	**2023 Indiantown June 2010 Surveillance**
O & M June 2010 Surveillance	$ 522,308	$ 522,308	$ 522,308
Inflation and Growth from 2010 Acquisition	1.2165	1.2899	1.3338
Increased for Growth and Inflation	$ 635,399	$ 673,707	$ 696,666
O & M	$ 161,426	$ 173,482	$ 197,476
Less Rate Case Expense			(1,165)
Less New Satellite Scan System			(14,585)
Less Additional Facility Expenses Related to COVID changes		(20)	(20)
Less New Costs Relating to ESG		(357)	(474)
Less Increase in Insurance and Injuries and Damages in Excess of Growth and Inflation		(3,440)	(5,747)
Less New Damage Prevention Initiative		(1,087)	(1,388)
Net O & M Costs	$ 161,426	$ 168,578	$ 174,097
2021 compared to last cases inflated for growth and inflation Under-Savings/(Over-Additional Costs)	$ 473,973	$ 505,129	$ 522,569