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September 20, 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 **Rebuttal Testimony of Joannah Baugh**, submitted on behalf of Florida Public Utilities Company and the Florida Division of Chesapeake Utilities Corporation.

Sincerely,

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

1 Before the Florida Public Service Commission

2 Docket No. 20220067-GU

3 In re: Petition for rate increase by Florida Public Utilities Company, Florida Division of
4 Chesapeake Utilities Corporation, Florida Public Utilities Company – Fort Meade,
5 and Florida Public Utilities Company – Indiantown Division

6
7 Prepared Rebuttal Testimony of Joana M. Baugh

8 Date of Filing: 09/20/2022

9
10 **Q. Please state your name, business address, occupation and employer.**

11 A. My name is Joana M. Baugh. My business address is 1635 Meathe Drive, West Palm
12 Beach, FL 33411. I am employed by Chesapeake Utilities Corporation (“CUC”) as
13 Senior Regulatory Manager.

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

15 A. I received a Bachelor of Science in Accounting from the College of the Holy Spirit
16 and I am a licensed Certified Public Accountant in the state of Virginia. I have been
17 employed with CUC since 2010. I worked in the Internal Audit Department as Senior
18 Manager of Internal Audit before transitioning to the Regulatory Department in 2021.
19 As Senior Manager of Internal Audit, I was responsible for the design and
20 implementation of the Internal Audit Program for CUC and its subsidiaries. In
21 addition, I led various operational and compliance audits across the Company. Prior
22 to joining CUC, I held various positions with public accounting firms such Ernst &
23 Young LLP and BDO USA, LLP for over 8 years, from Staff Auditor to Manager.

1 **Q. In your current role, what are your responsibilities?**

2 **A.** My responsibilities include regulatory analysis and preparation of both routine and
3 non-recurring special filings including rate case proceedings.

4 **Q. Have you previously filed direct testimony in this case?**

5 **A.** No. I have not.

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

7 **A.** My rebuttal testimony addresses certain positions in the testimony of Office of Public
8 Counsel (“OPC”) witness Ralph Smith concerning unamortized rate case expense, rent
9 expense and company sponsored events.

10 **Q. Are you sponsoring any rebuttal exhibits?**

11 **A.** No.

12

13 **Unamortized Rate Case Expense**

14 **Q. Do you agree with Witness Smith’s statement on page 12, starting at line 16, that**
15 **the “Commission should follow its long-standing policy of not allowing inclusion**
16 **of the unamortized rate case expense in rate base”?**

17 **A.** No, I do not. My review of Commission decisions addressing this issue indicates that,
18 while the Commission does take that approach in a number of cases for other utilities,
19 it does not have a “long-standing” policy of excluding unamortized rate case expense
20 from working capital as it relates to FPUC.

21 **Q. Has the Commission recognized rate case expense as a necessary cost of doing**
22 **business for FPUC in the past?**

1 A. Yes. It has. In the Company's 1993 rate case for its electric division, the Commission
2 addressed this same issue. In that case, the Commission acknowledged that it had, in
3 several prior cases for other utilities, removed rate case expense from working capital.

4 The Commission nonetheless recognized that:

5 We believe that the company should be given the opportunity to
6 recover prudently incurred costs. Not including the unamortized
7 portion of rate case expense in working capital is a partial
8 disallowance. It is analogous to allowing depreciation expense, but
9 not allowing a return on rate base. Rate case expense is a cost of doing
10 business not unlike other administrative costs. Further, PSC rules,
11 such as the MFR rule, influence the level of rate case expense.

12 The Commission therefore concluded:

13 . . . if it is determined that rate case expense is prudent and reasonable,
14 the company should be allowed to earn a return on the unamortized
15 balance. Rate case expense is a necessary expense of doing business
16 in the regulated arena.

17 Order No. PSC-1994-0170-FOF-EI at pg. 10.

18 **Q. Are there more recent cases in which the Commission has allowed FPUC to**
19 **recover unamortized rate case costs in rate base?**

20 A. Yes. For instance, the Commission's final order in the 2007 FPUC Electric rate case,
21 Order No. PSC-2008-0327-FOF-EI, page 33, issued in combined Dockets Nos.
22 20070300-EI and 20070304-EI, states:

1 Our practice in prior rate cases, including FPUC's is to allow one-
2 half of the rate case expense in Working Capital. Based on the
3 above, we find that the appropriate balance of deferred debit rate
4 case expense to be included in Working Capital is \$303,400.

5 That decision is also consistent with Commission Order No. PSC-2004-0369-AS-EI,
6 issued in the 2003 FPUC Electric rate case, Docket No. 20030438-EI.

7 **Q. Has the Commission allowed FPUC to recover unamortized rate case costs for its**
8 **Natural Gas Division?**

9 A. Yes. The Commission allowed the same recovery in Order No. PSC-2004-1110-PAA-
10 GU, issued in the 2004 FPUC Natural Gas Rate Case, Docket No. 20040216-GU, as
11 well as Order No. PSC-1995-0518-FOF-GU, issued in the 1994 FPUC Natural Gas
12 case, Docket No. 19940620-GU. In each, the Commission allowed recovery of one-
13 half of the unamortized rate case expense in working capital.

14 **Q. Since 1993, has the Commission ever decided to disallow recovery of unamortized**
15 **rate case expense for FPUC?**

16 A. I have only been in Regulatory with the Company for a year, as I mentioned, and I
17 have not done an exhaustive search of Commission orders applicable to FPUC, but I
18 can say that the only time I could find, in recent history, that the Commission
19 disallowed recovery of unamortized rate case expense for FPUC was in the 2008 PAA
20 Rate Case Order, Order PSC-09-0375-PAA-GU, issued May 27, 2009, in Docket No.
21 080366-GU. That Order was, however, protested, and later resolved through a
22 Settlement approved by the Commission in Order PSC-09-0848-S-GU. I note that,
23 prior to settlement, the filings in that docket reflect that Company witness Mesite filed

1 Supplemental Direct Testimony addressing the fact that, at least since 1994, the
2 Commission had consistently allowed the Company to recover at least one-half of
3 unamortized rate case expense through working capital.

4 **Q. Is allowing one-half of the deferred rate case expense in working capital**
5 **appropriate?**

6 A. Yes, the Company included one-half in working capital, consistent with the prior
7 orders I discussed. Allowing one-half of the deferred expense, or ½ of the 5-year
8 monthly average of the unamortized balance takes into account the fact that, at the end
9 of the amortization period, the deferred expense account will be zero.

10 **Q. Do you agree with Witness Smith’s further assessment on page 12 that “it would**
11 **be unfair for customers to pay a return on the costs incurred by the Company in**
12 **this case when these are being used to increase customer rates”?**

13 A. No, I do not. In this case, as in prior cases, FPUC has incurred prudent and reasonable
14 rate case expense, and we believe the related, unrecovered deferred portion of such
15 costs should be allowed in working capital.

16 Filing a rate case and providing the required MFRS is the only mechanism available
17 to regulated utilities for seeking recovery of increases in operating expenses, which
18 ensures the opportunity to earn a fair return. While other utilities may typically
19 maintain staffing levels that would allow a rate case to be handled in-house, FPUC has
20 traditionally taken a different approach, and instead utilizes consultants on an “as
21 needed” basis. As such, the costs we incur over the course of a rate case are prudent,
22 necessary expenditures to help us pursue the rate relief we need to ensure we can
23 continue provide high quality and safe service to our customers.

1 **Q. Is this something that the Commission should consider when determining**
2 **whether or not to allow the Company to include the unamortized portion in base?**

3 A. Yes. The Company is focused on providing safe and efficient natural gas service for
4 its customers, and we have been able to do so over the years without the need to seek
5 rate relief very frequently. As such, we are staffed at the level necessary and
6 appropriate to make sure we do what we do best – provide natural gas service to
7 customers.

8 If the Company were, instead, regularly staffed at the level necessary to handle rate
9 cases entirely in-house, the associated staffing costs would be significant, and they
10 would typically be allowed for recovery in the Company’s Operating and Maintenance
11 expenses. Those additional costs would therefore be passed through to our customers
12 in our base rates.

13 The Company has found that incurring periodic costs for rate case expense is the better
14 approach and results in overall lower costs than would otherwise be incurred if the
15 Company staffed at a level that allowed preparation of a full rate proceeding using
16 only internal resources. We think this approach is ultimately an overall benefit for
17 our ratepayers. As such, the expenses FPUC incurs for rate case proceedings are
18 justified as an ordinary, prudent and necessary cost of doing business in the regulated
19 utility environment and should not be disallowed.

20

21 **Rent Expense**

22 **Q. Please summarize Witness Smith’s recommended adjustments on rent expense?**

1 A. Witness Smith removed rent expense of \$78,249 from the projected 2023 test year as
2 the space is no longer leased.

3

4 **Q. Do you agree with Witness Smith's adjustments on rent expense?**

5 A. I generally agree with Witness Smith's recommendation to remove rent expense of
6 78,249 from the projected test year as we reported it in our response to OPC
7 Interrogatory 113 because the space is no longer leased. However, Witness Smith
8 failed to consider the other items that we also discovered in the course of responding
9 to OPC Interrogatory 113. In that response, we reported that the common area
10 maintenance and rent tax of other leased space were not included in our projection that
11 produces additional expense of \$39,678. The common area maintenance relates to the
12 cost and expenses we reimburse the Landlord for the expenses for maintaining and
13 operating the common areas such as sanitary control, trash, garbage, parking area line
14 painting and lighting. The rent tax is the sales tax imposed on the lease and the
15 Company is responsible in accordance with the lease agreement. The common area
16 maintenance and rent tax expenses are in the 2021 historic year.

17 So, although the expense was overstated by due to a lease being terminated, the
18 adjustment should be offset by the costs that were, inadvertently, not included.
19 Therefore, the rent expense amount that should be removed from the projected 2023
20 test year is \$38,571 instead of \$78,249 ($\$78,249 - \$39,678$) with an equivalent revenue
21 requirement decrease of \$38,856 ($\$38,571 \times 74.655\%$ net of tax $\times 1.3494$ expansion
22 factor).

23

1 **Company Sponsored Events**

2 **Q. Do you agree with Witness Smith's adjustment on Exhibit RCS-2, Schedule C-12**
3 **to remove Company Sponsored Events?**

4 A. No, I do not. Company sponsored events are not social events. They are productive
5 events that include presentations by the officers and senior managers of the Company
6 and are used to show appreciation to the employees, increase focus and consideration
7 of safety by employees, inform them of the status of the Company as a whole, and
8 acknowledge them for their achievements and impact to the Company. In addition,
9 motivational presentations are made to encourage employees to continue to provide
10 great customer service, both at an internal and external level and to identify and
11 implement further customer experience enhancements. Employees are recognized for
12 meeting goals at events. In addition, these meetings give the employees an opportunity
13 to network with their peers and strengthen relationships which improve teamwork and
14 customer service. Employees are encouraged to ask management questions regarding
15 the Company and their work, and to provide input and suggestions to management.
16 All of these are prudent and essential in terms of providing the best service to our
17 customers and our community and are consistent with our corporate philosophy as
18 described by Witness Rudloff in her direct testimony.

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

21 A. Yes.

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing Rebuttal Testimony has been served by Electronic Mail this 20th day of September, 2022, upon the following:

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