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September 27, 2022

BY ELECTRONIC FILING

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

Re: **Docket No. 20220010-EI: Storm Protection Plan Cost Recovery Clause**

Dear Mr. Teitzman:

Attached for electronic filing in the above-referenced docket, please find the **Rebuttal Testimony of Robert Waruszewski** on behalf of Florida Public Utilities Company.

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

Sincerely,

/s/*Beth Keating*
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MEK
cc:(Certificate of Service)

<u>Before the Florida Public Service Commission</u>

Docket No. 20220010-EI

In re: Petition for Review of Storm Protection Plan

Rebuttal Testimony of Robert Chester Waruszewski

On Behalf of

Florida Public Utilities Company

Date of Filing: September 27, 2022

I. <u>Background</u>

Q. Please state your name and business address.

A. My name is Robert C. Waruszewski. My business address is 500 Energy Lane, Suite 100, Dover, Delaware 19901.

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

A. I am employed by Chesapeake Utilities Corporation as Regulatory Manager, South.

Q. Briefly state your education background and employment experience.

A. I received a Bachelor of Science Degree in mathematics and economics from St. Vincent College, Latrobe, Pennsylvania. After graduation, I worked as a junior accounting clerk for the Bank of New York Mellon, assisting in the preparation of audits as well as gathering local tax data for the bank's employees before joining Columbia Gas of Pennsylvania in November 2011 in the Regulatory Department. There, I prepared rate case and gas cost filings and in 2013, I was promoted to Senior Regulatory Analyst. I joined Peoples Natural Gas, a distribution company operating in Pennsylvania, West Virginia, and Kentucky in December 2017, as the Senior Rates and Regulatory Analyst, where I was responsible for assisting in budget preparation and compiling regulatory filings for the Company's Pennsylvania and West Virginia affiliates. I was subsequently promoted to Finance and Rates Analyst IV. In January 2022, I joined Chesapeake Utilities Corporation where my responsibilities include the fulfillment of many regulatory activities for FPUC, which range from instances of regulatory analysis to various filings (Purchased Gas Adjustment, Swing Service and the Gas Reliability Infrastructure Program) before the Florida Public Service Commission.

Q. Have you testified before this or any other Commission?

A. Yes, I testified in the Company's Storm Protection Plan filing at Docket No. 20220049-EI, and have provided prefiled, written testimony in FPUC's PGA True-Up filing at Docket No. 20220003-GU, in FPUC's Swing Filing at Docket No. 20220154-GU and in FPUC's GRIP Filing at Docket No. 20220155-GU. In addition, I have testified before the Pennsylvania Public Utility Commission in various gas cost proceedings for Peoples Natural Gas and in various Columbia Gas of Pennsylvania rate proceedings, as well as before the Public Service Commission of Maryland on several occasions on behalf of Columbia Gas of Maryland.

Q. Did you file direct testimony in this proceeding?

A. No, I did not.

II. <u>Purpose of Testimony</u>

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to rebut various conclusions contained in the direct testimony of the Office of Public Counsel's ("OPC") witness Lane Kollen pertaining to the analysis of the Storm Protection Plan Cost Recovery Clause ("SPPCRC") proposed by FPUC in this proceeding. I will also briefly address Walmart's Witness Perry's concerns regarding our cost allocations in the rate design of the proposed SPPCRC surcharges.

Q. Are you sponsoring any exhibits?

A. No, I am not.

Q. Do you agree with Witness Kollen's recommendations and assessments?

A. I do agree with some, but certainly not all of Witness Kollen's recommendations. In this testimony, I will address the key items that I disagree with, as well as certain points upon which I agree with Witness Kollen. To be clear, however, for any other particulars of Witness Kollen's testimony that I do not specifically address, such absence from this testimony should not be construed to mean that I either agree or disagree with Witness Kollen.

Q. Witness Kollen alleges on page 8 of his testimony that the Company has not met the burden of proof to show that the projected 2023 costs included in the SPPCRC are prudent and reasonable, do you agree with this?

A. No, I do not. While I am not an attorney, I do agree that Rule 25-6.031(3), Florida Administrative Code, does establish the SPPCRC as the place to evaluate the reasonableness of the projected costs and prudency of actual costs incurred. However, at page 8, Witness Kollen appears to suggest that the SPPCRC also provides an avenue for the Commission to reevaluate the SPP programs and projects themselves and even potentially exclude aspects of the SPP. In doing so, Witness Kollen appears intent on blurring the distinction between the SPP approval process and the SPPCRC by inserting further evaluation of the SPP into this process, which is not a requirement contemplated by Rule 25-6.031(3). The Company has already provided sufficient support in Docket No. 20220049-EI for the Commission to evaluate the prudency of the Company's SPP and the proposed projects therein. FPUC's projected costs for 2022 and 2023 included within the SPPCRC are the initial costs associated with implementation of the proposed projects as contemplated in the SPP proceeding, and reflect a reasonable, well-grounded assessment of the anticipated costs to complete the proposed projects. The costs are not inflated, nor do they reflect selection of the highest-cost option for materials and labor necessary to complete these projects. Notably, Witness Kollen does not argue that the costs proposed by FPUC for recovery in this proceeding are inaccurate or not appropriately reflective of the projects that FPUC contemplates undertaking in implementing its SPP. Instead, with the exception of Witness Kollen's arguments on CWIP, depreciation expense, and removing FPUC's pole inspection and vegetation management costs from rate base, Witness Kollen focuses primarily on his argument that the costs of the SPP are uneconomic and do not reflect a "benefit to cost ratio of 100% or more".[1] His argument presumes a review standard that does not appear in the statute nor in either 25-6.030 or 25-6.031, F.A.C. As I will further discuss, his implication that the Commission is required to conduct further evaluation of the SPP itself, including further analysis of the costs and benefits, as well as apply a cost/benefit ratio requirement, must be rejected.

Q. Witness Kollen asserts on page 13 of his testimony that the Company did not develop a valid dollar benefit/dollar cost comparison in either this proceeding or

[1] Kollen Direct, page 16.

in its Storm Protection Plan. Is the Company required to provide this in the SPPCRC?

A. No. Again, Witness Kollen is regurgitating arguments that he made in the SPP proceeding and is fixated on the idea that the utilities should monetarily quantify the benefits and the costs of the program, neither the Rule nor the Statute require the Company to provide this in either the SPP or the SPPCRC.

Q. Do you agree with Witness Kollen's recommendation on page 16 of his direct testimony that the Commission should deny cost recovery in the SPPCRC of all SPP proposed projects that do not have a benefit-to-cost ratio of 100%?

A. No. Section (2) (a) of 25-6.030, F.A.C., contemplates that the projects included in the SPP are to enhance FPUC's infrastructure for the purpose of reducing restoration costs and outage times and improving the Company's overall service reliability in the event of a storm. There is no additional requirement in Rule 25-6.030 that the Commission evaluate each project to determine whether, upon implementation, the SPP and its projects will carry a benefit ratio of 100%. Since the Commission is not required to evaluate a utility's SPP and underlying projects according to a specific benefit-to-cost ratio under Rule 25-6.030, it stands to reason that the Commission should reject Witness Kollen's similar argument that only the costs associated with projects that meet a defined benefit-to-cost ratio should be eligible for cost recovery through the SPPCRC.

Q. How should the Commission evaluate the reasonableness of projected costs for FPUC's SPP and prudency of costs incurred for purposes of cost recovery?

A. As I read the statute, the Commission should evaluate whether the costs a utility seeks to recover are the reasonable and prudent costs incurred by the utility in the implementation of its SPP and determine that the costs proposed for recovery through the SPPCRC mechanism are not otherwise already recovered through the Company's base rates.

Q. Do you agree with Witness Kollen's recommendation on pages 19 and 20 of his direct testimony to exclude CWIP from rate base and defer it as either AFUDC or a miscellaneous deferred debit?

A. No, his proposal does not reflect the optimal approach, nor is it consistent with Commission precedent.

Q. On Page 21 of his testimony, Witness Kollen notes that a return on CWIP is not clearly authorized in the SPP Statute or the SPPCRC rule, do you agree with this?

A. While I agree that it is not explicitly stated in the Rule, it is implied. As Witness Kollen acknowledges, the Rule allows for a return on the undepreciated balance of costs. Thereafter, on page 19 of his testimony, Witness Kollen argues that the term "undepreciated balance" as found in subsection (6)(c) of the SPPCRC Rule refers to "net plant," meaning gross plant in service minus accumulated depreciation. As such, he argues "undepreciated balance" cannot apply to CWIP, because only plant in service is depreciated. This analysis is, however, inconsistent with this Commission's review of utility earnings surveillance reports. Specifically, for both the Earnings Surveillance Reports that each utility files with the Commission and MFRs filed with an application for a base rate increase, CWIP is <u>included</u> within the net plant calculation. Thus, applying Witness Kollen's interpretation that "undepreciated balance" refers to net plant, as well as the Commission's historic inclusion of CWIP within net plant for surveillance purposes, the logical conclusion is that CWIP is to be included in the referenced "undepreciated balance" and therefore is eligible for recovery and to earn a return before being closed to plant. This interpretation would also be consistent with Commission's approval and ongoing review of FPUC's Gas Reliability and Infrastructure Program for its natural gas divisions, in which a return on CWIP has also been allowed.

Q. On pages 21 and 22, Witness Kollen asserts that, through the implementation of the various Storm Protection Programs and projects, FPUC will achieve cost savings in non-storm O&M costs and that these savings should be passed on to customers through a reduction to the SPPCRC. Do you agree with this recommendation?

A. No, I do not. While Witness Kollen suggests that a comparison between existing O&M expense and O&M expense after the SPP is implemented could be used to calculate the cost savings, this is an overly simplistic approach that should be rejected. Variations in O&M expense from year to year are caused by a myriad of factors and would not solely be attributable to the implementation of the SPP. While it is likely that the completed SPP projects will result in some non-storm O&M cost savings for customers in the long run, it would be a monumental task to quantify those savings in any meaningful manner, and likely impossible to do so prior to completion of any of the projects in the Company's SPP. As a result, there should not be an adjustment to the SPPCRC revenue requirement to reflect future O&M savings as they are unknown at this time.

Q. On pages 24 and 25 of his testimony, Witness Kollen avers that each utility should reflect a credit to depreciation expense in the SPP for the plant retired due to the implementation of SPP, do you agree with this?

A. No. Witness Kollen assumes that all plant retired due to the implementation of SPP has not yet been fully depreciated and thus the Company would achieve savings related to depreciation expense as a result.

Q. Does FPUC anticipate that the plant retired due to the SPP will either be fully or mostly depreciated?

A. Yes, the Company anticipates that any plant retired as a result of the SPP will either be fully or nearly fully depreciated. As a result, the Company anticipates no depreciation expense savings, or a negligible amount on the nearly depreciated plant.

Q. On pages 25 and 26 of his direct testimony, Witness Kollen claims that FPUC failed to move its pole inspection and vegetation management costs from base rates to SPPCRC rates consistent with the approach of other utilities, in spite of having agreed to do so in response to OPC discovery. Do you agree with this?

A. No. Here, I'm afraid, Witness Kollen is entirely mischaracterizing FPUC's discovery response, which was provided in Docket No. 20220049-EI, and also implies that FPUC is therefore double-recovering costs, which is incorrect. While Witness Kollen includes FPUC's referenced discovery response among his multiple exhibits, for ease of reference, I restate the Company's discovery responses below:

20. Please refer to Paragraph No. 9 of the Company's Application

wherein it states "[T]he SPP contains eight programs, three of which reflect the continuation of legacy Storm Hardening Distribution Wood Pole Inspection and Replacement, Transmission Structure Inspection and Hardening, and Vegetation Management Initiatives."

a. Describe the Company's present recovery through base rates and/or a storm hardening surcharge for each of these three legacy programs that will be included in the SPP going forward.

Response: The Distribution Pole Inspection and Replacement and Transmission Inspection and Hardening programs are completely included in base rates at this time. This will be evaluated on a continuing basis and may change in future years. The Vegetation Management program as proposed is partially included in base rates and the remaining, unrecovered amount is proposed for recovery through the SPPCR.

b. Confirm that if the three legacy programs are approved for the SPP and the costs are approved for recovery through the SPPCRC, then the Company agrees that it should not be allowed also to continue recovery of those costs through base rates and/or storm hardening surcharge rates. If confirmed, then describe how the Company plans to ensure that costs recovered through base rates and/or storm hardening surcharge rates are not also recovered through the SPPCRC.

Response: FPUC will include the appropriate recovery mechanism in the SPPCR process to ensure there is no double recovery of programs within the SPP. FPUC will continue to seek recovery as described in 20(a) until such time that all recovery is moved into the SPPCR.

c. Provide the amounts included in rate base by component and the amounts included in expense by O&M expense account and each other operating expense account for each of the three legacy programs that are presently recovered in base rates. Provide a copy of the source documents relied on to provide these amounts.

Response: For this initial filing, the entire amounts shown in Appendix A of the SPP filing are included in the base rates for the Distribution Pole Inspection and Replacement and the Transmission Inspection and Hardening programs. For the Vegetation Management program with includes a total of $1.2 M in expenses, $685K is currently recovered through base rates.

As is clear from the Company's responses, FPUC did not agree "to realign these expenses from base rates to the SPPCRC in response to OPC discovery" as Witness Kollen states at page 26. Rather, the Company clearly stated that costs for the identified legacy programs are currently recovered through base rates. To the extent that incremental amounts would be incurred under Vegetation Management, only those incremental costs would be included in the SPPCRC. Otherwise, the Company would "ensure there is no double recovery of programs" and would "seek recovery as described in 20(a) **until such time that all recovery is moved into the SPPCR**." [Emphasis added]. To be clear, the Company is not opposed to eventually removing the SPP expenses currently in base rates and recovering them through the SPPCRC either in the Company's next rate case, or as otherwise directed by the Commission. The Company did not, however, agree to do so now, nor did it remotely imply that it would. The Company was clear in its responses then and continues to maintain now that certain costs for legacy "storm hardening' related programs are currently recovered through base rates. To the extent incremental expenses associated with expediting or extending those programs are incurred, only those incremental amounts would be appropriate for recovery through the SPPCRC at this time, which will avoid double recovery. Ultimately, Witness Kollen's statements in this regard are not just wrong, they are misleading.

Q. Is there a regulatory requirement which mandates that FPUC move recovery of all SPP costs from base rates into SPPCRC at this time?

A. No. The Commission's rules do not require, nor has the Commission ordered FPUC to realign these costs from base rates to the SPPCRC rates at this time. Instead, Rule 25-6.031(6)(b) provides that "costs recoverable through the clause shall not include costs recovered through the utility's base rates or any other cost recovery mechanism." As set forth in Witness Napier's Revised Direct Testimony, and consistent with this provision of the Rule, the revenue requirement utilized for purposes of calculating the Company's proposed SPPCRC surcharges is net of the amounts associated with the legacy storm hardening programs recovered through base rates, which equates to

$650,336 and $975,504 embedded in base rate revenues for 2022 and 2023, respectively.[2]

As it relates to Witness Kollen's further assertion at page 26 of his testimony that "the other three utilities in their 2020 SPPCRC proceedings agreed to realign legacy program costs, including vegetation management expenses, from base rates to SPPCRC rates," I am not intimately familiar with prior SPP and SPPCRC proceedings as they pertained to other Florida investor-owned utilities ("IOUs"). It is, however, my understanding that, to the extent any realignments to remove SPP-related costs from base rates for inclusion in the SPPCRC mechanism were accomplished (or are planned) by the other IOUs, these were done consistent with Commission-approved settlement agreements, wherein those utilities agreed, as a term of settlement, to such alignment. As such, any realignment that may, or has, been accomplished by any other Florida IOU does not equate to a "failure" on the FPUC's part to do the same.

Q. Does the Company plan to eventually realign the pole inspection and vegetation management costs?

A. Yes. The Company anticipates that, unless otherwise directed by the Commission, it will plan to address realignment of costs in its next base rate proceeding. In the interim, the Company agrees that there should be no "double recovery" of costs. Consequently, the Company is only requesting recovery of incremental amounts associated with certain items for which a portion is already recovered through base rates in the SPPCRC, which avoids double recovery of costs already recovered through base rates.

[2] See, Revised Direct Testimony of Michelle D. Napier at page 4.

Q. Does Walmart's Witness Perry have a valid argument as it relates to FPUC's proposed allocation of costs based on a class's percentage contribution to base revenues, including energy charges?

A. Yes, to an extent. It is true that FPUC's proposed allocation is a simplified approach that could potentially result in higher load factor customers paying a greater portion of SPP-related costs than lower load factor customers. While FPUC does not agree that this amounts to a violation of the cost causation principle recognized in utility ratemaking, the Company does recognize Walmart's concern and would be amenable to a revision to its cost allocation methodology in this regard.

Q. Does this conclude your testimony?

A. Yes.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the Rebuttal Testimony of Robert Waruszewski on behalf of Florida Public Utilities Company has been furnished by Electronic Mail to the following parties of record this 27th day of September, 2022:

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