FILED 10/7/2022
DOCUMENT NO. 08962-2022
FPSC - COMMISSION CLERK

GUNSTER
FLORIDA'S LAW FIRM FOR BUSINESS

October 7, 2022

Writer's Direct Dial Number: (850) 521-1706
Writer's E-Mail Address: bkeating@gunster.com

BY E-PORTAL

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 FPUC's Revised Prehearing Statement.

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

Sincerely,

Beth Keating
Gunster, Yoakley & Stewart, P.A.
215 South Monroe St., Suite 601
Tallahassee, FL 32301
(850) 521-1706

Cc: Certificate of Service

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: 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.	DOCKET NO. 20220067-GU FILED: October 7, 2022

FLORIDA PUBLIC UTILITIES COMPANY'S REVISED PREHEARING STATEMENT

Consistent with Order No. 2022-0222-PCO-GU, issued June 17, 2022, as subsequently modified[1], Florida Public Utilities Company, the Florida Division of Chesapeake Utilities Corporation, Florida Public Utilities Company-Fort Meade, and Florida Public Utilities Company – Indiantown Division (herein, jointly "FPUC") hereby submits this Revised Prehearing Statement:

a. All Known Witnesses

Direct

Witness	Subject	Issue
Mike Cassel	Overview of rate case and requested revenue increase; acquisition adjustment, environmental surcharge; benchmarking, associational participation	1, 4, 11, 18, 39, 55, 56, 62, 63, 65, 66, 69
Mike Galtman	A&G Expenses and cost changes; allocation methodology; background on regulatory asset	13, 18, 28, 34, 36, 49, 50, 51, 52, 53

[1] First Order Modifying Order Establishing Procedure, Order No. PSC-2022-0270-PCO-GU, issued on July 8, 2022; and Second Order Modifying Order Establishing Procedure, Order No. PSC-2022-0323-PCO-GU, issued September 12, 2022.

Witness	**Subject**	**Issue**
Michelle Napier	Costs and adjustments in the MFRs, net operating income, and savings associated with acquisition adjustment	2, 3, 9, 10, 11, 13,14, 15, 16, 17, 18, 19, 20, 21, 23, 24, 32, 33, 34, 35, 38, 39, 41, 42, 43, 44,45, 46, 47, 49, 50, 51, 52, 53, 54, 55, 63, 66, 69
Terry Deason	Policy and review of acquisition adjustment	18, 49
Noah Russell	Capital Structure, Cost of Capital, Insurance Costs, Pension Expense	18, 22, 25, 26, 27, 29, 31, 32, 36, 37, 38
Paul Moul	Capital Structure, Cost of Debt, and ROE	30
Mike Reno	Deferred accumulated income tax, calculation of income tax expense	28, 40, 48, 50, 51
Pat Lee[2]	Depreciation Study	5, 6, 7, 8, 17, 46, 47
John Taylor	Cost of Service Study, Billing Determinants, Rate Design	56, 57, 58, 59, 60
Vik Gadgil	Technological Improvements and Cyber Security	4
Kira Lake	Growth, changes to Area Extension Plan, Over/Under Adjustment in Growth and Retention; Minimum Use Language	10, 62, 64, 67
Jason Bennett	Gas Reliability Infrastructure Program, Preview of Phase 2, Safety Town, Over/Under for Operations	9, 12

[2] Revised September 9, 2022.

Witness	Subject	Issue
Kelley Parmer[3]	Customer Care Philosophy and Improvements	4
Devon Rudloff	Human Resources, Compensation philosophy, Covid Response, Talent acquisition challenges	34, 35, 36
Wraye Grimard	Tariff Changes and Miscellaneous Service Charges	61, 62, 64, 67
Matt Everngam	Interim Rate request	68
Bill Hancock	Overview of systems, Transportation Service Programs, Capacity, Market Influences on Gas prices and supply	2
Rebuttal		
Pat Lee	Service Lives, Peer Groups, Remaining Lives	5, 6, 7, 8, 17, 47
Noah Russell	Directors and Officers Liability Insurance Expense	22
Mike Galtman	Incentive Compensation, Stock-based Compensation, Payroll Tax Expense, SERP Expense	34,_35, 51
Mike Reno	Parent Debt Adjustment and Interest Synchronization Adjustment	40, 48
Joanah Baugh	Unamortized Rate Case Expense	21, 43

[3] Errata file September 14, 2022.

Witness	**Subject**	**Issue**
Paul Moul	Cost of Equity and Capital Structure	22, 25, 30, 31
Mike Cassel	Acquisition Adjustment	18
Terry Deason	Regulatory Policy on Acquisition Adjustments and Incentive Compensation	18, 35

b. All Known Exhibits

Direct

Witness	**Exhibit**	**Title**	**Issue**
Cassel	MDC-1	List of Sponsored MFRs	1, 4, 11, 18, 39, 55, 56, 62, 63, 65, 66
Cassel	MDC-2	List of Sponsored MFRs	1, 4, 11, 18, 39, 55, 56, 62, 63, 65, 66
Cassel	MDC-3	Report on anticipated environmental remediation efforts	11, 63
Cassel	MDC-4	Natural Gas Storybook	1, 4, 11, 18, 39, 55, 56, 62, 63, 65, 66
Galtman	MG-1	List of Sponsored MFRs	13, 18, 28, 34, 45, 49
Napier	MN-1	List of Sponsored MFRs	2, 3, 9, 10, 11, 13,14, 15, 16, 17, 18, 19, 20, 21, 23, 24, 32, 33, 34, 35, 38, 39, 41, 42, 43, 44,45, 46, 47, 49, 50, 51, 52, 53, 54, 55, 63, 66, 69
Napier	MN-2	Evaluation of Acquisition Adjustment	18
Napier	MN-3	Evaluation of Indiantown Acquisition Adjustment	18
Russell	NTR-1	Composite Schedules: NAIC Ratings; Weighted Average	22, 25, 26, 29, 37, 38

Witness	Exhibit	Title	Issue
		Cost of LTD; FPU Stock Price; Chesapeake Stock Price	
Russell	NTR-2	List of Sponsored MFRs	18, 22, 25, 26, 27, 29, 37
Moul	PRM-1	Composite Financial Schedules on Capitalization, Financial Statistics, Capital Structure Scenarios, Growth Rates, Financial Risk, Capital Market Pricing Model	25, 30
Lee	PSL-1	Curriculum Vitae	5, 6, 7, 8, 17, 47
Lee	PSL-2[4]	FPUC Depreciation Study and Workbook	5, 6, 7, 8, 17, 47
Lee	PSL-3	Life Table Example	5, 6, 7, 8, 17, 47
Lee	PSL-4[5]	Recommended Depreciation Rates with and without Reserve Allocations	5, 6, 7, 8, 17, 46, 47
Taylor	JDT-1	List of Sponsored MFRs	56, 57, 58, 59, 60
Taylor	JDT-2	Billing Determinants	56, 57, 58, 59, 60
Taylor	JDT-3	Class Conversion	56, 57, 58, 59, 60
Taylor	JDT-4 (Exhibit 4)	Average Annual Bill Impact	56, 57, 58, 59, 60
Gadgil	VG-1	List of Sponsored MFRs	4
Lake	KIL-1	FPUC Customer Growth	10, 62, 64, 67
Lake	KIL-2	List of Sponsored MFRs	10, 62, 64, 67

[4] Revised September 9, 2022.
[5] Revised September 9, 2022.

Witness	**Exhibit**	**Title**	**Issue**
Bennett	JLB-1	Dover Field Training Facility (Safety Town)	9, 12
Bennett	JBL-2	List of Sponsored MFRs	9, 12
Hancock	BH-1	List of Sponsored MFRs	2
Hancock	BH-2	FGT Maps	2
Parmer	KP-1	Customer Care Communications	4
Parmer	KP-2	Red Flag Policy	4
Parmer	KP-3	List of Sponsored MFRs	4
Rudloff	DR-1	Organizational Chart	34, 35, 36
Rudloff	DR-2	List of Sponsored MFRs	34, 35, 36
Grimard	WG-1	Tariff/MFR E-9	61, 62, 64, 67
Everngam	ME-1	Interim Rate Tariff sheets	68
Everngam	ME-2	List of Sponsored MFRs	68
Rebuttal			
Lee	PSL-5	Comparison of Service Lives	5, 6, 7, 8, 17, 47
Lee	PSL-6	Comparison of Current Service Lives	5, 6, 7, 8, 17, 47
Lee	PSL-7	Remaining Life Determination	5, 6, 7, 8, 17, 47

c. FPUC's Statement of Basic Position

FPUC: It has been over a decade since any of the natural gas local distribution companies in this case has pursued rate relief. For one entity, Florida Public Utilities Company – Fort Meade, this is the first instance in which the company's rates and structure have been reviewed. Over that period of time, Florida Public Utilities Company has been acquired by Chesapeake Utilities Corporation, which is also the owner of the Florida Division of Chesapeake Utilities Corporation. Florida Public Utilities Company then acquired Indiantown Gas Company and the municipal natural gas system of Fort Meade. These entities, which are referred to herein jointly as Florida Public Utilities Company ("FPUC"), have since experienced significant customer growth and expanded service into areas that were previously unserved. Because of the acquisition, FPUC has been able to invest over $320 million in capital spending, thus allowing FPUC such an unusual length of time between rate requests.

FPUC has focused on communication and service for its customers, which has driven improvements in customer service and customer communications. While FPUC has kept its focus on its service, the very heart of everything FPUC does is safety – both for its customers and its employees. This underlying theme has driven improvements in FPUC's distribution facilities, its training programs, and its safety protocols, including making appropriate investments in our computer technology, training, and software to address safety as it relates to cybersecurity. FPUC has evolved from a small, local operation to a much larger, more sophisticated company that has, and continues, to implement a strategic growth plan designed to expand the availability of gas to customers across the state in a safe and reliable manner.

Costs to serve have, however, increased over this period, as has the company's capital investments to serve new customers and new service areas. As a result, FPUC's earnings have declined to the point that it will no longer have the opportunity to earn a fair return and could begin to impair the company's ability to continue to make investments to the benefit of its customers. Moreover, FPUC has determined that now is the appropriate time to consolidate the rates and rate structures for these separate entities, which will ultimately increase efficiencies across the FPUC service platform. FPUC is therefore requesting that the Florida Public Service Commission ("Commission") approve an $24 million revenue increase. When this base revenue increase request is added to the approximately $19.8 million associated with GRIP, which should be moved from the current surcharge mechanism to recovery through base rates, the total revenue increase request is approximately $43.8 million. However, to be clear, moving the GRIP recovery from the surcharge to base recovery is a revenue neutral component of FPUC's request.

FPUC also asks that the Commission approve an overall rate of return of 6.43 percent, including an approved mid-point ROE of 11.25. FPUC has also submitted a Depreciation Study for approval, which reflects appropriate adjustments to service lives and rates and will result in reduced depreciation expense to the benefit of FPUC's customers. FPUC is also seeking certain changes to its tariffed programs, such as its Area Extension Program, as well as the ability to remove collection of certain costs from base rates to surcharges. Commission approval of FPUC's request will enable to the company to continue to provide safe and efficient service to its customers, to provide top tier customer care, and to continue to expand service to Floridians that currently do not have access to natural gas service, while also allowing FPUC the opportunity to earn a fair and reasonable return on its investments, consistent with Florida Statutes.

d. FPUC's Position on the Issues

TEST PERIOD AND FORECASTING

ISSUE 1: Is FPUC's projected test period of the twelve months ending December 31, 2023, appropriate?

FPUC: Yes. The 12-month period ending December 31, 2023, as reflected in FPUC's MFRs, is the most appropriate test period, because it is representative of FPUC's future operations. FPUC is not aware of any dispute identified by any intervenor regarding the Company's proposed projected test year. (Cassel)

ISSUE 2: Are FPUC's forecasts of customer and therms by rate class for the projected test year ending December 31, 2023, appropriate? If not, what adjustments should be made?

FPUC: Yes. FPUC's forecasts of customer and therm sales by rate class are based upon reliable methods utilized by the Company, and accepted by the Commission, in prior rate cases for FPUC. (Napier, Hancock)

ISSUE 3: Are FPUC's estimated revenues from sales of gas by rate class at present rates for the projected test year appropriate? If not, what adjustments should be made?

FPUC: Yes. FPUC applied the Company's present rates to the forecast billing determinants, which produced the estimated gas sales revenues for the 2023 projected test year. (Napier)

QUALITY OF SERVICE

ISSUE 4: Is the quality of service provided by FPUC adequate?

FPUC: Yes. FPUC is committed to continuing to meet and exceed customer expectations through making prudent investments in technology, providing options for completing transactions, opening additional channels of communication to conduct business, and continuing to expand its Voice of the Customer program. The prudent investments made thus far in modernizing the Company's phone system and supporting technologies have transformed the way it does business. FPUC provides a high quality of service as indicated by its reduced complaint levels, which reflect an average 31% annual reduction in customer complaint levels from 2013 to 2021. Even with increased customer expectations, the Company has been successful at lowering the number of complaints. Over the past nine years, the Company has not received any formal complaint for FPUC – Indiantown Division, and our FPUC - Fort Meade Division has only experienced one formal complaint over the past nine years. (Parmer, Gadgil)

DEPRECIATION STUDY

ISSUE 5: Based on FPUC's 2023 Revised Depreciation Study, what are the appropriate depreciation parameters (e.g. service life, remaining life, net salvage percentage, and reserve percentage) and resulting depreciation rate for each distribution and general plant account?

FPUC: The appropriate depreciation parameters and rate components are set forth in the depreciation study submitted as Revised Exhibit PSL-2 to the direct testimony of Patricia Lee on behalf of the Company. The depreciation study was performed by Witness Lee in coordination with the FPUC employees. The depreciation study will produce a significant reduction in depreciation expense, which will inure to the benefit of FPUC's ratepayers. (Lee)

ISSUE 6: Based on the application of the depreciation parameters that the Commission has deemed appropriate, and a comparison of the theoretical reserves to the book reserves, what, are the resulting imbalances, if any?

FPUC: The comparison of book to theoretical reserve results in a total difference of $20 million, which is comprised of a positive $21 million for the Distribution function and a negative $1 million for the General function. (Lee)

ISSUE 7: What, if any, corrective depreciation reserve measures should be taken with respect to any imbalances identified in Issue 6?

FPUC: The remaining life technique will correct the reserve imbalances existing in the distribution and non-amortizable general plant accounts over the associated remaining life of each account. However, for the amortizable general plant accounts subject to vintage group accounting, the calculated $1.4 million reserve imbalance set forth in the depreciation study submitted as Revised Exhibit PSL-2 to the direct testimony of Patricia

Lee on behalf of the Company should be amortized over 5 years at an annual amount of $288,819. The amortization reflects a true-up of that approved in the 2019 depreciation study to correct a mismatch of the different account systems that were being used for the different companies. All FPUC consolidated companies have since adopted the Chesapeake Uniform System of Accounts. (Lee)

ISSUE 8: What should be the implementation date for revised depreciation rates, and amortization schedules?

FPUC: The effective date should be January 1, 2023. (Lee)

RATE BASE

ISSUE 9: Has FPUC made the appropriate adjustments to reflect GRIP investments as of December 31, 2022, in rate base?

FPUC: The appropriate amount to include for GRIP at December 31, 2022, net of accumulated depreciation is $175,406,734 which will be offset by resetting the GRIP surcharge to recover only the remaining true-up amount. (Bennett, Napier)

ISSUE 10: Is FPUC's adjustment to move existing Area Extension Program (AEP) projects into rate base appropriate? If so, what additional adjustments, if any, should be made?

FPUC: Yes, the existing adjustment is appropriate. No other adjustments are needed. (Napier, Lake)

ISSUE 11: What is the appropriate amount of existing environmental costs, if any, that should be removed from rate base and recovered through the Company's proposed environmental cost recovery surcharge mechanism?

FPUC: The appropriate amount of environmental costs that should be removed from the filing because of a change to the surcharge mechanism is $456,348 of amortization currently being expensed and $3,545,624 from working capital related to the existing environmental assets and liabilities. If the mechanism is not approved, the Company's expense needs to be increased by $627,995 and the revenue requirement increased by $632,644. (Cassel, Napier)

ISSUE 12: Is FPUC's proposed Safety Town project reasonable? If so, what is the appropriate amount for plant-in-service for the project?

FPUC: Yes, this project is prudent because it will improve the training and overall safety of our system. The appropriate amount for plant-in-service is $3 million. (Bennett)

ISSUE 13: Do FPUC's adjustments to Florida Common and Corporate Common plant and accumulated depreciation allocated appropriately reflect allocations among FPUC's gas division, FPUC's electric division, and non-regulated operations? If not, what additional adjustments, if any, should be made?

FPUC: Yes, the Common are allocated to electric and non-regulated operations and are appropriate. No further adjustments are necessary. (Napier, Galtman)

ISSUE 14: Has FPUC made the appropriate adjustments to remove all non-utility activities from Plant in Service, Accumulated Depreciation, and Working Capital?

FPUC: Yes. (Napier)

ISSUE 15: What is the appropriate level of Miscellaneous Intangible Plant for the projected test year?

FPUC: As of December 31, 2019, 2020 and 2021, the Company had Miscellaneous Intangible Plant in account 303 of $213,641 and accumulated amortization of $127,642. As reported in Citizen's Production of Documents number 56, the Company made a true-up entry in 2022 to correct an amortization error which resulted in a 13-month average increase in accumulated amortization of $85,772. As a result, the Miscellaneous Intangible Plant will be fully amortized by March 2023. The appropriate level of Miscellaneous Intangible Plant for the projected test year is a net 13-month average of $228. (Napier)

ISSUE 16: What is the appropriate level of plant in service for the projected test year? (Fallout Issue)

FPUC: The appropriate level is $561,942,691, which is a combination of direct plant of $553,254,413 and common plant allocations of $8,688,278. (Napier)

ISSUE 17: What is the appropriate level of accumulated depreciation for the projected test year? (Fallout issue)

FPUC: The total revised accumulated depreciation is $137,195,082. This amount is a combination of direct accumulated depreciation of $134,992,960 and the allocated portion of common plant of $2,966,035, reduced based on the current depreciation study of $849,685 and increased for the self-reported corrections in the response to Citizen's Production of Documents number 56 of $85,772. (Lee, Napier)

ISSUE 18: Should any adjustments be made to the amounts included in the projected test year for acquisition adjustment and accumulated amortization of acquisition adjustment?

FPUC: No. The acquisition of FPUC by Chesapeake Utilities Corporation continues to produce savings and benefits for FPUC's customers. The acquisition and the benefits derived therefrom continue to be in the public interest; therefore, no adjustments should be made. (Cassel, Russell, Napier, Galtman, Deason)

ISSUE 19: What is the appropriate level of Construction Work in Progress (CWIP) to include in the projected test year?

FPUC: The appropriate amount related to CWIP that should be included in rate base is $7,130,484. (Napier)

ISSUE 20: Have under recoveries and over recoveries related to the Purchased Gas Adjustment and Energy Conservation Cost Recovery been appropriately reflected in the Working Capital Allowance?

FPUC: The projection assumed over/under recoveries for 2021 would be collected in 2022 and therefore, no under or over recoveries were included in 2023's working capital. (Napier)

ISSUE 21: Should an adjustment be made to remove unamortized rate case expense from working capital?

FPUC: No. The Commission has previously allowed recovery of one-half of the unamortized rate case expense in working capital in our rate cases in both electric and natural gas. (Baugh)

ISSUE 22: Should an adjustment be made to remove a portion of prepaid Directors and Officers ("D&O") Liability Insurance from working capital?

FPUC: No. Purchasing a D&O insurance policy is necessary to attract and retain qualified employees and directors in light of the changing environment in which all of the Company's business units operate. Reducing these amounts negatively diminishes the importance of fiduciary oversight, governance and overall risk management and further impacts FPUC's ability to incur costs to retain and attract talent. Also, without this coverage, the Company could be exposed to a claim, which could result in material legal fees and other costs that would ultimately negatively impact ratepayers and shareholders. (Russell)

ISSUE 23: What is the appropriate level of working capital for the projected test year?

FPUC: The total revised working capital is $5,227,362. This amount is based on the filed amount of $5,384,311 and reduced by the self-reported corrections in the response to Citizen's Production of Documents number 56 of $156,949. (Napier)

ISSUE 24: What is the appropriate level of rate base for the projected test year?

FPUC: The appropriate level of total rate base for the projected test year is $455,494,118. This amount is based on the filed amount of $454,887,154, increased for the current depreciation study by $849,685 and decreased for the self-reported adjustments in response to Citizen's Production of Documents number 56 by $242,721. (Napier)

COST OF CAPITAL

ISSUE 25: What is the appropriate amount and cost rate for short-term debt to include in the projected test year capital structure?

FPUC: The appropriate amount of short-term debt for inclusion in capital structure is \$20,789,980 at a cost rate of 3.28%. (Russell)

ISSUE 26: What is the appropriate amount and cost rate for long-term debt to include in the projected test year capital structure?

FPUC: The appropriate amount and cost rate for long-term debt to include in the capital structure is \$148,546,502 at a cost rate of 3.48%. (Russell)

ISSUE 27: What is the appropriate amount and cost rate for customer deposits to include in the projected test year capital structure?

FPUC: The appropriate amount and cost rate for customer deposits to include in the capital structure is \$10,782,475 at a cost rate of 2.37%. (Russell)

ISSUE 28: What is the appropriate amount of accumulated deferred taxes to include in the projected test year capital structure?

FPUC: The appropriate amount of for accumulated deferred taxes to include in the capital structure is \$42,232,204 which is a combination of direct of \$42,152,613 and allocated common of \$79,591. (Galtman)

ISSUE 29: What is the appropriate equity ratio to use in the capital structure for ratemaking purposes?

FPUC: The equity to debt ratio is 55.10%. The equity ratio taking into consideration customer deposits, deferred taxes and the regulatory tax liability is 45.143%. (Russell)

ISSUE 30: What is the appropriate authorized return on equity (ROE) to use in establishing FPUC's projected test year revenue requirement?

FPUC: The appropriate ROE midpoint is 11.25%. (Moul)

ISSUE 31: What is the appropriate weighted average cost of capital to use in establishing FPUC's projected test year revenue requirement?

FPUC: The appropriate method is to reduce rate base for the directly charged items of customer deposits, deferred taxes, and regulatory liabilities and allocate the remaining balance using the parent company equity, long-term and short-term debt ratios provided in MFR G-3 page 2. The appropriate weighted average cost of capital to use is 6.43%. (Russell)

NET OPERATING INCOME

ISSUE 32: Has FPUC properly removed Purchased Gas Adjustment and Natural Gas Conservation Cost Recovery Revenues, Area Extension Plan Revenues, Expenses, and Taxes Other than Income from the projected test year?

FPUC: Yes. (Napier)

ISSUE 33: Has FPUC made the appropriate adjustments to remove all non-utility activities from operation expenses, including depreciation and amortization expense?

FPUC: Yes. (Napier)

ISSUE 34: Should an adjustment be made to the number of employees in the projected test year?

FPUC: No. (Galtman, Napier)

ISSUE 35: What is the appropriate amount of salaries and benefits to include in the projected test year?

FPUC: $17,900,960 of payroll and benefits of $2,916,722. (Napier)

ISSUE 36: What is the appropriate amount of pensions and post-retirement benefits expense to include in the projected test year?

FPUC: The Company engaged an actuary to assist with evaluating pension expense. Prudential generated numerous scenarios of the projected pension expense over the next ten years. Assuming an inclining discount rate and a return on plan assets of 4%, the actuary estimated that FPUC's pension plan expense will range from a credit of $42,900 to an expense of $47,450. The Company conservatively projected a $42,900 credit in the 2023 test year. The total revised pension expense is a $34,320 credit, which is based on the filed amount of $42,900 credit and increased for the self-reported corrections in response to Citizen's Production of Documents number 56 of $8,580. (Russell, Galtman)

ISSUE 37: Should an adjustment be made to remove a portion of Directors and Officers Liability ("D&O") insurance expense from projected test year cost of service?

FPUC: No. Purchasing a D&O insurance policy is necessary to attract and retain qualified employees and directors in light of the changing environment in which all of the Company's business units operate. Reducing these amounts negatively diminishes the importance of fiduciary oversight, governance and overall risk management and further impacts FPUC's ability to incur costs to retain and attract talent. Also, without this coverage, the Company could be exposed to certain claims that could result in material legal fees and other costs that would ultimately negatively impact ratepayers and shareholders. (Russell)

ISSUE 38: Should the projected test year O&M expenses be adjusted to reflect changes to the non-labor trend factors for inflation and customer growth?

FPUC: No, the factors were based on the best estimates at the time and any changes would still be estimates. However, current inflation estimates are higher than filed estimates. (Russell, Napier)

ISSUE 39: What is the appropriate annual storm damage accrual and cap?

FPUC: $10,000 annually with a maximum reserve of $1,000,000. (Napier)

ISSUE 40: Is a Parent Debt Adjustment pursuant to Rule 25-14.004, Florida Administrative Code, appropriate, and if so, what is the appropriate amount?

FPUC: No. FPUC is not a borrower under any third-party debt arrangement. Instead, CUC, the parent company of FPUC, maintains all the third-party debt. When filing a consolidated tax return of CUC and its subsidiaries (including FPUC), the tax deduction for interest expense is determined by the interest associated with the third-party debt held by the parent. As FPUC has no third-party debt, there is no tax deduction for interest expense recorded on the subsidiary's Federal income tax return. While FPUC has no debt on its books and records, an allocated portion of the parent's capital structure is applied to the rate base of FPUC as illustrated in MFR G-3 page 2. (Reno)

ISSUE 41: Should an adjustment be made to Regulatory Commission Expense for Rate Case Expense for the projected test year, and what is the appropriate amortization period?

FPUC: No adjustment is needed, and the appropriate amortization period is five years. (Napier)

ISSUE 42: Should an adjustment be made to Uncollectible Accounts and for Bad Debt in the Revenue Expansion Factor?

FPUC: As shown in the MFR's the expansion factor should include bad debt since the projected test year uncollectible expense is based on the current level of revenue. Bad debt on the revenue increase related to the rate case needs to be taken into account through the expansion factor. (Napier)

ISSUE 43: Should an adjustment be made to reduce rental expense from the projected test year?

FPUC: Yes. The rent expense that should be removed from the projected 2023 test year is $38,571. (Baugh)

ISSUE 44: What is the appropriate amount of projected test year O&M expenses? (Fallout Issue)

FPUC: The total revised O & M expense is $43,954,847 based on the filed amount of $44,026,719 adjusted for the self-reported corrections in the response to Citizen's Production of Documents number 56 and Interrogatory number 138 of reduction of expense of $71,872 (Napier)

ISSUE 45: Do FPUC's adjustments to Florida Common and Corporate Common depreciation and amortization expense allocated appropriately reflect allocations among FPUC's gas division, FPUC's electric division, and non-regulated operations? If not, what additional adjustments, if any, should be made?

FPUC: Yes, the allocations reflect allocations to both electric and non-regulated divisions. (Napier)

ISSUE 46: What is the appropriate amount of depreciation expense to include in the projected test year for FPUC's GRIP program?

FPUC: The appropriate amount of depreciation expense to include in the projected test year for the FPUC's GRIP program is $3,575,128 which is based on the filed amount of $4,162,610 and reduced for current depreciation study by $587,482. (Napier, Lee)

ISSUE 47: What is the appropriate amount of Depreciation and Amortization Expense for the projected test year? (Fallout Issue)

FPUC: The appropriate amount is 14,674,376 which is based on the filed amount of $16,316,662 adjusted for the current depreciation study by ($1,643,826), as well as Company's self-reported adjustments made in response to Citizen's Production of Documents number 56 by $1,540. (Napier, Lee)

ISSUE 48: What adjustments, if any, are appropriate to account for interest synchronization?

FPUC: No adjustments are necessary. The Company has appropriately accounted for interest synchronization by using the interest calculated on G-2 page 2, based on the projected capital structure when projecting the interest used to calculate income tax expense. (Reno)

ISSUE 49: Should any adjustments be made to the amounts included in the projected test year for amortization expense associated with the acquisition adjustment?

FPUC: No. the amount of amortization expense should be $1,139,808. The acquisitions continue to be in the public interest and the amortization amounts should continue on the same basis upon which the acquisition adjustments were initially approved by the Commission. (Deason, Napier)

ISSUE 50: What is the appropriate amount of projected test year Taxes Other than Income?

FPUC: The appropriate amount of projected test year Taxes Other Than Income is $7,566,334 (Napier, Galtman)

ISSUE 51: What is the appropriate amount of projected test year Income Tax Expense (Fallout Issue)

FPUC: The appropriate amount of projected test year income tax expense is $2,412,353, based on the filed amount of $1,977,900 and increased for taxes on the current depreciation study, as well as the self-reported adjustments made in response to Citizen's Production of Documents number 56 of $434,453. (Napier, Galtman)

ISSUE 52: What is the appropriate amount of Total Operation Expenses for the projected test year? (Fallout Issue)

FPUC: The appropriate amount of total operating expenses for the projected test year is $68,607,911 based on the filed amount of $69,887,615 and reduced for the current depreciation study by $1,227,198, as well as the self-reported adjustments made in response to Citizen's Production of Documents number 56 of $52,506. (Napier, Galtman)

ISSUE 53: What is the appropriate amount of Net Operating Income for the projected test year? (Fallout Issue)

FPUC: The appropriate amount of Net Operating Income for the projected test year is $12,697,406 which is based on the filed amount of $11,417,702 and increased for the current depreciation study by $1,227,198, as well as adjusted for the Company's self-reported adjustments provided in response to Citizen's Production of Documents number 56 of $52,506. (Napier, Galtman)

REVENUE REQUIREMENTS

ISSUE 54: What are the appropriate revenue expansion factor and the appropriate net operating income multiplier, including the appropriate elements and rates for FPUC?

FPUC: The appropriate revenue expansion factor is 74.1067% and the appropriate net operating income multiplier is 1.3494. (Napier)

ISSUE 55: What is the appropriate annual operating revenue increase for the projected test year? (Fallout Issue)

FPUC: The appropriate annual operating revenue increase for the projected test year is $42,143,737 includes the roll in of our GRIP revenues of $19,755,931 and based on the filed amount of $24,061,982 and reduced for the current depreciation study by $1,582,263, as well as self-reported corrections provided by the Company response to Citizen's Production of Documents number 56 and Interrogatory 138 of $91,913. (Napier)

COST OF SERVICE AND RATE DESIGN

ISSUE 56: Should FPUC's proposal to consolidate its cost of service for Florida Public Utilities Company, CFG, Fort Meade, and Indiantown be approved?

FPUC: Yes. The proposed consolidated structure balances concepts of cost of service, efficiency in rates, simplicity, and feasibility – ultimately resulting in alignment and modernization. (Taylor)

ISSUE 57: Is FPUC's proposed cost of service study appropriate?

FPUC: Yes. The Excel-based cost of service model provided by the PSC as part of the Minimum Filing Requirements was utilized to develop proposed cost of service study in this filing. (Taylor)

ISSUE 58: Are FPUC's proposed consolidated residential and commercial rate classes appropriate?

FPUC: Yes. The proposed rate case structure provides simplicity and transparency as the current rate structures are overly stratified and unnecessary. (Taylor)

ISSUE 59: Are FPUC's proposed customer charges for Florida Public Utilities Company, CFG, Fort Meade, and Indiantown appropriate?

FPUC: Yes. Customer charges for the consolidated rate classes were set to minimize bill impacts for customers with different usage ranges and differing existing customer charges. For some customers, the customer charges were set below the customer unit costs within the COSS. Existing customer charges were above the unit costs for the larger general service classes, which is a desirable outcome for these size customers. This represents the recovery of fixed demand-related costs through the fixed monthly customer charge, rather than demand rates which are not in place for any of the 54 existing rate classes. (Taylor)

ISSUE 60: Are FPUC's proposed per therm distribution charges for Florida Public Utilities Company, CFG, Fort Meade, and Indiantown appropriate?

FPUC: Yes. A version of MFR Schedule H-1 Schedule A reflects the appropriate method for developing rates by first calculating the portion of revenues recovered through the customer charge and then recovering the remaining targeted revenues through the volumetric charges. (Taylor)

ISSUE 61: Are FPUC's proposed consolidated miscellaneous service charges appropriate?

FPUC: Yes. The consolidated and standardized miscellaneous service charges are appropriate and reflect the cost to the Company to provide each of the individual charges to customers. (Grimard)

ISSUE 62: Is FPUC's proposal to modify its existing AEP appropriate?

FPUC: Yes. The proposal to modify its existing AEP is appropriate as it will result in less confusion to the customer concerning the AEP surcharge rate and reduce inquiries from customers for such, as well as allow for more straightforward administration of the AEP surcharge by the Company. (Lake, Grimard)

ISSUE 63: Is FPUC's proposed Environmental Cost Recovery Surcharge an appropriate mechanism to recover environmental remediation costs related to FPUC's former manufactured gas plant sites?

FPUC: Yes. FPUC's proposed Environmental Cost Recovery Surcharge provides the Company with a timely mechanism to recover necessary environmental remediation costs, which has the benefit of being able to be terminated when all clean-up costs are incurred and recorded. This surcharge is preferential to recovery in base rates as it ensures Customers will accurately pay only that amount which is equal to costs spent, while avoiding the need for an expensive future rate filing to eliminate recovery in base rate revenues. If the surcharge is not approved, the Company's expenses should be increased by $627,995.21 a year with a revenue requirement of $632,644. (Napier, Cassel)

ISSUE 64: Are FPUC's non-rate related tariff changes appropriate?

FPUC: Yes. (Grimard)

ISSUE 65: What is the appropriate effective date of FPUC's revised rates and charges?

FPUC: The appropriate effective date for FPUC's revised rates and charges is January 1, 2023. (Cassel)

OTHER ISSUES

ISSUE 66: Should the Commission approve a rate adjustment mechanism in the event State or Federal income tax rates change in the future?

FPUC: Yes. The Company's proposed mechanism provides a fair mechanism for both the Customers and the Company, to ensure an appropriate amount of state and federal taxes are collected should there be adjustments to tax rates due to future tax reform changes. (Cassel, Napier)

ISSUE 67: Should FPUC's proposal to modify its Extension of Facilities tariff to provide the Company with the option of requiring a Minimum Volume Commitment from non-residential customers be approved?

FPUC: Yes. FPUC's proposal to modify its Extension of Facilities tariff to provide the Company with the option of requiring a Minimum Volume Commitment from non-residential customers should be approved. The optional requirement will enhance the financial reliability of extensions provided under the Company's existing extension policy, facilitating expansion of service to new customers while protecting existing ratepayers on the Company's system. (Lake, Grimard)

ISSUE 68: Should any portion of the interim increases granted be refunded to the customers?

FPUC: No. The Company's interim rates, and interim revenue requirement, do not exceed the final rates and revenue requirement that should be approved. (Everngam)

ISSUE 69: Should FPUC be required to file, within 90 days after the date of the final order in this docket, a description of all entries or adjustments to its annual report, rate of return reports, and books and records which will be required as a result of the Commission's findings in this rate case?

FPUC: Yes. (Cassel, Napier)

ISSUE 70: Should this docket be closed?

FPUC: Yes.

DISPUTED ISSUES

FPUC disputes inclusion of the following issues for consideration in this proceeding, as they are prejudicially worded and otherwise subsumed within Issue 35 as stated by Commission Staff. In the event the prehearing officer decides to include these issues for consideration by the Commission, FPUC's positions is as follows [revised numbering in accordance with staff's deletion of issue 31]:

OPC: ISSUE 35A: Should an adjustment be made to remove a portion of incentive compensation expense from projected test year cost of service?

FPUC: No. OPC's recommended disallowances are inconsistent with sound regulatory policy and basic principles of ratemaking and, if accepted, would be detrimental to the long-term best interests of FPUC's customers. The overall compensation paid by FPUC is reasonable, which is necessary to attract and retain a qualified workforce. Moreover, it is at or near the median of employee compensation paid by other regulated utilities. Company's incentive compensation program is designed to provide a careful balance that benefits all stakeholders, including its customers, employees and investors. FPUC's incentive compensation programs include operational and financial goals designed to motivate employees to deliver quality services to customers, to improve operational efficiency, and to provide a fair return to investors, all of which benefit FPUC's customers. (Deason, Galtman)

OPC: ISSUE 35B: Should an adjustment be made to remove stock-based compensation expense from projected test year cost of service?

FPUC: No. OPC's recommended disallowances are inconsistent with sound regulatory policy and basic principles of ratemaking and, if accepted, would be detrimental to the long-term best interests of FPUC's customers. The overall compensation paid by FPUC is reasonable, which is necessary to attract and retain a qualified workforce. Moreover, it is at or near the median of employee compensation paid by other regulated utilities, as demonstrated by third-party studies initiated by FPUC. To the extent stock-based compensation was not offered by the Company or if the Commission disallows associated expenses, FPUC will need to consider increasing base compensation to remain competitive when attracting and retaining a qualified leadership team and board of directors. This would increase the overall cost to the Company's customers regardless of the performance of the Company. (Galtman, Deason)

OPC: ISSUE 35C: Should an adjustment be made to remove Supplemental Executive Retirement Program ("SERP") expense from projected test year cost of service?

FPUC: No. OPC's recommended disallowances are inconsistent with sound regulatory policy and basic principles of ratemaking and, if accepted, would be detrimental to the long-term best interests of FPUC's customers. Again, FPUC's overall compensation paid to its employees is reasonable, which is necessary to attract and retain a qualified workforce. A high quality, fully staffed workforce it ultimately a benefit to the Company's customers. The Company's compensation and benefits offering, is designed to attract, retain, and motivate employees servicing FPUC's natural gas customers. The employees with the appropriate combination of technical and leadership skill sets are critical in ensuring safe and reliable service. The Company's current and future commitment to honor these benefits should be considered as part of the overall compensation offering and therefore would represent a prudent business expense. (Galtman)

f. Stipulated Issues

While not a party to any stipulations at this time, FPUC believes that it should be possible to reach a stipulation on each of the issues as they pertain to FPUC.

g. Pending Motions

None.

h. Pending Confidentiality Claims or Requests

Request for Confidential Classification and Motion for Protective Order filed August 16, 2022, remains pending.

Request for Confidential Classification and Motion for Protective Order filed July 5, 2022, remains pending.

Request for Confidential Classification and Motion for Protective Order, filed August 22, 2022, is to be withdrawn if the Office of Public Counsel also elects to return the material provided.

i. Objections to Witness Qualifications as an Expert

FPUC has no objections to any witnesses' qualifications at this time.

j. Compliance with Order Nos. PSC-2022-0222-PCO-GU, PSC-2022-0270-PCO-GU, and PSC-2022-0323-PCO-GU

FPUC has complied with all requirements of the Orders Establishing and Revising Procedure entered in this docket.

RESPECTFULLY SUBMITTED this 7th day of October, 2022.

Beth Keating
Gregory Munson
Gunster, Yoakley & Stewart, P.A.
215 South Monroe St., Suite 601
Tallahassee, FL 32301
(850) 521-1706

Docket No. 20220067-GU
October 7, 2022

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing filing has been served by Email this 7th day of October, 2022, upon the following:

Richard Gentry
P. Christensen
Office of Public Counsel
c/o The Florida Legislature
111 W. Madison Street, Room 812
Tallahassee, FL 32399-1400
Gentry.Richard@leg.state.fl.us
Christensen.patty@leg.state.fl.us

Jennifer Crawford
Ryan Sandy
2540 Shumard Oak Blvd.
Tallahassee, FL 32399
jcrawfor@psc.state.fl.us
rsandy@psc.state.fl.us

Jon C. Moyle, Jr./Karen A. Putnal
c/o Moyle Law Firm
118 North Gadsden Street
Tallahassee FL 32301
jmoyle@moylelaw.com
kputnal@moylelaw.com
mqualls@moylelaw.com

Mike Cassel
Florida Public Utilities Company
208 Wildlight Ave.
Yulee, FL 32097
mcassel@fpuc.com

Beth Keating, Esquire
Florida Bar No. 0022756
Gunster Law Firm
215 South Monroe Street
Suite 601
Tallahassee, FL 32301

Attorneys for Florida Public Utilities Company