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BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the matter of:

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.
____/

VOLUME 1
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PROCEEDINGS: HEARING

COMMISSIONERS PARTICIPATING: CHAIRMAN ANDREW GILES FAY
COMMISSIONER GARY F. CLARK
COMMISSIONER GABRIELLA PASSIDOMO

DATE: Tuesday, October 25, 2022

TIME: Commenced: 11:00 a.m.
Concluded: 5:01 p.m.

PLACE: Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida

REPORTED BY: DEBRA R. KRICK
Court Reporter

PREMIER REPORTING
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APPEARANCES:

BETH KEATING and GREGORY M. MUNSON, ESQUIRES, Gunster Law Firm, 215 South Monroe Street, Suite 601, Tallahassee, Florida 32301; appearing on behalf of Florida Public Utilities Company (FPUC).

RICHARD GENTRY, PUBLIC COUNSEL; PATRICIA A. CHRISTENSEN, ESQUIRE, OFFICE OF PUBLIC COUNSEL, c/o The Florida Legislature, 111 West Madison Street, Room 812, Tallahassee, Florida 32399-1400, appearing on behalf of the Citizens of the State of Florida (OPC.).

JON C. MOYLE and KAREN A. PUTNAL, ESQUIRES, Moyle Law Firm, 118 North Gadsden Street, Tallahassee, Florida 32301; appearing on behalf of Florida Industrial Power Users Group (FIPUG).

RYAN SANDY and JENNIFER CRAWFORD, ESQUIRES, FPSC General Counsel's Office, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, appearing on behalf of the Florida Public Service Commission (Staff).

KEITH HETRICK, GENERAL COUNSEL; MARY ANNE HELTON, DEPUTY GENERAL COUNSEL, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, Advisor to the Florida Public Service Commission.

I N D E X

EXHIBITS

NUMBER:		ID	ADMITTED
1	Comprehensive Exhibit List	8	8
2-113	As identified in the CEL	8	
2-5	As identified on the CEL		123
6	As identified on the CEL		185
21-23	As identified in the CEL		21
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P R O C E E D I N G S

CHAIRMAN FAY: All right. Good morning, everyone. I am going to give everybody a chance to take their seats and get the information pulled up in front of them.

Just a quick background for the hearing today. What we will do is we will start through some of the introductory components of the hearing process. We will break for lunch probably around noon, somewhere around then, and then come back, make sure our witnesses are sworn in and then begin taking up the witnesses to present their testimony and go through cross and redirect.

So with that, I will look to our staff to read the notice. And just for the record, October 25th, and this is the FPUC Docket 20220067.

So, Mr. Sandy, you are recognized.

MR. SANDY: Thank you, Mr. Chair.

Pursuant to notice, this time and place has been set for a hearing in Docket No. 20220067 regarding a petition for a rate increase by Florida Public Utilities Company, Florida Division of Chesapeake Utilities Corporation, Florida Public Utilities Company Fort Meade and Florida Public Utilities Companies Indiantown Division. The purpose of this hearing is set out more fully in the notice.

CHAIRMAN FAY: Great. Thank you, Mr. Sandy.

Next we will move to appearances. We will start with Florida Public Utilities Company. Ms. Keating.

MS. KEATING: Good morning, Mr. Chairman, Commissioners. Beth Keating with the Gunster Law Firm here on behalf of Florida Public Utilities. I would also like to enter an appearance for my colleague Greg Munson.

CHAIRMAN FAY: Great. Thank you.

Next, Office of Public Counsel.

MS. CHRISTENSEN: Good morning. Patricia Christensen with the Office of Public Counsel. I would like to put in an appearance for Charles Rehwinkel, Deputy Public Counsel, as well is for Richard Gentry, the Public Counsel.

CHAIRMAN FAY: Okay. Great, thank you, Ms. Christensen.

Next we have the Florida Industrial Power Users Group, Mr. Moyle.

MR. MOYLE: Good morning, Mr. Chairman. Jon Moyle on behalf of the Florida Industrial Power Users Group, FIPUG. And I would also like to enter an appearance for Karen Putnal with our firm.

CHAIRMAN FAY: Okay. Great. Next, staff.

MR. SANDY: My name is Ryan Sandy on behalf of staff. With me is Jennifer Crawford from the Office of General Counsel.

MS. HELTON: And Mary Anne Helton is here as your Advisor, along with your General Counsel, Keith Hetrick.

CHAIRMAN FAY: Great. Thank you for those appearances.

Next we will move to preliminary matters. Mr. Sandy, do we have anything we need to take up?

MR. SANDY: None that I am aware of at this time, Mr. Chairman.

CHAIRMAN FAY: Okay. Great.

Parties, anything under preliminary matters? Mr. Moyle?

MR. MOYLE: I just -- there have been some stipulations and some other discussion. I just wanted the record to be clear that FIPUG has no position on stipulated Issues 8, 19 and 20. And FIPUG also will take no position on Issue 30 in this proceeding.

CHAIRMAN FAY: Okay. Mr. Sandy, you got that for the record?

MR. SANDY: Yes, sir, I do.

CHAIRMAN FAY: Okay. All right. With that, we will move into exhibits.

Staff.

MR. SANDY: Staff has compiled a comprehensive exhibit list, which includes prefiled exhibits attached to the witnesses' testimony labeled Nos. 2 through 72, as well as staff's Exhibit Nos. 73 through 113. This list has been provided to the parties, the Commissioners and the court reporter.

We would request that the Comprehensive Exhibit List is marked for identification purposes as Exhibit No. 1, and that the other exhibits be marked for identification as set forth in the comprehensive exhibit list, Mr. Chairman.

CHAIRMAN FAY: Okay. Great. So show those exits marked.

(Whereupon, Exhibit Nos. 1 - 113 were marked for identification.)

MR. SANDY: And I would also request that the Comprehensive Exhibit List that's marked as Exhibit No. 1 is entered into the record.

CHAIRMAN FAY: Okay. Seeing no objections, Exhibit 1 is entered into the record.

(Whereupon, Exhibit No. 1 was received into evidence.)

MR. SANDY: As well, the prefiled exhibits will be moved in at the conclusion of each of the witnesses' cross-examination. I would note that the parties here before you this morning have stipulated to the admission of staff Exhibits Nos. 73 through 113 on the comprehensive exhibit list. Therefore, we ask that those are moved into the record and marked as they are set forth in the CEL.

CHAIRMAN FAY: Okay. Great. Thank you, Mr. Sandy.

So all parties have reviewed the exhibit list. Any objections? No.

And then any objections to 73 through 113 staff exhibits?

Show those, without objection, entered into the record.

(Whereupon, Exhibit Nos. 73 - 113 were received into evidence.)

CHAIRMAN FAY: Next we will move on to opening statements. So as stated in the prehearing order, we will take up opening statements with FPUC, OPC and then FIPUG.

So with that, Ms. Keating, you are recognized for your opening statement.

MS. KEATING: Good morning, again, Commissioners. Thank you for the opportunity to address you today.

You know, as I was thinking this weekend about what I could possibly talk you to about that isn't already in the testimony and summaries of the witnesses in this case, I really struggled, but it occurred to me that I am really most qualified to tell you what I have seen from this group of companies over the years.

Commissioners, when I first started working with Chesapeake's Florida division in 2006, they had about 14,500 customers, and a rate base of around 46 million. When FPUC was acquired in 2009, it was serving 51,400 customers with a rate base of a little over 73 million.

The company's customer bases were primarily located in central and the central east coast of Florida. The company that's before you today is serving over 92,000 customers across the state, from Escambia County to Nassau to Palm Beach to Polk and Suwannee County, on a rate base of over 400 million.

I have grown up, or at least older, with these companies. I have seen how they've grown strategically and intentionally. I have seen them extend service to areas that didn't have gas service before, providing expanded economic opportunities to attract industry and large commercial business. I have seen them take calculated, yet responsible risks to establish new environmentally friendly opportunities for the use of renewable natural gas. I have seen them work cooperatively with other competitor utilities on complex projects that ultimately provided service in rural areas that have since seen significant growth. I have seen them initiate creative programs to expedite replacement of facilities to avoid tragic events that occurred in other states. And I have seen how they treat their employees. How they care about the service and safety of their customers. How they not only work hard to hire the best people, but employees that really care about doing a good job for customers and fit within their corporate culture. It's a culture that embraces diversity, professional growth and collaboration all the way to the top. I have seen their main outside consultant from over in Panama City go from expert witness to CEO of the entire publicly traded corporation.

And as the companies evolved, I have also seen how they have been very intentional about recognizing and elevating talent within, particularly long-term, often premerger employees, who, when given the opportunity, have excelled.

My point, Commissioners, is that I really know this company. This company, these people, they really do stand by their stated corporate core values of safety, caring, integrity and excellence. And I emphasize that point because you will hear from Ms. Christensen and OPC's witnesses that the company's requests in this case are excessive and overstated from every angle.

And while I do understand and appreciate the hard work OPC has put in on behalf of the customers, and I understand and appreciate the importance of their role, I do think that their perspective in this case is particularly shortsighted, and fails to fully recognize the investment that this company has made in this state, the integrity with which this company has done business, the ability of this company to create further opportunity and growth in the state, and the value of natural gas service for customers in this state.

So, Commissioners, as we go through this case, I just ask you to keep three things in mind. These companies haven't been in for a rate increase in over 13 years. They have significantly expanded service, not just through acquisitions, but also through strategic joint projects and extensions of their own facilities. And most importantly, healthy, growing utilities are critical to ensuring the continued economic health of this state, especially in challenging economy.

Thank you, Commissioners, for your time and attention.

CHAIRMAN FAY: Great. Thank you, Ms. Keating.

Next Ms. Christensen, Office of Public Counsel.

MS. CHRISTENSEN: Thank you. Good morning, Commissioners. Patty Christensen with the Office of Public Counsel.

OPC is here today to discuss FPUC's rate request. And while we appreciate that FPUC is a growing company, and that they do a good job at growing their company, that's not our primary focus here today. Our primary focus here today is to thoroughly review and set before you the adjustments that OPC has found based on a review of the MFRs that these companies have filed in this case.

This is particularly important, since FPUC is asking for its increase in these challenging economic times marked by high inflation and the real threat of economic recession for all sectors of the economy, including the customers who will have to bear the increase of any rate impact from increasing rate base in this case, and the revenue requirement.

OPC has evaluated FPUC's petition, testimony and the minimum filing requirements, all of the discovery responses and testimonies filed in this proceeding. To help us with this, we've hired several expert witnesses to conduct extensive and thorough review.

We have David Garrett, who is our expert that addresses FPUC's depreciation rates and depreciation request and cost of capital issues. And we have Ralph Smith, who is a CPA, who has testified many times before you, who is addressing accounting adjustments, revenue requirements.

Our experts have identified four principle areas for the adjustments. Depreciation and revenue -- or depreciation rates, operating expenses and the level of the required rate base revenues, capital structure and the return on equity.

However, we would like to note that FPUC has the burden of proof in this matter in all respects. It is not OPC's job to disprove that FPUC is entitled to its requested increase, but rather, FPUC's job to demonstrate it is entitled to the requested increases.

With that said, FPUC's Witness Lee proposed depreciation parameters which include several accounts with underestimated service lives. Assuming that the Commission adopts OPC Witness Garrett's service lives for depreciation study, the sum of the adjustment results in reduction to FPUC's 2023 revenue request by approximately two million for the new lower depreciation rates.

Based on Witness Smith's review of FPUC's MFRs through extensive discovery, he recommends additional adjustments to FPUC's request. Specifically, he recommends removal of the acquisition adjustment from the FPUC merger, rate case expense from rate base and the removal of lobbying costs.

Witness Smith also recommends reduction for the director and officers liability insurance expense, stock base compensation and incentive compensation, cost for supplemental executive retirement plan and parent company debt adjustment, and disallows other cost.

Based on Witness Garrett's review of ROE and capital structure, we have determined that FPUC is not entitled to have its rates established on a midpoint return on equity greater than 9.25. We've also looked at FPUC's requested target for its capital structure of 55 percent and believe that it's not appropriate. Based on the capital structure of FPUC's proxy group, OPC recommends -- OPC Witness Garrett is recommending a 48-percent equity and 53-percent long-term disability using investor sources only.

Our recommended ROE and revenue requirement are significantly less than FPUC's requested increase in base rates of $24 million based on their excessive ROE request of 11.25 percent. FPUC has demonstrated that it's entitled -- that it is entitled to -- or not entitled to any more than a $7.88 million revenue increase based on an ROE of 9.25 and a 48-percent equity ratio, exclusive of the GRIP revenue requirement transferred into base rates. This means that FPUC has asked for 16.2 million more in revenue requirement than OPC believes they are entitled to and should receive from customers in this trying economic times.

We are asking that you accept OPC witnesses' recommendations in this case thereby significantly reducing the revenue requirement that will impact customers today.

Thank you.

CHAIRMAN FAY: Great. Thank you, Ms. Christensen.

Next we will move to FIPUG. Mr. Moyle.

MR. MOYLE: Thank you, Mr. Chairman. I just have some brief opening comments.

I would like to start by paying a compliment to the petitioner. A number of FIPUG members receive service from them and their companies, and the quality of service is not an issue that anyone has brought up and contested. And the FIPUG members appreciate the professionalism of the company in providing service, and also in dealing with the folks who represent them.

So with that, FIPUG's position is largely aligned with that of OPC in this case, and counsel for the petitioner mentioned the challenging economic times. And I think that is an important backdrop as you all do your job of considering the evidence. There is conflicting evidence on a number of points. And I think, as my understanding of how this statute is set up, is that it's your job to weigh a whole host of factors and then come up with decisions that you believe are in the best interest of the litigants after doing that weighing and balancing.

I would note that my recollection that this is the first time in some time that the Commission has not had a proposal from parties before them in terms of a settlement agreement. I know on the electric side, I don't believe that there has been a case like this where the Commission weighs and balances in some time. The last gas rate case was the Peoples Gas case, and FIPUG was involved in that, and that was a settlement, which was approved.

So I think this presents somewhat of a unique factual situation based on the historical history of how rate cases have been handled. So I think it's an opportunity for you all, again, considering all of the factors, to make decisions that are fair and equitable to all the parties, including the customers and the FIPUG members.

And I would just ask that you keep in mind what, I think, everyone is recognizing is, is that there is some tough storms that look like they are on the horizon with respect to the economy, and keep that in mind, as you make your, you know, decision.

You had the presentation in Internal Affairs about prepaying electric bills and, you know, these rates will impact folks. So please carefully consider your decision points on the contested issues and the reductions that are suggested by OPC and the ones that FIPUG have joined OPC on in concurring with their view.

So thank you, and I appreciate the chance to provide an opening statement.

CHAIRMAN FAY: Great. Thank you, Mr. Moyle.

All right. Commissioners, next we will move into stipulated issues. I am going to walk through some of these. It looks like, at this point, we don't have specific witness prefiled stipulated testimony, but let me walk through the issues first and then we will work through that.

So as I understand it -- and, Mr. Sandy, just correct me if I am off on these -- we have Issues

8, 19 and 20 stipulated. And then additionally, the parties have stipulated admission of prefiled testimony for Vik Gadgil, Kira Lake and Matt Everngam. And then the specific exhibits tied to that are 21, 22, 23, 34 and 35, so let me stop there and make sure, is that correct? Okay. And is that correct with the parties?

MS. CHRISTENSEN: Yes.

CHAIRMAN FAY: Okay. All righty. And then other than your position, Mr. Moyle, that you stated for the record, that you are not aligned with those positions, that you take no position, correct?

MR. MOYLE: That's right, just broadly on stipulations, and I will explain if I could just have a second.

CHAIRMAN FAY: Go ahead.

MR. MOYLE: We've had stipulations come back and say, hey, you took this position affirmatively when used in another context. And we prefer, from a litigation strategy on stipulations, not to get in the way, but to take no position on stipulations. So that what's what we are doing there.

CHAIRMAN FAY: Okay.

MR. MOYLE: And I have already noted that we are taking no position on Issue 30.

CHAIRMAN FAY: Okay. Next we'll -- let's do this. So if there are no objections, we will go ahead and admit those into the record. Seeing none -- Ms. Keating.

MS. KEATING: Mr. Chair, I apologize.

CHAIRMAN FAY: Yep.

MS. KEATING: I thought I heard you reference Exhibits 24 and 25.

CHAIRMAN FAY: No. So I have 21, 22, 23, 34 and 35.

MS. KEATING: Okay. Got you.

CHAIRMAN FAY: Is that correct? Okay.

Seeing no objection then, we will show those admitted.

(Whereupon, Exhibit Nos. 21, 22, 23, 34 & 35 were received into evidence.)

CHAIRMAN FAY: The prefiled testimony for the stipulated witnesses will be entered into the record as though read, and then just to make clear, we have stipulated those issues, but 21, 22, 23, 34 and 35 exhibits are entered into the record without objection.

All right. Okay, Mr. Sandy, do we have any other additional stipulations that you would like to bring forward at this time? And if not, I will look to the parties to see if there is anything else.

MR. SANDY: Mr. Chairman, we have written out stipulations related to Issues 8, 19 and 20, as already referenced in the course of this hearing. I would move to enter into the record the written stipulations marked as CEL Exhibit 114 for the sake of the record.

CHAIRMAN FAY: Okay. Seeing no objections to that, we will place that in the record 114.

(Whereupon, Exhibit No. 114 was marked for identification and received into evidence.)

MR. SANDY: And I am aware of ongoing conversations regarding further stipulations on the issues. For that, I would defer to the parties; otherwise, we, as staff, have no further issues WITH stipulations.

CHAIRMAN FAY: Okay. Great.

And just, Ms. Keating, before I recognize you, just some overall recognition that as issues, themselves, might still are being worked through by the parties and stipulated as it relates to the testimony from the witnesses that are present today. It's obviously, based on the timing, more relevant if we have those witnesses stipulated for purposes of testimony, but if you do have issues, I don't what want to discourage you from bringing those forward, just recognition that it might not change procedurally kind of what our next role will be for the next two days. So you are recognized.

MS. KEATING: Absolutely, Mr. Chairman. Thank you.

I just wanted to note that Ms. Christensen and I have discussed potential stipulations on Issues 10, 15, 32, 43, 62, 67 and 36; however, we have not --

CHAIRMAN FAY: I am going to need you to go one more time, Ms. Keating.

MS. KEATING: Sorry.

CHAIRMAN FAY: You were flying on me. 10, 15 -- go ahead.

MS. KEATING: Issue 10, 15, 32, 43, 62, 67, and most recently 36. However, we do not have those written up at this point.

CHAIRMAN FAY: Okay.

MS. KEATING: We have also not had the opportunity to bring Mr. Moyle into the conversation.

CHAIRMAN FAY: Okay. Fair enough.

And then probably what we will do, if those work out based on this proceeding post lunch, or tomorrow, that's great; and if they don't, we will just move through with the witnesses and the testimony as presented originally in the prehearing order.

Okay. So with that, what we are going to do is -- I would like to just go ahead and move to witness testimony, sort of lay out the foundation for what we will be doing today and the following days, depending on how long it takes us to get through the testimony. And then what we will do is we will break for lunch, which might give you and Ms. Christensen, and potentially Mr. Moyle, a little bit of time to potentially hash some of those things out if would you like to do so before we start bringing the witnesses forward.

But what I would like to sort of just present to the parties and for the witnesses, we will make sure the witnesses are sworn in, and we will give them time to summarize their testimony stated in the prehearing.

To the extent possible, we would like to follow consistent with the prehearing. So as all of you have been before the Commission before, and has been stated, the prehearing states as we present to the witnesses a yes or a no answer in response is the informative response that we are looking from those witnesses. They are obviously entitled to give context to those responses if they choose to do so, and they may or may not.

The other component that I would like to place forward for the parties is I recognize that at times procedurally with scope and things that are presented that objections can be brought forward. I know we have a lot of witnesses in this case. It's a complex rate case, and so I think that's a broad scope as to what can be presented, and so I am going to take that in mind as things are brought forward.

And would just also ask for some recognition that the witnesses are prepared and understanding if there is something that they do not feel they can answer based on their testimony, their skill set, they are entitled to say so, and they don't need sort of an objection to provide that disclosure from the witness.

So I know you have spoken to your witnesses and they are aware of that, but I just want to make sure for the record that they are prepared and understand that as we move forward efficiently through the process.

So with that, if there is any questions from the parties. What we will do is we will take a break. I have 11:30 sitting on my clock here, so back at one o'clock to allow for some travel time lunch, and we will start back here at 1:00, we will swear the witnesses in and begin testimony.

So without any questions, Mr. Sandy before we break for lunch, I want to make sure, do you have anything else that we need to --

MR. SANDY: No, sir.

CHAIRMAN FAY: Okay. Great.

With that, we will be back here at 1:00. Thank you.

(Lunch recess.)

CHAIRMAN FAY: All right. Good afternoon, everyone. Welcome back. I believe we have everybody for this afternoon's testimony.

What I am going to do is go ahead and swear the witnesses in, and so if you all are a witness in this proceeding, if you wouldn't mind standing, and just for the record.

(Whereupon, witnesses were sworn by Chairman

Fay.)

CHAIRMAN FAY: Okay. Let the record reflect all witnesses swear and affirm that testimony is to the truth.

All right. With that, Ms. Keating, we will move to you to call your first witness.

MS. KEATING: Thank you, Mr. Chairman.

FPUC calls Michael Cassel to the stand.

Whereupon,

MICHAEL CASSEL

was called as a witness, having been previously duly sworn to speak the truth, the whole truth, and nothing but the truth, was examined and testified as follows:

THE WITNESS: Good morning -- or afternoon, I guess for now.

EXAMINATION

BY MS. KEATING:

Q Good afternoon, Mr. Cassel. Would you please state your name and business address for the record?

A Yes. I am Michael Cassel. My address is 208 Wildlight Avenue, Yulee, Florida, 32097.

Q And on whose behalf are you testifying today?

A Chesapeake Utilities.

Q And did you have cause to be prepared and filed in this proceeding 52 pages of direct testimony?

A Yes, I did.

Q Did you also cause to be filed an errata sheet on October 19th?

A Yes, I did.

Q You have an additional change, don't you, on page 22 of your direct, at lines five through 11, regarding GRIP projects completed by the end of 2022?

A Yes, I do.

Q Could you provide that change, please?

A In those lines on page 22, I have stated that the GRIP program that are currently underway should be ending -- all projects should be ending by December of this year. We do have a half mile main that is caught up in permitting issues in West Palm Beach and is very likely to run over the '22 timeframe.

Q Okay. Thank you, Mr. Cassel.

Do you have any additional changes to your testimony?

A No, I don't.

Q Okay. And did you also cause to be prepared and filed in this proceeding exhibits MDC-1 through 4?

A Yes, I did.

Q Do you have any changes or corrections to those exhibits?

A I do not.

MS. KEATING: And, Mr. Chairman, I believe those have already been marked on the comprehensive exhibit list as staff exhibits -- comprehensive exhibit list 2 through 5.

CHAIRMAN FAY: Correct.

MS. KEATING: Okay.

BY MS. KEATING:

Q Did you prepare a summary of your testimony today?

A Yes, I did.

Q Would you please go ahead and present that?

A Yes.

Well, good morning, Mr. Chairman and Commissioners -- again, afternoon. The day is slipping by very quickly. I appreciate the opportunity to be here and address you today.

My direct testimony provides an overview of the company's request. And over the last several years, we've taken a number of steps to combine parts and pieces of those companies to lessen confusion for our customers as well as to operate the company in the most efficient manner possible. And these interim steps have been quite helpful and very effective helping get us to in point today at final consolidation.

So within this docket we actually requested three primary things, and first it's a requested permission to increase our base rates by about $44 million. However, of that 44 million, only 24 of it is incremental to our customers, and that's because the additional 20 million is -- it represents revenue requirement associated with our GRIP program. And we are simply requesting that that be moved from the surcharge mechanism into the base rates, as was contemplated in that docket.

Second, we requested permission to consolidate our rates and implement a unified rate structure, as well as recognition that our business units are now a single operation under the name Florida Public Utilities Company.

Third, we've requested retention of the acquisition premium associated with the Chesapeake acquisition of FPUC. And throughout my direct testimony, I provide examples how FPU has met these five factor tests -- the factors in the five-factor test, as laid out by the Commission's order in that original acquisition adjustment docket. It overwhelmingly supports the fact that not only is FPU more operationally financially secure now, but our customers have benefited, and continue to benefit, from lower costs and better services.

We have made every effort to delay making this request. It's been possible in large part because of the much stronger leadership that resulted from the acquisition by Chesapeake, and that we have been successful in avoiding some of those costs associated with multiple rate cases over that 13 years since our last rate case. And the time is now. We can't wait. Inflation, increasing customer demand for natural gas, as well as our investment, has made it necessary for us to come in at this time. So we have three primary drivers causing that request.

First, we've invested over $300 million of capital since our last rate increase. And these investments, they are long-term investments that enable us to provide safe, reliable service to our customers.

Second, we have been impacted by cost increases above inflation and growth, and those costs trend upward. We have worked diligently to keep those down whenever possible, but many of them are outside of our control. And our efforts to control those costs have enabled us to avoid multiple rate cases over that 13-year period.

And third, as Florida continues to experience tremendous growth, FPU is experiencing increased demand for natural gas. And in response, we have expanded territory in parts of our state that have never had gas, or very limited access to natural gas, and that would most notably be in Nassau and Escambia Counties.

We understand that these are very difficult economic times, but it's important, however, that we recover our costs and investments, and we continue to provide the same service and the same level of service that our customers have come to expect from us.

Thank you for your time.

MS. KEATING: Mr. Chairman, before I forget, we ask that Mr. Cassel's direct testimony, along with his errata and the additional correction that he made today, be inserted into the record as though read.

CHAIRMAN FAY: Okay. Without objection, show it entered.

(Whereupon, prefiled direct testimony of Michael Cassel was inserted.)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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.

Prepared Direct Testimony of Michael Cassel

Date of Filing: May 24, 2022

Table of Contents

I. <u>Introduction</u>

Q. Please state your name and business address.

A. My name is Michael Cassel. My business address is 208 Wildlight Ave., Yulee, FL 32097.

Q. By whom are you employed, and what is your position?

A. I am employed by Chesapeake Utilities Corporation ("CUC") as the Vice President of Regulatory and Governmental Affairs.

II. <u>Statement of Qualifications</u>

Q. Please describe your educational background and professional experience.

A. I received a Bachelor of Science Degree in Accounting from Delaware State University and a Master of Jurisprudence in Energy Law from the University of Tulsa College of Law. CUC hired me as a Senior Regulatory Analyst in March 2008. As a Senior Regulatory Analyst, I was primarily involved in the areas of gas cost recovery, rate of return analysis, and budgeting for CUC's Delaware and Maryland natural gas distribution companies. In 2010, I moved to Florida in the role of Senior Tax Accountant for CUC's Florida business units. Since that time, I have held various management roles, including Manager of the Back Office, Director of Business Management, and Assistant Vice President of Regulatory and Governmental Affairs for all of CUC's Florida business units, which include Florida Public Utilities Company (Electric and Natural Gas Divisions), Florida Public Utilities Company-Fort Meade, Florida Public Utilities Company-Indiantown Division, Florida Division of Chesapeake Utilities Corporation d/b/a Central Florida

Gas, and Peninsula Pipeline Company. I am currently the Vice President of Regulatory and Government Affairs for the Corporation. In this role, my responsibilities include oversight of all the regulatory and governmental activities for all of Chesapeake's business units. Among other things, I have management oversight responsibility for regulatory analysis, reporting, and all filings before the Florida Public Service Commission ("FPSC"), Delaware Public Service Commission, Maryland Public Service Commission, and the Federal Energy Regulatory Commission, as well as legislative activities in all of Chesapeake's territories. Before joining Chesapeake, I was employed by J.P. Morgan Chase & Company, Inc. from 2006 to 2008 as a Financial Manager in their card finance group. My primary responsibility in this position was the development of client-specific financial models and profit-loss statements. I was also employed by Computer Sciences Corporation as a Senior Finance Manager from 1999 to 2006. In this position, I was responsible for the financial operation of the company's chemical, oil, and natural resources business. This included forecasting, financial close, and reporting responsibility, as well as representing Computer Sciences Corporation's financial interests in contract/service negotiations with existing and potential clients. From 1996 to 1999, I was employed by J.P. Morgan, Inc., where I had various accounting/finance responsibilities for the firm's private banking clientele. Before joining private industry, I served in the United States Air Force in the meteorology field.

Q. Have you ever testified before the FPSC?

A. Yes. I've provided written, pre-filed testimony in a variety of the Company's annual proceedings, including the Fuel and Purchased Power Cost Recovery Clause, Docket No. 20160001-EI and the Gas Reliability Infrastructure Program ("GRIP") Cost Recovery Factors proceeding for FPUC and the Florida Division of Chesapeake Utilities Corporation, Docket No. 20160199-GU. I have also provided written, pre-filed testimony in FPUC's electric limited proceeding, Docket No. 20170150-EI, and the Commission's proceeding for consideration of the tax impacts to FPUC (Electric Division) associated with the Tax Cuts and Jobs Act of 2017, Docket No. 20180048-EI. Most recently, I provided both written and oral testimony in FPUC's Limited Proceeding to Recover Incremental Storm Restoration Costs, Docket No. 20180061-EI, as well as in the Commission's proceedings established to consider the impacts associated with Tax Cuts and Jobs Act of 2017 on the Company's gas divisions, Docket Nos. 20180051-20180054-GU.

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

Q. What is the purpose of your testimony?

A. My testimony will be broken into two parts. In the first part of my testimony, I provide an overview of the Company's request, introduce the Company's other witnesses providing support for FPUC's application, discuss the Company's need for rate relief, and identify the key drivers behind that need, as well as the various steps taken by the Company to avoid and delay requesting a rate increase.

I will then summarize certain aspects of our request as it relates to our Gas Reliability and Infrastructure Program ("GRIP") and Area Extension Program

("AEP"). Next, I will summarize the Company's request to address potential future federal and state income tax law changes. Then I will discuss the Company's request to remove the existing environmental costs from rate base and base rates and apply them as a surcharge similar to what CFG has done historically. I will also address the Company's request to change its current bad debt calculation. Finally, I will provide an overview of certain miscellaneous topics such as the Commission-approved acquisition adjustments that remain on the Company's books, rate case expense, MFR benchmarking, over and under adjustments, association participation and advocacy and our position on emissions reductions.

Q. Are you sponsoring any exhibits with your testimony?

A. Yes. A summary of those Exhibits follows:

Exhibit MDC-1 is a list of Minimum Filing Requirements ("MFR") that I am sponsoring or co-sponsoring. MDC-2 has been developed for informational purposes and ease of reference and identifies which Company witness support the respective MFR schedules. MDC-3 is a report provided to the Company regarding anticipated remediation efforts that will be required at certain environmental remediation sites and the expected costs associated with those efforts. Finally, Exhibit MDC-4 is the Company's Natural Gas Storybook, which is a key part of our effort to promote natural gas throughout the state.

IV. Overview and Background of the Company

Q. Please provide some background to the names of the Company.

A. As I will further explain in my testimony, one purpose of our filing is to seek the final regulatory consolidation of the Florida Local Distribution Company ("LDC") business units under one regulated entity – Florida Public Utilities Company. While the corporate legal and business requirements necessary to consolidate these entities have been completed, these business units still operate as distinct regulatory entities with separate rates and rate structures. However, the other non-base rate tariff components have been unified under one tariff. Given that this may lend itself to confusion when referring to the business units across multiple topics and multiple witnesses, we have endeavored to utilize specific naming conventions consistently across the testimony submitted today by our witnesses. Therefore, here at the outset of our case, I would like to explain the naming conventions which apply for purposes of my testimony, as well as that of other company witnesses in this case:

1. When referring to the Florida 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, we will refer to these entities jointly as "FPUC" or "the Company";
2. When referring to an individual business unit, we will spell out the regulated name of the business unit, such as Florida Public Utilities Company-Fort Meade; and
3. When referring to Chesapeake Utilities Corporation, the parent company, we will refer to it as the "Corporation" or "CUC."

Q. Please give a general overview of the Company.

A. Florida Public Utilities Company was originally incorporated in 1924. Its official name became Florida Public Utilities Company in 1927. On October 28, 2009, FPUC was acquired by Chesapeake Utilities Corporation ("CUC"), a Delaware corporation. CUC also operates the Florida Division of Chesapeake Utilities Corporation, a natural gas utility in Florida, as well as unregulated energy businesses, including propane distribution operations and a propane wholesale marketing subsidiary. With the acquisition of Florida Public Utilities Company in 2009, CUC expanded its energy presence throughout the State of Florida. On August 6, 2010, FPUC acquired Indiantown Gas Company ("Indiantown") and with it, approximately 700 additional customers. On June 11, 2013, the City Commission of the City of Fort Meade voted to sell the City's natural gas system to FPUC. The purchase agreement for the sale of the system to FPUC was approved subsequently by the City at its October 8, 2013, City Commission meeting.

CUC likewise has a rich history in the natural gas industry. It began in 1859 as the Dover Gas Light Company. CUC was later incorporated in the State of Delaware as "Chesapeake Utilities Corporation" in 1947. CUC's Natural Gas Transmission subsidiaries are Eastern Shore Natural Gas Company, regulated by the FERC, and Peninsula Pipeline Company, Inc., regulated by the Florida Public Service Commission. CUC's unregulated energy businesses include its propane distribution operations, its propane wholesale marketing subsidiary, and Marlin Gas Services, which provides virtual pipeline services. Its corporate headquarters are located at 909 Silver Lake Boulevard, Dover, Delaware 19904.

CUC's natural gas distribution companies in Florida serve approximately 92,000 residential, commercial and industrial customers throughout the State.

Q. Is the Company seeking to consolidate these four LDCs?

A. Yes.

Q. Has the Company taken any steps prior to this proceeding to consolidate these LDCs?

A. Yes. In recent years, steps have been taken to align and consolidate certain aspects of each of these natural gas business units; however, each is still recognized as a separate utility by the Commission with its own rates and rate structure. In recent years, the growth of the State's population and the resulting growth in CUC's natural gas businesses in Florida have accelerated the need and opportunity to consolidate the four natural gas utilities into one. Consolidation of the four natural gas business units will ensure that: (1) customers continue to receive safe and reliable natural gas service from an efficient, unified company; and (2) the utility continues to be able to meet the growing demand for natural gas service in all of its service areas. Therefore, as part of this petition, the Company requests that the Commission approve the consolidation of the rates, use of a unified rate structure, and recognize these are now a single operation under the name Florida Public Utilities Company.

Q. What else has the Company done as part of this request to consolidate?

A. As a part of the consolidation request, the Florida Division of Chesapeake Utilities d/b/a Central Florida Gas would contribute its assets to Florida Public Utilities Company natural gas. Because Florida Public Utilities Company - Fort Meade and

Indiantown are already divisions of Florida Public Utilities Company, their assets would roll-up and consolidate into Florida Public Utilities Company natural gas.

PART I

V. Overview of the Company's Request

Q. What relief is the Company requesting in this proceeding?

A. Aside from the permanent rate relief discussed below, the Company is also seeking to consolidate the four LDCs of CUC's Florida business into one tariff and one rate schedule. In addition, The Company is requesting consolidation of the accounting of the four LDCs together into one unified company and the elimination of any requirement to maintain separate divisions. We are also requesting certain changes to the Company's Area Expansion Program ("AEP") that will reduce customer confusion and produce administrative efficiencies. FPUC is also proposing a method of handling any potential federal or state income tax law changes, implementing the CFG environmental surcharge across all of the Companies' platforms as a best practice, and miscellaneous textual changes of a conforming and clarifying nature. The Company is also proposing that the current Gas Reliability and Infrastructure revenue requirement be rolled into base rates, and the surcharge reset to $0, consistent with the Commission's original order approving the program. In addition, the Company is seeking approval of a new, environmental cost recovery surcharge to address certain ongoing remediation requirements associated with a few remaining manufactured gas plant remediation sites.

Q. What level of rate relief is the Company seeking in this proceeding?

A. Using a projected test year ending December 31, 2023, the Company is seeking an increase in its base rates of $43,817,913. Of that amount, $19,755,931 is associated with moving the Company's current GRIP investments into rate base and resetting the GRIP surcharge to $0, as contemplated by Order No. PSC-2012-0490-CO-GU.[1] The additional $24,061,982 is necessary to allow FPUC to earn a fair return on our investment. The request, net of the GRIP investment, is an overall increase of approximately 29%. On an annual basis, the total proposed increase is below both the compounded inflation rate of over 30.69% (see MFR C-37) since the historic base year in FPUC's last rate case in 2008 and the compound inflation rate of 50.64% since Indiantown's last rate case in 2003. The proposed increase is slightly above the compound inflation rate since CFG's last rate case, in 2009 of 25.86%. The Company is proposing a return on equity of 11.25% that generates an overall midpoint rate of return of 6.43%. In accordance with Rule 25-7.140, F.A.C., Test Year Notification, we have notified the FPSC that we have selected the twelve-month period ending December 31, 2023, as the appropriate projected test year for our petition to increase our rates and charges. The resulting revenue increase would allow the Company the opportunity to earn a fair return on its investments, cover its cost of service, and attract the necessary capital for system reliability improvements, customer growth, and service enhancements detailed in this proceeding.

Q. Is the Company also seeking Interim Rate Relief?

A. Yes. Using the methodology authorized by the Commission, the Company has calculated that, pending a decision on final rates, it requires an annual interim relief of $7,129,255 based on the historical test year ending December 31, 2021. The

[1] Docket No. 20120036-GU

specific calculation supporting the interim rate request will be covered in the testimony of Company Witness Everngam.

VI. Introduction of Company Witnesses

Q. Please identify the witnesses testifying on the Company's behalf and their areas of expertise.

A. In support of its request for rate relief, the Company is submitting the "Investor-owned Natural Gas Utilities Minimum Filing Requirements" (MFRs), as required by Commission Rule 25-7.039, Florida Administrative Code (F.A.C.), revised tariff sheets, and the testimony of the following witnesses:

Ms. Kelley Parmer, Assistant Vice President of Customer Care, will provide testimony regarding the Customer Care team and the improvements made in that area since the prior rate cases.

Mr. John Taylor of **Atrium Economics** will provide testimony regarding the cost of service study, rate classification changes, projected billing determinants and rate design.

Mr. Matthew Everngam, Director Regulatory Strategy, will provide testimony supporting the Company's request to implement interim rates, as well as the basis for certain service charges.

Mr. Michael Galtman, Senior Vice President and Chief Accounting Officer, will provide testimony on general accounting issues, as well as corporate and business unit allocation methods.

Michael Reno of Ernst & Young, now E&Y, will provide testimony on current and deferred income taxes.

Mr. Jason Bennett, Assistant Vice President of Operations and Engineering, will provide testimony on the operational departments of the Company. He will also provide testimony on the conclusion of the Company's GRIP, as well as the significant capital investments made by the Company in recent years to expand service to new customers and increase resiliency on the existing system. He will also address certain projected capital projects anticipated on FPUC's system.

Mr. Paul R. Moul of P. Moul and Associates, Inc., will provide testimony on the appropriate cost of capital and return on equity for the Company.

Mr. Bill Hancock, Assistant Vice President of Energy Logistics, will provide testimony on the Company's energy logistics functions and capacity requirements associated with growth.

Mr. Noah Russell, Assistant Vice President and Assistant Treasurer, will provide testimony supporting CUC's current capital structure allocation, the various components (short-term debt, long-term debt and equity) and address how FPUC has benefited from the structure, as well as testimony addressing Chesapeake's Insurance Programs.

Ms. Wraye Grimard, Pierpont & McClelland will provide testimony on the changes being made to the tariff.

Ms. Michelle Napier, Director Regulatory Distribution, will provide testimony on certain accounting adjustments made to expenses and why they were appropriate.

Ms. Kira Lake, Director Growth and Retention, will provide testimony on the requested change in the Area Expansion Program.

Ms. Devon Rudloff, Assistant Vice President Human Resources, will provide testimony on the Company's compensation plans and employee engagement activities.

Ms. Patricia Lee has conducted and will provided supporting testimony for the Company's Depreciation Study, which is also being provided in this proceeding.

Mr. Vikrant Gadgil, Vice President and Chief Information Officer, will provide testimony on the Company's Business Information Services activities and the investments made in that area in recent years that have benefitted FPUC's customers.

Mr. Terry Deason, Consultant, will provide testimony on the regulatory and policy considerations surrounding the Company's request to retain the unamortized amount of its previously approved acquisition adjustment regulatory assets.

VII. Need for Rate Relief

Q. Why is FPUC requesting rate relief at this time?

A. FPUC has made every effort to delay this request for as long as possible. However, our business is capital intensive and requires significant, long-term investments to enable us to continue to provide safe and reliable service to our customers. The Company has also been impacted by cost increases in excess of inflation and customer growth, as well as a need for additional staffing and programs to continue our level of appropriate service to our customers. Therefore, timely and sufficient revenues are critical to allow us to earn a fair rate of return, which will enhance our ability to attract capital to use for these investments.

Q. When was the last rate relief requested by FPUC and CFG?

A. FPUC's last rate relief request was filed on December 17, 2008.[2] CFG's last petition seeking rate relief was filed on July 14, 2009.[3] The previous rate case for Florida Public Utilities Company - Indiantown Division occurred well before FPUC acquired Indiantown Gas Company in 2003.[4] Prior to its acquisition in 2013 by Florida Public Utilities Company, Fort Meade was a municipally-owned gas utility. The Commission has never conducted a rate case or similar rate review for FPUC's Fort Meade division.

Q. Is the Company currently earning a reasonable rate of rate of return?

A. No. The following chart shows each Company's achieved Rate of Return ("ROR") as of December 31, 2021, as well as the projected ROR at the end of 2023:

Entity	Current ROR	Projected 2023 ROR
FPUC	4.69%	2.94%
CFG	5.18%	1.48%
Ft Meade	(6.59%)	(8.49%)
Indiantown	0.61%	(3.46%)

Q. What are the key drivers underlying FPUC's need to seek rate relief at this time?

A. There are three primary drivers causing the Company to seek relief at this time.

[2] Docket No. 20080336-GU.
[3] Docket No. 20090125-GU.
[4] Docket No. 20030954-GU.

1. **Investment** - The primary driver for this requested base rate increase is the Company's $323,974,978 increase in its total capital spend since the last rate proceedings. A significant portion of these investments are tied to extensions to serve new areas, as well as increased safety regulations imposed by federal agencies, such as the Pipeline and Hazardous Materials Safety Administration ("PHMSA"), as detailed by Witness Bennett. New regulation changes made by PHMSA pertaining to natural gas distribution and transmission facility integrity management plans and the recent curb valve changes have contributed to the capital investment increases. Coupled with the increase in capital spending are the increases in depreciation expense resulting from the additional mains installed over this period of time. As a result, the Company has exhausted its ability to find additional cost-saving measures that would enable it to further delay a request for an increase without impacting compliance, safety, and service to customers.

2. **Economy** - Costs for the Company continue to trend upward in a variety of areas, in spite of our best efforts to keep expenses down. Many of these cost increases are beyond the control of the Company. This has further contributed to a significant decline in our rate of return in our natural gas operations. The Company believes the proposed 2023 test year will accurately reflect the economic conditions in which the Company's natural gas operations will be operating during the first twelve months that the new rates will be in effect. Therefore, this period is appropriate for rate-setting purposes. We have also faced unprecedented historical events, such as the COVID-19 Pandemic, that have had a significant, unfavorable impact on earnings since our last rate proceeding. Fortunately, the construction and housing markets

have grown at a historically high pace; however, this extraordinarily aggressive construction market has arrived at a time of 40-year high inflation. Together, this growth and historic inflation have driven increased prices on everything from labor and fuel to materials and insurance, placing additional downward pressure on our returns. When coupled with the expansion of our system, the length of time since the last rate cases, and the state of the economy, it has become necessary to seek a rate increase that will provide the Company with an opportunity to earn a fair rate of return on our investments, maintain solid financial integrity, and continue to provide safe and reliable natural gas service to our customers.

3. **Growth** - Florida is the third most populous state in the United States and is experiencing ongoing tremendous growth. Florida's population has increased by approximately twice the national average. In response to this growth, we must reinforce and extend natural gas infrastructure to underserved and unserved areas of the state, which provides support for the state's growing economy. The impacts of this historic growth will be discussed in more detail in Witness Lake's testimony.

Q. Can you please elaborate on these driving factors?

A. Yes. The Company has experienced significant consumer growth since FPUC's last rate case, which can be attributed, in part, to the aforementioned substantial population increase in the Company's historic service footprint. To accommodate this growth, FPUC has invested significant capital in expanding its existing system westward in Palm Beach County to serve West Lake and Arden, and has also expanded its system around Auburndale in Polk County. The Company has also expanded our territory in northeast Florida in Nassau County. In 2013, FPUC brought natural gas to Amelia Island, which provided the first opportunity for residents and businesses to access natural gas. Our ability to bring gas to the island required substantial investments in facilities, particularly to cross the Nassau River. Still, the benefits for Amelia Island and its residents, particularly in terms of expanded economic development opportunities, are extensive.

Likewise, in 2018, the Company worked with the City of Pensacola to provide a second access and delivery point for natural gas to Pensacola and to extend service for an industrial customer that the City was unable to serve. As will be further discussed in the testimony of Witness Bennett, we have also undertaken significant investment in the acquired Indiantown and Fort Meade systems to enhance service on those systems and ensure that customers in those areas receive the same high level of reliability and safety as customers in other parts of the state. As for those areas in which the Company has a historical presence, we have responded to the growth and economic development needs of our communities by investing in distribution main expansions to improve existing consumer service reliability in areas such as Haines City, which were previously served by constrained segments of the Company's distribution network. Similarly, population growth in the Company's service areas has necessitated numerous road expansion projects, many of which have required the relocation of the Company's facilities. Witness Bennett will further describe these capital projects, as well.

These expansions and improvements have enabled FPUC to receive and deliver larger quantities of gas at higher pressures, while ensuring that the system can maintain safe and reliable service to all customers, including customers in areas experiencing exponential growth. These capital improvements constitute prudent infrastructure investments that have significantly enhanced system reliability and safety while also allowing the Company to accommodate future growth on the system.

Q. What operational changes did the Company implement due to the COVID-19 Pandemic?

A. To ensure business continuity and the safety of our employees and customers, the Company implemented an emergency response plan, as well as other extraordinary measures, including enabling as many employees as possible to work from home, canceling all business travel, stopping the movement of employees between offices, and postponing face to face meetings and events. While these steps were necessary and effective, they are not sustainable in the long term for a business of our type and size. The result was a temporary decrease in expense associated with these types of activities and functions. At the same time, we experienced increases in other expense categories associated with our Covid response, such as cleaning supplies, safety barriers, and technology expenses necessary to increase availability of remote access for employees working from home.

Q. Has the Company taken any other steps to help customers as a result of the ongoing COVID-19 impacts?

A. Yes. The economy of the state and the nation have been adversely impacted due to the necessity to adhere to strict precautionary measures designed to slow the spread of COVID-19. Consistent with these precautionary measures, the Company took several immediate steps to protect its customers and employees, including opening more remote payment channels, suspending the assessment of late fees, suspending disconnects for most of the 2020 calendar year, and applying very flexible repayment plans to help customers through this unprecedented crisis.

VIII. <u>Steps Taken to Avoid Requesting a Rate Increase</u>

Q. What steps has the Company taken to avoid or delay this request?

A. The Company has implemented several cost-containment measures that have successfully limited cost increases; thereby enabling the Company to delay seeking a rate increase for almost 13 years. For example, the Company has reorganized its Operations department so that the Company's field personnel are in vertical operating units. This reorganization has enabled the Company personnel to work on distribution activities consistently across all of the Company's business units regardless of jurisdiction. Additionally, since the acquisition of FPUC by CUC, the Company has been able to take advantage of the stronger financial posture of CUC to refinance debt at lower interest rates and obtain less expensive capital. Finally, the Company has taken steps to consolidate functions across the entire FPUC platform in Florida. For instance, the Company has consolidated its Conservation Programs, Purchased Gas Adjustment ("PGA"), and GRIP to ensure the programs are implemented consistently across the Company's Florida platform. This has increased efficiency, allowing the Company to reduce the number of personnel, and therefore costs, associated with administering these programs. The Company has also spent several years identifying best practices from each of CUC's Florida LDCs' individual tariffs that could be combined and managed for greater efficiency. Taking these interim steps for efficiency outside of a full rate proceeding has also allowed the Company to avoid pursuing multiple rate cases and thereby additional rate case expense.

Q. What other efforts have been implemented by the Company to avoid or delay a rate increase?

A. The Company has pursued a couple of very intentional strategies. First, in terms of growth and expansion into previously unserved areas, the Company has pursued relationships with large industrial and commercial consumers that can serve as the basis for establishing the core infrastructure for new expansions and provide the necessary revenue streams to make such expansions economical, which then enables the Company to expand into surrounding small commercial and residential areas with a lesser economic hurdle.

Next, as will be addressed in the testimony of Witness Lake, the Company has embarked on the aggressive promotion and utilization of its Commission-approved Energy Conservation programs to advance the State of Florida's public policies regarding energy efficiency and carbon reduction, which has also helped our customers in terms of overall affordability.

PART 2

IX. Summary of Programs Changes and New Programs

A. GRIP

Q. What is the GRIP program?

A. The Gas Reliability and Infrastructure Program, known as GRIP, was implemented to replace the bare steel and cast-iron mains and service lines within the Companies' systems and was approved in Docket No. 120036-GU.

Q. Has the GRIP program been completed?

A. The original projects identified in the GRIP program will be completed by the end of 2022.

Q. Is the Company requesting the investments from this program be included in base rates during this proceeding?

A. Yes. As will be discussed in Witness Bennett's testimony, as of December 31, 2022, the Company will have identified and replaced all known bare steel and cast iron pipes on its systems. Therefore, in this proceeding, we are asking that the investments be moved to rate base and that the revenue requirement be recovered, going forward, through base rates set in this proceeding, which will reset the current GRIP surcharge to $0, as will be addressed in the testimony of Witness Bennett.

Q. Will there be a GRIP surcharge in 2023?

A. In accordance with our usual GRIP filing schedule, we anticipate that we will true up any remaining amounts in our Fall 2022 GRIP filing, which may result in a limited amount remaining to be collected in 2023.

Q. Is the Company proposing additional GRIP activity?

A. We are not requesting to extend GRIP as part of this rate proceeding; however, as addressed in the testimony of Witness Bennett, we anticipate filing a separate request to extend GRIP or establish a Phase II GRIP to address some of the new safety-related concerns that we discovered through our work on the original GRIP program, including the rear easement facilities. To be clear, this will be separate and apart from this rate proceeding; we have not included any costs associated with our anticipated Phase II request in our projected test year.

B. Area Expansion Program ("AEP")

Q. Is the Company proposing a modification to the existing Area Expansion Program ("AEP")?

A. Yes. As will be discussed in the testimony of Witness Lake, both FPUC and CFG have had AEP programs in effect for long periods of time. Over the years, both programs have evolved. Most recently, in the Companies' tariff consolidation proceeding, Docket No. 20200214-GU, the AEP programs were consolidated and unified under the FPUC version of the program. The Company has determined that it would be beneficial for our customers to make some additional changes that make the consolidated program easier to understand, particularly as it relates to calculation of the AEP surcharge and also facilitate administration of the program.

C. Income Tax

Q. Is the Company requesting approval for a rate adjustment should income tax rates change in the future?

A. Yes. The Company is proposing a change to implement future impacts to tax rates. The Company has reflected the current tax law in this filing. With the potential for federal or state tax reform always a possibility, the Company is proposing that a one-time base rate adjustment be made within 120 days of any change to the federal or state corporate tax rate becoming law. To calculate the adjustment, the Company would use the forecasted surveillance report for the calendar year when tax reform would take place to calculate the impact of tax reform on current rates and develop a uniform percentage change to base rate charges for each customer class to reflect the tax change. This adjustment would remain in effect until the tax rates change again or the Company files another base rate proceeding, whichever comes first.

Q. Why is the Company proposing this change?

A. We believe that this proposal provides the fairest mechanism for both our customers and the Company to ensure a consistent and predictable practice of collecting taxes by adjusting base rates when state or federal tax rates change to reflect the appropriate tax rate.

Q. Have any other utilities in Florida received approval to treat income tax changes similarly?

A. Yes, albeit in the context of approved settlement agreements. Similar provisions have been included in the approved settlements of TECO's rate case addressed in Docket No. 20210034-EI, and FPL's rate case addressed in Docket No. 20210015-EI.

D. Environmental

Q. Would you please provide some background on how environmental remediation costs are currently recovered on each of CUC's Florida LDCs?

A. Yes. For CFG, the Commission approved a temporary surcharge in Docket No. 20090125-GU, which was thereafter extended through August 31, 2015, by Order No. PSC-14-0052-PAA-GU, issued January 27, 2014, in Docket No. 130273-GU. By PSC-16-0562-PAA-GU, issued December 16, 2016, in Docket No. 20160153-

GU, the Commission allowed CFG to retain the final, over-collected amount of $313,430 in Account No. 254 as a regulatory liability for purposes of addressing the future expected remediation costs associated with remaining remediation requirements, which would then be reviewed in the Company's next rate case.[5] Florida Public Utilities Company's environmental costs are recovered through base rates, except for a portion related to insurance recovery, while FPUC – Ft. Meade and FPUC – Indiantown currently have no environmental remediation requirements and are not incurring, or recovering, any environmental costs.

Q. Is the Company requesting any changes to the recovery of environmental remediation costs?

A. Yes. Due to our requested consolidation, the Company is seeking approval for a consolidated methodology for recovering environmental remediation costs. We have continued to incur remediation costs on both the CFG and FPUC systems. While an amount has historically been included in FPUC's base rates to recover environmental costs, CFG relied upon the temporary surcharge, which has been terminated. When the surcharge terminated, CFG was allowed to retain the final, over-collected surcharge amount of $313,430 in a regulatory liability, because the Commission recognized that the Company was expecting to incur additional remediation costs. Since the surcharge was terminated, the Company has incurred additional remediation costs in excess of the balance in the regulatory liability. In this proceeding, in an effort to provide more rate predictability and standardize the recovery of the remaining remediation costs for the entire, consolidated Florida Public Utilities Company, we are requesting approval to establish an environmental

[5] Order NO. PSC-2016-0562-PAA-GU, at p. 3-4.

surcharge adoption of the CFG methodology of cost recovery through a monthly fixed surcharge rate for each customer class. We believe setting this as a surcharge and collecting it over a defined period of time will provide more certainty to our customers regarding the recovery period and the basis for the surcharge. In addition, the Company believes the process previously approved by the Commission for CFG in Order No. PSC-10-0029-PAA-GU, issued in Docket No. 090125-GU, on January 14, 2010, and extended through August 31, 2015, by Order No. PSC-14-0052-PAA-GU, issued January 27, 2014, in Docket No. 130273-GU, continues to reflect the most appropriate method of recovering these costs.

Q. Do the Company's MFRs for this case reflect that the environmental cost recovery amounts embedded in Florida Public Utilities Company's rates have been removed?

A. Yes. Removal of the environmental working capital assets and liabilities is reflected in G-1, Page 4a of 28, and the removal of the environmental amortization is reflected in G-2 Page 2 of 31.

Q. Would you please discuss the status of the clean-up efforts at the Company's environmental sites?

A. The Company has three former manufactured gas plant ("MGP") sites, one of which is still an active remediation site located in West Palm Beach. The other two, one on Florida Public Utilities Company – Key West and one on CFG – Winter Haven, are not active remediation sites; rather, they are undergoing annual monitoring.

As it relates to the West Palm Beach site, there are still substantial remediation efforts to be implemented and costs are ongoing. We have been operating a biosparging/soil-vapor extraction (BS/SVE) system since it was installed in January 2013. On the West Parcel of the West Palm Beach site, additional demolition activities of aboveground structures such as the former office building and a garage, were completed in 2019. In 2020, the subsurface remnants of the historical MGP foundations and piping were excavated and disposed of off-site, along with tar-impacted soils and clinker.

The next phase of remedial work on the West Parcel will delineate floating product or light non-aqueous phase liquid (LNAPL) and significant pockets of coal tar present as dense non-aqueous phase liquid (DNAPL). The delineation phase is expected to be completed in 2022. In addition, in 2023, it is anticipated that an LNAPL recovery system will be installed and begin operation and that an excavation/isolation program will be implemented to address the coal tar.

Once most of the recoverable LNAPL is removed from the subsurface, a BS/SVE system like the one operating on the East Parcel will be constructed on the West Parcel. It is anticipated that the design, installation, and start-up of the West Parcel BS/SVE system will be completed by 2025.

Groundwater monitoring activities will be ongoing through the implementation of all remedial activities and will likely be continued as part of a natural attenuation monitoring program after active remedial activities are completed, and the systems are decommissioned.

Q. How long is the remediation of these expected to last?

A. Clean-up efforts and monitoring are ongoing and, according to the Company's outside consultant, can be expected to continue for at least 15 years.

Q. What are the total costs the Company anticipates incurring for the environmental clean-up of the FPUC MGP sites?

A. Currently, based on the estimates from the Company's external consultant, total costs anticipated to be incurred for environmental clean-up activities are estimated to be approximately $7.5 million to $13.9 million over the next 5 to 15 years. Attached to my testimony as Exhibit MDC-3 is the most recent analysis completed by our outside consultant regarding the anticipated costs and time frames of this ongoing clean-up.

Q. Does the Company have a specific proposal regarding the method to collect the remaining expenses?

A. Yes. The Company proposes establishing a surcharge mechanism to provide a timely recovery of these costs. This will eliminate the environmental clean-up recovery of $3.6 million annually from the rate base. In addition, the proposed surcharge mechanism will provide a means to immediately terminate the surcharge when all clean-up costs are incurred and recorded, without an expensive rate filing to eliminate base rate revenues. Therefore, the Company is requesting Commission approval of the proposed environmental cost recovery surcharge mechanism. The initial level of the surcharge is proposed at $627,995 annually, effective January 1, 2023. The Company would provide an annual report on the status of the clean-up efforts at the FPUC sites and a schedule reflecting both the clean-up costs and the amounts recovered from customers. All costs and recovery amounts would continue to be subject to Commission audit. A final true-up filing would be made after all expenses have been incurred and recorded, with a proposal addressing disposal of any over-or under-recovery.

Q. Please describe how the Company proposes to determine the appropriate costs to be included in the surcharge and how the surcharge would be calculated and applied to the various rate classes.

A. The Company proposes to determine the amount of environmental remediation costs based on an outside expert's remediation plan and time period of clean up. The Company's outside expert, Ruth & Associates, are the same consultants we have used since the previous rate proceeding. Attached to my testimony in Exhibit MDC-4, which is Ruth & Associates remediation plan and associated costs on the remaining MGP sites. The costs, as calculated by our outside experts, would be allocated based on customer usage.

Q. Has the Commission authorized other similar surcharge mechanisms in the past?

A. Yes. In addition to the temporary surcharge approved for CFG in Docket No. 20090125-GU, the Commission has also previously approved cost recovery surcharges for Gulf Power Company and Progress Energy Florida, Inc. during the 2004 storm season. Specifically for Gulf, the Commission approved the recovery of $51 million related to restoration activities resulting from Hurricane Ivan[6]; and, for PEF, it approved the recovery of $231 million for storm-related costs for restoration and operation and maintenance expenses resulting from Hurricanes Charley, Frances,

[6] Order No. PSC-05-0250-PAA-EI, issued March 4, 2005, in Docket No. 050093-EI, In re: Petition for approval of stipulation and settlement for special accounting treatment and recovery of costs associated with Hurricane Ivan's impact on Gulf Power Company.

Jeanne, and Ivan[7]. Once the costs were collected, Gulf and PEF discontinued the surcharge.

E. Bad Debt

Q. How does the Company currently recover bad debt expense from customers?

A. Currently, the Company recovers bad debt expense solely through base rates based upon the bad debt expense amount approved for each division in their most recent rate case.

Q. Is the Company requesting a change in the method of bad debt recovery?

A. Yes. Instead of recovering bad debt solely through base rates, the Company is requesting that bad debt expense be recovered through both base rates and the various clauses, conservation, environmental, and PGA.

Q. How will the bad debt expense be calculated?

A. The Company will calculate the total projected bad debt expense in the test year based upon the projected write-off factor, similar to the method used in prior cases. However, instead of including the total projected bad debt expense in the revenue requirement for base rates, a portion of bad debt will be assigned to each rate component based on the percentage of projected revenues recovered through each particular rate component. For example, if 70% of the Company's projected revenues would be recovered through base rates, 70% of the projected bad debt expense would be allocated to base rates. The remaining portion of bad debt would be allocated proportionally for recovery through the other clauses. When calculating the bad debt

[7] Order No. PSC-05-0748-FOF-EI, issued July 14, 2005, in Docket No. 041272-EI, In re: Petition for approval of storm cost recovery clause for recovery of extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan, by Progress Energy Florida, Inc.

expense for each rate component, the Company will apply the write-off factor for each customer class to the corresponding rate components for that customer class and adjust the clause rate accordingly to include the write-off factor within the total rate calculation. In the future, each time the corresponding surcharge rate changes, the rate will be grossed up to include the write-off factor, similar to how the Company's PGA rate is grossed up to include taxes.

Q. Why is the Company requesting a change to the calculation of bad debt?

A. Since the various surcharge rates change more often than base rates and bad debt is a function of the Company's total revenue and not just base rates, the Company believes that it is more appropriate to recover the costs associated with bad debt from each rate component instead of collecting the total cost through base rates. In this way, the Company's bad debt revenue recovery is adjusted as the clause rates change to more accurately recover the actual bad debt expense incurred instead of the current method, in which bad debt revenue recovery is fixed in between rate cases.

Q. In the Company's filing, how is the bad debt expense incorporated into the rate increase request?

A. The base rates proposed by the Company only reflect an increase in the bad debt expense attributable to base rate revenue. The bad debt associated with the other surcharges is not included in the rate increase request. If the Commission approves the Company's request, the Company will adjust these rate components by the bad debt write-off factor to incorporate the bad debt expense into each surcharge.

Q. If the Commission does not approve the change in bad debt methodology, how will this impact the Company's revenue requirement?

A. Since the Company has currently excluded bad debt related to the various clauses from the revenue requirement, the Company requests that the additional bad debt associated with these rate components be incorporated into the revenue requirement and recovered through the Company's base rates.

X. MISCELLANEOUS

A. Acquisition Adjustment

Q. Please explain the acquisition adjustments you are addressing.

A. The acquisition adjustments pertain to the regulatory assets for the purchase premium associated with the acquisition of FPUC by CUC and the acquisition of Indiantown Gas Company by FPUC, which were approved by the Commission in Order No. PSC-12-0010-PAA-GU and Order No. PSC-14-0015-PAA-GU, respectively. Witness Deason will discuss the Commission's historic policy related to acquisition adjustments, as well as its applicability to the Company's request to retain these existing acquisition adjustments until fully amortized.

Q. Can the Company demonstrate that it should be allowed to retain the acquisition adjustments?

A. Yes, As Witness Deason will explain, the analysis historically used by the Commission to determine whether a company should be allowed to record, and retain, a positive acquisition adjustment is comprised of five considerations on whether the acquisition resulted in: (1) increased quality of service; (2) lower operating costs; (3) increased ability to attract capital for improvements; (4) lower overall cost of capital; and (5) more professional and experienced managerial, financial, technical and operational resources.[8] These considerations are referred to as the "five factor" test. Applying the "five factor" test, the Company is able to demonstrate it should be allowed to retain both acquisition adjustments.

Q. What is the overarching purpose of the "five factor" test?

A. As I understand it, and as explained in greater detail by Witness Deason, the underlying purpose of the test is to guide the Commission in determining whether the acquisition was in the public interest, and therefore, to provide a basis for the purchase premium to be recognized as a regulatory asset. At the end of the day, the question is whether CUC's acquisition of FPUC was in the public interest, and likewise, whether FPUC's acquisition of Indiantown Gas Company was in the public interest.

Q. Has the Company met each of the factors in the "five-factor test"?

A. Yes, we have, as I will explain in greater detail below.

1. Increased quality of service

Q. Have the acquisitions resulted in improved quality of service for customers?

A. Yes. There have been quality improvements in several areas, including compliance, Customer Care, and technology. One of the ways we recognize these improvements is through a decrease in operational compliance audit findings. For example, since 2009, compliance audit findings for FPUC and CFG have been reduced by

[8] See Order No. 23376, issued August 21, 1990, in Docket No. 891309-WS, In re: Investigation of Acquisition Adjustment Policy; Order No. 23858, issued December 11, 1990, in Docket No. 891353-GU, In re: Application of Peoples Gas Systems, Inc. for a rate increase; and Order No. PSC-04-1110-PAA-GU, issued November 8, 2004, in Docket 040216-GU, In re: Application for rate increase by Florida Public Utilities Company.

approximately 95%, while compliance audit findings for Fort Meade and Indiantown have decreased by 100% since 2013.

Another area in which we have made significant improvements is Customer Care. As will be detailed in the testimony of Witness Parmer, the Company has made improvements in call handling, response to customer feedback, as well as tracking of feedback, website management, and customer communications. We have also added numerous new payment channels to facilitate expanded access for customers to make payments. Our call center team members are also geographically dispersed between the Delmarva Peninsula and Florida. This provides additional backup capabilities, supports emergency situations, and has generated efficiencies in terms of employees being located in two centralized areas that provide redundancy. The Company has also made significant Business Information Services ("BIS") improvements. This has translated into increased system availability for FPUC's employees to respond to customer inquiries. At the same time, as discussed in the testimony of Witness Gadgil, customer data is more secure now than ever before. Finally, from an operational perspective, and as detailed in the testimony of Witness Bennett, customers have significantly benefited from the capital investments we have made.

2. Cost Savings

Q. How have the acquisitions resulted in cost savings?

A. Our customers have benefitted by the Company having access to more robust capital opportunities at much better terms and rates than before. This has directly benefited our customers because these better terms have included lower interest rates, which results in less interest expense. We have estimated that the lower cost of debt available through Chesapeake has saved FPUC more than $9 million since the acquisition. This will be discussed in more detail in the testimony of Witness Russell.

Q. Are there other areas where the acquisitions have generated savings for customers?

A. Yes. The Company has also experienced O&M savings in the area of gas supply since the acquisition. In addition, as will be discussed in the testimony of Witness Hancock, the Company has managed to grow the distribution system without adding significant amounts of capacity.

Q. Are there any other areas of cost savings that you would like to highlight?

A. Yes. As further discussed in the testimony of Witness Rudloff, CUC's management team, which is inclusive of FPUC's leadership team, is compensated at a level that is significantly lower than their industry peers, in the 25th percentile, while the Company's actual performance is in the top quartile of performance.

Additionally, following CUC's acquisition of FPUC, the Corporation consolidated administrative oversight of the retirement plans. Previously, FPUC had utilized several third-party administrators, trustees, and advisors to oversee and manage their respective retirement savings plans and pension plans, as had Chesapeake. After the acquisition, the Employee Benefits Committee led a process to consolidate administration of the plans, thereby eliminating duplicative administrative costs and achieving cost savings in the management of the Plans. New third parties were selected as advisors and trustees, and administrators. Finally, the individual pension plans were consolidated into one Master Trust, resulting in further savings.

Savings have also been achieved through the elimination of redundant leadership roles. The gas operations teams were combined under one business unit leader in Florida instead of having two separate leaders – one for FPUC and one for CUC's Central Florida Gas division. Further, certain redundant executive positions were eliminated, such as one of the Chief Financial Officer ("CFO") roles.

Another area where cost savings were achieved was in the area of financial reporting. Becoming a subsidiary of CUC eliminated the need for FPUC to prepare and file its own financial statements with the Securities and Exchange Commission ("SEC") and to have its shares listed on an exchange. This resulted in reduced compliance and governance costs. Finally, instead of two public company financial audits, only one was required. This resulted in reduced internal and external fees, as further discussed by witness Galtman.

Finally, in reviewing the liability insurance expenses that have been incurred since the acquisition until 2019, FPUC's annual insurance expense associated with liability coverage was less than pre-acquisition levels. FPUC's portion of liability insurance premiums did not approximate the pre-acquisition amounts for more than ten years. In 2019, the insurance market continued to experience pressures from carrier consolidation and industry exposures, which resulted in insurance costs exceeding the 2008 levels for the first time.

Q. Have these cost savings resulted in any decline in service to FPUC's customers?

A. No.

3. Better access to lower cost capital (Factors 3 & 4)

Q. Has the Company been better able to attract capital since the acquisition?

A. Absolutely. As Witness Russell will discuss, FPUC and its customers have benefited from the enhanced ability to attract capital for infrastructure projects since the acquisition. This is due to Chesapeake's investment-grade credit rating and access to competitively priced capital. The improved access to capital has been instrumental in completing large expansion projects, as well as safety and reliability projects such as the GRIP program, which will be discussed in Witness Bennett's testimony. As a result of its acquisition by CUC, FPUC has saved approximately $9 million in interest costs due to increased availability and cost of debt capital utilized to fund FPUC's investments.

5. More professional and experienced managerial, financial, technical, and operational resources:

Q. How have FPUC's customers benefited from more professional and experienced financial, technical and operational resources?

A. One of the most notable benefits to our customers is the depth of the management team of the greater CUC organization. The successful projects discussed above were accomplished because the acquisition has provided FPUC with access to more professional and experienced managerial, financial, technical, and operational resources. CUC's managerial, financial, and technical expertise is significant. The leadership team has a wealth of experience in the natural gas and utility arenas and provides leadership across several industry organizations. Among other things, our leadership team has spearheaded activities demonstrating the economic benefits of natural gas in our state and highlighting the key role natural gas plays in Florida's efforts to define its energy independence and pursue cleaner energy resources, i.e., Renewable Natural Gas ("RNG"). In fact, FPUC led the successful effort to have the Florida Legislature recognize "renewable natural gas" as a renewable energy resource in 2021.

Additionally, FPUC's recognition as a Top Workplace in Central Florida in 2019 and 2021, as well as CUC's recognition as a Top Workplace for the last ten years, along with its receipt of a Top Workplace USA award for mid-sized companies in both 2021 and 2022, demonstrates that our organization is able to attract and retain top-tier personnel. Highly engaged employees have been shown to deliver increased performance on the job, thereby generating lower operating costs and enhancing all aspects of service to our customers.

Q. How else have FPUC's customers benefited from more professional and experienced management?

A. Because of leadership with a superior command of the natural gas industry in Florida, the Company has avoided seeking a rate case for over ten years. This has directly benefited our customers by avoiding multiple rate proceedings and the associated costs and establishing a high level of predictability for our customers. During this time, the Company has also expanded its territory through acquisitions and organic growth.

B. Rate Case Expense

Q. What is the amount of rate case expense proposed to be included in this rate proceeding?

A. On Schedule C-13, the Company is requesting a total rate case expense of $3,427,575 to be amortized over a period of five years at $685,515 annually.

Q. Explain the period of time proposed for amortization of rate case expense and the amount included in the rate base.

A. We propose to amortize our expected rate case expenses over a period of five years. Our last rate proceeding was over ten years ago. The expected period of time to file another rate proceeding is within that same period of time, and five years is the appropriate number of years to amortize this expense. These expenses were necessary and prudent, and we feel that recovery should be allowed over the expected period.

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

A. We have projected rate case expenses based on specific forecasts, including the cost of using consultants to assist us in preparing and supporting a rate case and the cost of representation and consultation by an attorney.

Q. Why is the Company using outside consultants and temporary staffing instead of internal resources to compile the rate case?

A. The Company is not staffed at a level to allow for the preparation of rate proceedings, MFRs, or the additional rate case-related workload required after the MFRs are filed. Internally, while the Company has increased staffing since the last rate case was filed, the workload has increased beyond the corresponding increase in staffing. As a result, we now require additional resources beyond the level required in our last gas rate case. In addition, we do not have the expertise in all areas required to facilitate the preparation of a rate case; therefore, we had to hire the expertise and extra assistance to complete this process. For example, the Company has hired consultants to develop and support the cost of capital and cost of service in this rate proceeding. We also had to utilize temporary accounting staff and consultants to assist in the extra rate casework beyond the normal workload of the accounting department. Since the Company files rate proceedings infrequently, the use of consultants and temporary staffing to assist in the rate case proceeding is a more cost-effective approach than increasing staff to completely handle the rate case filing internally.

Q. Why should the Company recover the costs related to rate case expense?

A. Consistent with the FPSC's rulings in prior rate cases, reasonable rate case expenses are necessary and prudent for the Company to compile the rate proceeding. Accordingly, the Company believes that the recovery of the costs should be permitted over the projected amortization period.

C. MFR Benchmarking

Q. Would you please discuss the variances to benchmark for the 920 accounts as found on C-38 FPUC and CFG?

A. Several factors are consistently impacting our business since the Company's last rate proceeding, and they are evident in these benchmark schedules. First, the complexity of our business, the markets, and more frequent and detailed reporting requirements from governmental agencies have all increased significantly. Our Companies were stand-alone entities and considerably less sophisticated than today; as such, filings with government entities are more complex than they have been historically. For example, since the last rate proceeding, the accounting group has had to respond to new requirements for Generally Accepted Accounting Principles ("GAAP") reporting, such as the ASC 606, ASC 842, and ASC 326, as well as increased SEC reporting requirements related to critical audit matters. Second, in the previous rate proceeding, employees were charged to multiple areas that are now in a stand-alone area. For example, we might have had one employee who dealt with HR issues and handled customer communications. However, the increased level of activity and demand, especially around investments in the area of safety, has required that we staff in a manner that facilitates frequent and often specialized communications with our customers. Also, the regulatory payroll was part of the accounting payroll historically but is now a stand-alone area.

Third, we now require a higher-level professional staff with the evolving business, industry, and markets. For example, there was no Company or corporate General Counsel in the previous rate proceeding. We have prudently added this position to keep the Company abreast of, and compliant, with our industry's continually evolving laws and regulations. The Company also hired a CIO since the last rate proceeding. This critical and prudently added position is in response to our environment's growing complexities and threats, specifically around cybersecurity and customer data and network protection. Both of these positions have also allowed the Company to find and implement industry best practices in those respective areas. Another example is the addition of a Chief Human Resource Officer ("CHRO"). The Company has recognized that the complexities and demands discussed above also require a more strategic view of employee safety, training, and engagement. These additional leadership positions have proven to be critical additions as we serve our customers in the safest and most efficient manner.

Fourth, since the last rate case, the Company has had to operate in a very different environment when it comes to recruiting and retention of employees. In more recent history, specifically since the COVID-19 Pandemic, the Company has experienced a shift in the labor market that has led to more difficulty hiring and retaining qualified employees. This is compounded by the need to hire and retain employees with more specialized skill sets in accounting, tax, treasury, regulatory, IT, and HR. The increased technical demand combined with the constraints in the labor market has caused payroll costs to be higher than benchmarks.

Q. Are the variances to benchmark, on Schedule C-38 FPUC, for the 921 accounts similar to those for the 920 discussed above?

A. Yes. First, we have seen profound changes in technology since the last rate case. This has caused the costs related to software maintenance, ransomware, data security, and disaster recovery to increase significantly since the previous rate proceeding.

Second, the Company was far less sophisticated at the time, and the demand was less. As a result, peripheral items supporting a growing, evolving company, such as cell phones, data lines, and office supplies, have been prudently incurred. Many of these costs were very limited in the last rate proceeding because the Company was in a completely different posture regarding growth and industry leadership.

Q. Would you please discuss the variances to the benchmark of the 923 accounts on Schedule C-38 FPUC?

A. As discussed above, the Company has responded to changing markets, industry trends, and more demanding requirements by prudently incurring more technical staff and leadership. The Company also recognizes that hiring employees for every new scenario this market demands is not realistic nor prudent. We also respond to these evolving demands by using outside contractors for highly specialized skills in data security, disaster recovery, regulatory compliance, and legal assistance. The Company may retain these specialized skills for a specific project, but as we have seen consistently since the last rate proceeding, they are also necessary for ongoing projects. The utilization of outside professional assistance in these areas has allowed the Company to slow hiring full-time employees over the longer term.

Q. Would you please discuss the variances to the benchmark of the 930 accounts on Schedule C-38 FPUC?

A. Certainly. The Company now, compared to the Company in the last rate proceeding, is in a completely different posture. We now lead the industry in many ways because of our strategic insight and execution in the market. This increased ability has also increased the expectation of our customers in areas such as communication and access to our Company. These prudently incurred costs reflect our response to customers' desire to have multiple platforms to communicate with us and to access their account information. Additionally, as the Company has adapted to the new complexities of the market and industry, we have increased our interaction with agencies such as the New York Stock Exchange. This has also put increased demands on the Company to add additional corporate governance oversight expertise.

Q. Would you please discuss the variance to the benchmark of the 931 accounts on Schedule C-38 FPUC?

A. The variance related to this line is a result of the Company managing growth and expansion responsibly. Specifically, as we grow and move into new territories, we evaluate our buildings and locations. In doing this, we have found instances, in West Palm Beach, for example, where it is more appropriate at this time and in the near term to rent than to purchase or build a new facility. This will allow us time to evaluate our new facility requirements in a post COVID environment.

Q. Would you please discuss the variance to benchmark for the 885-894 accounts as found on Schedule C-38 CFG?

A. With the Company's growth and expansion, we have seen an increase in both required maintenance and an increase in the frequency of compliance audits over the historical benchmark. Since the last rate proceeding, we have implemented standardized equipment maintenance schedules and seen increased compliance audits that have increased costs above the historical benchmark. Additionally, we have established additional maintenance programs that have had the positive outcome of reducing violations and improving the safety of our systems. We have also incurred costs over the historic benchmark due to higher maintenance levels on aging regulators and meters.

Q. Are the reasons for a variance to benchmark for the 920, 930.1, and 931 accounts, as found on Schedule C-38 CFG, similar to those on the same schedule for FPUC?

A. Yes, they are.

Q. Would you please discuss the variances to benchmark for the 925 account as found on Schedule C-38 CFG?

A. The variance related to this account has three primary drivers. First, in the last rate case, CFG had no salaries related to a safety program charged to account 925. As a result of the Company’s focus on safety, there are now charges hitting this account. Second, the Company's insurance costs have increased beyond the inflation and growth factor. Third, we have obtained Errors and Omission insurance as well as credit insurance since the last rate proceeding. As the complexities of the market and our business increase, we have found it necessary and prudent to add coverages that protect the Corporation from losses resulting from mistakes or negligence committed on behalf of the Corporation as is the case for the Errors and Omissions insurance. Likewise, we have found it necessary to add coverage for credit insurance that protects the Corporation from larger customers that may default on payments. Both of these coverages help CUC mitigate potential risks that could impact the Company and ultimately our customers.

Q. Would you please discuss the variance to benchmark for the 926 account as found on Schedule C-38 CFG?

A. This variance is related to the costs associated with the Company's decision to close the CUC pension plan. While beneficial over the long-term, this cost was not in this account during CFG's last rate case.

Q. Would you please discuss the variance to benchmark for the 932 account as found on Schedule C-38 CFG?

A. This variance is associated with the Company's ongoing efforts to maintain the safest physical locations for its employees. This variance is specifically related to additional electrical work completed and fire suppression equipment installed at our building locations.

D. Over and Under Adjustments

Q. Please explain the direct projection of Reg. & Govt. Affairs manager salary in the 920/926 account of Schedule G-2 p. 19j Consolidated.

A. FPUC has historically staffed key regulatory functions with outside professional staff. With the increased complexity, volume, ongoing regulatory initiatives, and aging workforce, we have found it necessary to increase our internal regulatory staffing levels. The costs of these new positions are reflected in the projected test year.

Q. Please explain the over and under adjustment related to the Environmental Social and Governance ("ESG") director.

A. We have added this position, which we have not historically had, in response to the new demands from the investment community and our customers to consider factors related to the environment, social issues, and our governance activity in our business.

Q. Please explain the adjustment for consulting services for regulatory strategy on Schedule G-2 p. 19 l.

A. As discussed previously, there are a number of new complexities and demands on our business related to the way our industry moves forward. As we continue to grow, the need for highly technical and specialized skills in the regulatory area are required. The Company recognizes the need to hire full-time staff to meet these ever-increasing demands. However, we also acknowledge that a measured and responsible approach is critical for our customers and so utilizing consulting for the interim period makes the most economic sense.

Q. Please explain the adjustment for an ESG consultant on Schedule G-2 p. 19 l.

A. As discussed above, the new ESG demands on our business make it necessary for us to recruit and train new and highly specialized employees. When evaluating both the immediate and ongoing needs in the ESG space, the Company has realized that the utilization of consultants is the most prudent approach to meeting the demand. Instead of hiring another full-time employee, we can meet some of the long- and short-term needs with this type of combined staffing.

Q. Please explain the incremental cost adjustment to support the business transformation analyst.

A. To keep up with the increasing complexities of the market, higher expectations of customers, and the Company's push to find operational efficiencies, we have included an incremental amount for the hiring of an analyst in the business transformation area.

Q. Please explain the incremental cost adjustment to support the natural gas industry and associated legislation on Schedule G-2 p. 19 m.

A. This adjustment is of critical importance to both our customers and our industry. As I will discuss in more detail in the next section, this adjustment is necessary for the Company to continue reaching unserved and under-served customers in Florida. We have always participated in stakeholder education and outreach. Still, the industry is now in a position where utilities must educate and defend our customers' ability to choose natural gas. Therefore, we have added an appropriate incremental cost to support the increased activity.

E. Association Participation and Advocacy

Q. How does the Company advocate for natural gas on behalf of its customers?

A. We do this in two key ways. We advocate through industry association participation and also through our own an internally developed natural gas advocacy program.

Q. Do customers gain value from FPUC's participation in the advocacy activities of industry associations?

A. Yes. Our Company delivers essential energy services to communities throughout our state. As a good corporate citizen, we periodically engage in thoughtful, meaningful, and responsible dialogue with all levels of elected officials who represent the interests of the Company's employees, customers, investors, suppliers, partners, and the communities we serve. A policy-making process that is inclusive, diverse, and balances all stakeholder interests leads to greater societal advancement. Our objectives related to the use of Company funds for political advocacy include:

- To engage elected representatives on matters that impact the Company's business operations and its stakeholders.
- To engage in matters that provide for the betterment and sustainability of our communities.
- To be proactively involved in a diverse and inclusive policy-making process that balances all stakeholder interests, thus leading to greater societal advancement.

We fully acknowledge that the Commission has a well-documented history of disallowing expenses related to advocacy and lobbying-type activity. Likewise, FPUC has a long history of respectfully referring to historical precedent as our guide. However, there are circumstances and times in history when that precedent, which has served the people of Florida well, must be reevaluated with an eye towards the future of a rapidly changing energy economy. We believe that, given the current level of focus on issues around energy and the environment, there is value in reassessing the basis for that historical precedent now.

The Company's memberships in natural gas associations provide a couple of critical benefits to our customers and employees. First, these associations help the Company, through its employees, stay current on emerging trends within the natural gas industry and leverage best practices from other natural gas utilities to operate a safer, more reliable, and efficient natural gas system. Second, the collaboration within these associations provides "strength in numbers," which allows us to participate in activities that educate on the economic benefits of access to natural gas for our communities and that preserve our customers' ability to choose natural gas.

More than ever, energy, and particularly the use of natural gas, is the subject of political debate in a wide variety of contexts. We find ourselves forced to engage in this political landscape more than ever before to ensure that accurate environmental information pertaining to natural gas is being considered in these debates and to protect our customers' ability to choose their energy source. As such, we are respectfully asking that the Commission revisit its policy of disallowing these expenses.

Q. Could you please elaborate on your natural gas advocacy program?

A. The Company uses its natural gas advocacy program to engage key stakeholders on the importance of natural gas to customers, communities, and Florida's economy. For example, attached to my testimony as Exhibit MDC-4 is CUC's natural gas storybook. This "storybook" serves as a primary method of delivering the compelling story of natural gas. In addition, we often use our storybook as a simple way to start the education and communication around industry policy and trends that impact to our customers, communities, and ultimately our State.

Q. Should expenses related to natural gas advocacy be allowed for recovery purposes?

A. Yes. We believe that expenses such as stakeholder communication, government affairs activity related to natural gas policy, and economic development that the Company prudently incurs in education efforts aimed at protecting energy choice for our customers. More than any other time in our history, these activities are directly related to helping our customers maintain access to safe, efficient, reliable, and economic natural gas. The expenses incurred for these activities are used to combat misinformation about natural gas safety, reliability, and economic value in our State. By educating our stakeholders on the benefits of natural gas, we can ensure that our customers continue to have long-term access to this low-cost fuel, while the Florida reaps the economic benefits of a robust natural gas industry.

Q. Can you provide any examples of how customers have benefitted from these types of expenses?

A. Yes. The use of natural gas has become more controversial in some parts of the United States. Some states have even passed legislation to ban the use of natural gas. Our Company is taking a proactive approach to educate policymakers, customers, and all stakeholders on the benefits of natural gas in an effort to keep these misguided policies from gaining ground in Florida.

An example that demonstrates another benefit derived from these advocacy efforts is the passage in 2021 of the Renewable Energy Bill, SB 896, which incorporated Renewable Natural Gas into the state's renewable energy policy as another renewable resource. This bill was actively supported by the Company. Renewable natural gas is now another tool the state can use to facilitate a cleaner environment, while encouraging additional revenue streams for our farmers and strengthening our state's energy security.

F. Emissions Reductions

Q. What is the Company's position on the gas utility's role in achieving emissions reductions?

A. Chesapeake is committed to providing safe, reliable, and affordable energy in a manner that protects the environment and helps the state and its communities meet emissions goals. Conventional and renewable natural gas will continue to offer both environmental and cost advantages for many years to come. The most cost-effective and energy-efficient way to meet the peak energy need is to continue direct customer use of natural gas.

Since 2011, CUC's Florida natural gas distribution facilities have reduced our CO_2 emissions by 7,305 MT or approximately 53%. This can be attributed to infrastructure improvement accomplished through GRIP and our investment in infrastructure and operational practices that leverage system efficiencies. Access to clean natural gas is critical for our customers, as well as Florida's economy. CUC continues to look for opportunities to reduce emissions in responsible and prudent ways for customers, while continuing to ensure our customers have safe and reliable access to this efficient, accessible fuel. Our emissions reductions to date are just one example of our commitment to deliver a cleaner, more sustainable energy future, as further reflected by CUC's inaugural ESG report found at Sustainability - Chesapeake Utilities Corporation (chpk.com). Maintaining our transmission and distribution infrastructure will also facilitate delivery of renewable natural gas, hydrogen, and other clean fuel options as they become viable supplements to traditional natural gas.

Q. Does this conclude your testimony?

A. Yes.

GUNSTER

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October 19, 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 Errata to the Direct and Rebuttal Testimony of Michael Cassel, 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)

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 19, 2022

FLORIDA PUBLIC UTILITIES COMPANY'S ERRATA SHEET TO THE DIRECT AND REBUTTAL TESTIMONY OF MICHAEL CASSEL

Florida Public Utilities Company, jointly with the Florida Division of Chesapeake Utilities Corporation, Florida Public Utilities Company - Fort Meade, and Florida Public Utilities Company - Indiantown Division, (jointly, "FPUC") hereby submits this Errata Sheet to correct the Direct Testimony of its witness, Michael Cassel, originally filed on May 24, 2022, as well as the witness's Rebuttal Testimony, filed on September 20, 2022:

Direct Testimony

Witness Name	Page and Line Number	Correction
Michael Cassel	Page 11, Line 2	Change increase in its base rates of "$43,817,913" to "$43,726,000"
Michael Cassel	Page 11, Line 5	Change "$24,061,982" to "$23,970,069"
Michael Cassel	Page 15, Line 13	Change Projected 2023 ROR of: FPUC from 2.94% to 2.95% CFG from 1.48% to 1.50% Ft Meade from (8.49%) to (8.46%) Indiantown from (3.46%) to (3.44%)

Rebuttal Testimony

Witness Name	**Page and Line Number**	**Correction**
Michael Cassel	Page 6, Line 15	Change annual savings of "$4,462,872" to "$4,042,974"
Michael Cassel	Page 6, Line 17	Change annual savings of "$7,110,006" to "$6,690,108"

Respectfully submitted this 19th day of October, 2022,

By:____________________

Beth Keating
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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing filing has been served by Email this 19th day of October, 2022, upon the following:

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MS. KEATING: Mr. Chairman, Mr. Cassel is tendered for cross.

CHAIRMAN FAY: Great. Thank you.

And, Mr. Rehwinkel, you were here this morning too when I addressed Ms. Christensen?

MR. REHWINKEL: Yes.

CHAIRMAN FAY: Okay. Great.

You are recognized, thank you.

MR. REHWINKEL: Mr. Chairman, I have given staff a couple of exhibits to pass out ahead of time for your desire.

CHAIRMAN FAY: Okay.

MR. REHWINKEL: And even though we are entitled to ask the witness and the company to keep them upside down, I don't mind if they --

CHAIRMAN FAY: Okay.

MR. REHWINKEL: And I will wait until --

CHAIRMAN FAY: Are you insinuating Mr. Cassel couldn't process them that quickly?

MR. REHWINKEL: I have known Mr. Cassel follow a long time, and I admire him greatly, so I would never think that.

CHAIRMAN FAY: Okay. And we can number them as we go, Mr. Rehwinkel. So whenever you want to reference them, just length us know and we will --

MR. REHWINKEL: Okay.

CHAIRMAN FAY: -- and I have got two in front of us for right now.

MR. REHWINKEL: That's correct.

CHAIRMAN FAY: Okay.

MR. REHWINKEL: And before I start, I want to note for the record, I solely was responsible in the haste of putting these together of misspelling Mr. Cassel's name. I -- it was a tribute, I think, to the great Sam Cassell who played at FSU. Even though I am a Gator fan, I was a big fan of his too. So I apologize. I have a badly spelled last name, and I apologize for misspelling it on there.

EXAMINATION

BY MR. REHWINKEL:

Q Good afternoon, Mr. Cassel.

A Good afternoon, Mr. Rehwinkel.

Q Before I get under way, I want to just deal with a couple of these errata issues since we just heard about them now.

Can you tell me first, going to the last one, the half-mile piece of the GRIP replacement, is that going to affect the revenue requirement associated with GRIP that's in your testimony?

A No, it's not.

Q Okay. Let's go to the -- do you have the errata with you?

A Give me just one minute. I do have it.

MR. REHWINKEL: Mr. Chairman, these are the -- I am going to ask him some questions from the errata that was -- came in last week. I hope everybody has that with them.

THE WITNESS: I have the errata dated October 19th.

BY MR. REHWINKEL:

Q Okay. Thank you.

And I just -- if you could, in as few words as possible, but explain what the reasons for the adjustments are with each one, starting with the line 11, page two?

A Well, if I can get clarification. My first one is line 18. Is this one of the exhibits you provided?

Q No. No. I am talking about your errata. The first one I have in your direct is on page 11, line two, change increase in base rates 43,817,913 to 43,726.

A I have it in the direct. I don't have that errata with me.

CHAIRMAN FAY: Hold on, Mr. Rehwinkel. Let me see if we can get -- are you saying this is the modified errata?

MR. REHWINKEL: Well, this is the one that was filed on the 19th.

CHAIRMAN FAY: Okay.

MS. KEATING: Mr. Chairman, if I may.

CHAIRMAN FAY: Oh, you have a copy of it? Great. Thank you.

THE WITNESS: Thank you.

CHAIRMAN FAY: And just while you are doing that, Mr. Sandy, or maybe even Mary Anne, where --

MS. HELTON: I am sorry, Mr. Chairman, I didn't hear you what just said.

CHAIRMAN FAY: I was going to say, where is that accessible to us in the record now?

MR. SANDY: My understanding, Mr. Chairman, is that it's accessible on the T drive as we speak.

CHAIRMAN FAY: Okay. Perfect.

If y'all will just bear with me real quick, let me make sure I have got it in front of me.

Okay. Mr. Rehwinkel, whenever you are ready.

MR. REHWINKEL: Thank you.

BY MR. REHWINKEL:

Q   Mr. Cassel, do you have the errata with you?

A   I do. Yes, I have it.

Q   Okay. Can you tell me the basis for the

change in the first one?
A I believe -- this wasn't my correction. I do believe it was something do with the taxes.
Q Okay. Is this something that flows through in somebody else's testimony?
A I believe the GRIP testimony is being handled primarily by Witness Bennett --
Q Okay.
A -- or Witness Napier.
Q All right. So is what you are doing here is just flowing through an adjustment that was made?
A Yes.
Q Okay. And what about the -- is the same with the next one on line five?
A That would be correct. Yes.
Q Okay. What about page 15, line 13, a change in ROR?
A It would be the same, the flowing through.
Q Okay. And then on page six, line 15, annual savings figure, change from 4,462,872 to 4,042,974?
A That, again, would be handled by Ms. -- Witness Napier. It's flowing through a change to the overall net change in the savings for customers on their annual savings.
Q Okay.

A None related to GRIP, though.

Q Okay. Is that related to the acquisition adjustment issue?

A It would be a part of the acquisition adjustment, yes.

Q Okay. And the same answer would be for page six, line 17?

A Yes, that would be the same.

Q Okay. Thank you.

MR. REHWINKEL: Just for future reference, Mr. Chairman. I probably will just do a quick run-through of these since they came with no explanation --

CHAIRMAN FAY: Okay.

MR. REHWINKEL: -- for the witnesses will be asking just like this.

CHAIRMAN FAY: Okay. Great. And we've got them accessible on our drive so they are amenable.

MR. REHWINKEL: Okay.

CHAIRMAN FAY: Thank you.

MR. REHWINKEL: Thank you.

BY MR. REHWINKEL:

Q Your -- I think your testimony reveals you are the AVP, or Assistant Vice-President Regulatory for Chesapeake Utilities Corporation, right?

A I am the Vice-President of Governmental Affairs and Regulatory Affairs for Chesapeake.

Q Okay. I apologize for demoting you there.

A It goes with the name. That's fine.

Q What is the corporate reporting relationship of you and Mr. Galtman?

A Mr. Galtman is Senior Vice-President and the Chief Accountant for the corporation. I have don't report through him.

Q Okay. What is the corporate reporting relationship with you and Ms. Napier?

A Ms. Napier is the Director of Regulatory Affairs and works directly for me.

Q And you have an accounting background, is that correct?

A I do have an undergrad in accounting, and spent some time in accounting. Yes.

Q And you were a tax accountant also?

A At one point, yes, I was a tax accountant for a very short period of time.

Q All right. And when we talk about Chesapeake Utilities Corporation, or CUC, that's the same entity, right?

A That's correct. Yes.

Q And what's before the Commission today are

four local gas distribution companies, or LDCs, right --
A   Yes.
Q   -- for a rate increase?
A   That's correct. Yes.
Q   And in addition to the four Florida LDCs, CUC has an electric division, other regulated and unregulated businesses, such as propane distribution and propane wholesale marketing business units, correct?
A   Yes. That's correct.
Q   Is it true that all of these divisions or business units are capitalized using the same capital structure as you are proposing for FPUC?
A   Well, to the extent that I understand the capital structure, this would be way over my skill. This is a question for an accountant, a professional accountant, Witness Galtman would be able to handle.
Q   Do you have an understanding that they are capitalized differently?
A   I understand that there is capitalization that goes on in the business, but I -- the structure and the workings behind it I am not familiar with. I can't speak intelligently to it.
Q   Okay. But filed the surveillance report with the Commission, or you historically have, correct?
A   The company does. Yes.

Q Okay. And then you sign that report, right?
A I do sign them.
Q Is it true that you offered testimony that, at a high level, supports the cost of capital that is included in the revenue requirement for both the interim and permanent rate increases?
A I cover an overview of the whole of the case within my testimony, and that could be a part of it. If there is a specific reference, I can answer it specifically.
Q Okay. And part of your testimony is in justifying the overall rate increases that the company is incurring, or will incur costs that are outside of its control, is that right?
A That's correct. Yes.
(Discussion off the record.)
CHAIRMAN FAY: All right. I think we are live again. Me. Rehwinkel, let me double check yours to make sure.
MR. REHWINKEL: I think I'm good.
CHAIRMAN FAY: Thank you.
Whenever you are ready, Mr. Rehwinkel.
MR. REHWINKEL: Okay. Let me find where I was here. I am ready to go. Thank you.
BY MR. REHWINKEL:

Q I think, as we just mentioned, in your recent past in your role as AVP regulatory, were you that at one time?

A I was that at one time. Yes.

Q You were responsible for filing the earnings surveillance report with the Commission, right?

A That would be correct. Yes.

Q And that task now, in the last year or so, has fallen to Ms. Napier?

A It has been with Ms. Napier, and I have overseen that process, amongst others.

MR. REHWINKEL: Okay. Mr. Chairman, I would like to identify the larger of the two exhibits that I passed out.

CHAIRMAN FAY: Okay. That will be 114.

MR. REHWINKEL: And it has a short title on the document of --

MS. HELTON: Mr. Chairman, I think that's 115.

CHAIRMAN FAY: I apologize. Thank you. 115.

MR. REHWINKEL: Summary of ESR Equity Ratios.

CHAIRMAN FAY: Okay. I got it.

(Whereupon, Exhibit No. 115 was marked for identification.)

CHAIRMAN FAY: Whenever you are ready, Mr. Rehwinkel.

MR. REHWINKEL: Thank you.
BY MR. REHWINKEL:
Q Mr. Cassel, in this exhibit, I represent to you that I have taken the fourth quarter earnings surveillance report -- or hopefully I can call them ESRs to save time -- for the four LDCs and I summarize the capital structure from the Commission adjusted basis on Schedule 4. Will you accept that subject to check?
A Are you referring to the first side of the opening sheet?
Q Yes, sir. It's -- I have Bates numbered these pages in the top right-hand corner. So where it says OPC EX --
A Yes.
Q -- it's Bates two, that's where the summary is.
A I see that. Yes.
Q Okay. And you will accept, subject to check, that these are faithful representations of the numbers on your Schedule 4s?
A Subject to check.
Q Thank you. And I have done this for the years 2019, 2020 and 2021.
As an accountant, and in your experience as AVP Regulatory for CUC, you are familiar with how the

company accounts for its long-term debt and short-term debt and reports that cost to the Commission, right?

A If I understand correctly what you are asking. I am an accountant. I have overseen those activities. I have not actually calculated them myself. The accounting offers a whole lot of issues, of which this could be one. Yes.

Q Okay. And you would agree with me that the equity ratios for the four companies in Florida were generally in the range of 47.15 percent to 47.45 percent in the year 2019, subject to check for accuracy?

A Based on this exhibit in front of me, that would be true. Yes.

Q Okay. And you would agree that that -- those equity ratio ranges in 2019 actually dropped slightly to a range of 46.2 to 46.44 in 2020, would you, subject to check for accuracy?

A Again, based on the schedule in front of me, that is true. Yes.

Q And then for 2020, the equity ratios increased to a range of 50.79 to 51.27 in 2021, correct?

A I believe that would be in the column 2021.

Q Yes, sir.

A Yes.

Q You agree?

A Yes. Yes.

Q Okay. Would you agree, subject to check, that the interim equity ratio -- the equity ratio that your interim request was based on on a consolidated basis was approximately 51 percent?

A I was not a part of that calculation. If you can show me the reference, I could look at it and verify that.

Q Okay. Well, I think I can deal with that with somebody else. But that would be in your MFRs -- well, do you have -- you don't have the FMFRs with you, do you?

A I do have them.

Q Let's go look at the FMFRs F3.

A If I can give me one moment, I am going to pull up a different binder.

Q Okay.

A Could you state the MFR again, Mr. Rehwinkel?

Q Yes. I am looking at F9, which is at Bates F -- FPUC MFR 1474, or numbered page 1467.

A So if I have the right schedule, it's F9 for FPUC, page one of one?

Q Yes. Actually, I think F8 is probably a better one to use because it does the math for us. Do you see F8, which is at Bates 1473?

A I have F8 for FPUC.
Q Okay.
A Bates stamp 1466?
Q Yes.
A I have it.
Q Do you see the box on the lower left, it says 13-month average common equity 51.27 percent?
A Yes, I see that.
Q Okay. Would you agree that's the equity ratio that the rates that are in effect now, the interim rates, is based on?
A Yes, I would.
Q Thank you.
MS. HELTON: Mr. Chairman, I am really sorry to interrupt, but I am having a hard time understanding where in the exhibit we are looking, so I want to make sure the record is clear.
MR. REHWINKEL: The -- the -- okay, we moved FRF Exhibit 115 to whatever exhibit number the FMFRs are. I apologize.
MS. HELTON: Okay. Now -- I am sorry. I am sorry to bother you.
MR. REHWINKEL: That's okay. That was probably a good --
CHAIRMAN FAY: You did switch sort of

casually. But, yes, Mr. Cassel found it appropriately. So, Mary Anne, is that -- you are good?

MS. HELTON: I just want to make sure the record is clear which exhibit we are on, so maybe Mr. Sandy could help me.

CHAIRMAN FAY: Yeah, if we could have it identified, I guess. If not, we can clear it up on the record and just keep going for now.

MR. SANDY: If I can clarify. Mr. Rehwinkel, you are utilizing MFR 58, is that what I heard correctly? Or I may have misheard.

MR. REHWINKEL: It's MFR, the interim schedules.

MR. SANDY: And on the CEL, which exhibit would that be?

MR. REHWINKEL: I don't have the CEL with me.

CHAIRMAN FAY: Yeah, that's a good question, just to make sure we have it follow in the record where it is. Let me see if we can find it real quick.

MR. REHWINKEL: Let me go get a copy of the CEL.

CHAIRMAN FAY: Yeah, if you could reference that, Mr. Rehwinkel, it would make it easier for our folks to follow along. If you will go to 203.

MR. REHWINKEL: I will be honest with you, in my 30 something years, I have never had to reference an exhibit list for the MFR so I did not prepare to ask questions using that level of detail, Mr. Chairman. I apologize.

CHAIRMAN FAY: That's okay. I mean, I think if you want to reference it with the Bates numbers, we can follow along with these pages. I just think for the record, it would be a little bit easier. If you don't have them, then --

MR. REHWINKEL: No.

CHAIRMAN FAY: -- we will move forward. That's fine.

MR. REHWINKEL: Okay. And it's something we can dig up and put on -- spread on the record at the right time.

CHAIRMAN FAY: Okay.

MR. REHWINKEL: Just for the record, though, Mr. Cassel and I, I think, were talking the same language on the numbers. But the MFRs that the company has filed have a number at the bottom center. And then below that, they have a Bates numbering system that says FPUC MFR, and then it has a Bates field, and it's about seven numbers different from the -- from the actual pagination of the MFR. So he referenced 1466.

CHAIRMAN FAY: And you are at 1473. So that's a gap there.

MR. REHWINKEL: That's something like that.

CHAIRMAN FAY: Okay.

MR. REHWINKEL: Sorry for the confusion, Mr. Chairman.

CHAIRMAN FAY: That's okay. Go ahead.

BY MR. REHWINKEL:

Q Would you agree with me, subject to check, that the proposed year-end equity ratio for the test year is 56.24 percent?

A Is that on 1466 that we are referencing currently?

Q No. I am talking about the test year for the -- for the case itself?

A Well, subject to check, I could agree with that, but I would have to check it.

Q All right. And the 13-month average equity ratio is 55 or 55.1 percent, is that your understanding it's in that neighborhood?

A Somewhere in that neighborhood, subject to check.

Q Okay. And would you agree that just

mathematically, the difference between a 51-percent and 56-percent equity ratio is almost a 10-percent increase in the equity?

A It 51 to 56, I would agree it be it would be a five-percent, not 10 percent I believe you just referenced.

Q Well, five -- a five percentage point increase over a 51-percent base is a little short of 10 percent.

A Okay. I do agree.

Q Okay. Wouldn't you agree that that 10-percent cost that you are proposing in this case is something that is -- cost increase is something that is within the control of the company, CUC?

A There are some aspects of what we've asked for that are in our control and there are some aspects that are not in our control.

Q And specifically to my question, you would agree that the capitalization ratio is something that is within the company's control?

A From my understanding -- again, I am not an accountant, and I am holding regulatory and governmental affairs practice -- but from my understanding there are aspects of that capital ratio that can be controlled, but I don't know the detail enough to know which parts of it and what levers can be pulled to control them.

Q Thank you.
Are you familiar with the equity ratio of Florida Public Utilities electric division?
A I am not. No.
Q Do you know if it was modified based on the circumstances surrounding Hurricane Michael?
A From my position, I am not familiar enough with the accounting and the equity ratios. I have, quite honestly, been focusing on natural gas on this particular case for several months.
Q Okay. Let's talk about the income tax rate adjustment mechanism. And let me ask you to refer to your direct testimony at pages 23 and 24.
A I am on page 23.
Q FPUC is proposing a new mechanism for a surcharge that will be applied if federal or state tax rates change in the future, is that right?
A That is correct. Yes.
Q You would agree that FPUC has been able to go for several years without a rate case, as we heard earlier today, right?
A We have been 13 years without asking for a rate increase. That's correct.
Q And during that time, you did not have a tracker or a surcharge for income rate tax -- income tax

rate changes, correct?

A We have not had this type of a tracker in place.

Q And on page 24 of your testimony, at lines 11 through 15, you indicate that other Florida utilities have similar provisions to what you are seeking in this case, but you agree that those were only adopted in the context of settlements, is that right?

A That is correct. Yes.

Q Okay.

MR. REHWINKEL: Mr. Chairman, the next exhibit I would like to ask be given a number for identification.

CHAIRMAN FAY: Okay. 116.

MR. REHWINKEL: And this is 2017 Gulf Power Prehearing Order Excerpt. And it is on the first page inside the cover sheet, it's Order No. PSC-2017-0099-PHO-EI, dated March 14, 2017.

And, Mr. Chairman, to save trees and whatnot, I excerpted this order, but I am happy, during the course of the proceeding, to file a complete copy, but I think the Commission can also take official notice of the entirety of the order.

CHAIRMAN FAY: Yeah, I am fine with taking it in this manner. I mean, the order -- Mary Anne, just to confirm with you, the full order is public record and accessible and so this is sufficient?

MS. HELTON: Yes.

CHAIRMAN FAY: Okay. Yep. We will move forward in this format. Thank you.

MR. REHWINKEL: Thank you.

BY MR. REHWINKEL:

Q Can I ask you to turn to what's in the upper left-hand corner of page 107 of this prehearing order. Do you see that numbering?

A On the short handout you have given us?

Q Yes.

A That's page two?

Q Yes. It's the second page.

A Okay.

Q It's page 107. Do you see that in the upper left-hand?

A The problem is I do not see the page number.

Q Over here. It's the header up there --

CHAIRMAN FAY: Essentially the top left where the header of the order and docket number is, but to your point it is -- it's page two of the document, so if you flip the first page, and it starts with pursuant to Rule 28-106.

THE WITNESS: Thank you for the clarification.

I have it.

BY MR. REHWINKEL:

Q And do you see that?

A I do.

Q Okay. Thanks.

Can you review the language under the heading Contested Issues for me, please?

A Can you give me a moment to read it, please?

Q Yes. And once you do that, if you could look at the language under OPC Issue 1A.

A Okay, I have reviewed it.

Q Would you agree that this order reflects that the Commission, through the prehearing officer, struck this issue, and wouldn't even allow the customer parties to raise it related to changes in the income tax rate?

A In the very short time I have had to look at this, and I can't speak intelligently on it, but that does appear to be where it's headed. Yes.

Q Okay. And I think I read that you have a Master's of Law degree, right?

A I do have an energy law degree. Yes.

Q Okay. And in your studies, you encountered the term arbitrary and capricious, you did not?

A I have encountered that term somewhere along the way. I don't know whether it was within my degree program, though.

Q Okay. Would you agree that if the Commission allowed the utility to achieve the tax mechanism as a part of the litigated outcome of the case after denying the customers even a chance of raising it it could be seen as arbitrary?

A Well, to clarify, I have a Master's degree in Energy Law. I am not a practicing attorney, so I can't really speak to the structure of that law, so I wouldn't feel comfortable answering that.

MR. REHWINKEL: I will withdraw that question, Mr. Chairman.

CHAIRMAN FAY: Okay.

BY MR. REHWINKEL:

Q Have you ever heard the phrase heads you win, tails I lose?

A As a child, Mr. Rehwinkel, I have heard that. Yes.

Q My daughters say I am still a child, so that's --

Would that -- from the customer's standpoint, would that accurately describe what the company is asking for in this case?

A No, absolutely not. I think the idea that we set rates that are predictable, and when parts of our rates and when parts of the economy change that our rates follow that, or some aspect of the rates follow it, it provides predictability for our customers, which is a benefit to them.

Q Regarding the tax provision beginning on page 23 of your direct testimony, you mentioned that other companies implemented similar provisions based on settlements, right?

A That is correct. Yes.

Q Would you agree with me that parties to those settlements receive consideration in exchange for various provisions in the negotiated agreement?

A Again, I can't speak to that. I wasn't part of that negotiation. I couldn't honestly speak to it.

Q Okay. But in the fall of 2017, probably November of 2017, you were involved in much the same negotiations to resolve a rate matter previously on behalf of FPUC electric division, were you not?

A In 2017, we had other -- several dockets. I don't know which dockets, honestly, you are asking about.

Q Okay. Didn't you negotiate a 2017 agreement, in order 2017-0488, that dealt with a limited proceeding, had a negotiated stay-out and a compromised revenue requirement provision?

A I believe I was. Yes.

Q Okay. And part of that negotiation provision related to the unanticipated revenue requirement impact threshold of about $800,000 that would trigger your right to exit the agreement regardless of the stay-out, do you recall that?

A I recall that on the electric part our business. Yes.

Q Would you agree, having been a part of those negotiations, that parties bargained for the tax provision?

A Could you clarify by regarding the tax provision?

Q Okay. So it was part of a negotiated resolution where parties, there was give and take on both sides, would you agree with that?

A I would say there are many parts that were give and take on most cases. Anything negotiated like that as a black box has many parts and pieces.

Q Okay. Now, your proposal is confined to changes in just tax rates, is that right?

A That's correct. Yes.

Q Wouldn't you agree that a change in a tax law can involve changes to -- can involve changes to both tax rates and other portions of the tax law that don't

involve, rates such as credits?

A Again, I can't speak to how the federal government or the state government issues taxes and tax credits. I would say, though, that one aspect that we are talking about in this particular context is the rate itself.

Q Okay. But your proposal doesn't include, for example, credits that are available through a change in tax law as far as passing those through, or recovering increases in costs from customers, right?

A We have not dealt in this language with credits being passed back and forth. No.

Q Okay. And a credit could -- and a tax law change could involve a increase in the credit or reduction in existing credit, correct?

A It could be any number of things. And without anything but a hypothetical, you would have to assume that it could go both ways. Yes.

Q Okay. So if other provisions in federal income taxes law change, such as provision of new tax credits for various items, under your proposal, the company would keep for itself the impact of all those increases in credits, or lowering of tax -- of income tax -- well, let me strike that and say -- let me ask it again.

If other provisions in federal income tax law changed, such as provision of new tax credits or increases in tax credits for various items, under your proposal, the company would keep for itself the benefit of the impact of those changed tax provisions that are not specifically tax rate changes, is that correct?

A That's a lot to take in. Again, we are talking about a hypothetical situation with credits. I can't speak to if the federal government put a tax credit, what would happen, or a tax increase. You know, we've got a mechanism in here that we've proposed as a way to stabilize the rates, in that portion of our rates to our customers to make it easier and more simplistic for them.

Q So just -- I am not trying to have a hypothetical. I am trying to understand how the mechanism would work.

So if there was no change in the tax rate, but for example, a new credit was available, and it applied to the company's business, the benefit of a reduced income tax expense would enure to the benefit of the company under your proposal and not go back to the customers, right?

A So what we are talking about in this provision that we have proposed is a change in the income tax rate that would be passed back and forth between the company and the customer.

CHAIRMAN FAY: Mr. Rehwinkel, I think it's asked.

MR. REHWINKEL: Yeah, I am --

CHAIRMAN FAY: Yeah.

BY MR. REHWINKEL:

Q The Inflation Reduction Act was passed in August 2022 after you filed your application for rate increase, right?

A That's correct. Yes.

Q And there are provisions in the Inflation Reduction Act, or IRA, for tax credits for items such as purchasing electric vehicles and/or reducing the cost of prescription drugs that might theoretically help FPUC or CUC, correct?

A I can't honestly answer that. I am familiar with the Investment Reduction Act, however, how it applies with other aspects of our business, I can't honestly speak intelligently. The context of what we've proposed here is a rate stabilization effort for our customers.

Q Okay. When FPUC gas and electric companies received an income tax rate windfall after the TCJA -- what's that -- tax Cuts and Jobs Act of 2017, were they

allowed to keep the money because they were not over-earning?

A That's correct.

Q Okay. Wouldn't fairness dictate that if you had any kind of tax rate increase in the future, that any provision that might be allowed by the Commission as a result of this case should only let you recover no more than what would be required to bring you to the bottom of your authorized range?

A In that particular instance, if we are talking about the historic tax docket that didn't put us over range, one of the reasons we have been so successful of avoiding multiple rate cases in the 13 years since we've been here is that very fact. We have been able to manage the business in a way that allows us to keep going without heaping more costs on. And again, that provides rate stability for our customers.

MR. REHWINKEL: So, Mr. Chairman, I don't hope to do this much today, but I would like to invoke your admonition of a yes or no. I didn't get a yes or no there.

CHAIRMAN FAY: Well, I think your question as the fairness of it is probably a tough evaluation for him. But I think to your point, if it can go up or down, shouldn't there be an adjustment sort of either way, is that what you are getting at?

MR. REHWINKEL: Yeah. I guess I would follow it up, wouldn't my question be symmetrical treatment?

CHAIRMAN FAY: Yeah.

THE WITNESS: I would believe with the tax rate, but what we've been talking about up to this point is tax credits and Investment Reduction Act.

BY MR. REHWINKEL:

Q Okay. I probably didn't ask the question right. Let's go back to what you are proposing in your testimony starting at page 23. That provision, if the Commission were to adopt something like that provision as you request, shouldn't it be amended to make it symmetrical to how things worked when an attached rate change environment when rates came down? If rates are going up and you are below the bottom of the range, you should only go -- you should -- if you are outside the range, you should only be brought to the bottom of the range be symmetrical, right?

A I would agree that's what symmetrical is. But what we are proposing in lines 21 through 22 is an adjustment to any of the tax rates. Again, it's not credits. It's the tax rates specifically that we've addressed in that particular language in my testimony.

Q Okay. But your proposal would have -- would have a flow-through of impact of the rates, right?
A Within the 120 days, that's correct. Yes.
Q Okay. Let's go -- get off the tax bandwagon and go to environmental surcharge. You are asking to establish an environmental surcharge for FPUC, right?
A That's correct.
Q And as of today, Chesapeake is the only member of the four divisions who has had an environmental surcharge, right?
A That is correct. Yes.
Q And on page 28, lines 12 through 13, you say that $3.6 million is included in current base rates for these environmental cleanup sites, is that right?
A Could you give me that line reference, please?
Q Yes. Page 28, lines 12 through 13.
A I agree that's 13.6 million, yes, from rate base.
Q 3.6?
A 3.6. I am sorry.
Q But you are only proposing a surcharge of $627,995 annually beginning in 2023, right?
A That's correct.
Q And you say the company's estimated cleanup costs are seven-and-a-half million to $13.9 million over

the next five to 15 years, is that right?
A That's correct, based on our outside consultant's estimates.
Q Isn't it true that your proposed annual cleanup amount of $627,000 would be subject to change on a year-to-year basis?
A One of the reasons I would say no, we want to set it as a surcharge so that we can keep that predictability and not have it fluctuate.
Q But it could fluctuate?
A No, not as we've proposed, it could not. It would be a fixed charge for that period of time.
Q So if the costs are recovered in base rates, the revenue requirement amount will stay the same as well until base rates are next set, right?
A That's correct. Yes.
Q And it's been about -- well, we've heard 13 years since FPUC's last rate case, is that right?
A Since FPU's, that's correct. Yes.
Q The environmental surcharge approved in 2009 for Chesapeake was temporary, right?
A I believe that was temporary.
Q Four years?
A To my best of my knowledge, it was four years.
Q Okay. And just to finish this subject, the

other surcharge mechanisms that you reference in your testimony are storm surcharges that were agreed to as a result of settlements or a stipulation, is that right?

A I don't know how they were arrived at, but I know that's what the current rate is. Yes.

Q Okay. But you agree, the Commission could look at the orders that you cite in your testimony in the footnotes?

A I agree with that, yes.

Q Okay.

MR. REHWINKEL: Mr. Chairman, those are all the questions I have.

CHAIRMAN FAY: Thank you.

MR. REHWINKEL: Thank you, Mr. Cassel.

THE WITNESS: Thank you, Mr. Rehwinkel.

CHAIRMAN FAY: Staff?

MR. SANDY: We have no cross-examination.

CHAIRMAN FAY: Okay. Commissioners?

Mr. Cassel, I have one question for you. I am going to point to your testimony to just to try to make it simple, but on page 50 of your direct, the paragraph at the top of the page discusses the -- well, it actually begins at the previous page, but it discusses the approach to revisit policy on the Commission's perspective as it relates to certain fees, and I just want to get clarity from you here. It appears your testimony talks about for the prohibition of one form of generation of gas being prohibited and some form of advocacy or participation to avoid that being removed.

But are you -- I guess are you intending clarification that the Commission holistically as a policy would review allowing the cost of memberships and/or some form of, you know, lobbying fees?

THE WITNESS: Well, that's a great question. What I am proposing here is that, one, we have not included our lobby fees above the line. They have been below the line, and they stay below the line.

What I intend to do here is that conversation, I think, becomes critical for our customers and our state really. We see the opportunity with lobbying in terms of the legislative process and the statutory framework, but the advocacy itself is simply giving a voice to our customers.

So the hope that at some point it could help guide that conversation into discerning the difference between the two, and the knowledge and really, quite frankly, that our customers are asking for natural gas, they are demanding it, they want this product, and we have organizations out there that are wholly indent on stopping all fossil fuels.

CHAIRMAN FAY: So you sort of envision it as a participation of a membership which may potentially engage in that but not specifically paying for advocacy for a certain policy, is that -- am I stating that accurate?

THE WITNESS: Yes, I think that would be accurate. Yes.

CHAIRMAN FAY: Okay. Great. Thank you.

That's all I have.

Redirect?

MS. KEATING: No redirect.

CHAIRMAN FAY: Okay. We will enter 2 through 5 into the record without objection.

(Whereupon, Exhibit Nos. 2-5 were received into evidence.)

CHAIRMAN FAY: Mr. Rehwinkel, do you want to put your 115 and 116?

MR. REHWINKEL: Mr. Chairman, I would move 115. I am happy to move 116 for convenience.

CHAIRMAN FAY: I don't think we need to, honestly, because it's an order, so -- okay, so we will put 115 into the record.

(Whereupon, Exhibit No. 115 was received into evidence.)

CHAIRMAN FAY: And with that, I would allow you to excuse -- I always like to be the one to get to excuse you because that's the fun thing to do, but I will allow, Ms. Keating, if she would like to request for you to be excused and you will be back for rebuttal.

MS. KEATING: Thank you, Mr. Chairman. We would ask that Mr. Cassel be at least temporarily excused.

CHAIRMAN FAY: You are temporarily excused, Mr. Cassel.

THE WITNESS: Thank you.

CHAIRMAN FAY: Ms. Keating, whenever you are ready, call your next witness.

MR. REHWINKEL: Mr. Chairman, before we do that, I am struggling to find where the MFRs are an exhibit, and is there --

MS. KEATING: So if I may, Mr. Chairman. During the break, we have listed with each -- with each witness, we've included an exhibit listing the MFRs that each witness is sponsoring. I believe that the FMFRs that Mr. Rehwinkel was referring to earlier are in Exhibit 35 to Mr. Everngam's testimony.

MR. REHWINKEL: So just to be clear, I -- the title says a list. I just want to -- are the actual MFRs included there as well?

MS. KEATING: That has been our intent.

MR. REHWINKEL: Okay. Yeah. I think it would be good to make sure the MFRs are in.

MS. KEATING: I would not disagree with you on that point.

CHAIRMAN FAY: Yeah, I don't think anyone would disagree. The MFRs need to be in the record. But it's my understanding, from looking at the exhibit list, and Mr. Sandy can correct me, but there is specific components of it, and that's what I thought you were trying to reference and maybe our staff was trying to go. But let me -- let's get clarity from our folks as to if, Mr. Rehwinkel, it sounds like want to continue to refer to portions of the MFRs, what's the most efficient way for us to do it to make sure that both staff, Commissioners and the other parties can track it?

MS. HELTON: Here's my issue. I see where Ms. Keating has put the list of the MFRs in the record. However, the way I am looking at the potential record, and what has been prefiled as exhibits, I do not see the MFRs as an exhibit. So my -- part of my confusion came from the fact that I am given copies of all of the prefiled testimony and the prefiled exhibits, so I did not get a set of the MFRs, and that was part of my struggle here.

I think that we need to make it clear that the MFRs are a part of the record, and that we need to, maybe on the next break, figure out how we are going to do that, because right now, Mr. Chairman, I don't think that's happened.

CHAIRMAN FAY: Okay. That's fine. Well, as far as taking portions of them that have been presented in answer by Mr. Cassel, I am fine with that. But to your point, we need to eventually make sure holistically things are done appropriately, and to your point, on my drive, I don't see it either, but I mean, if --

MS. HELTON: I think you have to go to the actual docket file in case management, Mr. Chairman, to find the MFRs at this point.

CHAIRMAN FAY: Great. So then, if we can, assuming FPUC doesn't have any objection to it, on the next break we can just find the best reference that we can provide so consistently you can reference the right docket, Mr. Rehwinkel, if you are going to keep referring to it.

MR. REHWINKEL: I have several other questions as we go along. And I am 100 percent supportive of the company getting these MFRs in the record, because, you know, I --

CHAIRMAN FAY: That's not an issue. There is no objection to that. We will make sure they are placed in the record appropriately. I just want to make sure the point of reference is adaptable for everybody.

So, Ms. Keating, unless you have any objection to that, we will move forward with your next witness, but on the break we will, at the direction of sort of staff's recommendation, put it in there holistically, and I presume you don't have any objection to that.

MS. KEATING: Absolutely not.

CHAIRMAN FAY: Okay. Great.

All right. With that, Ms. Keating, you are welcome to call your next witness.

MS. KEATING: Thank you, Mr. Chairman.

FPUC calls Michael Galtman.

Whereupon,

MICHAEL GALTMAN

was called as a witness, having been previously duly sworn to speak the truth, the whole truth, and nothing but the truth, was examined and testified as follows:

THE WITNESS: Afternoon.

EXAMINATION

BY MS. KEATING:

Q Good afternoon, Mr. Galtman.

A Good afternoon, Ms. Keating.

Q If you would, please state your name and business address for the record.

A Michael Galtman. 100 Commerce Drive, Newark, Delaware, 19713.

Q And by whom are you employed and in what capacity?

A Chesapeake Utilities. I am the Chief Accounting Officer.

Q And did you cause to be prepared and filed in this proceeding 19 pages of direct testimony?

A I did.

Q Did you also cause to be prepared and filed an errata to that direct testimony on October 9th -- 19? I apologize.

A I did.

Q Do you have any additional changes or corrections to your direct testimony?

A I do not.

MS. KEATING: Mr. Chairman, we would ask that Mr. Galtman's direct testimony be inserted into the record as though read.

CHAIRMAN FAY: Without objection show it inserted.

(Whereupon, prefiled direct testimony of Michael D. Galtman was inserted.)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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.

Prepared Direct Testimony of Michael Galtman

Date of Filing: May 24, 2022

Q. Please state your name, occupation and business address.

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

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

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

Q. Please describe your educational background and professional experience.

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

Q. Please describe your current responsibilities.

A. As the Chief Accounting Officer, I have responsibility for the accounting functions of Chesapeake Utilities Corporation, the parent company of Florida Public Utilities. In my role, I have responsibility for all accounting functions of the company including general accounting, business unit accounting, SEC reporting, accounting policy and tax. Additionally, I have responsibility for financial planning and analysis and the strategic modeling departments.

Q. How will you refer to the Company?

A. When 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 "the Company". Individually, I will use the respective name or appropriate acronym.

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

Q. Have you filed testimony before the Florida Public Service Commission ("Commission") in prior cases?

A. Yes. I have provided written, pre-filed testimony in FPUC's COVID-19 Docket No. 20200194-PU.

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

A. I will provide an overview of the Corporation's accounting and finance organizations. I will also provide some background on the regulatory asset that was established by the Commission which is associated with the transaction and transition costs resulting from the acquisition of Florida Public Utilities by the Corporation. Finally, I will provide support for certain schedules of historical data and projected data represented in the MFRs listed in my Exhibit MG-1. Historical amounts presented in the respective MFRs listed in Exhibit MG-1 reflect results from the books and records of the Corporation and FPUC and were prepared under my supervision and direction. More specifically, I will address administrative and general ("A&G") expenses and the allocation methodology for recording expenses to FPUC along with general A&G cost changes that have been implemented since FPUC was acquired by the Corporation, along with the benefits tied to those changes.

Q. Do you have any exhibits to which you will refer in your testimony?

A. Yes. Exhibit MG-1 which was prepared under my supervision and direction.

Q. Are you sponsoring any MFRs in this case?

A. Yes. I am sponsoring the MFRs listed in Exhibit MG-1.

ORGANIZATION OVERVIEW

Q. Can you briefly describe how the Company's Accounting group is organized?

A. Currently, at CUC, the accounting department is broken up into five areas. The Controller's Group is responsible for corporate, business unit and fixed asset accounting, payroll, accounts payable and financial shared services (which includes procurement). Additionally, the Controller's Group is responsible for annual financial reporting to the FERC and the respective state commissions for the Corporation's regulated business units. The SEC Reporting Group is responsible for quarterly and annual SEC reporting, accounting policy and technical accounting research. The Financial Planning and Analysis Group is responsible for budgeting, forecasting and the financial planning component of the strategic planning process, oversight of expense allocations and internal and management reporting. The Strategic Modelling Department is responsible for modelling all of our potential acquisitions and large capital investment projects. The Corporate Tax Department is responsible for income tax compliance and strategy for CUC and all of its subsidiaries.

Q. Has the organization of this unit changed since the last rate proceeding?

A. Yes. The Accounting organization has continued to expand its capabilities since the prior rate filings for the FPUC business units. CUC is a publicly traded company which is listed on the New York Stock Exchange. The Corporation is continuously investing in natural gas infrastructure to meet increased customer demand, focused on providing a high level of customer service and ensuring safe and efficient operations. As a result of this growth, CUC is considered a large accelerated filer, which is subject to accelerated SEC reporting timelines and internal control requirements as defined under the Sarbanes-Oxley Act. Additionally, the accounting and disclosure requirements have continued to evolve as well as the internal control considerations under the Sarbanes-Oxley Act. In order to comply with the various regulations, the Corporation regularly reviews level of staffing, processes and technology to ensure compliance with the applicable regulations. Since 2010, the Financial Accounting Standards Boards issued a total of 192 accounting standard updates. Not all of these updates resulted in accounting or procedural changes for

CUC, but still required the team to review and evaluate any potential impact. Many of these new accounting standards resulted in significant ongoing evaluations and disclosure changes, including fair value measurements and disclosures (Topic 820), derivatives and hedging (Topic 815), revenue from contracts with customers (Topic 606), stock compensation (Topic 718), and leases (Topic 842). In the area of taxation, we have seen a significant number of tax laws implemented since the 2010, including the Healthcare Reform Act, the Affordable Care Act, and the Tax Cuts and Jobs Act.

Q. Do you expect the Accounting organization to change in the future?

A. Yes. Accounting, disclosure and tax requirements that impact CUC and FPUC are expected to continue to change in the future. For example, in March 2022, the SEC proposed accounting and disclosure requirements associated with climate risk and cyber-security and there is also new federal tax legislation which is currently being considered within President Biden's tax proposal for 2022. As new developments occur, the Corporation assesses its resource needs to ensure its ability to comply with new regulations and effectively manage cost impacts that result in any associated accounting, disclosure or tax changes.

Q. What benefits are derived by the Company and its customers from CUC's service of these functions since the acquisition?

A. There are several benefits achieved by the evolution and growth of the Accounting function. The Company has been able to file its financial reports and tax returns accurately and timely and maintain an effective internal control environment for compliance with Sarbanes-Oxley. Additionally, the centralized model for accounting resources has allowed the Company to maintain an appropriate level of workload for staff members and provide additional technical resources as regulatory, accounting and tax requirements change. In my opinion, being part of a broader accounting organization, provides greater opportunities for employee development, provides additional resources to handle employee attrition when it occurs and increases the Company's ability to retain and attract employees. Finally, with an effective control environment and a strong history of accurate accounting records, we have been able to work with our external auditors to achieve an audit fee that has grown at a slower than normal pace when compared to the industry average.

BACKGROUND – ACQUISITION ADJUSTMENT

Q. Has the regulatory asset approved by the Commission for transaction and transition costs been fully amortized?

A. Yes. The regulatory asset associated with the Florida Public Utilities transaction and transition costs has been fully amortized. For additional details on the separate regulatory assets associated with the purchase premiums for the acquisition of Florida Public Utilities Company and the subsequent acquisition of Florida Public Utilities Company-Indiantown Division, see the testimony of Witnesses Cassel and Napier.

HISTORICAL AND PROJECTED DATA

ADMINISTRATIVE & GENERAL EXPENSES (A&G)

Q. Generally, please explain the accounting of A&G costs?

A. A&G costs are either directly recorded to the Company or the Company is allocated a portion of A&G expenses for groups which are performing services which are shared across business units. Allocations are reviewed annually, or as significant changes occur, to ensure expenses are appropriately allocated to the respective business units. The calculation of allocations to the Company are explained in greater detail below.

Q. Please describe what types of expense are included in A&G expenses.

A. A&G expenses include employee salaries and benefits, office supplies, third-party administrative services (e.g. legal services, human resource consulting, financial statement audits, etc.), insurance, advertising and the applicable facilities costs associated with office locations., Additionally, A&G expenses includes pension and benefits costs associated with the Company, as addressed by Witness Rudloff.

Q. Please describe what functional areas are included in A&G expenses?

A. A&G expenses include accounting and finance, human resources, communications, marketing, information technology ("IT"), legal, corporate governance, governmental affairs, internal audit, regulatory affairs, security, safety, and other management functions. A&G expenses also include costs associated with the Corporation's board of directors, external audit fees, insurance, employee benefits, and expenses associated with pension and other postretirement benefit plans.

Q. What benefits are derived by FPUC and its customers from the Corporation's service of these functions post-merger?

A. Generally speaking, since the merger, FPUC has benefited from expanded, more sophisticated functions and services provided by the centralized corporate functions. These expanded functions and services, which include finance, legal, human resources, information technology, communications, governmental affairs, corporate governance, internal audit, security, certain business development and expanded management support functions, as well as increased access to capital, have increased FPUC's quality of service by enhancing customer engagement, obtaining more accurate and relevant business and market information and providing reliable and more efficient service to its customers. These resources and capabilities also enabled FPUC to address newly emerging, complex business issues. With the help of CUC's corporate office, FPUC has also been able to address expanded business and compliance needs for IT infrastructure and security, accuracy in accounting and financial data, adoption of new regulations by the federal and state governments, and employee training and retention. All of these benefits have enabled FPUC to provide outstanding service to its customers and to benefit from increased access to capital in order to maintain improve and expand their natural gas systems.

Q. How are A&G expenses allocated to the FPUC business units of CUC?

A. The Corporation's cost accounting policy is to allocate costs to the business units that either incurred the cost directly or benefit from the cost being incurred. The Corporation's Cost Accounting Manual (CAM) documents the current allocation practices and methodologies utilized to account for all Operations and Maintenance expenses including A&G expenses. The CAM further describes the application of these practices and methodologies through the CUC's accounting processes, as well as recording and reporting through CUC's financial information systems. Specifically, as it relates to A&G expenses, amounts are recorded by FPUC in one of the following ways: (a) direct assignment of costs or (b) allocation of the cost of shared functions and services to business units receiving the benefit of such functions and services. Whenever it is possible and practical, A&G expenses are directly assigned to the business unit incurring such cost. An example of direct assignment of A&G costs is an external audit fee associated with auditing FPUC's annual report on FERC Form No. 1 filed with the Commission. The audit fee directly attributable to the FERC Form No. 1 for FPUC is recorded based on the specific costs attributable for the audit. A&G expenses that cannot be directly assigned are allocated to CUC's business units that receive a benefit from such functions and services.

Q. Please explain how indirect A&G expenses incurred are allocated.

A&G expenses incurred by CUC are allocated among all of the Corporation's businesses receiving benefits from such services. The Corporation utilizes various methodologies in the allocation of costs, depending on the type of expense. These methodologies are designed to reflect the relative size and benefit of each business unit receiving the shared functions and services and the methodologies may include metrics like direct payroll, profitability, adjusted gross plant, adjusted capital expenditures and/or the specific level of effort or focus, among others, in determining the allocation basis. CUC reviews and updates the allocation basis at the beginning of each fiscal year and, at times, adjusts the methodology during the year if a change in circumstances is warranted.

Q. Please explain further how A&G expenses are allocated.

A. A&G expenses are segregated by departments in order to record and track expenses. To the extent the expenses are being incurred to support multiple business units of CUC, the Corporation utilizes an allocation process to segregate costs between the applicable business units benefiting from the services provided. As part of the process to determine the appropriateness of the allocation, departments are first reviewed to consider whether the costs apply to all of CUC's business units or should be specifically allocated to selected business units. For example, expenses to support CUC's natural gas transmission, distribution and electric distribution operations should only be allocated to CUC's regulated business units as these expenses reflect the expenses incurred to comply with regulated operations of the respective public service commissions or the FERC. To the extent costs are being incurred to support CUC's unregulated business units, for example the Unregulated Accounting department, these expenses would not be considered for allocations to regulated business units including FPUC's operations. Generally, CUC's corporate departments use one of the following three allocation methods: modified Distrigas, task-based, and capital expenditure-based. The first method is the modified Distrigas formula, which is based off of a FERC-approved formula attempting to weight various aspects of each of the business units to calculate the appropriate allocation. This formula incorporates three equally-weighted factors: gross plant, operating income before interest and income taxes (as opposed to net revenues under Distrigas) and labor cost. Costs related to accounting and finance, IT network, data and desktop maintenance and support, human resources, internal audit, business development (this is shared services), security, safety, facilities and communications are allocated using the modified Distrigas formula. The second method is the task-based allocation, which considers the department's functions and assigns for each function the level of effort or focus to each business unit receiving its service. CUC utilizes the task-based method to allocate the costs associated with, for example, the audit committee, project specific IT departments, management/leadership, treasury, regulatory affairs and specific IT systems. Based on the specific nature of these services, the task-based allocation method provides the most reasonable reflection of the benefit received by each business unit. The third method is the capital expenditure-based allocation, which is based on capital expenditures in each business unit to allocate costs. Costs associated with corporate governance, the Corporation's Board of Directors, (accounts payable here or task-based) and investor relations, all of which are closely related to our growth, which is largely driven by capital expenditures, are allocated using the capital expenditure-based method.

Q. How does CUC ensure a fair distribution of its corporate costs to all of its business units, including unregulated businesses?

A. Chesapeake reviews and updates the allocation basis at least annually or when a significant change occurs to CUC's overall business or corporate functions. Every business unit benefiting from a particular department is allocated a portion of the cost associated with that department, using a consistent methodology. CUC also reviews the relative size of each business unit, measured by capital expenditures, operating income, gross plant and payroll expenses, and compares it to the overall corporate cost being allocated to that business unit to assess the reasonableness of the allocation.

Q. How do A&G expenses for the 2021 Historic Base Year compare to the Benchmark Year?

A. The A&G variances between the 2021 historic base year and the calculated benchmark year are presented on MFR C-38 for Florida Public Utilities Company and the Florida Division of Chesapeake Utilities Corporation. For Florida Public Utilities Company, A&G expenses for the historic base year exceeds the benchmark by $3.3 million, which includes a variance of $1.7 million related to payroll expenses which as of the prior rate cases were recorded in other expense accounts within operations and maintenance expenses. To the extent that these expenses were reclassified to the historical expense categories (e.g. Customer Account, Sales, Distribution and Maintenance), the applicable historic base year expense categories would not exceed the benchmark. Adjusting for these items, A&G expenses for the historic base year increased by $1.6 million compared to the benchmark. This increase was primarily driven by higher payroll costs to ensure compliance with various regulatory, accounting and technology requirements, expanded information technology costs to meet customer demand and protect against cyber-attacks and increased facilities costs for changes in service needs. Since 2008, complexity within the regulatory, accounting, tax and information technology environments has continuously increased. In order to meet the demands of each change, the Company leverages corporate functions which serves to reduce the cost impact to individual business units throughout the consolidated company. For example, costs associated with implementing new accounting guidance or cyber-security protocols that impact the Florida natural gas operations is addressed centrally by the respective corporate department. Centralizing these functions has served to effectively manage costs as the needs for individual business units are not duplicated in effort and costs. With the cost being managed more efficiently through a centralized structure, this has also served to benefit the Florida natural gas operation as the organization was able to attract and retain technical staff to address changes in the legal, regulatory, accounting and tax environments. For more details on the drivers for the increases compared to the benchmark, see MFR C-38 FPUC.

For the Florida Division of Chesapeake Utilities Corporation, A&G expense for the historic base year exceeded the benchmark by $0.7 million. The increase was due primarily to increased payroll expenses driven by the factors noted above for Florida Public Utilities Company, higher insurance costs and increase pension costs associated with the termination of the Chesapeake Utilities Corporation pension plan in 2021. For additional details on the drivers for the increases compared to the benchmark, see MFR C-38 CFG.

Q. What is FPU's A&G expense budget for the 2023 test year?

A. The projected A&G expense of FPU's Consolidated Gas operations detailed on MFR G-2 19d for the 2023 test year is $25.8 million. This amount represents an increase of $6.4 million compared to the 2021 adjusted historic test year.

Q. How was A&G expense for FPUC's operations calculated for the 2023 test year?

A. The calculation for A&G expenses detailed in MFR G-2 19c & 19d for FPUC's operations was initially based on book expense recorded for the year ended December 31, 2021. These expenses were then analyzed and adjusted for non-recurring items included in 2021 results or partial year expenses which are projected to be recurring in future periods. For example employees who were hired throughout 2021 were normalized to include a full year expense. Another example of a non-recurring expense item related to COVID-19 expense adjustments recorded in 2021 that are not expected to occur going forward. The 2021 adjusted total was then trended forward using the applicable inflation and growth factor to project the amount of A&G expenses for the projected year ended December 31, 2023. To the extent there were additional market factors or business needs which are incremental to the 2021 trended expense levels, a direct projection was considered for the incremental cost necessary to continue supporting the business for the 2023 projected test year.

Q. What are examples of A&G expense for FPUC's operations expenses which were directly projected for the 2023 projected test year?

A. Examples of these adjustments include new contracted satellite scanning costs for leak detection, additional damage prevention staffing, projected market increases in the CUC's insurance programs, incremental costs associated with ESG initiatives, increased pension and benefits costs resulting from higher projected interest rates and technology costs associated with software upgrades. Additional details on the drivers of the specific increases can be found within the testimony of Witnesses Cassel, Russell, Bennett, Rudloff and Gadgil.

Q. Are these costs, including the allocated A&G costs, a legitimate and necessary cost of providing service to its customers?

A. Yes. A&G expenses for the 2023 test year include only the A&G costs that are projected to be incurred in supporting FPUC's operations. The overall A&G costs in the 2023 projected test year are projected based on historical costs, recent trends and additional costs associated with increased business needs, which are necessary to continue providing outstanding, safe and reliable service to FPUC's customers. The projected costs include incremental costs as appropriate to address regulatory changes, increased insurance expense given market conditions, to ensure protection from cyber threats, to adapt to evolving climate change disclosure needs and to ensure the Corporation's information technology systems to efficiently serve FPUC's customers.

Q. Then, please explain the comparison of FPUC's operations projected 2023 A&G expenses to the normalized 2021.

A. As mentioned above, A&G expenses for FPUC's operations are projected to increase by $6.4 million above the historic benchmark for 2021 of $19.4 million. This includes $1.5 million in increased costs attributable to inflation and growth relative to historical benchmark A&G expenses for 2021. The applicable inflation and growth factor utilized for non-payroll and pay increase related costs used to project these expenses can be found on MFR G-2 19e. In addition, to the trended increases of historical expenses, a direct projection was also included for expenses necessary to address certain market conditions, ensure compliance with regulatory changes and continue to maintain safe and reliable operations for FPUC's operations. First, the projection includes a higher level of outside services, which is driven primarily by additional third-party satellite leak detection scans, increased information technology costs to support various aspects of the business and additional third-party consulting costs to comply with projected ESG compliance needs. Details associated to the increase third-party satellite leak detection scans are included within the testimony of Witness Bennett. Second in the 2023 projected year, there is a higher level of injuries and damages costs attributable to higher insurance cost, increased self-insurance needs based on historical claims and higher safety and damage prevention costs. Third, the projection includes additional amortization expense associated with the projected amortization of rate case expenses. Additional details on the total rate case expense can be found on MFR C-13, and also addressed within Witness Napier's testimony. Fourth, the projection includes an increase related to additional positions detailed in the over and above adjustments and higher employee labor and benefits cots along with increased pension expense associated with Florida Public Utilities pension plan. The increased labor costs considered normal attrition rates and include additional needs above current levels to address damage prevention oversight, customer communication, ESG, employee training and development and accounting and information technology needs. Additionally, as noted in Witness Russell's testimony, increased pension costs as estimated by CUC's third party actuary.

Q. Please provide specific examples on how the expanded corporate A&G functions provided by CUC benefit FPUC's customers?

A. Expanded corporate A&G functions have benefited FPUC and its customers in many different ways. Chesapeake's corporate communications team provides increased awareness of the CUC and FPUC brand through emphasizing core values and translating them into superior customer service. The communications team has assisted FPUC in its effort to redesign the Company's website to enhance its look, content and functionality. The goal of this project has been to more directly and effectively engage customers, thereby allowing customers to obtain accurate and more focused information through the website. For example, FPUC's customers can utilize the website to make billing inquiries, request services, make payments, report power outages and calculate energy savings opportunities. The redesign project has also facilitated FPUC's initiatives to increase its engagement with customers and communities, as well as employee satisfaction and training.

Business development is another example of the expanded corporate A&G functions now available to FPUC. Business development assists the natural gas operations to assess alternative fuel supply options and provides market research data. Business development also coordinates the corporate-wide initiative to automate the infrastructure mapping to increase efficiency and reliability of the Company's system.

As the parent company of FPUC, the Corporation's management team and Board of Directors bring increased oversight of FPUC's businesses and the management of its operations. The Corporation's management is comprised of individuals with several decades of energy and utility industry experience. In particular, CUC's President and Chief Executive Officer, who also serves on the Board of Directors, has over 30 years of experience in the energy industry and has served in leadership positions for several energy-based associations and organizations.

Additionally, a combination of different backgrounds, skills, experiences and perspectives enables the Board, as a whole, to provide effective oversight of our business operations, assess and respond to the ever-evolving business landscape, and develop opportunities that contribute to societal advancement and create sustainable long-term shareholder value. This includes backgrounds, skills and experiences as disclosed in our Proxy Statement filed with the SEC in 2022, such as energy industry experience, strategic planning and development, human capital management, environmental, social and governance (or ESG), community stewardship, accounting and finance, technology and cyber security, and others. The Board supports a culture of diversity and inclusion which represents the communities we serve, with three female directors, one African American director, and a director of Middle Eastern descent serving on the Board. Five independent directors of the Board, as well as CUC's Chief Executive Officer, have in-depth knowledge of the Florida economy and market and have established relationships with colleagues and members of the community throughout Florida. All of these examples of the expanded corporate functions and services that have allowed FPUC to continue its effort to enhance customer experience, improve employee education, and develop strategies, all of which are for the direct benefit of our customers.

Q. Why is it important that FPUC operations be allowed to recover the costs associated with corporate A&G through base rates?

A. The corporate A&G functions are an integral part of FPUC's ability to support its operations, comply with legal, regulatory and other statutory requirements, finance the necessary capital required to maintain and grow its business, provide superior customer service, address complex financial and business issues and ensure the appropriate level of management oversight. As it was previously mentioned, many of the A&G functions previously performed by FPUC were combined with or transferred to CUC's corporate office since the merger in 2009 to leverage administrative resources across CUC's regulated operations, ensure quality and efficiency in operating processes and increase access to technical resources to support FPUC's natural gas customer base. Having A&G functions reside at the corporate level allows the FPUC operations to focus on its day-to-day business of providing safe and reliable natural gas service to its customers. By receiving support from the corporate office, FPUC is able to utilize expanded resources increasing its capability to provide a higher level of customer service, increased efficiency, and an increased ability to handle more complex and challenging business and compliance matters.

Q. Does this conclude your testimony?

A. Yes.

GUNSTER

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October 19, 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 Errata to the Direct Testimony of Michael Galtman, submitted on behalf of Florida Public Utilities Company and the Florida Division of Chesapeake Utilities Corporation.

Sincerely,

/s/Beth Keating

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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 19, 2022

FLORIDA PUBLIC UTILITIES COMPANY'S
ERRATA SHEET TO THE DIRECT TESTIMONY OF MICHAEL GALTMAN

Florida Public Utilities Company, jointly with the Florida Division of Chesapeake Utilities Corporation, Florida Public Utilities Company - Fort Meade, and Florida Public Utilities Company - Indiantown Division, (jointly, "FPUC") hereby submits this Errata Sheet to correct the Direct Testimony of its witness, Michael Galtman, originally filed on May 24, 2022:

Direct Testimony

Witness Name	Page and Line Number	Correction
Michael Galtman	Page 13, Line 22	Change projected A&G expense from "\$25.8 million" to "\$25.7 million"

Respectfully submitted this 19th day of October, 2022,

By: ____________

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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing filing has been served by Email this 19th day of October, 2022, upon the following:

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BY MS. KEATING:

Q Mr. Galtman, you did also cause to be prepared and filed with your direct testimony Exhibit MG-1?

A I did.

Q Do you have any changes or corrections to that exhibit?

A I do not.

MS. KEATING: Okay. Mr. Chairman, I believe Mr. Galtman's Exhibit MG-1 is already marked as Exhibit 6.

CHAIRMAN FAY: 6, yep, it is.

MS. KEATING: Okay.

BY MS. KEATING:

Q Mr. Galtman, did you prepare a summary of your direct testimony?

A I did.

Q Would you please go ahead and present that?

A Great.

Good afternoon, Commissioners. I appreciate the opportunity to address you today. The primary purpose of my direct testimony is to discuss the accounting for administrative and general expenses as well as the projected amounts in this case.

Since prior rate cases, the various requirements of operating as both a regulated utility and a publicly traded company have continued to evolve. Two recent examples of this include the proposals by the SEC to increase accounting and disclosure among climate risk and cybersecurity, as well as the recent tax law changes passed by the Biden Administration.

In order to continuously adapt these new requirements impacting our business, while prudently managing operating costs, Chesapeake Utilities' operating -- accounting organization, excuse me -- operates under a shared service model, which serves to support a higher level of technical experience, increased operating efficiency that ensures the most effective internal control environment.

Additionally, this model provides a broader platform for employee development, which is critical in this labor market to attract and retain qualified employees. The shared service model is also utilized by a number of administrative and general functions within Chesapeake Utilities.

When accounting for administrative and general expenses, they are either directly recorded based on the services performed, or allocated based on the services performed.

Our cost allocation manual is designed to only assign costs to the specific business units that are receiving the service. And we will continuously ensure that when reviewing the methodologies at least annually when significant changes occur.

Included in the company's projections is 25 million of A&G expenses. In developing these estimates, we considered historical spending levels adjusted for nonrecurring or one-time items, and considered market factors that we expect to influence our operating costs in the future. This approach was intended to ensure that only appropriate, prudently incurred expenses were considered in our projections.

In conclusion, Commissioners, our administrative and general functions are an integral part of the company's ability to support our operations, comply with various technical requirements, finance the growing demand for natural gas infrastructure, and provide superior customer service to all of our customers. Our approach to centralizing these functions under a share service model is the most effective way to appropriately manage those costs without sacrificing service.

For all these reasons, I believe the administrative and general expenses included in our projection are prudent and necessary costs of the business.

Thank you for your time today.

Q Thank you, Mr. Galtman.

MS. KEATING: Mr. Chairman, the witness is tendered for cross.

CHAIRMAN FAY: Thank you.

Mr. Rehwinkel, whenever you are ready.

MR. REHWINKEL: Yes, thank you.

EXAMINATION

BY MR. REHWINKEL:

Q Good afternoon, Mr. Galtman.

A Good afternoon.

Q Did you bring a copy of your errata?

A I did.

Q Let's get this out of the way.

Can you explain the one edit -- or change that you have on page 13, line 22?

A Yes. Going through the discovery process, there were a number of expenses that were identified to be changes that were needed, and that's what's reflected in the change from the 25.8, which was originally reported, down to the 25.7.

Q Okay. Is there any one thing that drove that?

A There is three or four things that are of a small magnitude that are driving that change.

Q Okay. You are a Senior Vice-President and the

Chief Accounting Officer of CUC, the parent, correct?
A Yes, sir.
Q And I think it's revealed in your testimony that you have an accounting and a finance background, and you are a CPA, right, in Pennsylvania?
A Yes, I am.
Q And when -- if I say CUC, that's Chesapeake Utilities Corporation, we understand each other?
A Correct.
Q When CUC acquired Florida Public Utilities Company, it recorded an acquisition adjustment, correct?
A Correct.
Q In addition to the four Florida LDCs and Florida electric division, CUC has unregulated businesses such as propane distribution, propane wholesale marketing and some transmission businesses, correct?
A Yes, we do.
Q Do you agree that it's important from a regulatory perspective to ensure that the costs, included A&G costs being paid by ratepayers of the four Florida regulated gas distribution utilities are not subsidizing CUC's other nonregulated operations?
A I believe that the costs that are being passed through to the Florida natural gas division should be

for the services that are provided, and any business unit within Chesapeake should receive the costs for the services they are providing.

Q So was that a yes, that subsidies should not be provided by regulated customers of a regulated FPUC to unregulated CUC subsidiaries?

A Yes. But the word subsidy is not something that I -- I think about when I am doing it. I think about allocating costs to the appropriate business unit.

Q Okay. And I think, as you said in your summary, you support the -- you testify in support of the A&G expenses in this case, correct?

A Yes, I am.

Q And I believe you testify in support of the proposed A&G budget, is that right?

A Yes.

Q And you also state that the A&G costs included in that budget are legitimate and necessary, is that right?

A Correct.

MR. REHWINKEL: Mr. Chairman, I guess we didn't -- I gave staff the exhibits. I have two exhibits that I would like to distribute.

CHAIRMAN FAY: Okay. We will have them distributed right now.

MR. REHWINKEL: Okay.

CHAIRMAN FAY: And any reference to the MFR, any schedules on this witness?

MR. REHWINKEL: I don't believe so.

CHAIRMAN FAY: Okay.

MR. REHWINKEL: I think Ms. Napier is next in that.

CHAIRMAN FAY: Mr. Galtman, you don't have a copy of the exhibits he is speaking of yet, do you?

THE WITNESS: I do not, Chairman.

CHAIRMAN FAY: Thank you. Mr. Rehwinkel, what's the exhibit title that you want us to start with?

MR. REHWINKEL: Yes, the -- I think the center document is Florida Public Utilities Company Response to OPC's Fifth Set of Interrogatories, if I could get a number for that.

CHAIRMAN FAY: Okay. That will be 116.

MR. REHWINKEL: 117 I think.

CHAIRMAN FAY: I think we only put --

MR. REHWINKEL: We identified 116, but I just didn't move it in.

CHAIRMAN FAY: Okay.

MR. REHWINKEL: I think Ms. Helton has trained me that that's the way to do it.

CHAIRMAN FAY: I don't think --

MS. HELTON: Yes. That's the way we do it, Mr. Chairman.

MR. SANDY: And if I may, I believe this is already marked as an exhibit as 113 on the CEL.

MR. REHWINKEL: Okay. Yeah, I will use -- I have asked it to be identified -- given a number for identification. Whether we move it in or not, it's just easier to use it like this, I think.

CHAIRMAN FAY: Okay. Well, that's fine.

MR. REHWINKEL: Yeah, it is on the CEL.

CHAIRMAN FAY: Okay.

(Whereupon, Exhibit No. 117 was marked for identification.)

BY MR. REHWINKEL:

Q Mr. Galtman, do you have a copy of what's identified -- what's been numbered for identification as Exhibit 117?

A I don't have -- the two exhibits I have in front of me don't have numbers on them.

Q Okay. So the fifth set of interrogatory responses?

A Yes, I have a copy of this.

Q That's 117, if you want to note it just in case I go back and forth.

Are you familiar, generally, with this document?

A If you give me a second to take a look at it.

Q Yes.

A Yes, I am familiar with it.

Q Okay. And is that because some of the responses in here were sponsored by you?

A Yes, they were.

Q On page seven, if you could turn to that page, and if you would like to go back to page six and review the question before I ask you anything from this response, I will wait.

A I am sorry, are you asking for the -- I have a question on the top of page seven?

Q I was going to ask you about 159B response which is on page seven.

A Okay. I have that.

Q Okay. Would you agree that in your response, the response that you sponsored to Interrogatory 159B, that you list costs that can be charged or credited with funds advanced or borrowed from affiliates?

A Can you ask that question again?

Q Yes. If you look on the bottom half of the answer here, you list various types of costs, would you agree with that?

A Yes.

Q And would you agree that these costs are the type that can either be debited or credited to accounts payable or accounts receivable associated or affiliated companies?

A Yes, general -- they were general examples of how we utilized the shared service model, and what flows through our affiliated accounts payable account.

Q Okay. And would you agree that some of these costs that flow through these payables or receivables ultimately are recorded in the A&G accounts of the income statement of had FPUC?

A To the extent that the other side of the entry when we are recording these costs that they are associated with A&G, yes, they would be recorded through those accounts.

Q Okay. In a general sense, would the dollars that flow through the accounts payable -- well, I am asking you from the FPUC perspective. So if there is an accounts payable associated companies, or accounts receivable associated companies, sometimes they use affiliated but it's the same thing, right?

A There is a singular accounting presentation I think you are referring to, whether it's a receivable or payable, it's all flowing through there. But generally it would be a payable, because we are operating under a centralized cash management program.

Q Okay. Those funds could represent borrowing or advancing funds to an affiliated company, correct? I -- let me strike that and ask is it a different way.

The debits or credits to those accounts could represent borrowings or advances, borrowings from or advances to affiliated companies, correct?

A When you are asking it in that context, whether it's a debit or a credit, it represents a payable or a receivable.

Q Okay. You reference in the answer here on page seven, about the fourth line down, there is a file name is OPC ROG 159B, do you see that?

A I do.

Q And if you turn to, there is numbered pages, 24 at the bottom of these responses. And they go through 24, and then there are two declarations, one of which is yours. Do you see that?

A I do.

Q Okay. And after the declaration page, I have included what I represent to you is the file that results when you print out that OPC ROG 159B; do you agree with that?

A Just to clarify, you are talking about the page that's got the title at the top Balances Per Ledger for FM Division?

Q That's correct.

A Correct. Yes.

Q What this page shows are -- well, let's look at this. If there is a parentheses around an amount, this would be a liability or a credit balance, is that right?

A That's correct.

Q And so -- and then the ones without are debits or receivables?

A Yes, that's correct.

Q Okay. So this is a document that shows, I believe it's the year-end, the year-end balance, net balance of 95,637,954, that is the netting of all of these debits and credits above that; is that right?

A Yes, I believe that's the math.

Q Okay. Now, this shows transactions with affiliates, correct?

A Yes, it does.

Q Okay. And can you tell me is -- I guess IC is intercompany?

A Yes.

Q Okay. And if you look at the Aspire Energy Ohio, LLC.

A Yes.

Q That says intercompany, and I believe it's -- I can't tell whether it's the -- I think it's just the 2,399 number if my eyes line up right?

A Yes.

Q Okay. This shows that there is a receivable from Aspire Energy of Ohio, LLC, recorded on FPUC's books, right?

A Yes, there is.

Q And is as Aspire Energy a regulated or unregulated subsidiary of CUC?

A It's an unregulated natural gas pipeline.

Q Okay. So this represents some kind of transaction where FPUC is owed money by Aspire Energy -- Aspire Energy of Ohio?

A Putting it in a debit position, it would represent that, yes.

Q Okay.

A The thing I would say about that, though, is we regularly have, you know, as a company operating under a shared service model for A&G, but we also have operational folks that net support various parts of the business in a vertically integrated fashion, and so at times, there are things done across the organization. So to the extent there is an efficiency that's gained by recording a cost on one legal entity and then billing the other entity back, that could create a situation like that.

Q Okay. So Delmarva Natural Gas is regulated, right?

A Yes, sir.

Q What does Florida represent there?

A These are -- these are codes that we use to make them a little bit more intuitive. So my guess would be it's one of our Florida -- we have various companies within our ledger, and it's something related to Florida.

Q Okay. Do you know whether that's regulated or unregulated?

A I don't know off the top of my head for that one because it doesn't have the code that I am used to seeing.

Q Okay. FPU Allocation group, or ALOC group, that's a regulated transaction, right?

A They are different cuts within the ledger, and they would be shared between regulated and unregulated.

Q Okay. And then we've already talked about Aspire. Central Florida Gas is a regulated entity, right?

A Correct.

Q CU, is that Chesapeake Utilities?
A It's the -- Chesapeake Utilities is the -- bear with me one second. Let me make sure I am lined up here because I can't see the debit lines. Yes, that's CU the parents.
Q Okay. And that's the -- this is a credit, so this is an accounts payable --
A Correct.
Q -- to the parent?
A Yes.
Q All right. And then Eastern Shore, is that a regulated entity?
A Yes.
Q And then we see FPU corporate parent. How is that different than CU?
A We have companies established that are set up for our corporate locations in Florida --
Q Okay.
A -- which are shared between both regulated and unregulated businesses.
CHAIRMAN FAY: Mr. Rehwinkel, would you like him just to identify the unregulated entities within this list?
MR. REHWINKEL: Yes, that's what I am trying too do, yeah.

CHAIRMAN FAY: Okay.

BY MR. REHWINKEL:

Q So FPU electric we know is regulated. Flo-Gas is unregulated, right?

A Yes.

Q FPU Indiantown, we know that's regulated. What is FPU M&J?

A Off the top of my head, I don't know.

Q Okay. FPU Natural Gas regulated?

A Yes, regulated.

Q Fort Meade is regulated?

A Yes.

Q And then what is Sharp Energy?

A Unregulated.

Q Okay. So are any of the four Florida regulated gas distribution utilities periodically lending or providing money cost-free for the use by CUC's nonregulated businesses under these type of transactions?

A No, they are not lending money.

Q Is there a carrying or financing charge on these various payables and receivables?

A No, there is not.

Q If there was to be an accounts receivable of associated companies on the books of any of the four

Florida Gas distribution utilities, that -- couldn't that indicate that there was -- has been a loan from one of the Florida utilities to another affiliated entity?

A No, it would not represent that.

Q Could you say the last part of that?

A No, it would not represent that.

Q You are saying it could not represent it either?

A No, it wouldn't.

Q And why is that?

A Because we -- again, we manage the subsidiaries through a centralized cash management program, which has disbursements going out the door through centralized accounts and we leverage the intercompany accounts to facilitate the accounting and get the appropriate entries recorded to the respective entity's books.

These are just mainly ways for us to facilitate movement of activity between the various units, and to gain some efficiency to the extent we are paying out of -- you know, we are initially booking it, or somebody within the organization is incurring a cost that benefits all. They could record it in one spot, and then there is intercompany transactions to get it recorded properly on the respective business unit books.

Q Would it -- would you -- would it also be your testimony that, likewise, that there could not be a loan to one of the Florida utilities from another affiliated entity under these payable and receivable transactions?

A No, because when you -- to the extent it was a loan, we would need to have some type of -- there is an offset to the account. All of these accounts have to have some level of offset.

So for example, if we were loaning it, we would have to, you know, debit the receivable and then credit something on Florida Public Utility's books, and we don't have anything to -- that would create a variance that would stick out.

So for example, if Florida public utilities were to pay $100,000 invoice for some consulting service that was intended to be shared with the rest of the organization and they needed to be out -- somebody else needed, in the organization, needed to pay half of that. When we book that initially, you would record that expense for the consulting service and credit it to accounts payable with the parent company because they are going to pay it. In order to move that off, FPU doesn't need to have that $100,000 expense. And so in order to bring that back down to a $50,000, the portion that's attributable to them, we would need to credit that account and move the offset as a debit receivable from the other organization within Chesapeake.

Q So when I am looking at this 278,698,272, this is a very large credit balance, right? I guess it's in the eye of the beholder but --

A In terms of the numbers on the page, yes, it's a large number.

Q Okay. So this is not likely to be invoices and whatnot like that. This is largely -- this is likely to represent large investments by the parent and the subsidiary, right?

A What this would probably -- more -- most likely represent is the accumulation of all operating expenses being paid, capital be invested, anything that was effectively being done for the business and was participating in the cash management program.

Q So as Chief Accounting Officer Of CUC, you are familiar with how had the company accounts for its long-term debt and short-term debt?

A I am.

Q And is it correct that all long-term and short-term debt for CUC, and for the four Florida LDCs, is recorded on the books of the parent, CUC?

A Yes.

Let me clarify that. We do have -- for one of our unregulated businesses, we have an equipment financing loan less than $10 million that was secured by certain unregulated assets, and that is specific to one subsidiary.

Q Okay. That's the Marlin?

A The bounce -- yes, sir.

Q What is your understanding of what third-party debt is?

A Third-party debt, as it's described in some of our documents, was intended to mean the borrower. It's debt with an outside party, so outside of the Chesapeake consolidation, where you are listed as a specific borrower on the loan.

Q Okay. And it's your testimony of -- that there is no third-party debt on the books of any of the four FPUC LDCs?

A Yes. That's correct.

Q And is it correct that none of the four FPUC gas distribution utilities are borrowers under any of CUC's current debt instruments?

A Yes. That's my understanding.

Q And it's also true, though, that CUC participates in a $400 million credit facility, right?

A Yes.

Q And can you just tell the Commission briefly

what a credit facility is?

A We have a -- we have a credit facility that's available for short-term borrowing needs. It's made up of $200 million, 364-day line, and then we have a longer term line that is the balance of the 200 million.

Q And we talked about this briefly when we were going through this roll-up to the $95 million credit here, centralized cash management is what you were referring to there?

A Yes.

Q And that means that cash can flow from one entity to another, and CUC tracks that by using an account called accounts payable to associated companies?

A Yes.

Q Now, is it correct that no interest or financing costs or carrying charges are charged or recorded on the Florida business unit LDC books related to the accounts payable to associated company balances?

A Yes. That's correct.

Q So the four Florida LDCs could be using funds that were supplied by another source in the CUC corporate group, and the LDCs would account for that by having a liability -- hosting a liability for accounts payable to associated company balances, right?

A I am sorry, I got a little jumbled in your question. Could you do it again?

Q So the four Florida LDCs could be using funds that were supplied by another source in the CUC corporate organization or umbrella, and the LDCs would account for that by having a liability for accounts payable to associated company?

A Yes, to the extent anything that's flowing through the books of the books of Florida Public Utilities' Companies, to the extent that they are utilizing the cash management program, yes, that's going to result in an offsetting payable.

Q So this liability, this 95,637,000 in Exhibit 117, it reflects money owed by the Florida LDCs to affiliates, including the parent, CUC, right?

A No. The only company that's reflected here, I believe, is FPU only. It does not include the other three divisions that are under discussion.

Q Okay. I apologize.

If we just limit it to FPUC, would the answer be yes?

A Yes. This is the accumulation of all the payable activity that flowed through Florida Public Utilities as of year-end '21 for the respective entities.

Q Okay. And you may have already answered this

in one of your answers to me, but you would agree that accounting uses two-sided journal entries, where there is a credit and a debit, and both credits and debits in each journal entry must add up to the same total, right?

A Yes, sir.

Q And on the balance sheet of the Florida LDCs for accounts payable to associated companies are being recorded and reported as a liability, or accounts payable, and there is no interest charged on or recorded relative to that balance; is that right?

A Yes. There is no interest being charged as part of this.

Q Would you agree in principle that if there is no interest cost on an accounts payable liability, then no cost rate, interest cost or common equity return on those amounts should be charged to or recovered from ratepayers?

A No, I wouldn't.

Q And why would you disagree with that?

A It's part of the -- you know, FPU is a stand-alone entity, and the associated companies. They do not have any access to additional liquidity. They are leveraging the Chesapeake Utilities' short-term revolver borrowing capacity, equity offering, et cetera.

Q So what is the -- how -- how -- what carrying

costs should be associated with these accounts payables?
A I believe the carrying costs should be that of the parent.
Q Is it equity, or debt, or a mixture of both?
A It would be a mixture of both.
MR. REHWINKEL: I had a question from the MFRs, but I think I can do that with another witness, so we can get this sorted out before I do that, so --
CHAIRMAN FAY: Did you have anything else, Mr. Rehwinkel?
MR. REHWINKEL: Yes. I am trying to slim this down here --
CHAIRMAN FAY: Okay.
MR. REHWINKEL: -- Mr. Chairman, excuse me.
CHAIRMAN FAY: Okay.
BY MR. REHWINKEL:
Q Mr. Galtman, I just want to ask you a question about the next exhibit.
MR. REHWINKEL: Mr. Chairman, I would ask this be identified, give it a number of for identification, it would be 118.
CHAIRMAN FAY: Okay. 118.
(Whereupon, Exhibit No. 118 was marked for identification.)

MR. REHWINKEL: And this is the Chesapeake Utilities Corporation Form 10Q Second Quarter 2022.

BY MR. REHWINKEL:

Q Do you have that document?

A Yes, I do.

Q On page two of your testimony, you indicate that part of your responsibility includes general accounting, business unit accounting and SEC reporting, is that right?

A Yes, that's correct.

Q In that role, are -- do you have a significant -- play a significant role in the preparation of the SEC filings, like the annual report, 10K and the quarterly reports called the 10Q?

A I am part of the review process, and my teams have overall responsibility for that. Yes.

Q Okay. The document that I have passed out, would you agree -- you would accept that my representation that I printed it out, albeit in color, from your investor relations portion of your website, and that it is your second quarter form 10Q, filed on August 3rd?

A Yes, it looks to be, without checking every page, yea, it looks to be what comes down from the website.

Q Thank you for courting me that.

The last page has Beth Cooper's signature and August 3rd, right?

A Yes, sir.

Q And Beth Cooper is?

A Beth it our -- our -- the Senior Vice-President -- or Executive Vice-President and CFO for Chesapeake Utilities.

Q Would you agree with me that this document, the 10Q, represents the most recent formal official financial presentation made and filed with the SEC by CUC?

A I am only pausing because I am trying to think if we had any investor meetings. But in general, the SEC filing, yes, would be the most recent publicly available information for the corporation.

Q Okay. So when you have an investor meeting you make a different type of filing that just puts the investor meeting dec, or whatever, on the public domain, right?

A Yes. To the extent that we do something where we are going out and filing -- or have an investor meeting, we may file a investor dec with materials that would also get filed, not only under a 10Q, but would get filed under a Form 8K with the SEC.

Q And apart from that, this is the most recent financial filed with the S -- comprehensive financial statement filed with the SEC, right?

A Yes. This is the latest file for the -- for the financial results for the parent.

Q And would you agree, this document contains accurate information about the business segments of CUC?

A Yes.

Q All right. Just your -- I just wanted to ask you briefly about the IRA, and the, what is it, the Inflation Reduction Act, the August 22nd -- August 2020 tax law changes. Are you familiar with those generally?

A Generally. Yes.

Q Okay. And in your response -- your role as -- you are responsible for the tax accounting for CUC?

A Yes, the tax group reports to me.

Q Okay. And on page five, line 13 through 14, you mention President Biden's tax proposal, correct, in your testimony? Page five, lines 13 through 14.

A Yes.

Q To your knowledge, did the company update any of its testimony or MFR filings to reflect any impact from that act?

A I don't believe we did, but I am not 100 percent sure, but I don't believe we did.

Q To your knowledge, is -- are you aware of any impacts that that act would have on your regulated cost of service?

A At this point, no; but it continues to be something that we are studying as the act was just implemented, and there is parts and pieces of it that continue to be written into law, and so we are trying to continuously evaluate what the impacts would be to the business.

Q Okay. So at this point, would it be fair to say that it's your testimony that there are no impacts that the company believes should be reflected in the revenue requirement decided in this case?

A No, not at this point, I don't believe so.

Q Given that the law passed prior to this hearing, and that you -- the company hasn't identified any adjustments, would you agree that, if adopted, the tax mechanism that's contained in the company's filing would only apply prospectively to changes in the tax law in the future that you are not aware of today?

A I am sorry, can you rephrase that again?

Q Yeah.

If the tax mechanism that you are asking for approval in this case is adopted by the Commission, would it apply only to new tax provisions that you --

that are not known to the company today?

A I guess it would depend on what's approved by the Commission. I mean, when we take a look at how to apply our tax accounting, you know, the regulatory approval and the regulatory construct is something that we need to consider, and so it would -- it would depend on the facts and circumstances.

Q So more specifically, are -- could -- if the tax proposal you seek is approved, could it apply to the IRA?

A In the current form now, I don't believe that it would, at least in terms of the income tax.

The IRA right now contains a provision that would change your corporate income tax rate that has a triggering mechanism on your total income, which is significantly above the income that impacts Chesapeake Utilities currently.

Q On page three, you provide -- you testified that you provide support for some of the historical and projected data included in the MFRs, is that right?

A You are back on the direct testimony now?

Q Yes. And I am done with the tax stuff. And I am looking specifically at lines two and three of your --

A You said page three?

Q Page three. Yes, sir.

A Two and three?

Q Yes.

A I am there.

Q Okay. You testified that you provide support for some of the historical and projected data that's included in the MFRs?

A Yes.

Q And that would include A&G expenses -- A&G?

A Yes, sir.

Q Okay. And is it your testimony that the A&G expenses projected for 2022 and the 2023 test year are accurate such that the test year is representative of the operations of the company for the time in which rates will be in effect?

A I think my testimony reflects that 2021 was based on our historical book expenses, and then as we projected through, we considered the things that I mentioned earlier. We considered our historical levels of spending, recurring items that needed to be adjusted, as well as projected expenses we anticipated would be impacting the business.

Q Is so my question -- I appreciate that. My question was, is it your testimony that those forecast budgeted expenses for '22 and '23 are projected and

budgeted are -- can be relied on by the Commission as being representative of the operations of the company for the time rates will be in effect?

A Yes, I think that's correct, subject to the adjustments that we filed with the errata.

Q Okay. And on pages 13 through 15 --

A In direct testimony?

Q Yes, sir. You state that the budgeted A&G, that these expenses, the budgeted A&G expenses are legitimate and necessary, is that right?

A I believe that to be the case. I'm just -- are you referring to a certain line? I just want to make sure that I am --

Q Yeah, I was trying to shortcut it, but let's go ahead and get that line.

I have been encouraged to go paperless. Although, you can see with all this paper I haven't accomplished that, but I am trying to do it electronically.

So if you will look on page 15, lines three and four and five. Are these costs including allocated A&G costs a legitimate and necessary cost to providing service to its customers? Yes.

Do you see that?

A Yes.

Q And I believe in your direct testimony, going back to page four, lines four through six, you testify you were involved in the modeling related to mergers and acquisitions?

A That's correct. I have responsibility for the group that does the modeling for deals.

Q Okay. If there were any merger or acquisition activities going on that would impact the operations or costs allocated to FPUC, you would be in a position to know about it in your job?

A Generally, yes.

Q Okay. Is it your testimony that there are no mergers or acquisitions that are under consideration involving the operations of FPUC, or the costs allocated to it, that would have the potential to affect the level of A&G expenses shown in the test year?

A There are no acquisitions that are being contemplated that are reflected in these costs.

Q Are there any that could affect these costs and their representative nature?

A We -- our fiduciary duty, we are always looking at opportunities across the organization, not just within the Florida businesses. And so to the extent that we have, for example, an unregulated acquisition opportunity that we invest in, that could impact the cost structure the same way a large regulated acquisition could as well.

Q Okay. So what I am trying to understand for the record is I don't want to know what you are doing, because I am not entitled to know that for one thing. I just want to know while you are on the stand here if you are aware of anything that the Commission should be aware of that would affect the expenses that they are approving in this case in terms of mergers and acquisitions?

A No. Nothing at all.

Q Okay. Mr. Galtman, I appreciate your time. Thank you. That's all the questions I have.

A Thank you, sir.

CHAIRMAN FAY: Thank you, Mr. Rehwinkel.

Staff?

MR. SANDY: No cross.

CHAIRMAN FAY: Okay. Commissioners?

Redirect?

MS. KEATING: No redirect.

CHAIRMAN FAY: All right. We will enter Exhibit No. 6 and then 117 and 118.

MR. REHWINKEL: Mr. Chairman, I will -- I will move Exhibit 118. Mr. Sandy is correct in pointing out that 113 is already in the record, so I don't really need to move this.

CHAIRMAN FAY: Okay.

MR. REHWINKEL: I would just ask the witnesses to hold -- just to leave it up at the -- and I may ask from this document for convenience --

CHAIRMAN FAY: Okay.

MR. REHWINKEL: -- with the other witnesses as we go forward.

CHAIRMAN FAY: That's fine.

MR. REHWINKEL: So just 118 is all I am moving.

CHAIRMAN FAY: Okay. Without objection?

MS. KEATING: No objection.

CHAIRMAN FAY: Okay. Show that entered.

(Whereupon, Exhibit Nos. 6 & 118 were received into evidence.)

CHAIRMAN FAY: All right. Ms. Keating.

MS. KEATING: And just to be clear, we moved 6?

CHAIRMAN FAY: Correct, yes, without objection.

MS. KEATING: Okay.

CHAIRMAN FAY: Okay. Yep.

All right. Ms. Keating, your witness.

MS. KEATING: Mr. Chairman, may Mr. Galtman be excused?

CHAIRMAN FAY: You are excused for now, Mr. Galtman.

THE WITNESS: Thank you.

CHAIRMAN FAY: Thank you.

(Transcript continues in sequence in Volume 2.)

CERTIFICATE OF REPORTER

STATE OF FLORIDA)
COUNTY OF LEON)

I, DEBRA KRICK, Court Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED this 31st day of October, 2022.

Debbie R Krick

DEBRA R. KRICK
NOTARY PUBLIC
COMMISSION #HH31926
EXPIRES AUGUST 13, 2024